

Ten Tips for Starting and Running a Successful Small Business

Suggestions to help get your business off to a smooth start and keep it going for the long haul.

1. Save up as much money as possible before starting. All too often, people go into business without any savings, exclusively using loan money from friends, banks, or the SBA. They expect to be able to start paying the loans back right away with their profits. What these business owners don't realize is that it can take months or years to make a profit. And once a lender discovers a business isn't as profitable as expected, the lender is likely to call in the loan or refuse to renew it for another year. Often new business owners then have to take out home equity loans or use credit cards to pay off their loans (which puts their home and credit rating at risk).

A better plan is to save up as much of the needed investment money as possible, including your living expenses for the first year, or even two. Odds are that your business won't be profitable for one to two years. Even if you get plenty of business coming your way -- and your customers pay you on time, which isn't always a sure thing -- you'll want to be able to invest most of that money back in the business for space, equipment, advertising, and insurance needs.

2. Start on a shoestring. Think small. Don't rent premises if you can work somewhere else, and don't hire employees until you can keep them busy. (You can hire independent contractors or temps in the meantime.)

People who start their small business on the cheap, often in a garage, den, or some other scavenged space, and create their first goods or services with more sweat than cash, have the luxury of making their inevitable rookie mistakes on a small scale. And precisely because their early screw-ups don't bury them in debt, they are usually able to learn and recover from them.

3. Protect your personal assets. When you go into business for yourself, you are usually personally liable for all judgments and debts that the business incurs. This includes business loans, taxes, money owed to suppliers and landlords, and any judgments against the business as a result of a lawsuit. If you don't protect yourself, a creditor can go after your personal assets, such as your car and your house, to pay for these debts.

While you can protect yourself against lawsuits by buying business liability insurance, this won't help you with business debts. If you will be running up big debts, consider forming a corporation or limited liability company (LLC). Just one person can form either of these types of businesses.

4. Understand how -- and if -- you will make a profit. You should be able to state in just a few sentences how your business plans to make a substantial profit. For starters, you need to know your costs: how much you'll spend purchasing inventory, paying the rent, compensating any employees, and covering what is likely to be a surprisingly long list of other costs. Then you can figure out exactly how much you need to sell each month, for how many dollars, to cover those expenses and have an adequate profit besides. These numbers are all you need to create a "break-even analysis."

5. Make a business plan, no matter how short. Understanding your profit numbers and creating a break-even analysis is the first step in making a business plan. For most small companies, the key portions of a business plan are the break-even analysis, a profit-and-loss forecast, and a cash flow projection. (Projecting your cash flow is key and will make or break your company: Even if your business is getting plenty of work or selling its products, if you're not getting paid for 90-180 days, you're not going to survive unless you've planned for it.) With a cash flow spreadsheet in place, as well as a profit-and-loss forecast, you can tinker with your business idea and improve it before you start -- and continue to use them after you start.

Creating a business plan also allows you to determine what your projected start-up costs are (how much money you'll need to save) and what your marketing strategies are (how you'll reach customers to make sales). If you can't make the numbers work on paper, you won't be able to make them work in real life.

6. Get and keep a competitive edge. Building a competitive edge into the fabric of your business is crucially important to long-term success. Some ways to get this edge are by knowing more than your competitors, making a product that is hard or impossible to imitate, being able to produce or distribute your product more efficiently, having a better location, or offering superior customer service.

One way to hold on to your competitive edge is to protect your trade secrets -- confidential information that gives you a competitive advantage in the marketplace. Examples of trade secrets include customer lists, survey methods, marketing strategies, and manufacturing techniques. To protect your trade secrets under the law, you need to take steps to keep the information confidential. This includes marking documents "Confidential," using passwords to protect computer information, using nondisclosure and/or noncompete agreements, and limiting access to employees with a reasonable need to know the trade secrets.

Another way to keep your competitive edge is to react quickly to bad news. Once you see that your business faces some kind of adversity, you need to come up with a plan to deal with it immediately. This may involve moving your offices, introducing a new product or service, or developing a better way to reach customers.

7. Put all agreements in writing. The laws of your state require you to put some contracts and agreements in writing:

- Contracts that will last longer than a year.
- Contracts that involve the sale of goods worth \$500 or more.
- Contracts that transfer the ownership of copyrights or real estate.

Even if not legally required, it's wise to put almost everything in writing, because oral agreements can be difficult or impossible to prove. This includes leases or rental agreements, storage agreements, contracts for services (such as consulting or electrical work), purchase orders or contracts for goods worth more than a couple hundred dollars, offer letters of employment, and employment policies. Get in the habit of getting and giving receipts for all goods, services, and deposits, regardless of how much.

8. Hire and keep good people. Your goal should be to hire and retain truly excellent employees -- not just reasonably competent ones. A highly competent and truly enthusiastic employee is at least two and sometimes even three times as valuable as a person of average skills.

To create a stable and happy workforce, it's essential not only that your employees (and independent contractors) believe they are being fairly treated, but that your business is worthy of respect. Employees and contractors who like their work will represent you well on and off the job. And customers will more likely be loyal to an upbeat business -- and are more likely to recommend it to their friends.

9. Pay attention to the legal status of your workers. When you hire workers as independent contractors, make sure they shouldn't really be taxed as employees. The IRS can impose substantial penalties against you for not withholding taxes and paying taxes for a worker who is really an employee. The IRS and other agencies are likely to think that a worker is an employee rather than an independent contractor under any of these conditions:

- The worker works full-time or nearly full-time for you.
- The worker doesn't work for anyone else.
- The worker provides services that are an integral part of your operations.

You control how the worker does the job and provide detailed instructions and training for the worker.

One way to help avoid trouble is to have the worker sign a written service contract, or independent contractor agreement.

Most employees you hire will be "at-will" employees -- subject to being fired at any time and for any reason (except for illegal motives such as discrimination). It's important to preserve your at-will rights because they protect you from having to prove that you have a valid business-related reason to terminate an employee. Don't make any promises to prospective or current employees that you are offering a permanent job or that they will lose their job only if they perform poorly, because this will limit your ability to terminate the employee for other reasons, such as personality conflicts or finances.

When hiring an at-will employee, have the employee sign an offer letter that makes it clear that the employment relationship is at will. Except for high-level executives, you shouldn't have employees sign an employment contract -- this can limit your ability to alter the terms of employment as your business needs change and subjects you to higher legal standards.

10. Pay your bills early and your taxes on time. In the real world, where a reputation for keeping one's word is a hugely important asset, a good strategy is either to pay your bills up front or pay them early. You gain trust, build a positive credit profile, and have a built-in safety net if things go badly. These benefits outweigh any interest you might earn by holding onto your money until the last possible minute. Most importantly, pay your payroll taxes on time, especially the portion that you withhold from your employees' paychecks. The IRS and state tax authorities can hold you personally liable for these taxes, plus stiff penalties, if they're not paid. This is true even if you operate your business as a corporation or LLC or if your business goes bankrupt -- you will still be personally and legally on the hook to pay back payroll taxes.

[Copyright 2004 Nolo](#)