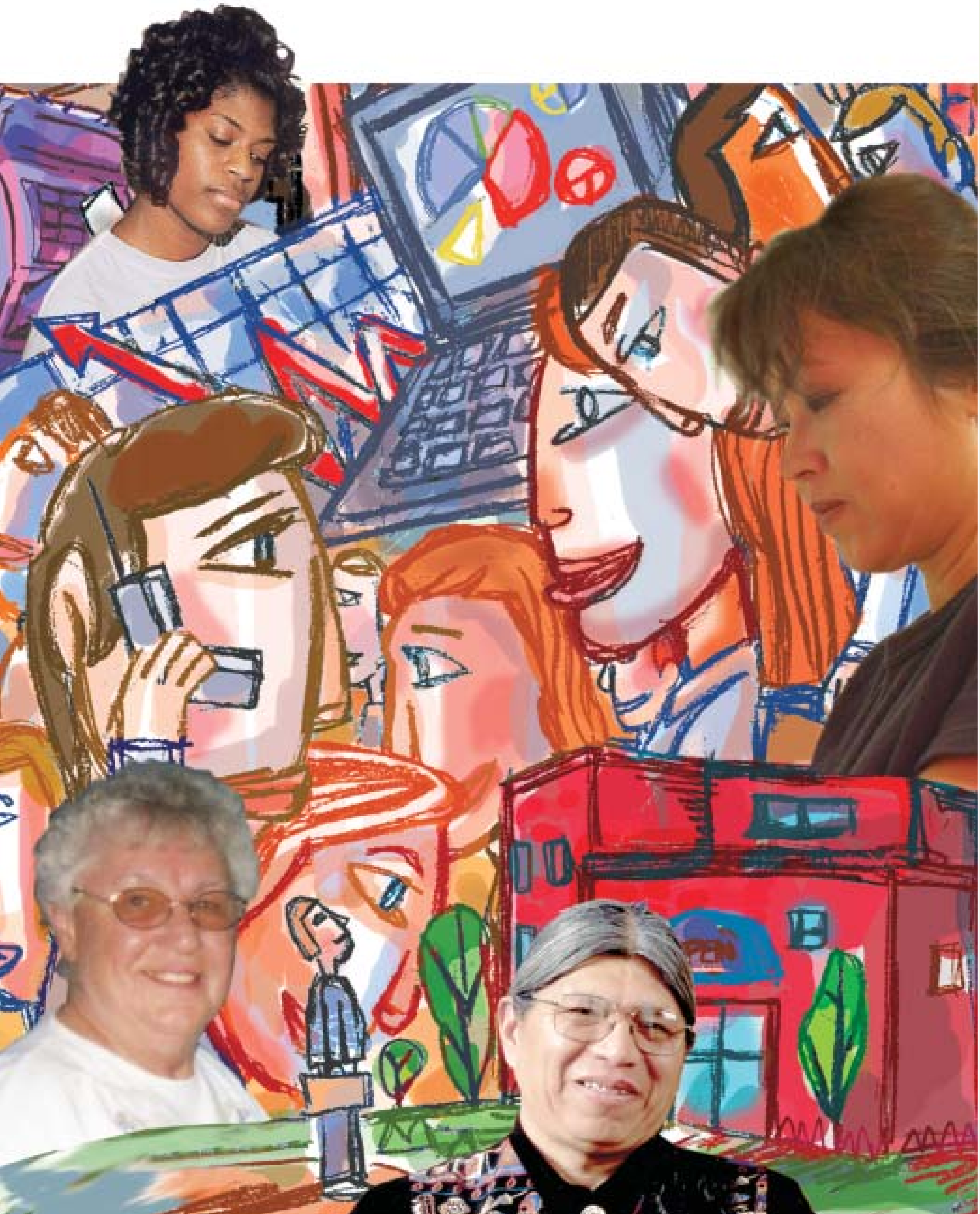
Financial Planning for Your Microenterprise



Financial Planning for Your Microenterprise

National Endowment for Financial Education

Partnering for Financial Well-Being

Association for Enterprise Opportunity

TABLE OF CONTENTS

association

for enterprise opportunity

Introduction

You've probably all heard stories of corporate giants' humble beginnings, such as computer giant Hewlett-Packard's start in a Silicon Valley garage, or Starbucks' birth with a single coffee shop in Seattle.

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Owning a business is one of the most cherished American dreams. All businesses, whether they're ranked in the Fortune 500 or making only $500 a month, start just as your business has or will: with ideas and energy.

You've probably all heard stories of corporate giants' humble beginnings, such as computer giant Hewlett-Packard's start in a Silicon Valley garage, or Starbucks' birth with a single coffee shop in Seattle. Maybe you dream of your own small business growing into an economic powerhouse. Or perhaps you'd be happy to run a small but successful business.

Your personal finances can have a big impact on your business finances, and vice versa.

Either way, you will need an understanding of financial matters to help you as you work.

This booklet will help you begin to organize both your personal and business finances through goal setting, budgeting, and acquiring basic financial skills. While good business owners always separate their personal finances from their business finances, it's important to apply good skills to both sides of your financial life.

Your personal finances can have a big impact on your business finances, and vice versa. If you're just starting out or expanding a hobby or sideline business, the only financial track record you can show to prospective lenders or investors is your personal one. If your personal finances are in poor shape, you'll stand less of a chance of getting business financing. Your personal financial problems also may drain money from your business. Even if your personal finances are in good shape, you need a firm grasp of how much you spend, and for what, if you want to know how much your business must make to support you.

This booklet will help you identify key financial skills you should develop in order to succeed personally and professionally, and how you can find help from your local Microenterprise Development (MED) organization and other support groups as you learn these skills and build your business.

One thing you should know as you pursue your business dream: You're not alone. A study conducted in 1999 and published by the ACCION Network in 2002 reported approximately 13 million microentrepreneurs in the United States. Typically, a microenterprise is a sole proprietorship, partnership or family

erican dream

business that has fewer than five employees and capital needs of less than $35,000. According to the U.S. Small Business Administration (SBA), businesses are still considered small if they have up to 500 employees, so microenterprises are super-small businesses. Often, a microenterprise is a one-person operation or the owner and a couple of family members.

Microentrepreneurs come from all walks of life. They start their businesses for many different reasons. Some of them want to supplement their income from low-paying jobs or to replace income from jobs they have lost. Others find the flexibility of owning a business helps them balance family responsibilities with work. Still others don't have the training or talent to find professional jobs. For some, microentrepreneurship is the avenue to realizing dreams, expanding talents and avoiding dead-end, minimum-wage employment. Do any of these motivations or situations sound familiar to you? They may strike a chord with you—or you may have your own reasons for starting your microenterprise.

Microbusinesses have healthy survival rates. The Aspen Institute's Self-Employment Learning Project tracked more than 400 clients of Microenterprise Development programs from 1991 to 1997, and found that 49 percent were still in business at the end of five years. This compares favorably to the SBA's findings that 76 percent of small businesses survive two years and 47 percent survive four years. You'll improve your chances of success if you improve your financial skills.

Many resources are available to help you start or build your business.

Many resources are available to help you start or build your business. Look first to your local MED organizations. MED agencies provide a variety of services—although each offers slightly different assistance. They may help you develop your idea and test it to see if it's workable. They may assist as you write a full-fledged business plan, which will lay out your strategy for success. They may guide you as you research your market and develop a marketing plan. They may even be able to help you access new markets.

MED organizations also have access to loans and other financing that entrepreneurs can't find elsewhere, and they may offer matched savings programs. You'll find most MED organizations have a wealth of classes, training, and one-on-one mentoring that will help you develop your skills and grow your business. This could include financial literacy training, and legal or personal counseling. Even after you launch your business, MED organizations are there to give technical assistance to keep you on the path to success.

Common Types of Microenterprises

Some common types of microenterprises are:

- Repair services
- Cleaning services
- Specialty foods
- Child care
- Arts and crafts
- Clothing and textiles
- Computer technology

Are You Ready to Start a Business?

Answer the following questions:

- Do you have a clear idea for a business?
- Do you have experience in your chosen business?
- Are you motivated and determined to develop this idea?
- Are you realistic about the potential your idea has for growth and income?
- Are you familiar with basic financial tools such as bank accounts?
- Are you a good communicator?
- Do you have the self-confidence to sell yourself and your idea?

Are You Ready to Expand a Business?

Answer the following questions:

- Are your competitors growing their businesses?
- Do you plan to expand your current line of business or branch into an associated field?
- Have you examined the financial benefits and risks of expanding?
- Can you show you will gain economies of scale if you expand? That means expansion allows you to sell more of your goods or services, resulting in lower costs per unit and more profit.
- Can you get the money, either internally or through loan sources, to fund expansion?
- Can you keep your customers happy while you go through "growing pains"?
- Do you have or can you hire the human resources necessary for expansion?
- Do you have the people skills to direct more employees and are you willing to turn over partial control of your bigger business to others?

Where Do You Go for Help?

Microenterprise Development (MED) organizations should be your first stop as you look for help in establishing or expanding your business. Each MED organization is structured a little differently. Some of them may specialize in helping certain groups, such as female or minority entrepreneurs, or in targeting certain goals, such as the creation of jobs or fighting poverty. Some may help new businesses get on their feet, others may focus on helping existing businesses grow, and still others may help both new and old businesses. Each organization typically receives funding from foundations, corporations, and/or tax dollars.

You can find out what kinds of MED organizations exist in your community by contacting the Association for Enterprise Opportunity at www.microenterpriseworks.org.

1

Setting Your Goals

Not every "someday" wish requires money, but many of them require some financial resources.

money resource

How many times have you said to yourself, "Someday…"?

You might have finished that sentence with:

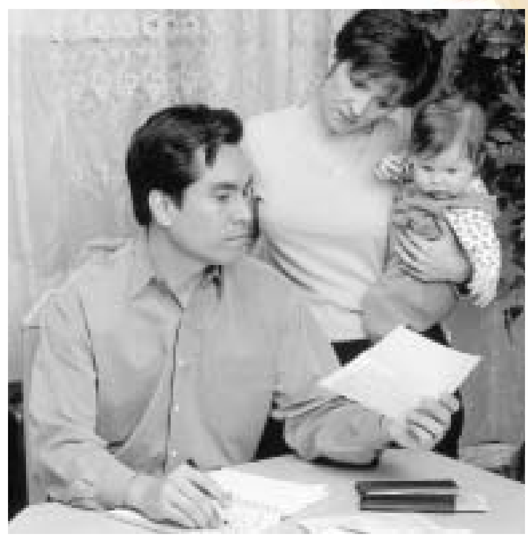
- I'll have a better house.
- I'll drive a nicer car.
- I'll get out of debt.
- I'll be my own boss.
- I'll have more time to spend with my family.

Not every "someday" wish requires money, but many of them require some financial resources. How can you build the financial foundation to achieve your dreams? You have to work for your dreams and believe you can achieve them. It helps, too, if your family and friends support and help you.

Choose goals that are Specific, Measurable, Achievable, Relevant, and Trackable.

Goal setting will help you focus your energies and move toward dreams of a brighter, better future with purpose, vision and direction. Goal setting comprises more than making a simple wish list. It involves developing a list of clear goals and setting a timetable for reaching them. Some people call this the SMART system, because you are choosing goals that are Specific, Measurable, Achievable, Relevant, and Trackable.

In other words, you're pinpointing a definite goal. A goal that you can measure, is within your reach, fits into your life and abilities, and can be followed step by step. You wouldn't, for instance, choose "climb Mount Everest" as a goal if your current exercise consists of walking to the bus stop! It's a goal that would be difficult to accomplish without proper training. You wouldn't pick



"make a lot of money" if you have no ideas to make money. It's a goal that's not specific. You wouldn't decide to "teach at a university" if you only have a high school degree. This is a goal that's not achievable without accomplishing some intermediate goals first.

With these guidelines in mind, think about what you want for yourself and your family. List specific goals, large and small. Then, choose the appropriate goals for your business or your personal life.

First, think about short-term goals—those you can reach in about three months. These might include saving enough money for the children's holiday presents, taking yourself to the beach for a day, or buying a new cash register for your business.

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Then, consider medium-term goals that can be reached in three months to about a year. These might include trading in your car for the pickup truck you've always wanted, learning to sew your own clothes, or hiring another employee for your business.

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Finally, think about long-term goals that are more than a year away. Perhaps you've always wanted to go back to school for degrees or certifications, start or expand your business, or buy a home.

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Reaching your goals requires planning. Estimate the cost of each goal. Calculate how much money you must set aside each week to accumulate that amount in the chosen period (short, medium, or long term).

For example, if you'd like to take your family out for a special holiday dinner in three months, and your favorite restaurant will cost $100 for a family of five, you'd need to save about $7.75 a week for the next 13 weeks. Obviously, bigger goals will take more money and time, but by breaking down your list step by step, each goal will be much easier to attain.

These goal-setting skills can be applied to your business dreams and personal hopes as well. Paying off loans, increasing profits, expanding your product line, or adding locations can be targeted just as easily as buying a new car, sending your children to college, buying a retirement home, or remodeling the kitchen.

> By breaking down your list step by step, each goal will be much easier to attain.

In the remaining chapters, you'll learn how to track your spending, build your financial reserves, reduce your debt, and master the business skills you need to achieve your personal and professional goals.

Making a Dream a Reality

For four years in the early 1990s, Fanja Rakotonirin lived and worked in tiny villages on the edge of Madagascar's rain forest, home to the world's only lemurs.

In a project funded by the U.S. Agency for International Development, the Madagascar native worked with villagers to lessen their impact on the fragile ecosystem of the nearby Ranomafana National Park. She helped villagers start new businesses including raising fish, pigs, chickens, and honeybees. Rakotonirin grew to love the people, although they were from different tribes. "After four years, they became like my family," she recalled.

Then Rakotonirin left Madagascar to study at the Montessori Education Center of the Rockies in Boulder, Colorado. She tried to stay in touch with the villagers, and thought all was well. Upon returning for a visit in 2001, however, she found the projects she had helped start had failed. The villagers were desperately poor and ill, and were turning again to the rain forest for their livelihoods.

"I cried and told my mom, 'I just can't watch these people die. They are a part of my life,'" Rakotonirin said. She decided to help the villagers form a cooperative to make and sell place mats, baskets, hats, bags, and other items from raffia, sisal, jute, and cotton. Rakotonirin invested in materials and looms for weaving and created designs for the weavers to use. Her parents, still living in Madagascar, helped, too. She received her first shipment of woven items in August 2002 and Tropical Items Madagascar was in business.

Rakotonirin donates 5 percent of her profit to the villages' health-care programs and 5 percent to education programs.

Going from teaching to business was a big jump for Rakotonirin. She got help through the MicroBusiness Development Corporation (MBD) in Denver and the Service Corps of Retired Executives. She joined a networking group and a Boulder women's business group. She read everything she could find and did extensive research on the Internet. The help she received from the MBD was particularly welcome. "Without them, I don't think my business would exist," Rakotonirin said.

She sells her items wholesale and at festivals and craft shows. She keeps her expenses low by doing her own bookkeeping and using her husband, Georges Raelisaona, as her webmaster. Brightly colored and reasonably priced, the handwoven items have sold well. Rakotonirin donates 5 percent of her profit to the villages' health-care programs and 5 percent to education programs.

Rakotonirin found that her village weavers worked slowly. As interest in her products has grown, she has had to find another, more-predictable production source. She enlisted her family and her husband's family, and also is setting up a cooperative factory, named Naturary (for natural weaving), in Madagascar's capital.

Rakotonirin continues to teach. Her weekends are spent growing the business and selling at fairs. An article about Tropical Items in the Boulder newspaper in June 2003 generated a flood of calls. She's optimistic she will be able to make a difference in the lives of many of her countrymen.

"Sales are very good," Rakotonirin said. "My business is blooming."

Dreams Do Come True

Synia Gant-Jordan, a cosmetologist in Grand Rapids, Michigan, wanted to open her own

She was very focused on her idea, and the training helped her figure out step by step how to accomplish it.

hair salon. But with six children—two of her own and four she was foster-parenting—it was a struggle just to put food on the table.

Synia worked in a series of salons for several years, but never forgot her dream. In 1997, she saw a flyer for Grand Rapids Opportunities for Women (GROW), a microenterprise agency. She enrolled in a 15-week class entitled, "Mind Your Own Business."

She was very focused on her idea, and the training helped her figure out step by step how to accomplish it. She wrote a business plan that outlined what she wanted to achieve. Several months after Synia completed the training, her fiancé, Johnnie Jordan, found an abandoned building he was certain would make a perfect home for her salon. They scraped together the $5,000 in back taxes to buy it, and did the remodeling themselves. The Hairnet opened in 1997.

Today, Gant-Jordan's clientele continues to grow by word of mouth. She and Jordan, now married, saved enough money to buy the lot next to The Hairnet. Gant-Jordan planned to break ground in the summer of 2003 on an expansion that will more than double the size of the salon. The addition will include a third hairdresser booth, a nail technician booth, an employee break room, an office, and a play area for customers' and the owners' children.

The success of her business makes Gant-Jordan feel blessed. To reflect that, she recently changed the salon's name to The Hairnet with Blessings That Flow.

"We just kind of take it easy. We want our blessings to flow—whatever is God's will with our business, home, and lives," Gant-Jordan said.

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Where Has My Money Gone?

If you're like many people, you may not have a good idea where your money comes from and where it goes each month. There are times when you feel pretty well off financially and easily able to meet your household expenses. Other times, your empty pockets may baffle you. Where has all your money gone? A good money manager has to be able to track the cash flow in and out, keeping track of both personal and business accounts. Your personal cash flow equals cash flow in minus cash flow out.

A spending plan can help you get control and keep control of your money and your cash flow. A spending plan is essential to good money management. It's more than a budget, which focuses only on monthly bills. It's a planning tool you can use to get a handle on your finances—at home or in your business.

Examining your finances is an important task. The average family loses 30 cents out of every dollar due to poor spending habits, according to experts.

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In other words, you can give yourself a 30 percent "raise" if you find and stop poor spending choices. Think of what that amount of money could do for your personal financial stability, not to mention your business!

Let's start by creating a spending plan for your personal finances. Follow these four steps:

1. Identify your income
2. List your expenses
3. Compare income and expenses
4. Review how you did and make changes

A few tips before you start: If you have a spouse and children, involve them in creating the spending plan. Strive for accuracy as you list income and expenses. Collect and use all the financial information you can find in your records and files.

My Income Worksheet

Source of Income	Amount Each Month
Your wages/salary (after taxes)	
Wages/salary earned by others in the house	
Income from self-employment	
Interest, dividends	
Child support	
Pension	
Social/Supplemental Security	
Gifts	
Tax refund	
Advance Earned Income Tax Credit	
Public assistance (food stamps, housing)	
Other income	
TOTAL	

Step 1: Listing Your Income

Review your pay stubs, your bank account deposits, and other records to fill out the above table. Remember that income doesn't always come in monthly allotments. You may have to multiply or divide in order to figure out what the monthly contribution is from a particular source. For instance, if you're paid on the 15th and 30th each month, you'll have to multiply your net pay from a single check by two. If you receive child support every quarter (every three months), you'll have to divide the amount by three.

Step 2: Listing Your Personal Expenses

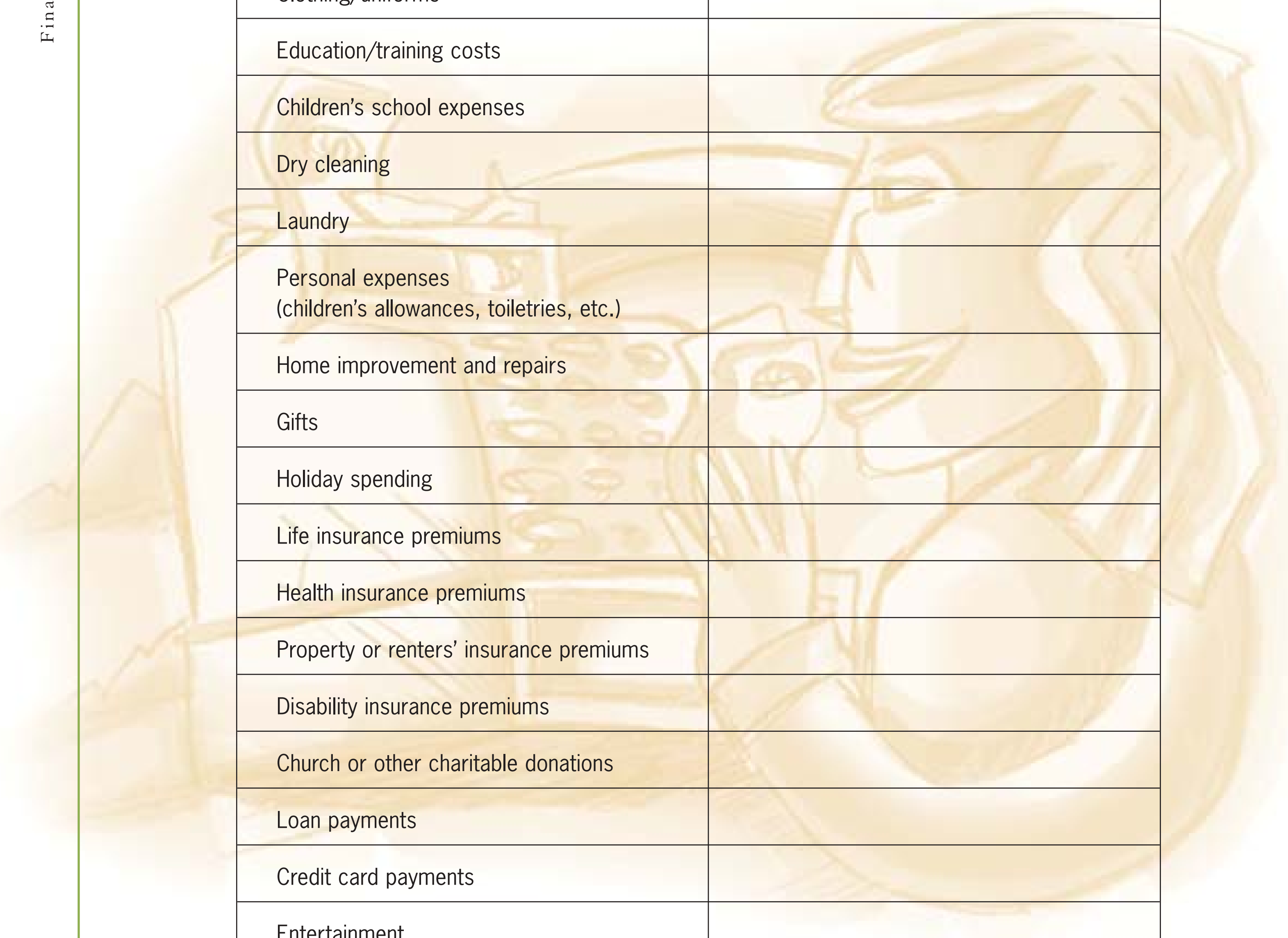
It's usually harder to list where you spend your money than it is to see where you get it. Some people find it helpful to keep a spending diary before taking on this part of a spending plan. To create a diary, take a piece of paper and write the days of the week across the top. Each day, write down how much you spend, and for what. Carry a little notebook with you or save receipts to make this task easier. At the end of the week, add your expenses. Continue doing this for about a month.

Also, look at several months of your credit card statements, your checkbook register, and your bank statement (particularly if some of your payments, such as your mortgage or your cable bill, are automatically withdrawn from the bank).

My Expense Worksheet

Expenditures	Amount
House payment or rent	
Heating bill (gas or fuel oil)	
Electric bill	
Water bill	
Telephone bills (local, long distance, cell)	
Cable bill	
Groceries	
Snacks/meals eaten out	
Transportation (bus fare, gas for car, tolls, car repair, car insurance)	
Alimony or child support payments	
Child care	
Elder care	
Doctor/dentist bills	
Pet expenses	

My Expense Worksheet (continued from previous page)



Expenditures	**Amount**
Union/professional dues	
Clothing/uniforms	
Education/training costs	
Children's school expenses	
Dry cleaning	
Laundry	
Personal expenses (children's allowances, toiletries, etc.)	
Home improvement and repairs	
Gifts	
Holiday spending	
Life insurance premiums	
Health insurance premiums	
Property or renters' insurance premiums	
Disability insurance premiums	
Church or other charitable donations	
Loan payments	
Credit card payments	
Entertainment	
Savings	
TOTAL	

Remember: Just as income doesn't always arrive in monthly amounts, expenses sometimes occur only once or twice a year. Don't forget annual insurance payments or other occasional expenses as you fill out the previous worksheet. If you have a car insurance payment of $360 due once a year, for instance, you will have to allow $30 a month ($360 divided by 12) in your spending plan.

Step 3: Comparing Income and Expenses

To compare income and expenses:

Write down your total monthly income from Step 1: ______________________________

Write down your total monthly expenses from Step 2: ______________________________

Compare the two numbers.

Step 4: Reviewing How You Did and Making Changes

If you have more income than expenses, that's terrific. You can put that extra money toward reaching your goals. If expenses are greater than income, you need to get back on track. That will require either reducing your expenses or increasing your income.

You can consider taking on another job, finding a better-paying job, or having other family members take on paid work to increase your household income. You also can reduce expenses by setting target amounts in each expense category.

This will guide you on how much you can spend without exceeding your income.

Look at your expenses. Some of them can't be reduced without making major changes in your life. These are called "fixed" expenses. Rent or mortgage payments are examples of fixed expenses. You can't really cut your housing costs unless you're willing to pack up and move to a cheaper residence. Other costs are more under your control. These "variable" expenses would include food, gifts, entertainment, and clothing.

Examine your list of expenses and mark each one, either with a "V" for variable or with an "F" for fixed. Look at each "V" and decide if you can reduce your spending on each item. Can you find enough to cut so your total expenses are less than your total income?

Keep tracking what you spend in your spending diary. Then, once a month, using the worksheet starting on page 13, list all your expenses and income, and compare what you planned to make and spend with what you actually made and spent. Adjust future variable expenses to balance the two.

Don't give up... if you continue to find your income and expenses out of balance.

For example, if you planned to spend $300 for groceries but actually spent $350, you'll have to look for ways to cut $50 from next month's expenses. Or, maybe you can find a way for your business to bring in another $50 in profit.

Don't give up, or become too hard on yourself, if you continue to find your income and expenses out of balance. It happens to everyone. You can change your plan if you have made adjustments and still find you're out of balance. Perhaps you're beginning to realize that the monthly amount you set for groceries is just too small; you know that now because you're always exceeding the amount you budgeted. You might be able to trim costs from other categories—cut back on gifts or forego movies, for example.

The important part is to keep planning. The personal financial skills you develop will help you—at home and in business—whether you're making $10,000 or $100,000 a year.

Final Thoughts

Perhaps you're thinking, "I'm a business owner. Why do I need to master these personal financial skills?" Knowing how to make and use a personal spending plan will aid you with your business. First, you'll have control of your personal finances so they won't have a negative impact on your business. Second, the skills you use in your personal spending plan are similar to those you'll use in your business finances. You'll learn more about these skills, such as cash flow projections and break-even analysis, in Chapters 5 and 6.

My Spending Plan Worksheet

Source of Income	Planned	Actual	Difference
Net wages/salary (after taxes)			
Other family members' wages			
Income from self-employment			
Interest, dividends			
Child support			
Pension			
Social/Supplemental Security			
Gifts			
Tax refund			
Advance Earned Income Tax Credit			
Public assistance			
Other income			
TOTAL			

My Spending Plan Worksheet

My Spending Plan for Expenses	Planned	Actual	Difference
House payment or rent			
Heating bill			
Electric bill			
Water bill			
Telephone bills			
Cable bill			
Groceries			
Snacks/meals eaten out			
Transportation			
Alimony or child support payments			
Child care			
Elder care			
Doctor/dentist bills			
Pet expenses			
Union/professional dues			
Clothing/uniforms			
Education/training costs			
Children's school expenses			

My Spending Plan Worksheet (continued from previous page)

My Spending Plan for Expenses	Planned	Actual	Difference
Dry cleaning			
Laundry			
Personal expenses			
Home improvements and repairs			
Gifts			
Holiday spending			
Life insurance premiums			
Health insurance premiums			
Property or renters' insurance premiums			
Disability insurance premiums			
Church or other charitable donations			
Loan payments			
Credit card payments			
Entertainment			
Savings			
TOTAL			

3

Building Your Financial Reserves and Assets

You've examined your income and expenses and started to bring them into balance.

financial

Saving for Success

You've considered your goals, both short term and long term. You've examined your income and expenses and started to bring them into balance. Now it's time to look for ways to save money.

Saving money will help you reach your goals, both personal and professional, and will protect you in "rainy day" emergencies. Savings will help you build your assets—things of lasting value such as a home, a building for your business, or a retirement fund.

Even a little bit of money set aside can make a big difference over time. For example, if you would save just $30 a month—a dollar a day—in a tax-free retirement fund that pays 5 percent interest, you would have $12,331 in 20 years, and $45,781 in 40 years.

You say the money you earn each month disappears before you can set anything aside? The secret to successful saving is to **pay yourself first**. Each time you get a paycheck from an employer or a payment comes into your business, put some money into savings.

If you are working for an employer, you may be able to have part of each paycheck deposited automatically into a savings account. If you have a bank checking account, ask if you can set up a savings account and automatically direct a set amount from checking to savings each month. However you do it, make savings your priority. After all, you can't spend money you never actually have in your pocket!

You also can examine your spending to identify "leaks." For instance, do you stop on the way to work for coffee or a donut each weekday morning? Even if you only spend $1.50 a day, the amount adds up: $7.50 a week equals $30 a month, which equals $360 a year!

You "need" that coffee each morning, you say? Learn the difference between wants and needs. Needs are necessities that you must have to live. Groceries, safety equipment for work, and children's school supplies are examples of needs. Dinner out, a vacation home, and renting movies every weekend are examples of wants.

You don't have to give up every pleasure, but you do have to recognize the importance of paying for needs first if you're going to be able to save.

You don't have to give up every pleasure, but you do have to recognize the importance of paying for needs first if you're going to be able to save.

reserve

Tips for Finding 'Hidden' Cash for Savings

Consider the following:

- Put $1 a day **plus** your spare change in your purse or pocket into a jar each night. By adding your change to a $1 each day, you'll probably end up with about $50 at the end of the month.
- Don't spend bonuses, tax rebates, or other unexpected income.
- Send in product rebates. Use grocery coupons to reduce your food bills. Put the money you get from both sources into the bank.
- If you've just paid off a loan, keep "paying" the loan amount to savings.
- Be a thrifty shopper. Buy generic or store brands instead of big-name, heavily advertised brands of food and clothing. Shop at discount stores. Buy staples and nonperishable foods in bulk. Check out thrift stores and yard sales.
- Give up expensive habits such as smoking tobacco, playing the lottery, or going out and spending money frequently with your friends. Instead, find things to do with your family and friends that are inexpensive.
- Follow the "Rule of Three." Compare at least three companies' prices before making a big purchase or hiring a service.

Where Do I Put My Money?

As you begin to accumulate savings, you'll want to keep the money somewhere safe—not in a jar or cardboard box or under the mattress! Many types of financial institutions offer safe places to keep your savings.

Banks, credit unions, and savings and loans are the most common places people put their savings. In return for putting your money in these institutions, you are paid "interest," which is figured as a percentage of the amount you have in your savings account. Banks and savings and loans usually are set up to make profits—that is, they use your money to make money for themselves while still paying you interest. Credit unions are set up as cooperatives. The people who put their money in each credit union become the owners. Credit unions must make enough money to cover expenses, but aren't trying to make profits for outside owners. Sometimes credit unions offer better rates for savings accounts or loans because of this.

Most banks, savings and loans, and credit unions are insured and supervised by the federal government. If one of them goes out of business because of financial troubles, the government makes sure customers get their money back, up to $100,000 per person. Banks and savings and loans are insured

As you begin to accumulate savings, you'll want to keep the money somewhere safe—not in a jar or cardboard box or under the mattress!

through the Federal Deposit Insurance Corporation (FDIC) while credit unions are insured by the National Credit Union Administration (NCUA). Look for FDIC and NCUA logos in institutions, on booklets and brochures, and on Web sites.

It's a good business practice to set up separate business and personal accounts. That means you actually could end up with four accounts—two savings, one personal and one for your business, and two checking, one personal and one for your business. It's all right to set up all these accounts in one institution. However, if you're saving for long-range business expenses, such as replacement of equipment every few years, you might consider putting your business savings in a financial institution or account that pays higher interest for longer-term investments. See the the list of different investment tools, starting on page 20, to see if one works for you.

But regardless of your savings needs, you'll probably need to create basic savings and checking accounts. To decide which institution is right for you, ask:

- If the institution is conveniently located to your home or your business?
- If it is open on the days and during the hours you will need to use it?
- If you pay a fee to open a checking or savings account?
- If you have to deposit a minimum amount to open an account?
- If there are any fees to keep accounts open?
- If you bounce a check, what do you have to pay? Is overdraft protection available?
- What interest rate does the savings account pay? (Sometimes you'll find checking accounts pay interest, too. Compare institutions' rates on this, too.)
- If you have to keep a minimum amount of money in either checking or savings accounts to avoid fees? ("Free" checking accounts sometimes require a minimum balance, which limits your access to your money.)
- Are you comfortable with the staff? Do they speak your language? Do they answer questions willingly and clearly?

You might consider putting some of your savings for longer-term goals in…

Savings accounts in banks, savings and loans, and credit unions are safe but usually pay very low interest rates, so your savings don't grow very fast. You might consider putting some of your savings for longer-term goals in these types of accounts:

Employer retirement plans: If you are employed at a salaried or wage-paying job outside your microenterprise, your employer may offer some kind of savings plan such as a 401(k) or a Savings Incentive Match Plan for Employees (SIMPLE). You choose an amount of money that is then subtracted from your paycheck and invested in the plan, often with the employer matching some or all of your contribution. These plans have varying degrees of risk, depending on where you invest your money. You also must leave your money in the account, or pay penalties to remove it, until you are 59½ years old.

Retirement plans for the self-employed: If you are a sole proprietor, you may create an individual 401(k). This form of retirement account has several advantages: You usually can make larger contributions to this type of plan than you can through a pension plan or regular profit-sharing plan, and you don't have to contribute a fixed amount each year. This is a plus if you have a cash-flow problem one year, or want to take a larger owner's draw. Small businesses also can create Simplified Employee Pension (SEP) plans that don't require fixed contributions each year. SEPs allow you to make contributions after the tax year is ended and you know what your profits are. As a general rule, plan contributions must be made on behalf of all employees who meet certain eligibility requirements.

Individual Development Accounts (IDAs): Your local Microenterprise Development (MED) organization may offer these. IDAs are partnerships among financial institutions, faith-based organizations, community-based nonprofit groups, schools, and others. They are designed for small business owners and others who don't have access to employer-based retirement savings plans. When you make a deposit in an IDA, your contribution is matched by partner organizations, sometimes dollar for dollar, sometimes by $2 or $3 for each dollar you save. IDAs have become very popular among organizations that foster microenterprise development. More than 350 communities have programs that support IDAs.

Mutual funds: Mutual funds allow you to participate in the stock market with less risk than if you bought individual stocks directly. Many financial institutions offer mutual funds. The manager of a mutual fund pools money from many people to invest in many companies' stocks, bonds, or other assets. With multiple stocks in the fund, a drop in the value of one stock has less impact on the fund's total value. Still, if the whole stock market goes down, mutual funds do, too. You can research different types of mutual funds online or at the library. See the "Recommended Resources" section on page 61 for some suggested Web sites.

Certificates of Deposit (CDs): Many financial institutions offer CDs as well. CDs require you to make a minimum investment, then leave the money deposited for a specific period. (For example, you might buy a $1,000, three-year CD.) The longer the time, the higher the interest rate you are paid on your money. CDs have higher interest rates than ordinary savings accounts, but you don't have easy access to your money.

IDAs have become very popular among organizations that foster microenterprise development.

Treasury securities: These include bonds, bills, and notes issued by the federal government. Their interest rates are guaranteed as long as you hold the securities to maturity (the time at which the government returns your money plus interest).

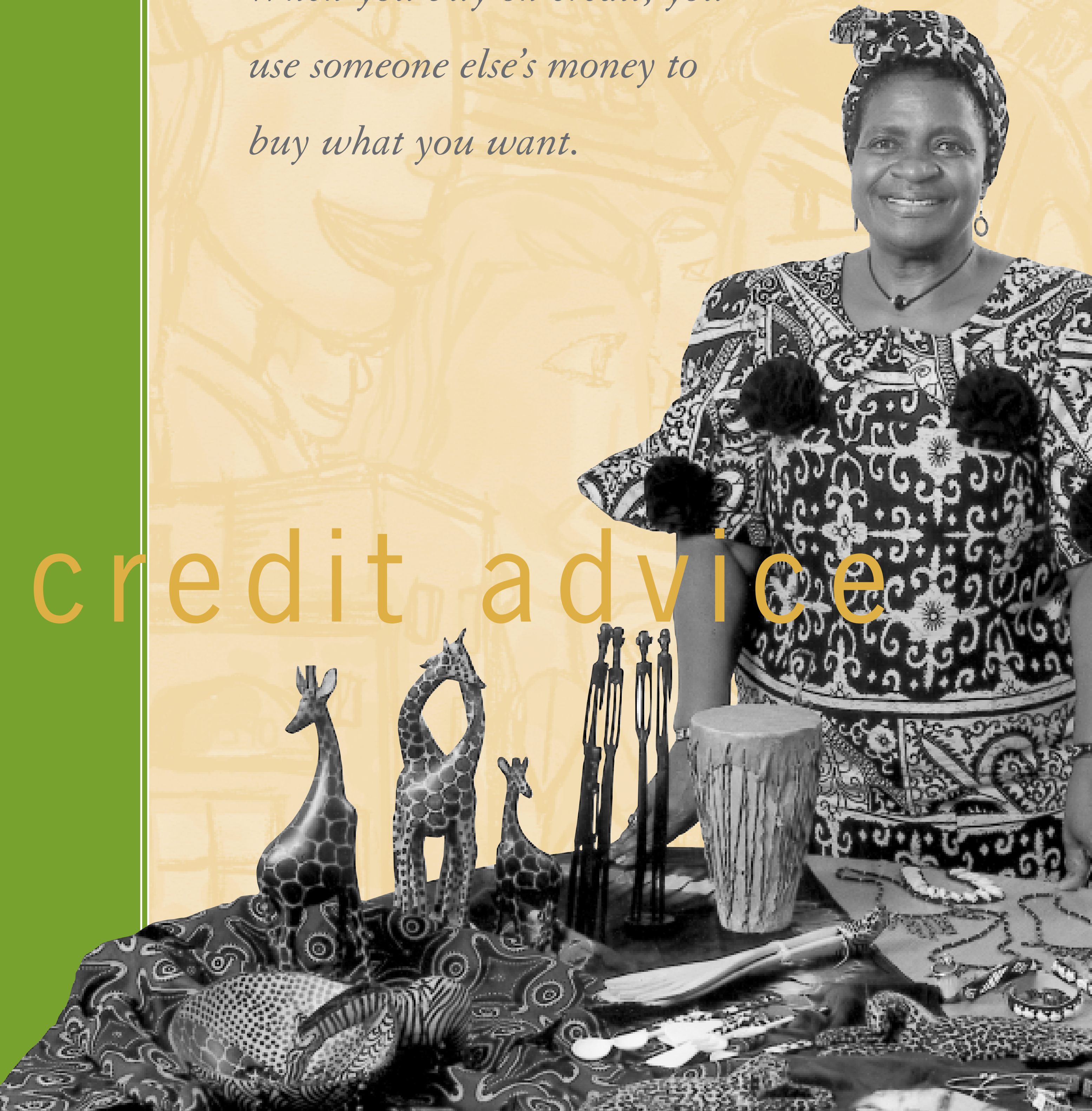
Money market funds: Money market funds pay higher interest rates than savings accounts, but require high minimum balances ($2,500 in some cases; each institution is different). You also may be limited in how many times you can make withdrawals, and the minimum amount you may withdraw at once may be high. These funds usually are not insured.

4

The Debt Trap

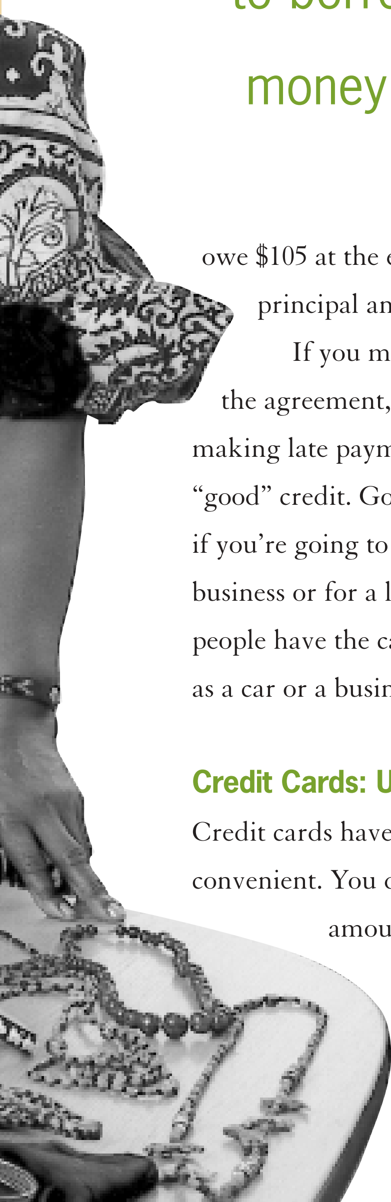
When you buy on credit, you use someone else's money to buy what you want.

credit advice



It's easy—maybe too easy—to buy things on credit. When you buy on credit, you use someone else's money to buy what you want. In return, you agree to pay back the credit card company, bank, or other credit source in a specific amount of time—and with interest. Interest is expressed as a percentage of the amount you borrowed, which is called the principal. If you borrowed $100 at 5 percent interest, you'd owe $105 at the end of one year, or $100 principal and $5 interest.

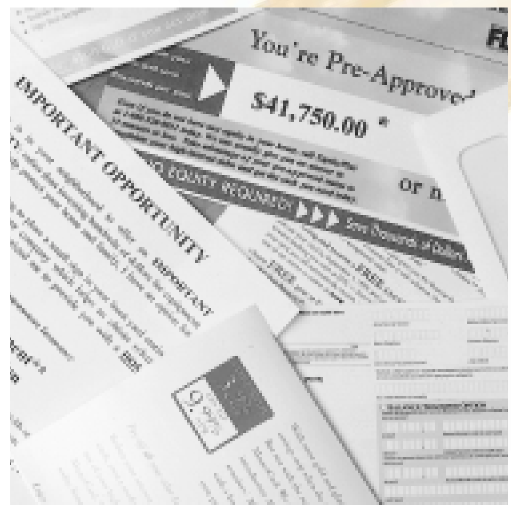
Good credit is vital to maintain if you're going to borrow money…



If you make payments according to the agreement, without bouncing checks or making late payments, it's said you have "good" credit. Good credit is vital to maintain if you're going to borrow money for your business or for a large personal purchase. Few people have the cash to buy a major item such as a car or a business computer system.

Credit Cards: Use with Caution

Credit cards have many advantages. They're convenient. You don't have to carry large amounts of cash for purchases. If your card is lost or stolen, you're liable only for the first $50 of unauthorized charges if you report the card's loss right away. You may also find a credit card is a requirement at times—such as when you're making a hotel reservation, renting a car, or buying something on the Internet. You can even use credit cards to establish good credit by showing you can promptly pay back the credit card company. Cards also can help business owners buy supplies or equipment.



But credit cards' very ease of use and availability can cause problems if you get carried away with purchases. Credit cards carry very high interest rates—sometimes 20 percent or more—and if you can't pay off the total you charge on the card each month, interest builds up quickly. Card issuers typically require you to pay off just 2 percent of the total amount you owe monthly. If you charged $1,000 on a card carrying 20 percent interest, and paid only the minimum each month, it would take you more than nine years to pay the debt. You'd end up paying $2,073 in interest and principal.

Tips for Using Credit Cards Wisely

Consider the following tips for using credit cards wisely:

- Look for cards that carry no annual fees and low interest rates.
- Use them only to make important purchases; not for clothing, food, or entertainment.
- Keep track of your credit card purchases on your spending plan—as soon as you make them—so a big bill doesn't surprise you when it comes.
- Limit the number of cards you use to one or two.
- Consider using a secured credit card. These require you to deposit money in a special account to cover your purchases.

Are You Deep in Debt?

Credit cards aren't the only form of debt. Bank loans, car loans, home mortgages, business loans, and other borrowing can add to your debt load. How do you know when you have too much debt?

Credit cards aren't the only form of debt.

Lenders use something called a debt-to-income ratio to gauge how much debt you can afford. To calculate your ratio, divide your total monthly debt payments by your gross (before tax) income. For example, suppose you pay $800 for a mortgage, $200 on a credit card, and $150 for a student loan for a total each month of $1,150. If you and your spouse together make $4,000 a month, your debt-to-income ratio would be $1,150 divided by $4,000 or approximately .29 (29 percent). Lenders want your ratio to be below 36 percent (25 percent if you pay rent and have no housing debt).

You probably don't need to calculate your debt-to-income ratio to know if you have a problem. If you're struggling to meet your expenses each month, missing loan payments, bouncing checks, working an extra job to make ends meet, have been refused credit, or are getting telephone calls or visits from bill collectors, you know you need help.

How to Get Out of Debt

If you're going to build a thriving business, you must keep your personal debts to a manageable level. If you're buried in debt, you'll find it difficult or impossible to borrow money for your business. Also, making big debt payments may drain money from your business. Here are five steps to help you trim your debt:

Step 1: Figure out where you are in debt. Do you owe money to a couple of companies or many? Are you paying late fees or high interest rates on minimum payments?

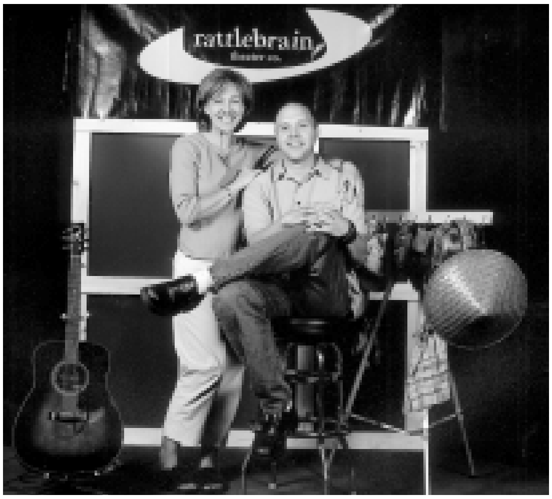
Step 2: If you owe only a handful of companies, see if you can negotiate smaller payments, at least for a while.

Step 3: If you owe many businesses, consider seeking help from a nonprofit consumer debt counselor, such as Consumer Credit Counseling. Such counselors will help you set up a payment plan. (Avoid "credit repair" companies, which require you to pay a fee to "fix" bad credit. Check a counseling company's history with the Better Business Bureau or the state attorney general's office.)

Step 4: Take a hard look at your spending plan and see if you can find ways to cut expenses or increase income. Pay your debts with any additional money you can manage to save or earn.

Step 5: Don't ignore bills and past-due notices. A poor credit history will haunt you for years.

If you get caught in the debt trap, you'll find that creditors or their representatives will call you repeatedly at home and even at work. You can curtail calls at work by sending a letter to the collection agency, requesting that calls to your workplace stop. You must write, not call. Keep copies of the letters and mail the originals—with Return Receipts Requested—to the credit agencies. If calls do not stop, contact your state attorney general's office.



Beware: If you do not pay your debts, your creditors can go to court and seek permission to take one-fourth of your take-home pay (if you are working for an employer). This is called "garnishing" your wages, or "wage garnishment." If more than one creditor garnishes your wages, your employment can be affected.

Is Bankruptcy a Good Choice?

Bankruptcy is a legal way of helping individuals and businesses deal with debts when they owe much more than they can pay. While

Bankruptcy should be considered only as a last resort.

bankruptcy can erase many debts, it doesn't excuse you from everything you owe.

Generally, there are two types of bankruptcy: liquidation and reorganization. In liquidation, known as Chapter 7, your business assets or personal assets are liquidated (sold) and the proceeds are used to pay your debts. You may be able to keep some personal assets. The other type of bankruptcy, reorganization, allows you to work out a court-supervised plan to pay your creditors. Consumers generally file for reorganization under Chapter 13 while businesses or individuals with debts exceeding Chapter 13 limits file under Chapter 11.

Bankruptcy should be considered only as a last resort. Because bankruptcies stay on credit records for seven to 10 years, depending on the chapter under which they're filed, they will make it difficult for you to obtain financing to start or grow a business, buy a home, or obtain other personal or professional loans.

Getting a Credit Report

Several agencies track your borrowing and payment history. These agencies are contacted for reports on your credit history whenever you seek future loans or apply for credit cards.

If you've had difficulties with debts in the past—you've been unable to pay a loan or been late with a lot of bill payments, for example—the thought of asking for your credit reports could be a little worrisome. You're not alone. Many people who have had credit problems feel uncomfortable

about looking at their reports. Facing your fears is a good idea, however. You may find mistakes that you can ask to have corrected. Even if everything in the reports is correct, you can see where you can make changes. Beginning to build good credit shows prospective lenders you've turned over a new leaf.

Your state may require reporting companies to provide consumers with one or two free credit reports each year. You also are entitled to a free report if you've been turned down for a loan or credit, provided you request a copy of the report within 60 days of being rejected. Otherwise, you will pay a small fee for a report.

The companies that provide credit reports and credit assistance include:

- Equifax, 1-800-685-1111, www.equifax.com
- Experian, 1-888-397-3742, www.experian.com
- TransUnion, 1-800-888-4213, www.transunion.com
- Consumer Credit Counseling Service, 1-888-577-2227, www.cccs.org
- National Foundation for Credit Counseling 1-800-388-2227, www.nfcc.org

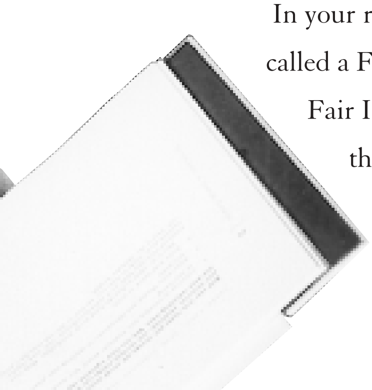
Have your Social Security number, your date of birth, addresses for the past five years, and maiden name (if applicable) available when you contact the companies.

In your report, you will find something called a FICO® score (FICO stands for Fair Isaacs & Company, the company that created the formula). It is a number that lenders use to help them decide how likely it is you will pay them back on time. Your FICO score is like a snapshot in time. Your score this month may be different from last month's. Your FICO score takes into account your payment history, how much you still owe to creditors, how long you have been using credit, the types of credit you use, and how much of your credit use is new and old. By comparing your information to the patterns in thousands of other people's credit reports, the score assigns you a level of future credit risk. FICO scores range from 300 to 850—and the higher your number, the better your score.

Your score will not drop if you order your credit report. Also, you can gradually improve your score by following good credit practices such as paying bills on time, developing payment plans and not using too much credit. This will help you when you go to a lender to borrow for personal or business purposes.

If you find mistakes on your credit report, you can make corrections at no cost, but the process can be slow and hard. First, check to see if the report tells you how to correct mistakes, and follow those instructions.

FICO scores range from 300 to 850—and the higher your number, the better your score.



You may be required to submit documents to support your corrections, such as canceled checks to show you paid the bills. Send a brief letter explaining the situation. The credit-reporting agency has 30 days to respond to your complaint.

If it finds you are correct, the agency must notify the other credit-reporting agencies. If it finds you are not correct, you may want to take your case to the lender directly. If an issue isn't resolved, you have the right to include your side of the story with your credit history. For instance, if you refused to pay a contractor for a home repair because it was done badly, that debt may still show up on your credit report, but so will your explanation.

Repairing a Credit History

You can repair a poor credit history. It takes sacrifice and time, but pays off when you're ready to start or expand your business.

Consider the case of Karen Smith. (Although this is a fictional account, it demonstrates how individuals can work to repair their credit.) For years, she hoped to start her own sewing business and leave behind her minimum-wage retail job. Although she was a talented designer and skilled seamstress, she knew she wouldn't be considered a good credit risk if she went to seek financing for her business idea.

About five years previously, Smith learned she had cancer. The tumor was relatively small and was easily removed by a surgeon, who assured her that her physical future looked bright. She had no health insurance, however, to cover sizeable hospital charges. She paid a little, but still owed about $5,000. Struggling to make payments to the hospital, Smith also couldn't pay her cell-phone charges and her account was closed. Both the hospital bill and cellphone debt were on her credit report.

For years, she hoped to start her own sewing business and leave behind her minimum-wage retail job.

Smith saw an ad for a "credit repair" company that promised to "fix" her poor credit report for a fee. A friend told her that this was a scam. Not knowing what else to do, Smith went to her local microenterprise agency to beg for the $1,500 she estimated she needed to launch her sewing business.

There, Smith was reassured to learn she could repair her credit history herself. Working with a staff member of the microenterprise agency, Smith figured her income and her cost of living. She looked for ways to cut her living expenses and also took an extra shift on the job each week.

With a little more income and reduced expenses, Smith had $50 a week to apply to her debts. The cellphone bill was just $150. She and her microenterprise adviser decided to erase that debt first. In three weeks, it was paid.

The hospital bill was harder because it was so large. Together, she and her adviser met with hospital accounting personnel to work out a payment plan. Smith agreed she would pay $50 a week initially and would try to increase the amount as her income increased from her regular job and her sewing business. The parties agreed to meet again in six months to reassess the situation.

The microenterprise agency, after watching Smith make good-faith efforts on her payments for several months, agreed to loan her $500 through a special loan program that disregards credit history. This allowed her to buy a commercial sewing machine and convert a spare bedroom to a workshop. Smith took financial literacy classes through the agency, worked one on one with a mentor, and began to expand her business, primarily through word of mouth from satisfied customers.

As months went by, Smith was able to scale back her retail job's hours for her more lucrative sewing work. She paid more toward her hospital debt and also paid off her $500 start-up loan. The microenterprise agency then loaned her $1,000, which allowed her to buy a second sewing machine and hire another seamstress part-time to handle routine sewing. After nearly two years, Smith paid off the hospital debt and celebrated the final payment with a dinner for family and friends. Smith felt her business future was finally on the right track.

With a little more income and reduced expenses, Smith had $50 a week to apply to her debts.

5

Writing a Business Plan

No one knows your business like you know it, so don't hire an "expert" to write your business plan.

Think of a business plan as your blueprint to building a successful enterprise. Just as a carpenter should never start hammering away on a project without a blueprint, you should never jump into a business without a plan.

No one knows your business like you know it, so don't hire an "expert" to write your business plan. Doing it yourself also will help you focus your business idea, figure out who your customers will be, and chart your operational and financial needs. A good plan also will show you if your idea can succeed. Plus, it's easier to fix any problems that appear while they're still on paper.

Even after you launch your business, a plan can help guide you from the start-up phase to stability. A plan also is a must if you're going to seek financing. All in all, creating a business plan is a good idea: Studies show that businesses that have plans perform better and are more likely to succeed than those that lack plans.

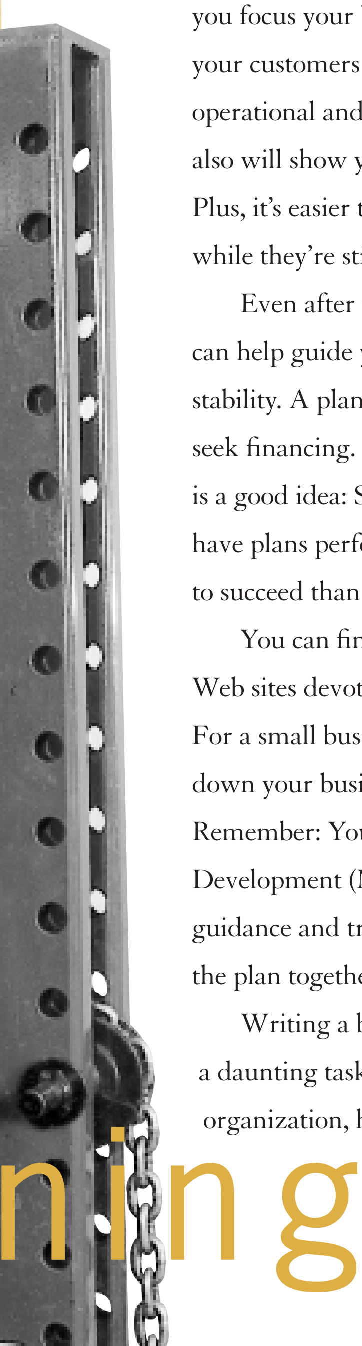
You can find many books, courses, and Web sites devoted to writing business plans. For a small business like yours, you can boil down your business plan to a few key elements. Remember: Your local Microenterprise Development (MED) organization can offer guidance and training while you're putting the plan together.

Writing a business plan may seem like a daunting task. At your local MED organization, however, you're likely to find courses that will teach you how to write a business plan. Staff members also will be available to offer suggestions and help as you go through the business-planning process.

Take Your First Step

A feasibility analysis is a simple first step to help you decide if you are on the right track with your business idea—before you spend long hours on a complete business plan. The analysis, only a few pages long, will answer two key questions: Is there sufficient demand for the product or service and can the product or service be provided profitably? To start, write a few paragraphs that summarize your business idea. Then, briefly outline the market for your product or service. This includes the growth potential of the industry as a whole as well as specific demand for your product or service. Next, explain your product's or service's advantages over competitors' offerings. The last section of your analysis will look at basic financial measures: Can you price your product or service to be competitive in the marketplace and still cover your expenses? To do this,

Think of a business plan as your blueprint to building a successful enterprise.



If the analysis is positive, then continue into a full-blown business plan.

perform a break-even analysis, described in detail in Chapter 6, which shows the total sales you need to make to cover your costs. If you find the number of units you must sell or your selling price are impossibly high, stop here. There is no need to move ahead on a full business plan until you figure a way to trim costs or increase sales. If the analysis is positive, then continue into a full-blown business plan.

Describe Your Business

A business description begins your business plan. It explains what the business will do or make, whom it will serve, where it will be located, when it will operate, and why you're doing it. Answer these questions to gather information to write your business description:

- What product will I make or service will I provide?
- Am I being realistic about my idea? Do I have the skills, finances, and equipment to carry out my idea? (For instance, starting a full landscaping business takes a lot of money, but beginning a lawn mowing and snowplowing business is a lower-cost alternative.)
- Am I starting a new business, taking over or expanding an existing one, or buying a franchise?
- Will it be my full-time or part-time employment?
- Why am I going into this business?
- Why is there a need now to start this business in this area?
- Who will be my customers and how many of them are there?
- How will my business be different from similar businesses?
- When and where will I do business? How will my locations and hours benefit my customers?

Analyze the Market

A market analysis is the part of the business plan that describes the demand or need for your proposed business. A successful business offers a service or product that customers can't easily find elsewhere, or that is better, cheaper, or otherwise different from competitors' offerings.

It also offers a product or service for which demand is steady or growing. Typewriter repair doesn't have much of a future, for instance, but computer repair does!

Analyzing the market will involve more than checking listings in the phone book, or driving through the neighborhood to count similar businesses to the one you'd like to start. You will be able to find some of the information you need through the public library, the Internet, or government offices. You may also find help through business associations, such as the Chamber of Commerce. Answer these questions to gather information to write your market analysis:

- How much do I know about my competitors and how they do business? Are their businesses growing? What are their strengths and weaknesses? How will my business be different from theirs? How can I compete with them?
- How much do I know about the customers I want to attract? How big is my target group of customers? Is the group growing? Is their need for my product or service increasing? Where do they live? What are their incomes? Is this target group big enough to support my business?
- How much do I know about the economy and its impact on my business? Is the local economy growing, steady or weakening? How will its condition affect my business? Are there national or international economic changes that will have an impact on my business? How will I deal with economic changes, local or international, that might hurt my business?

Reach Out to Customers

A marketing plan is the part of your business plan that explains how you will attract and keep customers using pricing, advertising, and promotion. You may have the best business in

the world, but it will fail if prospective customers don't find out about it. The marketing section also includes sales projections, which are your best estimates of how many products or services you expect to sell under a variety of conditions. Answer these questions to gather information for your marketing plan:

- What's the best way to reach the people I want to be my customers? Can I reach them through television, radio, or newspaper advertising? Can I mail them information about my business? Can I join forces with another business that sells a different product, but deals with my target customers? For instance, a child-care provider might market his or her services with a diaper service or a toy store. What will these different strategies cost? What option or options reach the most people for the best price?
- How will I portray my product or services in order to attract customers?

- Do I have a catchy, memorable name for my business?
- What prices will I charge for my services or products? Why will these prices be attractive to my target customers? Will these prices cover my costs and allow me to make a profit? How will my prices compare to my competitors' prices?
- How many sales do I expect to make in a year? Typically, you forecast sales for the "best case," "most likely case," and "worst case" scenarios you'll encounter, with explanations of what factors would lead to each case.

Research Marks the Spot

There's no quick commute for Tee Tanaka. The former banker opened his Japanese restaurant Moshi Moshi in Boulder, Colorado, about 35 miles from his Denver home. His marketing research told him it was the place to be.

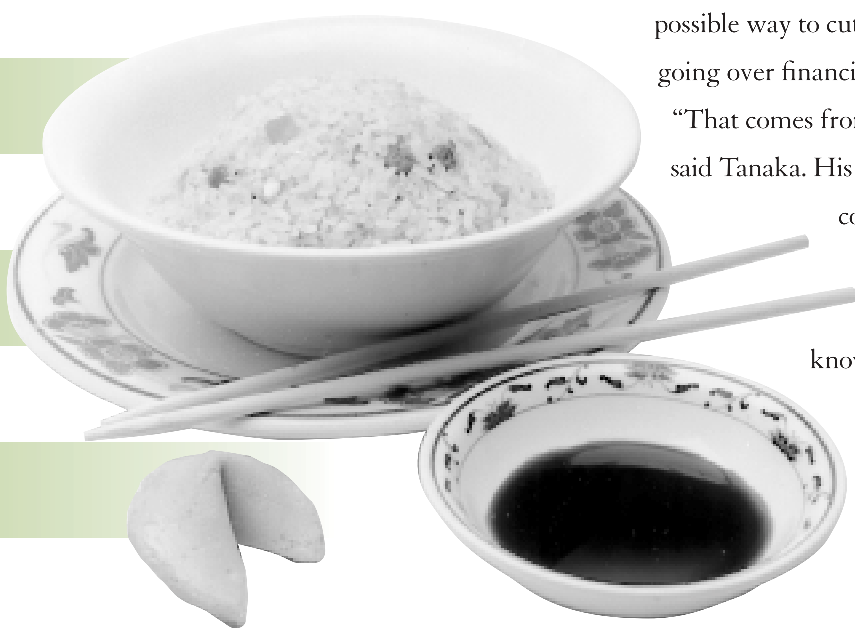
"I thought I would fit into the Boulder niche," said Tanaka, a native of Japan who has lived in the United States for nearly 40 years.

With help from his daughter, who works in the University of Colorado's School of Entrepreneurship, Tanaka researched the Boulder market. He found that residents of Boulder, thanks to CU's presence, are largely young, active, and health-conscious. Tanaka visited other successful Boulder restaurants, including Noodles & Co., a restaurant that sells international pastas that has expanded to several states from its Colorado roots.

Tanaka's findings helped him refine his mother's traditional recipes for his target customers: college-age and health-conscious diners. For instance, he moved to a higher quality, low-fat beef for his beef and noodle bowl rather than the traditional fatty beef. He dropped deep-fried dishes, such as tempura, and uses only a little sesame oil in food preparation.

Tanaka also put Moshi Moshi—the name is Japanese slang for "quick"—on what he called a "strict business approach." He looked for every possible way to cut costs, even spending Sundays going over financials and taking care of details. "That comes from my business background," said Tanaka. His partners in his limited liability corporation (LLC) are former colleagues from his 30 years in banking. They also have know-how and "great ideas," Tanaka added.

The LLC was formed in 1999, but Moshi Moshi



"It's a 'cry one minute, laugh the next' sort of business."

didn't open until February 2001 after 14 months of intensive work. The partners met with restaurant and kitchen consultants and other experts to refine Tanaka's concept. Finding the right space took the most time. Tanaka had hoped to convert existing space for the restaurant, but nothing he found was quite right. He finally settled on a building under construction on Boulder's downtown pedestrian mall.

The location turned out to be a more expensive choice, but a good one. Tanaka had considered locating adjacent to the university. One fact his research had missed: Boulder's restaurant business drops off in the summer when CU has fewer students on campus. The mall, though, is less affected by student population changes. "Sometimes, it's just a matter of luck," Tanaka said of his location choice.

Hard work and attention to the bottom line have gotten Moshi Moshi through difficult economic times. "I probably would not have existed through those obstacles if I had not taken the austere business approach I did," Tanaka said.

He still hesitates to call Moshi Moshi a success, although business is good. He'd like to add other locations in the Boulder-Denver area, but, at age 62, he wants to find someone who will take over the day-to-day responsibilities. Still, he's happy to realize his dream, even if it comes with ups and downs.

"It's a 'cry one minute, laugh the next' sort of business," Tanaka said.

Projecting Sales: An Example

Imagine you want to start a home computer repair business. Using census data, you determine there are 1,000 residences within five miles of your business. Further research shows 80 percent, or 800 homes, have home computers. Your research shows that 75 percent of owners nationally need their computers repaired or upgraded during a year. That means 600 (.75×800) homes in your marketing area might need services each year. You have found only one competitor in your marketing area. Because you have priced your services lower than the competitor and plan an aggressive marketing campaign, you believe you could attract a third of the potential market, or 200 computer owners, during the first year—your "most likely case" scenario. You believe the average customer will require $100 of your services, so your income before expenses will be $20,000 a year. Your "best case" scenario envisions your marketing efforts being more successful and attracting half the potential market, or 300 computer owners, for a gross of $30,000. In your "worst case" scenario, you estimate what will happen if people have stronger-than-expected relationships with your competitor. In that case, you estimate you will capture only a sixth of the market, or 100 customers, to make $10,000.

Organize the Day-to-Day Operations

The operations and management parts of your business plan explain who will be involved in your business and how you will produce the goods or services to sell. Answer these questions to gather information for these parts of the plan:

- If you are making a product, what materials and supplies will you need? What tools, machines, facilities, or furniture do you need? Where will you get them? What do they cost? How much inventory (extra materials) will you need to keep on hand?
- If you are offering a service, how will you provide the service? What materials or equipment, if any, do you need to provide the service?
- How will you be certain you are giving customers quality goods or services? What warranties or guarantees will you make on your products? How will you handle customer service, complaints, repairs, and returns?
- How many people will be involved in your business? What will each person do? What role will you take? What special skills or training do you or your employees have to help the business succeed? Do you have advisers who are going to help you? Who will take responsibility for the business? (This probably will be you.)

Business plans also include financial analyses and detailed examinations of startup and expansion costs, including cash-flow projections for several years. We will look at these parts of your business plan in the next chapter.

Set a Course with a Business Plan

Beaulah Williams, who lives in the Maryland suburbs of Washington, D.C., first learned to sew at age 8, and made beautiful clothes for herself and her children for many years. It was only after she learned business skills, however, that she was able to turn her sewing know-how into a thriving business.

In 1984, she and her husband separated and she began raising their four children alone. By 1995, she was struggling financially on part-time work, government benefits, and child support. She happened to read a newspaper advertisement about the Foundation for International Community Assistance (FINCA), a microenterprise program, in nearby Washington. There, she learned the skills to help her develop her business idea. Learning to write a business plan was her most valuable lesson, Williams said.

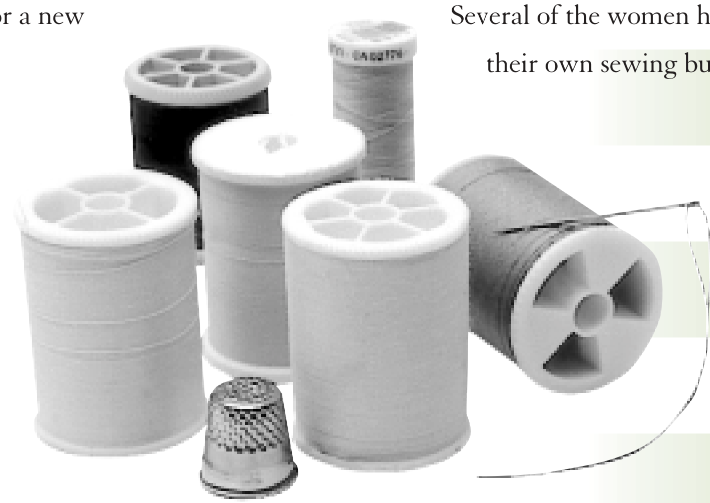
"In doing a business plan, you have to do research," she said. "I came to understand you will not want to do the same business that other people are doing." Williams narrowed her business idea. She decided to concentrate on making custom clothing for individuals and dropped her plans to also make wedding dresses and children's clothing, which were areas in which she found she would have the most competition. "The business plan makes you focus," she said.

Her home-based business, B.B. Design, opened in 1995 with a $500 loan from FINCA for a new sewing machine. Williams offered both African-inspired and American clothing. The business grew and she was able to take a larger owner's draw by 1997. Her success story was told in major newspapers and on network television, and she was invited to speak at the United Nations General Assembly in 2000 about the benefits of microcredit. As she became better known, her business began selling clothes all over the country.

A few years later, however, Williams decided to put her business on the back burner while she completed a degree in divinity. She continues to do some alterations and sewing, but primarily designs and makes unusual minister's robes, which she prices at $900 to $1,000 each. "Each summer, I'll be sewing for tuition," she said.

Williams has shared her hard-earned business knowledge as well as her sewing skills with disadvantaged women in homeless shelters. Several of the women have started their own sewing businesses.

Your "best case" scenario envisions your marketing efforts being more successful and attracting half the potential market…



6

Key Financial Skills for Microentrepreneurs

Earlier in this booklet, you learned how to put your personal finances in good order. Keeping your business finances on track is just as important and uses some of the same skills.

In fact, learning and using key financial skills may be the best step toward success you can take as you go into or expand your business. The Women's Initiative for Self-Employment, a microenterprise development program in San Francisco, discovered that its most successful clients frequently used basic financial tools, such as record keeping, cash-flow management, and break-even analysis, in day-to-day business activities. These tools also will help you complete your business plan.

Your local Microenterprise Development (MED) organization is the perfect spot to stop if you're interested in learning or improving your financial skills. You are likely to find training classes in business development, staff and teachers to offer technical assistance, and more.

When your projections show a problem developing, you can sometimes "tweak" your cash flow to avoid crises.

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Managing Your Cash Flow

Cash flow is the money coming into and going out of your business. Your customers pay you (money in) and you pay your suppliers and overhead (money out). Cash flow is the lifeblood of your business. Obviously, you want enough money on hand at any time to cover expenses. Businesses, especially new ones, typically run into trouble with cash flow because they: (1) fail to recognize seasonal trends in their business, (2) take too much cash from the business for living expenses, (3) expand the business too fast, or (4) extend credit to customers.

Managing cash flow involves keeping track of payments you know you'll receive and what bills you know will be due. Cash flow projections are included in your business plan. Still, even after your business is launched, projections should be done frequently if you want to spot and head off cash-flow problems.

When your projections show a problem developing, you can sometimes "tweak" your cash flow to avoid crises. One way is to develop relationships with your suppliers so they'll be willing to extend your payment time occasionally. This is called "managing accounts payable." Another way is to buy and keep as little as possible in your inventory of materials.

A third way is to develop relationships with your customers that encourage them to pay on time—or even a little early, in return for a discount, assuming that offering one doesn't hurt your bottom line. Finally, if you have a lender helping you finance your business, keep him or her informed about how things are going. If you run into a cash-flow problem, your lender may be more willing to help if she or he understands what you've been doing.

There are many computer programs and printed documents that help you estimate cash flow. Below is a simple six-month format you can use.

Cash in bank: Money in business checking at first of month.

Petty cash: Money on hand in cash register or petty cash box at first of month.

Cash sales expected: Payments you will receive for goods or services.

Total receipts: Sum of the first three numbers.

Spending for month: Includes rent, utilities, materials, salaries, payments on purchases made on credit, deposits made on expenses such as utilities, etc.

Cash balance: Subtract spending from total receipts. If it's a negative number, you have a cash-flow problem.

Figuring a Break-Even Point

When you run a business, you want to make money—but how do you know how much you'll need to reach a profit? A break-even analysis gives you the dollar amount you must take in to cover all your costs of doing business. Like a cash flow projection, a break-even analysis is both part of your business plan and a tool to use as your business evolves.

Gathering information for a break-even analysis is a lot like preparing your personal spending plan. First, add up all your monthly business expenses, fixed and variable, including the rent or mortgage on your business space,

	January	February	March	April	May	June
Cash in bank						
Petty cash						
Cash sales expected from accounts receivable						
TOTAL receipts						
Spending for month						
CASH balance						

utilities, telephone, insurance, employee salaries, marketing, and taxes. If an expense is an annual one, such as your business insurance, divide the annual premium by 12 to get a monthly figure. If expenses vary, such as telephone or supplies for manufacturing, enter the amount you're sure you'll spend each month. When you have a total, that is the amount you must take in through your business to break even.

You should calculate your break-even point regularly after you start your business—say every three to six months. Expenses have a habit of creeping up, and by analyzing your break-even point frequently, you'll help avoid financial trouble.

If you find your break-even point is creeping upward, take steps to cut costs. This is similar to plugging spending "leaks" in your personal finances. You may be able to lower your cost of doing business by finding cheaper materials or keeping fewer materials in inventory. You may be able to trim expenses, such as marketing or insurance. Finally, consider raising prices. Unless they're in a very competitive market, most small businesses can raise prices 4 to 5 percent without much customer reaction.

When you run a business, you want to make money—but how do you know how much you'll need to reach a profit?

The goal, of course, is to make enough money so you can pay yourself or put funds into improving the business. However, you first have to determine your break-even point. To find the point, use this formula:

BE=FC÷(P-VC)
BE=Break-even
FC=Fixed Costs
P=Price
VC=Variable Costs Per Unit

An Example of Break-Even Analysis

Suppose you are starting a business to sell widgets and you want to calculate your break-even point. The break-even point is the point at which you're selling enough widgets to cover your variable costs plus your fixed costs.

In your widget business, you plan to sell each widget for $12, your P in the equation. Your fixed costs (FC)—rent, utilities, insurance, and so on—add up to $50,000. Your variable costs, primarily labor and materials, equal $2 per widget for your VC. Your break-even point, then is:

BE=$50,000÷($12-$2)
BE=$50,000÷$10
BE=5,000 units

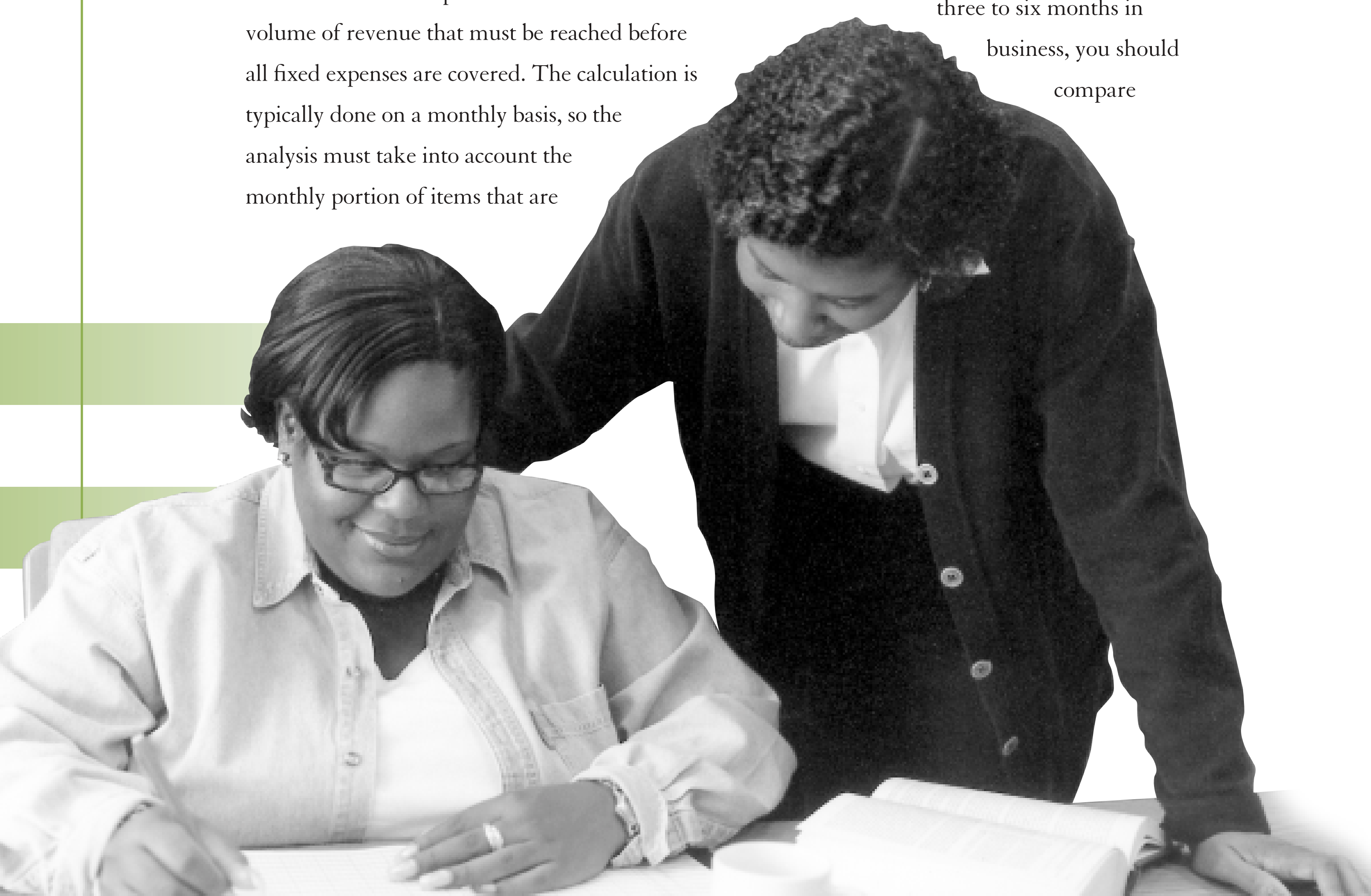
BE=FE÷GPM (Gross Profit Margin)

Therefore, if your research shows you can sell more than 5,000 units, you'll make a profit. You're in business!

The break-even point for a business is the volume of revenue that must be reached before all fixed expenses are covered. The calculation is typically done on a monthly basis, so the analysis must take into account the monthly portion of items that are paid quarterly or annually. You must also know the gross profit margin, which is gross profit (sales - cost of goods sold) divided by sales.

For example, if your monthly fixed expenses are $5,000, and your gross profit margin is 25 percent, your break-even revenue amount is $20,000 ($5,000 divided by .25). Therefore, you will not begin to make a profit until your revenue **exceeds** $20,000 each month.

You can do a break-even analysis before you even begin your business based on projections of gross profit margin and fixed expenses. But your early estimates and your actual numbers may be very different. After three to six months in business, you should compare



projections to the real-world results and reassess, if necessary, what volume is required to reach break-even levels. As the business grows and these numbers continue to change, it is a good idea to refigure your break-even point every six to 12 months.

If your revenues are less than expected, you might want to try to lower your break-even volume. You can do so either by lowering your direct costs or raising your prices. Even a small price increase can have a significant impact on your bottom line.

In summary, a break-even analysis is critical for a small business owner to calculate and understand. Any new business must be able to predict what gross sales volume level is necessary before reaching the break-even point. It's important to be able to assess your early predictions, determine how accurate they were, and check whether you are actually on track to make the profits you expected. Even once your business has matured, you should make a point of reviewing your current break-even point and try to find ways to reduce that figure in order to increase profits.

Good records can easily show you whether business is improving, what items are selling, and what changes you might need to make.

Calculating an Owner's Draw

The money you take out of your business to pay your personal household expenses is called an "owner's draw." If you want your business to be your primary source of income, you will want to build your business revenue to the point at which you cover not only all business expenses, but all personal expenses, too. That may not happen for months or years after you start your business. You may have to meet your personal expenses in the meantime by working another job or using your savings.

Deciding how much money to take from your business is more involved than simply taking anything above your break-even point. Corporations and owners of sole proprietorships pay taxes based on the equity built up in the business. Equity means the net worth of your company. It is calculated by adding up all your assets (cash, value of any business property you own, etc.). Equity increases as you invest money in your business or make a profit. Equity decreases as you withdraw money or have a loss.

Keeping Records

Tracking business information is a necessary—if sometimes tedious—part of being the boss. Good records can easily show you whether business is improving, what items are selling, and what changes you might need to make.

Records also will help you prepare profit and loss statements and balance sheets, vital for your dealings with creditors or lenders. Records also will make tax preparation less painful. It's a good idea to set aside some time every day to work on your records.

You may need to tailor the kinds of records you keep to your type of business. Contact your accountant or tax adviser for more help. Generally, you'll need either a paper or computer-based version of:

- A checkbook register to list to whom, for what, how much, and when you write checks on your business checking account. Separate business and personal checking accounts are essential to make tax preparation and accounting easier. You may open both accounts at the same bank.
- A cash receipts book to track what payments were received, from whom, and for how much.
- A sales journal to record business transactions.
- A voucher register to list bills, amount owed, due date, and payee.
- A general ledger or a revenue and expense journal to record receipts and expenditures.

Keeping a Balance Sheet

A balance sheet shows the assets, liabilities, and equity in your business on a given day. Think of it as a financial snapshot of the business. Like the break-even analysis and a cash-flow projection, a balance sheet will go into your business plan and also will be useful in the day-to-day running of your business.

Imagine a page folded in half down the middle. The left side will list all your business assets: anything of value that is owned by or legally owed to the business, including cash, petty cash, accounts receivable, inventory, investments, and fixed assets such as land, buildings, improvements you've made, equipment, vehicles, and furniture.

The right side will list all your liabilities: all debts, obligations, and claims payable in the coming year including accounts payable, taxes, payroll, and long-term liabilities. This side of the sheet also includes your equity or net worth in the company. This includes stock if you have a corporation, or equity if you have a partnership or proprietorship, and retained earnings or withdrawals. On a balance sheet, the total assets always equal total liabilities plus net worth.

Exit Strategies

When so much of your energy is going into expanding or launching your business, you may be surprised to hear you should also think about how you should get out. This is what's called an "exit strategy." It's important to look ahead, because as one expert said, "What good does it do to climb the ladder of success only to find the ladder's leaning against the wrong wall?"

Exit strategies are required whether you succeed or fail. Here are several options:

- **Sell your business.** Many a microentrepreneur dreams of building a successful business, then selling it for a tidy profit to fund retirement or a new venture. To accomplish this, you must keep good records and build a business structure that someone else could step into with some training.
- **Pass a successful business on to your children when you retire.** You must decide whether your children would buy the business, or if you would save enough on which to retire so you could simply give them the business.
- **Close the business.** Maybe your successful business isn't easily sold or transferred. You can opt to sell equipment, buildings, and other assets, and use the proceeds for retirement or a new venture.
- **Cut your losses.** Not every business succeeds, of course. If you are struggling to stay in business, you must decide at what point you would say "enough." If you reach that point, consider whether you would liquidate assets or sell the business to pay loans or other creditors. Think about what kinds of fallback jobs you could seek. This exit strategy isn't pleasant, but it could be necessary.

Do You Need a Computer?

Some entrepreneurs love their computers and business software. You must decide whether setting up a computerized system to track your business finances will be more of a help or a hindrance. If you're going to save time, record keeping via computer is great. If you're going to spend hours setting up the system and learning to use software programs, you might be better off with the paper versions of financial records. You can find these documents at most office supply or stationary stores.

If you take the computer route, there are many choices in financial software: Quicken, Microsoft Money, Excel, MYOB AccountEdge, QuickBooks, and Peachtree Accounting are just a few of the titles you'll find. Quicken and Money feature single-entry bookkeeping, which is the type of bookkeeping most small businesses use.

Keep in mind, a computer can also help your marketing, research, and customer service efforts by opening you to Web-based resources. Also, if you plan to do business with the government or major corporations, they will expect you to have e-mail and a Web site.

You must decide whether setting up a computerized system to track your business finances will be more of a help or a hindrance.

Do I Need Financing?

Most business owners need some kind of financing, whether they're running start-ups or expansions.

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When and where to get financing for your business is one of the most difficult decisions you'll make as an entrepreneur. Even if financing is not something you're considering now, the issue will probably come up eventually. Most business owners need some kind of financing, whether they're running start-ups or expansions.

When they think of financing, most business owners think of bank loans. There are many other options. In fact, you may be able to avoid borrowing. Answer these questions:

Do I Truly Need Financing?

Consider whether you can scale down your business plan or slow the expansion of your existing business to avoid borrowing money. Instead of starting, say, a landscaping business, consider starting with lawn mowing and snow-plowing. You'd need less equipment—and less money. Then, by setting aside some savings as you build your business, you could later expand into landscaping.

Most business owners think of bank loans when they think of financing.

ans

Are There Other Resources I Can Use?

If you're buying someone's business, you may be able to get an "owner carryback," which means the seller would let you pay him or her in installments spread over months or years. You would use the cash flow from the business to make the payments. If you're expanding an existing business, perhaps

your suppliers would extend the time you have to pay for materials, or your customers would pay deposits when they place orders.

Can I Use a Credit Card?

If you are making a relatively small business purchase that you can pay off in a short time, you may want to put it on a credit card. One advantage of this approach is that you probably have a credit card already and could avoid the loan-application process. Paying back the charge also would help you establish yourself as a dependable borrower and help you secure a loan later. Disadvantages include the high interest rates credit cards carry and the limits on the total you can charge.

Can I Do it Myself?

In Chapter 3, you learned how to create a household spending plan, and how just a small amount saved each month can add up. By plugging more "spending leaks" in your personal or business finances, you may be able to step up your savings plan and fund your business expansion or purchase without incurring more debt.

An "angel" is an individual who makes an investment in a business and becomes part owner of the business in return.

Where to Get Financing

After you've answered these questions, you may decide you still need outside financing. Where can you get the money? The answer to that question may depend on the type of business you have, and why you want money. Here are some options to consider:

Family and Friends: Borrowing from people you know well is a popular way to finance small businesses. Always treat such loans seriously by paying back the money on time with any agreed-upon interest. You also should put your loan agreement in writing.

Microenterprise Development (MED) Organizations: These local, community-based programs specialize in small loans to first-time or low-income borrowers who don't have access to the usual lending sources. In fact, MED programs were created in large part to provide financing to these groups. Most MED programs operate their own loan funds, which usually get support from public agencies, corporations, or foundations. Some MED programs also partner with traditional financial institutions to create lending programs. If you seek a loan from a MED organization, the staff, the board of directors, or a volunteer loan committee may review your application and decide whether to give you funding. Some programs, however, use what's called "peer lending" in which a group of small-business owners make lending decisions. The size of loans made by MED programs varies from as little as $500 to tens of thousands of dollars. You may find you can apply for a "stepped" loan that gives you a small amount to get started and demonstrate an idea is workable, then gives you additional funding as you develop your business. Interest rates vary from organization to organization. To find a MED program, visit www.microenterpriseworks.org and click Microenterprise Organizations Near You.

Community or Economic Development Agencies: These organizations usually are sponsored by city, county, or state governments.

They work to improve the local economy by lending money to help businesses start or grow, and frequently support low-income housing or other improvement projects.

"Angel" Investors: An "angel" is an individual who makes an investment in a business and becomes part owner of the business in return. They can be hard to find. If you want to find an angel, your best bets are to try people who know your business and know you, such as clients, suppliers, and friends. Angels expect a return on their investment. The amount expected can vary. They generally take an active role in business decisions since they are part owners. They also bring expertise and contacts to a business.

The SBA funds community-based intermediaries that, in turn, make loans up to $35,000 to eligible borrowers.

Banks or Savings and Loans (S&Ls): Although you may think of these institutions first when you need financing, we've put them at the bottom of the list on purpose. Banks and S&Ls aren't always interested in making small loans to small businesses. If you have a good relationship with a bank or S&L, it doesn't hurt to ask for help. The interest rate on such loans usually is the prime rate (the interest rate banks charge their best commercial customers) plus two percentage points.

Remember that finding the right lender for your needs may not be easy. If one lender turns you down, ask him or her for ideas on other sources to try. Keep looking. For ideas of resources available in your community, go to the Web site for the SBA's Microloan program at www.sba.gov and click Financing and then Micro-Loans. The SBA funds community-based intermediaries that, in turn, make loans up to $35,000 to eligible borrowers.

The Language of Lending

Here are some terms you should know if you're going to seek financing:

- **Loan:** Money you borrow that you must pay back.
- **Principal:** The amount of money you borrow.
- **Interest:** What you are charged for borrowing money. The interest rate is expressed as a percentage. The higher the rate, the more you'll pay. Rates change with the economy.
- **Loan fees:** What the institution or individual from which or whom you borrow may charge you in addition to interest. Fees usually pay for processing your loan.
- **Collateral:** An asset, such as a car, house, or other property, that you agree the lender may take if you do not meet the terms of your loan.

- **Default:** If you fail to pay back the loan on time, if you file bankruptcy, or if you fail to follow other terms of your loan, you are considered in default and could lose your collateral.
- **Line of credit:** A credit line is like a pot of money you can dip into when necessary. The credit line has a limit and carries interest and fees.

The Money Struggle

Charlie Reed knows how hard it can be to find money to launch or expand a business.

"To me, entrepreneurship is whether you can find the working capital, and then, can you get the orders to pay off the working capital," said Reed, owner of Cate's Candies of Denver, Colorado.

> "I've had one goal since the very beginning: to let my daughter know I'm not a drug addict or a scumbag."

In 1997, Reed was a homeless cocaine and alcohol addict in Florida. His business evolved almost by accident after he entered a residential program to treat his addictions.

"I met a really cute lady and wanted to bake her a birthday cake," Reed recalled. While buying coloring for frosting, he bought lollipop sticks on impulse. With leftover cake ingredients, he made a batch of flower-shaped lollipops that sold out immediately to his fellow residents. He later made a box of rose-shaped lollipops for his daughter Cate, then 9 years old, and stamped the box Cate's Candies. With no money, no business skills, and an 8-quart kettle, Reed was in business.

A month later, Reed had sold his candy flowers to 26 shops in south Florida. His success drew the attention of distributors and an investor. But success was fleeting. He landed a huge order from a national convenience store chain, but his financial backer couldn't provide the capital Reed needed to meet the order. Reed went out of business.

He moved to Kentucky to live with his sister, and painted barns so he could earn money to pay off his former employees and creditors. "My sister wouldn't let me give up," Reed recalled. She loaned him a few hundred dollars and urged him to try again.

In 2000, he loaded his candy-making equipment into his car and drove to Denver, where his daughter lived. That November, Cate's Candies opened anew. Again, Reed found potential investors, and again, they couldn't come up with the extra money he needed when the orders rolled in. He hired a consultant and obtained loans through the Denver Mayor's Office of Economic Development and Business Capital of Colorado, which specializes in innovative loans for small businesses.

"Just because we had $50,000, we weren't a success," Reed said. The money was soon gone and Reed was missing loan payments. He drove to a trade show in Reno, Nevada, selling candy from the trunk of his car on the way. He came home with $49,000 in orders.

He scrambled to find new investors through word of mouth and was able to move into a new building and buy more equipment. The city also gave him a bigger loan. As 2003 began, business was growing and Reed was optimistic.

"I've had one goal since the very beginning: to let my daughter know I'm not a drug addict or a scumbag. Someday," he vowed, "my daughter will ring the bell at the New York Stock Exchange at a public (stock) offering for this company."

8 Insurance and Taxes

Imagine if you'd built a thriving business, only to see it wiped out by a fire or lost in a lawsuit.

Different businesses require different types and amounts of insurance.

Insuring Your Business

Imagine if you'd built a thriving business, only to see it wiped out by a fire or lost in a lawsuit. That's why you need insurance, no matter how small your business.

Different businesses require different types and amounts of insurance. For example, a bar or restaurant that serves alcohol would require liquor liability insurance. If you have employees, you would need workers compensation insurance. Call your local microenterprise agency or an insurance agent for guidance and advice on types of insurance you may need. Don't forget to check your personal insurance coverage. If your home was destroyed or you were held liable in a non-work-related auto crash, the financial impact could also affect your business if you're not insured. Review this checklist before you speak to an agent:

- [ ] I own a building, inventory, a computer system, or other property for my business.

Ask about property insurance, which protects you in case of fire, theft, and wind damage. Floods, earthquakes, and certain other disasters often aren't covered, but you may be able to buy separate policies if these excluded events are of concern.

- [ ] I could be sued by a customer or someone else affected by my products or services.

Ask about liability insurance, which covers you in case you're sued for property damage or injury connected with your business. Businesses often buy "commercial general liability" policies, which carry limits on the amount the insurance company will pay. "Umbrella" liability policies add extra protection for catastrophes in which a number of people are injured. There are many other kinds of liability insurance, some of them designed for specific businesses.

- [ ] I drive vans, trucks, or cars—or my employees use theirs—in my business.

Ask about automobile insurance. It works a lot like the car insurance you buy for your personal vehicle, but is written in the name of the person or business that holds the title on the business vehicle. If an employee is using a personal car for business, be sure your policy is written to cover that use, too. Ask about vehicle damage and liability coverage.

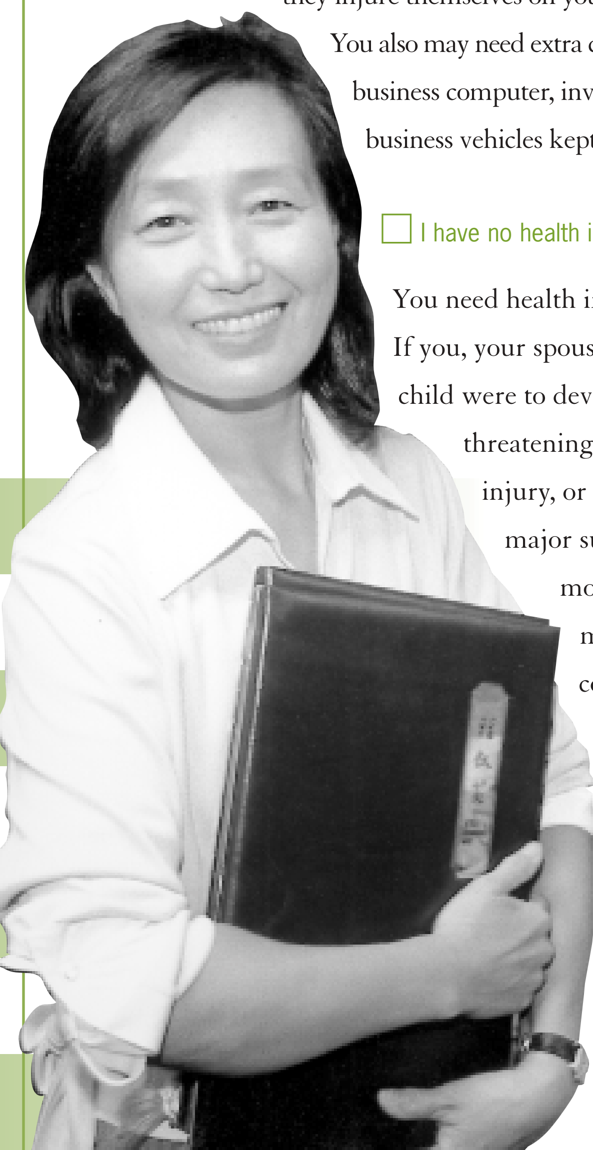
curity

☐ I own a retail store, small office, or an apartment building.

Ask about a business owner's policy (BOP). This combines several essential coverages in a single policy for owners of "low hazard" businesses. This policy can be tailored to your business needs.

☐ I work out of my home.

Ask if you need coverage beyond homeowners' insurance. If you have customers coming to your home, you should have liability insurance in case they injure themselves on your property. You also may need extra coverage for a business computer, inventory, or business vehicles kept at your home.



☐ I have no health insurance.

You need health insurance! If you, your spouse, or your child were to develop a life-threatening illness or injury, or require major surgery, the mounting medical bills could quickly wipe out your financial reserves and ruin your business. Many large insurance companies and professional organizations market policies designed for small businesses.

☐ I'm concerned about less-common occurrences.

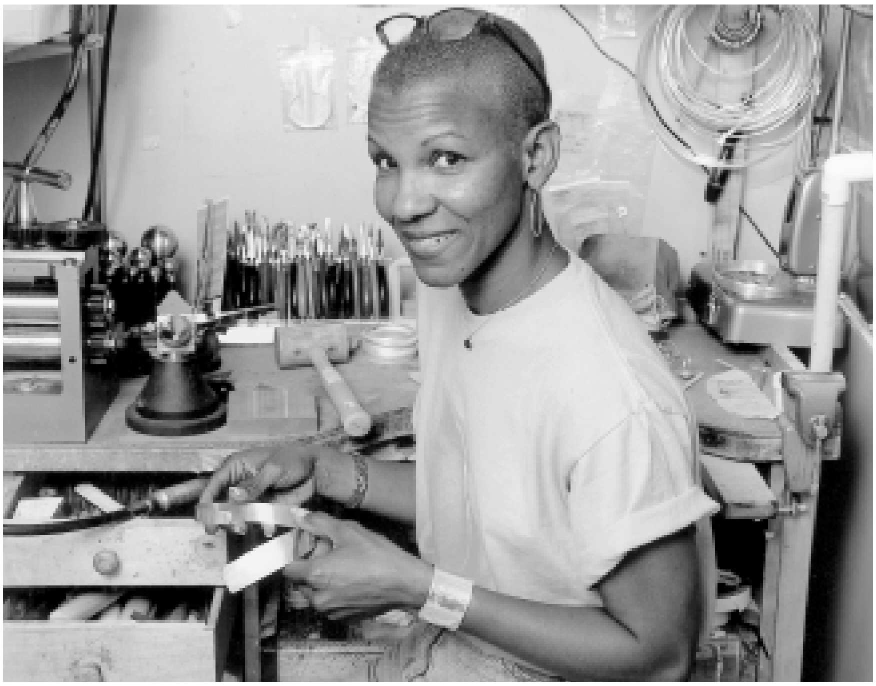
Depending on your business, you may need policies that cover you in case of business interruption, floods, earthquakes, pollution, professional liability, or machinery breakdowns. Talk to an insurance agent for details.

Cutting Through Red Tape

In addition to getting the right kinds of insurance, you also must learn what business permits, licenses, and tax laws apply to your company. It's best to handle this as soon as possible. Failure to cut through "red tape" can hurt the chances that your business will grow and succeed.

Business permit and license requirements vary from city to city and state to state. They also vary by type of business. For help in deciding what regulations apply to your business, talk to your local micro-

If you have customers coming to your home, you should have liability insurance in case they injure themselves on your property.



How you handle your business taxes depends in part on the business structure you have.

enterprise agency or small business development center. You also can use the Internet to look at your city's and state's Web pages for licensing and other regulatory information.

You are already familiar with the need to pay personal income taxes every year. You may even prepare your personal state and federal tax returns yourself. Still, consulting with a trained tax adviser is the best way to understand your business tax obligations.

At a minimum, you'll withhold federal and state income taxes and Social Security (FICA) taxes from the wages of any employee you hire. If you're working alone, you'll still pay self-employment tax for Social Security and estimated quarterly income tax payments that are due Jan. 15, April 15, June 15, and Sept. 15 (or the business day closest to each date if they fall on weekends or holidays).

How you handle your business taxes depends in part on the business structure you created. If you own a sole proprietorship, you can take care of your business taxes by filing a Schedule C with your personal tax return. If you have a partnership, limited liability corporation, S corporation, or C corporation, you are required to file a separate business tax return in addition to your personal return. The Internal Revenue Service's Tax Guide for Small Business (Publication 334) is a good overview of small-business taxes. The IRS Web site (www.irs.gov) also lists helpful publications for partnerships (Publication 541) and corporations (Publication 542).

9

Networking and Getting Help

There are many organizations, clubs, education groups, and government agencies ready to extend helping hands.

Running your microenterprise may feel lonely at times. When questions or concerns arise, where can you turn? There are many organizations, clubs, education groups, and government agencies ready to extend helping hands. Their programs include networking with other entrepreneurs, basic training for start-ups, and more sophisticated help for expanding businesses.

Basting a Bright Future

Everyone in Mike McCrea's family knew he made delicious barbecue sauce. It was the star of many a cookout and picnic.

Everyone in Mike McCrea's family knew he made delicious barbecue sauce.

During the 21 years he worked for a hazardous waste company, the Denver man dreamed about starting his own company to make and sell barbecue sauce.

In 1999, McCrea, known to friends and customers as Big Mike, started selling his sauce from the back of his car. A year later, he moved the operation to the Denver Enterprise Center's Kitchen Incubator. With its affordable equipment and working space, the incubator allowed McCrae to concentrate on launching Big Mike's BBQ LLC.

He also received a $30,000 loan from the MicroBusiness Development Corporation, with which he bought equipment and improved product packaging. Next, he expanded his business to include catering and additional products including chili. His revenues have grown from $30,000 the first year to more than $100,000 in 2002. He recently sealed contracts with a grocery store chain and stadium in the Denver metro area.

"The loans and counseling I received from microenterprise organizations have been the key to my growth," McCrae said. "I am optimistic about the future."

One of the first places to look for help is your local Microenterprise Development (MED) agency. These programs offer a vast array of services all keyed to microentrepreneurs such as you. While each MED organization is set up a little differently, they are likely to be places where you can improve your financial literacy through classes, brochures, booklets, and counseling or get training in business development topics. Their staffs can offer technical assistance on business matters, or help you reach new markets with your business. Many of them also can help you build assets through matched savings programs.

More information on finding help is in the "Recommended Resources" section on page 61. Review this checklist to gauge your needs:

sistance

☐ I've never started a business before.

If you're new to the business world, you may need some basic financial education and counseling. Contact your local microenterprise agency. It will offer classes, group meetings, or other organized sessions to teach you how to write a business plan, keep financial records and learn other business basics. It also will be able to refer you to organizations or clubs that help new entrepreneurs. Small Business Development Centers, funded by the SBA, also provide management and technical assistance to small-business owners and aspiring entrepreneurs.

☐ I want to know more about business incubators.

Incubators nurture young companies and help them survive the critical start-up period. They usually offer hands-on management help, financing sources, and business support services. Incubator companies generally share office space and services under one roof. After a few years, companies graduate from incubators and go out on their own. Sometimes incubators help a variety of companies and sometimes they concentrate on a particular industry.

☐ I'd like to meet other business owners in my community.

Your local Chamber of Commerce is a good place to start. This organization is made up of business owners dedicated to improving the local economy. If you're in a big city, your chamber may have separate meetings for people in certain industries or certain geographical parts of the metro area. Service organizations, such as Lions Club International or Rotary International, also offer chances to network with other business owners.

☐ I'm growing my business and need more sophisticated help.

First, contact your local microenterprise agency. Some of its offerings may be right for you. Community colleges, universities, and for-profit business schools also provide more advanced business courses.

☐ I'm going to start a home-based business.

Many organizations offer support for at-home entrepreneurs. The American Association of Home-Based Businesses offers newsletters and tip sheets on running businesses at home. Membership is free. The National Association for the Self-Employed, which charges a membership fee, provides information on business development and access to services.

☐ I need tax help.

The IRS sponsors the Volunteer Income Tax Assistance (VITA)

Incubators nurture young companies and help them survive the critical start-up period.

program, which offers free tax help for people with low to moderate incomes. VITA sites are staffed by IRS employees or trained volunteers. Many of the sites offer electronic tax return filing, which gets refunds to taxpayers in about half the time of paper filing. To learn more, visit the IRS Web site (www.irs.gov), type VITA in the search box, and click the document Tax Tip 2003-53: Volunteer Income Tax Assistance. You may also call the IRS for information at 1-800-829-1040. The AARP also provides assistance for older persons through its Tax-Aide Program. For information, call 1-888-227-7669 or visit the organization's Web site, www.aarp.org. Also, check the SBA Web site, www.sba.gov, pull down the Hot Items menu, click Business Advisor, and then click Taxes.

☐ I need one-on-one help from an experienced business owner.

You may need a "mentor." A mentor volunteers his or her time to guide you through starting or growing your business. Mentors are experienced in small business or in your field. Mentoring is a long-term commitment that lasts months or years. Your local microenterprise agency may be able to match you with a mentor. You may be able to find a mentor yourself through meetings of local business or service organizations. Another resource is SCORE, or Service Corps of Retired Executives, a national, nonprofit organization of current and former executives and business owners who counsel and mentor free of charge.

Smoothing a Path to Success

Without her mentor, Diane MacFarlane says she might never have launched her business, a recycling center called Dyna' Mac's Redemption House.

MacFarlane, a single mother of two living in Bowdoin, Maine, was referred in 1992 to Project Soar, a self-employment program for welfare recipients. MacFarlane wanted to start a recycling business, but another woman in her class failed in an attempt to open a can and bottle-recycling center in a nearby town. That made MacFarlane's road even harder.

MacFarlane's mentor helped her pursue a deal on a building for the recycling center.

Project Soar's staff and her fellow students urged MacFarlane to stick with her plan. In addition to business training and access to capital, Project Soar gave MacFarlane a mentor—an experienced businesswoman—for one-on-one advice and guidance.

"She was awesome," MacFarlane said. "I could call on her whenever I had a question. We met every two weeks to a month."

MacFarlane's mentor helped her pursue a deal on a building for the recycling center. The owners wanted more rent than MacFarlane could pay. MacFarlane's mentor checked out the building and realized MacFarlane could take advantage of the fact it had been vacant for years. She urged MacFarlane to give the owners a "take it or leave it" offer within MacFarlane's budget—and they took it! Dyna' Mac's opened in 1993 in Auburn, Maine.

Today, Dyna' Mac's Redemption House continues to prosper. MacFarlane employs two to three part-time employees. In 1995, she began renting extra space in her building to crafts vendors, a "fun" sideline that booms at Christmas. She's considering adding a convenience store to her location. In 1998, MacFarlane was named Maine's Welfare-to-Work Entrepreneur of the Year.

MacFarlane still sees her mentor occasionally, but they rarely talk business. "She's more a friend now," MacFarlane said.

Conclusion

We've covered a wide range of skills in this booklet. You've learned personal skills such as setting financial goals, creating a spending plan, building your financial reserves, and controlling debt. You've also learned business skills such as developing a business plan, tracking your business finances, considering financing, and finding support. Together, these business and personal skills will help put you on secure financial footing. It's up to you now to begin putting these skills to work in your home and business.

As your business grows, you may want to look into other resources for expanding your knowledge and sharpening your skills. Look at the list of Web sites in the "Recommended Resources" section below for additional resources.

The path of a microentrepreneur may not always be easy, but it's always exciting. Good luck as you take charge of your finances and pursue your dream.

Recommended Resources

The Internet provides more information about organizations and programs that provide help to microentrepreneurs and small-business owners, including information about investments. Sites to visit include:

- **www.abilitiesfund.org:** The Abilities Fund is a national organization that helps entrepreneurs with disabilities.
- **www.asbdc-us.org:** The Association of Small Business Development Centers offers management and technical assistance to entrepreneurs. The Web site can locate a nearby center for you.
- **www.brill.com:** Brill's Mutual Funds Interactive is a source of investment information.
- **www.cldavis.com:** This privately maintained site provides links to Web sites of Small Business Investment Companies (SBICs) that are licensed and regulated by the SBA.
- **www.entreworld.org:** EntreWorld is a public service of the Ewing Marion Kauffman Foundation. The site includes a special search engine for Internet entrepreneur offerings.
- **www.irs.gov:** The Internal Revenue Service Web site lets you download tax forms and booklets on business and personal tax matters. Find information about its Volunteer Income Tax Assistance program by typing VITA in the search box and clicking the document Tax Tip 2003-53. You may also call the IRS for information at 1-800-829-1040.
- **www.jbsba.com:** The American Association of Home-Based Businesses is hosted on this site, providing free information to those who sign up.
- **www.mfea.com:** The Mutual Fund Education Alliance will help you research different types of mutual funds.
- **www.microenterpriseworks.org:** The Association for Enterprise Opportunity (AEO) can link you to microenterprise organizations in your community.
- **www.nase.org:** The National Association for the Self-Employed focuses on microentrepreneurs and self-employed people, providing them with support and benefits.
- **www.nbia.org:** The National Business Incubation Association (NBIA) will link you to NBIA-member incubators near you.
- **www.sba.gov:** The U.S. Small Business Administration offers a wealth of information on starting and growing a business. The Other Resources button links you to dozens of organizations dedicated to helping small businesses. For information on loans, click Financing, and then click Micro-Loans. This page will provide you with sources in your community that offer loans up to $35,000 to eligible borrowers.
- **www.score.org:** The Service Corps of Retired Executives (SCORE) has 10,500 volunteer members and 389 chapters in the United States. The Web site can guide you to the chapter nearest you. SCORE's toll-free telephone number is 1-800-634-0245.
- **www.uschamber.org:** The U.S. Chamber of Commerce can link you to a chamber in your community.

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The Association for Enterprise Opportunity (AEO) is a national association of organizations and individuals committed to microenterprise development. It provides members with a forum, information, and a voice to promote enterprise opportunity for people and communities with limited access to economic resources. AEO also represents the U.S. microenterprise agenda in the growing international community. Membership in AEO is open to practitioners, individuals, public agencies, funds, and others who share in AEO's mission. For more information about AEO, visit www.microenterpriseworks.org

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