



# RISKY BUSINESS?

*Here's What You Need to Know Before Starting One*



What do these women have in common? They're all business owners who have been interviewed for **MAKING BREAD's** "Biz Whiz" column. Clockwise from top left: Emily Bittenbender, Rose Parrotta, Jane Restucci, Kristine Schaefer, Ann Mudgett and Donna Zumbo.

empowers us—where we are in charge. Today there are 9.1 million female-owned businesses, generating \$3.6 trillion annually and employing 27.5 million people, according to the Survey of Women-Owned Business Enterprises, part of the U.S. Census Bureau's Economic Census. That's more than all the Fortune 500 companies in America combined.

Thinking of joining the party? Here is our best advice for giving your business a solid foundation, so that you can improve your chances of success in the risky business of starting a business. Because here's a reality check: For every one of the nearly half a million businesses that started last year, according to *The Wall Street Journal*, almost the same number called it quits. Try not to prove the naysayers—those people who are probably telling you right this minute that you *must* be crazy to even think about it—right.

## FIVE RULES OF SUCCESSFUL BUSINESS STARTUPS

**Know WHAT You Want to Do, WHY You Want to Do It, and HOW You're Going to Do It.** Do you want to

design clothes or software, manufacture widgets, boats, or ladies' hats? Sell financial services or cater special events? Try to find a way to make a business out of something you have a passion for and be sure that you are creating real value—a product or service that people need and will pay for.

Once you know *what* you want to do, you must figure out *why* you want to do it. The *why* of your business will drive the decisions that you make and inform its values and priorities. For example, if your primary goal is to develop wealth, you may be more willing to undertake excruciatingly long hours, or a grueling travel schedule. However, if your primary goal is a flexible schedule to accommodate your family, you may be willing to

sacrifice certain monetary rewards for psychic and emotional rewards.

Now that you know the *what* and the *why*, you can prepare for the *how*. How will you start this business? "You have to do your homework," says Myra Hart, and she should know. She was one of the founders of the Staples office-supply store chain and is currently a professor of Entrepreneurship at Harvard Business School.

Professor Hart has just co-written a book of how-to advice for women starting their own businesses, "Clearing the Hurdles: Women Building High-Growth Businesses" (Prentice Hall/Financial Times). Reading it is a good place to start doing your "homework." Excellent online resources include the Small Business Administration ([www.sba.gov](http://www.sba.gov)); Entrepreneur magazine ([www.entrepreneur.com](http://www.entrepreneur.com)); *The Wall Street Journal's* Center for Entrepreneurs at [www.startupjournal.com](http://www.startupjournal.com); SCORE ([www.score.org](http://www.score.org)), a nonprofit association that provides small business owners with free business counseling; and the National Association of Women Business Owners ([www.nawbo.org](http://www.nawbo.org)).

## Write a Business Plan and Stick to It (or Adjust It Where Necessary).

Having a business plan is extremely important for several reasons. First, it will crystallize for you what you know and don't know about your business. Second, it may help you attract key employees or partners in the earlier stages of your business. Third, it is essential if you want to get investors. No self-respecting investor worth her (or his) salt would put money into a business that doesn't have a plan—a *viable* plan.

A business plan should state the objective of the company, describe current market conditions for its products or services, identify the competition and what distinguishes

By Sharon Sorokin James

**S**tarting your own business is not for the faint of heart, nor for the risk-averse. It requires confidence, discipline, a myriad of talents (or at least skills), a smattering of luck, and perhaps a pinch of insanity. But for many women, it is well worth it for the control, independence, creativity and satisfaction of doing your own thing and succeeding at it.

More and more of us are taking the plunge: every 60 seconds, somewhere in this country a woman is starting a business, says Faith Popcorn, author of "EVEolution: Understanding Women—Eight Essential Truths That Work in Your Business and Your Life" (Hyperion). We're starting them at twice the rate of men, perhaps because we feel more of a need to create a space that

**'The good entrepreneur recognizes risk and is willing to tolerate it, but she gives most of it away,' says Staples co-founder Myra Hart.**

you from the competition, lay out a general pricing module and marketing strategies, contain key financial information (such as how much money the business has now, how much it is making, and how much it is spending) and financial projections, and describe the key players in the business.

Finally, the business plan should describe how the business expects to grow over the next several years and the risks inherent in both the business itself and in investing in it. If you expect to use the business plan to attract investors, please consult a lawyer to determine the legal requirements that must be met when disclosing the risks of investing and the proper way of presenting your financial projections.

Although it is important to stick to the plan you have made, if market conditions, financial conditions, or other circumstances change so that the plan is no longer viable as conceived and written, then change it in a way that makes sense.

**W**here do you get the dough to put your plan into action? First, you must know how much you require. Do you need to rent space? Hire employees? Pay for manufacturing? Buy computers, stationery, insurance? What about paying yourself? All of this must be factored into your financial projections.

Emily Bittenbender, who was profiled in the "Biz Whiz" column in the March/April 2004 issue of **MAKING BREAD**, budgeted for one year of operations, without projecting any speculative revenue for her construction company. She knew, without a doubt, that she could operate for a year on the money she had. She anticipated that by the end of the first year, she would be breaking even or making money. In fact, she

was making money long before the year was up, because a number of contracts that she had hoped to get came through for her. Emily was lucky, and a good planner, and, though she invested some of her own money, she also had a business partner, who provided an initial investment of capital in the company.

Unlike Emily, almost all entrepreneurs, according to Professor Hart "start the business on their own money alone. Because women in the corporate world are underpaid, relative to men, and have a shorter period of time in the workforce before they become entrepreneurs," she says, "they have less of a nest egg to put into business. Nonetheless, the vast majority of entrepreneurs don't get outside capital until they have actually already developed a product, gotten something into the market, and developed proof of concept."

So how do entrepreneurs fund their startups to get to the point where they can approach an investor? Most often, in the form of "their own cash, a mortgage or second mortgage, and foregone expenses—such as working out of one's home, or not paying oneself—until they have developed enough credibility to get people to buy into the business concept," she says, then she shares this tip: "Venture capital firms with women on board make a far higher proportion of investments in firms led by women."

Bottom line: what this really means is that most entrepreneurs, and in particular, most female entrepreneurs, are strapped for cash. Although for nearly all women entrepreneurs, it *will* be harder to obtain loans and investors than it often is for male counterparts, Professor Hart reminds us that women should "aim high and ask often. We never get what we don't aspire to and ask for. You have to be prepared to go out and

enlist the aid of others and be relentless and enduring in seeking the kinds of resources you need to make your business grow."

Excellent advice for all of life, not just for starting a business. Aim high and ask often.



**3 Put All the Pieces in Place.** What assets does your business need?

There are three kinds of assets: tangible assets, such as a building, or a piece of equipment; intangible assets, such as processes and formulas and protected ideas; and human assets—your employees. Be sure you have determined the full extent of all three types of assets you will need.

Will you need a physical location or special equipment? Can you work from your basement or spare bedroom of your home, or do you need an office, factory or warehouse? Should you lease or own your space? Your accountant (by now you should have selected one, preferably with experience counseling similar businesses) can help you make this decision.

Intangible assets are equally important, and can and should be protected. Intangible assets are often referred to as "intellectual property." Intellectual property may be a new method for doing something, a formula, a recipe, a source code, an article, the content of your training manuals—there are many kinds of intellectual property. These forms of property are protected through patents, copyrights and trademarks. You can find out more about copyright protection by visiting the U.S. Government Copyright Office at [www.copyright.gov](http://www.copyright.gov), or by consulting an intellectual property lawyer.

When considering the assets you will need for your business, don't forget the human assets. Will your business need any employees, other than yourself, during its first year of operation? Will you be paying your employees? Will they be working for a piece of the business? If so, how will that be documented? You should have clear, written

agreements describing the relationships, if the employee is to be a part owner of the business. Finally, if you are hiring employees, you should consult an accountant and lawyer to be sure you correctly handle all aspects of the unemployment, Social Security and tax issues.



**4 Create a Marketing Plan.** A marketing *plan* is essential, even if, in the beginning, you must create it yourself. Identify who will purchase your products or services, why they will purchase them, and how you can reach them to convince them to purchase them. Will you be serving pre-existing clients from a former professional life of yours? Will you be advertising products in newspapers, radio or on television? Will you be undertaking a direct-mail ad campaign? Will you be relying on word of mouth? The best business concept in the world, even if beautifully executed, will not succeed without customers.



**5 Make It Official.** What are you the CEO of? How you structure your business will determine how much tax you owe, how much liability you have, and how you share the profits with your partners.

There are many guises under which one may conduct business, including sole proprietorships, general partnerships, limited partnerships, limited liability partnerships, limited liability corporations and corporations. All of these entities are "creatures of state law"—that is, although they are similar in their powers and rights from state to state, they are governed by the laws of the state in which they were created, and those laws give them particular sets of rights and powers. This means that you must consult a lawyer in the state in which you plan to organize and operate to determine which type of entity is the best for you. Below, is a →

## SECRETS OF THEIR SUCCESS

**F**or first-hand advice out of the mouths of babes who've been there, done that and not only survived but succeeded beyond their greatest expectations, read the "Biz Whiz" column in past and future issues of **MAKING BREAD**.

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brief overview of the general differences among the types of entities.

**A sole proprietorship** is an unincorporated business owned by one individual. It's the simplest form of business organization to start and maintain, according to the IRS. What sets it apart from the other structures is that you bear sole liability. However, the profits are also yours alone. You record the income of the business and can deduct all qualified business expenses on your own tax return.

**A general partnership** is a business or undertaking in which two or more people or entities come together to do particular things (although the purposes can be extremely broad). The hallmark of a general partnership is that all of its partners are fully liable for the acts of the partnership and for the acts of the partners related to the partnership. Income and expense deductions are shared by all the partners.

**A limited partnership** is a partnership for one or more purposes, which is composed of one or more general partners and one or more limited partners. The general partner or partners are fully liable for the acts of the partnership. The limited partners are not. Under the laws of most states, the liability of the limited partners is limited to their investment in the partnership. However, the price the limited partners "pay" for this limitation on liability is that they are not allowed to have any say in the day-to-day management of the partnership.

**A limited liability company** is similar to a limited partnership, except that it has members, instead of partners, and generally all of its members are insulated from liability. Limited liability companies provide more flexibility in operations than limited partnerships, while retaining liability protection.

**A corporation** is an entity in which people (or other entities) hold ownership positions in the form of stock. The stockholders are not liable for the acts of the corporation, unless they behave as if the corporation is their own personal fiefdom—that is, if they don't observe corporate formalities.

Some corporations are taxed like partnerships, as long as they meet certain criteria and make certain tax elections.

### Minding Your Business

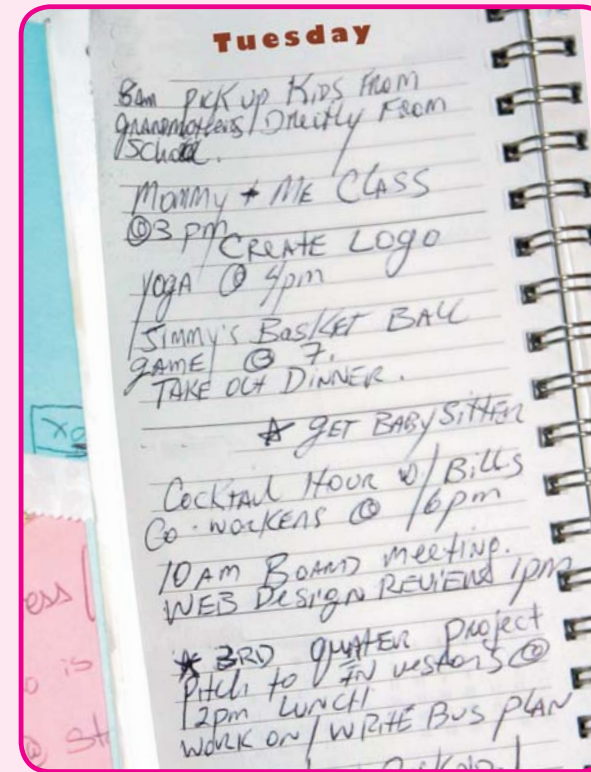
Going into business requires great vision, an almost obsessive and single-minded passion for your idea, endurance in the face of seemingly insurmountable obstacles, and resourcefulness, so that you can make the most of your initially limited resources. Doing your homework and following up by putting all the legal, marketing, logistical and financial pieces of the puzzle in place will go a long way toward reducing the risk of any startup, but the smart entrepreneur knows one more trick.

"The good entrepreneur recognizes risk and is willing to tolerate it, but she gives most of it away," says Myra Hart. "For example, by pre-selling your product, you transfer risk to the customer. Management or partners take on risk, giving up good jobs and money in the short term to work with you, betting they will make more in the long term. The good entrepreneur sees opportunity where others do not and mobilizes energy and resources to make it happen."

If that's a job description that fits you like your favorite business suit, you're ready to mind your own business. □

*Sharon Sorokin James is an attorney, author, and contributing editor to **MAKING BREAD**.*

## Full Time ?



## Free Time !



*Are you trying to start up or run a small business, or are you just dreaming?*

Twenty-four hours goes by fast, especially if you have a career and a family to take care of. Throw in a house, a car, and a pet, it seems like your free time is a full time job. Wouldn't it great if you had more time?

**Dunn & O'Brien is here to help.**

Our business is your business. With Dunn & O'Brien, you can make your dreams a reality and start filling your schedule with the things you want to do, not the things you have to.

Dunn & O'Brien is helping Making Bread Magazine update and reorganize their web site. Call and see what we can do for you.

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