IF YOU ARE CONSIDERING ENTREPRENEURSHIP, BUSINESS PLANNING IS A NECESSITY

The Ewing Marion Kauffman Foundation released a study in June entitled "The Coming Entrepreneurship Boom" that credits entrepreneurship as a major force that will bring the current troubled economy back to health. The twist, however, is that Baby Boomers – ranging in age from 45 to 63 – are expected to be in the vanguard of this movement.

It is a particularly interesting demographic to be leading such a wave of startups, though not a complete surprise. After all, the oldest Boomers are on the cusp of retirement yet unable to retire due to shrunken portfolios. At the same time, they are not always the most attractive job candidates in the market, despite their experience. So, many are exploring a third option – starting their own companies.

Before any firm decisions are made, however, individuals not only need to examine their personal and potential business finances but also the considerable lifestyle changes entrepreneurship can bring. One of the first stops on that learning curve should be to financial and tax experts -- a CERTIFIED FINANCIAL PLANNER™ professional can give any individual an overview of their financial and personal capacity to make such a new enterprise work; and. work with tax, estate and investment experts to make sure a new business career is on a sound footing.

Here are some basic strategic and financial steps to follow in starting a business:

Start writing your business plan: There are some people who tell you that a business plan is necessary for a new company only if you want to borrow or seek investors for a startup. The truth is that sitting down and writing a formal business plan is an excellent way for anyone to examine the idea, structure and money sources for their business concept and most important, the potential of profit from the idea. One of the best places to get the basics of the business planning process is the U.S. Small Business Administration's Small Business Planner website.

Branch out for specific advice: You need not one, but two sets of financial advice when starting a business. The first involves the viability of your business concept. You should understand your business idea inside and out before you launch and what your new company's immediate and long-term cash needs will be. The second set of advice involves your own finances and how prepared you are for what will surely be a major lifestyle transition. Because new business owners frequently underestimate their new business's expenses starting out, they can find themselves funding those business needs out-of-pocket. That means less money for day-to-day living expenses as well as long-term planning for retirement. That's why it is critical to consult a tax advisor as well as a CFP® at the outset.

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Determine your working capital needs-and double them: One of the most common reasons for business failure is the lack of working capital. When starting a business, everything seems to cost more than you planned, and profit often comes later than you planned. Be prepared with a significant working capital fund.

Get rid of your debts: With the possible exception of mortgage debt, there is very little “good debt” in the life of a businessperson. So while you are researching your business concept and putting together your own financial plan, start cutting back and erasing as much credit card and adjustable-rate debt from your personal life as possible. The continuing credit crisis is making it tough for any business owner – even experienced ones – to borrow money at attractive rates. You will have the most flexibility when you owe as little as possible.

Work on your emergency fund: While it is wise for everyone to have 3 to 6 months of cash set aside for basic living expenses in case they lose their job or face a medical emergency, emergency funds are particularly necessary for new business owners. Startups can be particularly expensive, and most businesses are not profitable from day one. Plan a more extensive emergency fund for yourself and for the business as well.

Plan your healthcare and other basic benefits: Employer paid benefits are the one positive result of working for someone else. When you are working for yourself, you become your own HR department and chances are you won’t be able to match your old employer’s buying power. If you support a family with these benefits or if you have particular health concerns, you need to price the out-of-pocket costs of such benefits before starting your own company – depending on the business and the cost of those benefits, you might want to rethink your plans.

Price disability coverage now: You might have short-term disability coverage as part of your current employee benefits, but that will likely end once you quit your job. You should price long-term disability coverage based on your present working salary so you can qualify for the highest possible benefit. Disability coverage is critical for self-employed people since they are their own support system.

October 2009 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Eric Korbitz, CPA, CFP® at *Creative Financial Services*, **262-780-0870**, www.CFSFeeOnly.com *, a local member of FPA.*