Start Your Business: 7 Things Every New Business Owner Should Consider

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Hundreds of thousands of new businesses are started in the United States every year. Most begin with some good ideas and some real passion on the part of the entrepreneurs who start them. What many are lacking, though, is a thorough examination of the essentials that make a business work. Maybe that is why so many new businesses fail within the first five years. In my long experience as a certified public accountant, I have identified several key things that new business owners do not always consider, but that can make a profound difference in how well the business does.

1. THE NAME

Make sure that you like your entity name; you're stuck with it for awhile and it will be on everything you hand out. If you end up wanting to change it later, it will cost you in some surprising ways. One corporate client wanted to change to a more global-sounding name to reflect the growing scope of their business. They racked up several thousand dollars in expenses to change their state registrations, file additional tax forms, reprint all of their stationery and business cards and recraft their website and all of their marketing materials.

Make sure your name is something you really like – and something that reflects where your business is going, not just where it is.

2. DETERMINE THE TYPE OF ENTITY YOU WILL CREATE

The four main choices are:

- ❖ Sole proprietorship.
- ❖ LLC (limited liability company).
- ❖ S corporation.
- ❖ C corporation.

Each comes with specific advantages, drawbacks – and associated costs. You should pick the entity that offers the most flexibility for your particular situation. For example, consider whether you need to protect personal assets, make expenses fully deductible, limit tax responsibilities when you sell your business or allocate profit and losses proportionately among partners.

For various reasons I often recommend a C corporation even when conventional wisdom suggests another structure.

You and your CPA have to keep an open mind and explore all the options. You cannot select an entity type by rote.

3. INSURANCE

Going into business introduces a whole range of risks and potential liabilities that you do not have as an individual. In addition to insuring the business' property,

make sure that products and services you sell are fully insured. There is a whole range of insurance products that cover "malpractice" in just about any industry. Remember, insurance isn't only an expense; it's an investment in protecting your family. Disability is a particularly valuable coverage to obtain because it could supplement the small income you would receive from the state-run worker's compensation program in the event that you are injured or suffer from a serious illness.

Ask your CPA to refer you to a good insurance broker who will take the time to help you assess risks and get the coverage you need.

4. BOOKKEEPING

Businesses need to keep much more thorough records than individuals do. Bookkeeping is often an after-thought, but it is one of the most important systems you can put into place. Several computer-based systems are available and they can be implemented with minimal effort and expense. Many business owners decide to outsource this function, and most CPAs can take it on for you. Your CPA will also help you decide whether to keep track of you income and expenses on a cash or accrual basis. Businesses that have outlays for inventory and tend to have a lot of receivables tend to do better with an accrual system. The IRS also requires certain businesses to keep financial records on an accrual basis.

Consult your CPA about bookkeeping at the very early stages of your business.

5. CASH FLOW

As an employee you have become accustomed to drawing a regular salary. As the owner of a new business, you probably won't be able to draw one for the first three months or so. The cash flow of any new entity is very slow. You and your CPA should work on a cash flow projection for the next 6 months. You should also make sure you have a cushion to cover expenses for a few months.

Plan ahead now and avoid unpleasant surprises later.

6. EMPLOYEE EXPENSES

While salaries constitute the biggest expense related to employees, two other categories can add up quickly. Fringe benefits and similar expenses add at least 15% of each employee's salary. Various government requirements – such as FICA, worker's comp and disability – add more.

Take full account of potential expenses related to employees before you hire them.

7. OTHER MONEY MATTERS

There is a whole range of other money matters to consider:

❖ What should be paid from where.

❖ Separate credit cards for personal and business uses.

❖ What bank you use.

❖ Creating a relationship with the bank's manager (who can often approve credit on the spot).

❖ Actual cost to acquire and build out your space.

Take time to enumerate everything you might need to make your business run smoothly.

THE BOTTOM LINE

Your CPA's job is to help you dig into things and build in flexibility. He or she has experience in identifying potential issues before they crop up. Start conferring with him or her as soon as you think about starting a business; it will save you time, trouble and money along the line.