



A Guide To Starting Your Own Business

If you think you are ready to run your own show, this section is for you. Read on for a step-by-step plan that covers everything you need to do to become your own boss.

By Clare La Plante

You've been working as a massage therapist for five years. You have a nice gig at a local chiropractor, with loyal clients and recommendations from your medical coworkers. But you have a dream. You want more freedom. You want to be in control of your profits, your marketing and your own space. In short, you want to go into business for yourself.

What does it take, and how can you increase the odds of success? According to Jane Wolfe, a Cary, Illinois-based yoga teacher who owns her own studio, it first starts with your own vision. You need to know why you want to go into business for yourself. For Wolfe, it was the lure of creating her own space. For massage therapists, the reasons could range from wanting control over the office, to wanting to create your own hours, to wanting to make more money.

When you're ready to take the plunge, your next step is to make goals. You should have short- and long-term goals.

Wolfe says this part of the process is partly intuitive. She sat with the idea for a while before she took action. Give yourself time to meditate on what you want your perfect week, month or year to look like. Write down your vision, or talk to a trusted friend or confidant about your dream. Write in your journal, and speak to a counselor or friend.

When you're ready to take the plunge, your next step is to make goals. "You should have short- and long-term goals," says Jim Platania, a financial adviser based in Mt. Prospect, Illinois. "Do you want to do this part-time or full-time? Is this your main business, or will it be something you are not completely dependent upon? Do you want to build your business so that you eventually have people working for you?"

Hone your vision by choosing a name for your business. Many massage therapists opt not to have a name for their business; they simply offer their services under their own name. If you want something to identify you, however, you may choose a moniker that reflects something about your mission, your type of work or your location. (First, check your local secretary of state's Web site for names already registered in your state.)

Here are some ideas: You can incorporate the name of your town, or some local identifying factor, such as Lakefront Massage, or Smithsville Massage or Shoreline Touch. Or, you can incorporate the type of work you do; for example, Jane Smith's Sports Massage. If you plan to expand, you may want to copyright your name. You can do this through the U.S. Patent and Trademark Office. For more information, call 800-786-9199, or visit [www.uspto.gov].

Next, it's time to choose the legal structure of your new business. It may be as simple as hanging out a shingle from your home as a sole proprietor. However, you also may choose to become a limited liability company, an S-corporation, a partnership or a joint venture. Starting with the limited liability company, these have a decreasing amount of legal protection should you be sued for any reason. "The more protection from liability, the more you'll pay to set it up," says Gary St. Pierre, a Mt. Prospect, Illinois-based accountant. He recommends consulting with an attorney or accountant to make sure you're making the best decision possible for you and your new business.

Depending on what legal structure you choose (basically, says St. Pierre, if you choose to be anything but a sole proprietor or joint venture) you will need to set up a federal employer ID number (FEIN). You will use this for tax purposes instead of your social security number. For more information, contact the IRS at: [www.irs.ustreas.gov], or call 800-829-1040.

Once you've chosen your name, your legal structure and what services or goods you plan to offer—including whether you'll sell any products, such as oils, CDs, books or props—you'll need to compose and create a business plan. (See page 135 for a sample massage therapy business plan.)

This can be formal, or informal, depending on how you plan to obtain financing for your business. If you plan to borrow money from a bank, or other lending institute, you will need a formal plan—well organized, typewritten and proofread by friends, colleagues or your accountant or financial adviser. If you plan to use your own savings to start your business, your business plan can be more informal, mostly for your own use and records.

A business plan is an outline of how you will run your business. You will need to include a budget for your first year, including estimated expenses and estimated revenue. Expenses may include your office rent, accounting/legal fees, oils, sheets, laundry, association fees, telephone (both landline and cell) the Internet, a Web site (if you plan to have one), marketing, brochures, business cards,

workshops and CDs. Don't forget your one-time-only start-up fees, including a deposit for your lease signing, a table, office decorating and signage. It's usually better to err on the side of safety. "Overestimate your expenses; underestimate your revenue," says Tama McAleese, a Cleveland-based financial adviser and author of *Get Rich Slow* (Fourth Edition, Career Press, 2004; 440-647-2793).

To estimate your revenue, look at the number of clients you now typically see in one week. (Or, if you're brand new to this, how many you would like to see.) How many do you expect to come with you in your own business? How many new clients do you think you'll attract in the first year?

Next, sit down and calculate your fee structure. How much will you charge each client? Will you offer discounts for packages, special services or holiday times? It helps to do an unofficial survey of the massage therapists in your area and nationally. You want your fee structure to be fair to yourself and to your clients.

When you are done calculating your estimated expenditures and revenue, the result is your cash-flow statement. This will help you to see how much money you'll need to begin your business. "Make sure you have adequate cash," says Platania. "I have a client right now who is 67 and buying a restaurant. She didn't have the start-up funds, and now is having a tough time meeting her very first month's payroll."

Let that be a cautionary tale. Most experts recommend that you have several months of living expenses stashed away somewhere safe. "You'd better make sure that you have the good backing of operating capital for your start-up period," says St. Pierre. "It's ideal to have six months to one year of operating income, and also three budgets, depending on how much money you bring in."

St. Pierre recommends slow growth. "Don't try to furnish your whole house all at once," he says. "It's the same thing with starting a business. Start at one level, and let it push you to the next level."

If you're having trouble gathering six months of living expenses, look around. Your borrowing choices range from your local bank or credit union to your friends or family, or, perhaps as a last resort, your credit cards. Of course, you may decide a middle road: Save as much money as

you can, and then get a part-time job somewhere where you will be earning enough income that you won't starve if things don't pick up right away. The key is to have enough sense of assurance so your anxiety won't prevent you from doing your best work.

"You may go a month or two bleeding your savings account," says Platania. "If you can't afford to bleed it for a few months, you have no business going into a business."

Another caveat: Some experts caution against borrowing against your personal property. "Never risk your personal financial security to fund your business," says McAleese. Instead, she says, try to borrow "unsecured" money—money that is not contingent on something you own, such as your house or your car. Finding adequate cash for your start-up business may be one of your biggest challenges, but you just need a little planning and research.

After you've figured out your funding, your next step will be to choose your work space. Do you want to work from your home or rent an outside office? If you decide to rent an outside office, you need to keep a few things in mind. Remember, this will be your home away from home during your work hours. You need to make it as comfortable as possible for both yourself and for your clients. It's worth taking your time, and shopping around.

First, drive around the area in which you are interested in renting an office. Check for rental signs. Ask friends. Read your local classifieds. You can also go to a realty company, but many do not specialize in small commercial rental spaces. "For me, it was better to drive around and keep my eyes open, and read the newspaper," says Wolfe.

If you find a space that feels right, don't for-

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get to consider practical matters, such as parking. Can clients find a nearby spot so they're not walking blocks back to their cars after a massage? As an alternative, are you near public transportation?

Consider the growth potential of the space. You may only need a small room now, but if you plan to grow, it's easier to find a space with potential than pick up and move again in a year.

When it comes time to sign your lease, remember that everything is negotiable, including the price and the length of the lease. For a start-up business, for example, without much capital, you may want to negotiate two or three months of free rent at the beginning of the lease, with increasing rents for the rest of the year. If you get a great deal, you might also want to see about locking in a two- to three-year lease at the same good price. Find out what is expected of you: Do you have to pay for heat, electricity or snow removal? Do you have control over the heat and air conditioning? (This factor is very important for massage therapists.)

Check if the environment is conducive for a good massage. How is the noise level from your neighbors and the street? Are you in an area that invites clients, perhaps located near other health-care practitioners? "Ideally, you'll be in a place with some foot traffic," says Platania.

If you don't feel comfortable for any reason with your landlord or his or her business dealings, think twice. This will be a business partner for the duration of your lease.

Finally, before signing a lease, check with your local government for any special business zoning, permit, inspection or license requirement. Confer with your attorney or another business expert if you have any questions at all. (See our Resource Guide on page 134 for contacts.)

For those who want to remain at home, you

must also consider zoning and permits. Make sure your roommates, family members and neighbors do not mind the extra traffic and inconveniences of parking or extra activity. As with a leased office, check for noise level and temperature control. Of course, you can start from home, and see how it works out. Often, the only way you'll know what works for you is to try it.

If you intend to eventually hire others, you may want to find a space that allows you to grow. However, keep in mind that once you are an employer, you have additional responsibilities, such as employee tax and social security payments, workers' compensation, and, often, retirement plans.

Consult your attorney and/or accountant or financial adviser for more information. "One of the most important things you can do when you start your own business is to find a good accountant," says Platania. "He or she can help you incorporate, if need be, recommend an attorney if you need one, and help you keep good records."

A good accountant will also help you with your additional responsibilities as a taxpayer when you become self-employed. (You will need to pay quarterly estimated self-employment, as well as keep track of your deductions.) "A lot of businesses fail because they don't pay their taxes," says Platania.

This is part of the reason that keeping good records is a hallmark of a well-run business. "Good accounting and bookkeeping is one of the most important things you can do," says St. Pierre. "Keep your records for all transactions, including sales, expenses and loans."

Start to consider what it means to manage yourself and employees. For example, before you hire somebody to help you out, create a detailed list of what you expect from that employee—and also how you will evaluate his or her performance. Keep these guidelines handy when you interview your first candidate. Remember, anybody you bring in becomes part of your very important massage therapy life. You will become not only a boss, but quite possibly a teacher and a mentor. Take classes and work-

shops, and find other small business owners who can offer you their hard-earned advice.

Finally, when you set up your office, you will need to set into place your office protocol. You have your name, your space, your clientele. Now you need to know how many appointments you can handle in a week. What days will you work, and what days will you be off? Decide ahead of time, how much flexibility you will give yourself in making alterations to this arrangement. You probably already set up your payment schedule. Now it's time to implement it. How will you collect payment? Will you accept credit cards as well as checks and cash? What is your policy for cancellation?

As a small business owner, one of your biggest challenges will be how to keep your clients happy, while making a good life for yourself. If you have consistent, fair and predictable business practices, your clients will respect you as a businessperson, and likely your business will grow.

However, you need to also think ahead of time and calculate how growth may affect your personal life. Many people find happiness is in the balance. According to a University of Southern California (USC) study, a person's well-being does not grow with increased wealth. In fact, increased income often leads to increased cravings for more things, and more accumulation of things we don't need.

What the study found, instead, is that happiness typically comes from spending quality time with family and friends, and from having good health. "People don't get happier by getting richer," said the USC study. Nor does a person's well-being grow with increased wealth.

Wolfe says that part of this balanced lifestyle comes with learning to enjoy the process of running your business. "When I first started running my own business, I was worried a lot, because I wasn't sure if I was going to make it," says Wolfe. "Now, I wish I was able to enjoy the process, rather than worrying."

Her advice? "I'm starting to see the value of the service that I provide, especially as I get more experience and training," she says. "It's about valuing the service you provide."



Suggestions From A Successful Entrepreneur

Jane Wolfe is a yoga instructor in Cary, Illinois. She opened her own studio five years ago, after "freelance" teaching at various places. She shares her advice for other business owners:

Be very careful about how you spend your money.

"Cash flow issues are probably biggest the first year, when you're building your business," she says. "I made some mistakes, and should have been more protective of my cash."

Enjoy yourself.

"Enjoy the service you provide, enjoy your customers, and have a good time providing this service to them," she says. "If the business doesn't work out, you still have the capacity to provide the service."

Find excellent people to work with.

Whether these are office mates, business partners, employees or consultants, Wolfe says to "find the best qualified people you can to help you run your business."

Wait for the perfect space.

If you plan to rent an office, don't dive in too soon, she says. "It's difficult to break a lease, and it's expensive to move. Make sure it's the space you want."

Expect the first year to be bumpy.

"The first year may be difficult, and it's normal to be worried about it. But things settle down eventually."

Find a support group.

"Find other people who have started their own business," she says. "People who have never done it won't understand at all."

If you intend to eventually hire others, you may want to find a space that allows you to grow.

Do You Have What It Takes To Be Your Own Boss?

The following quiz can help you to see what qualities you possess that will help—or hinder—your journey as a business owner. Answers follow.



1. When things need to be done and everything is in chaos, do you:

- a) Decide for yourself what needs to be done and tell others what to do;
- b) Share responsibility with a committee on the grounds that as a group you're more likely to do the right things;
- c) Get started with the tasks yourself immediately;
- d) Suggest who would be best suited to organize things;
- e) Stand around hoping someone else will organize things?

2. You are playing a new game of skill. The unique point of this new game is that you have to specify the score you intend to make before you play. Do you:

- a) Set a very low score so that you are certain of making it;
- b) Refuse to play at all;
- c) Set a very high score so that you will astound everyone if you do succeed;
- d) Copy everyone else's score so that you won't stand out;
- e) Set a score that you feel you can achieve with the condition that you can have a second go later to try to improve your effort?

3. Why would running your own business appeal to you?

- a) To exert control over others;
- b) To become rich and enjoy the good life;
- c) To succeed on your own terms;
- d) To be able to create and innovate your ideas;
- e) To be totally independent.

4. You fail to get a job after an interview. Would you:

- a) Feel you've been unlucky with circumstances and be prepared to try the same company again;
- b) Feel that other people have conspired against you and try elsewhere;
- c) Feel that you had made a mess of it but try again;
- d) Feel sick inside and wish you'd never got involved;
- e) Contemplate never applying for another job, your case being hopeless?

5. You are on the entertainment committee of your sports or social club when an emergency turns up. Do you:

- a) Reluctantly agree to give up a couple of hours;
- b) Volunteer to give up only a few hours;

- c) Quickly assess what is needed and contribute enough time to get things running smoothly;
- d) Make excuses and try to absent yourself;
- e) Make yourself available but refuse to be responsible for taking action?

6. A close friend of yours is having an important anniversary and you wish to give him or her a special present to mark the occasion. Would you:

- a) Spend more than you intend to buy an expensive version of a conventional present;
- b) Browse the shops, trusting your ability to spot what you need;
- c) Ask the friend for a suggestion of what he or she would like;
- d) Ask mutual friends for their suggestions;
- e) Draw up a list of unusual presents and choose the one that seems the most appropriate to you?

7. Which is the type of work activity you would prefer if you had the choice?

- a) Doing routine and well-laid-out tasks;
- b) Handling emergencies and crises to get things running smoothly again;
- c) Planning for agreed changes and making them happen;
- d) Deciding what needs to be done and getting on with it;

- e) Dealing with people and helping them.

8. You have been asked to organize a party at work. Unfortunately all the arrangements have gone wrong. Would you:

- a) Admit you had made a hash of it but see it as an opportunity to improve;
- b) Try to pass the blame onto someone else;
- c) Admit you had made a hash of it and not get involved again;
- d) Feel that people were being unreasonable and not get involved again;
- e) Suggest someone else to do the job next time and offer them advice?

9. Which is most like your behavior in trying to realize your ambitions?

- a) While you feel that ambitions are important they should not interfere with your normal home life;
- b) Ambitions are important and you are prepared to work hard in the evenings, but only for a short time;
- c) You are prepared to alter your habits to achieve your aim but not give up your social and sporting activities;
- d) You don't like ambitions because they cause you upset;
- e) You will do anything necessary (within the law) to realize your ambition.

Answers

1) Answer: C. You have a bias for action where you get on with things rather than pontificating about them, knowing that they have to be tried out anyway. You also have the drive and energy to put things in motion rather than sitting down and thinking/planning.

2) Answer: E. You set achievable goals, which is fundamental to reaching them. You learn from mistakes (many will be made in the course of starting your own business, and your progress depends upon making incremental changes from feedback). You have a modest risk profile; you're not willing to take undue risks.

3) Answer: C. You have classic achievement needs, which are based on accomplishment rather than the need for power or renown. You have internal standards that are not driven by competition/external factors. You feel in charge of your own destiny, and are not subject to the whims of others. Money is a measure of your progress, not a goal in itself.

4) Answer: C. You have an internal focus of control. Effective business owners feel they have control over what they do, rather than being subject to the whims of the environment. You have perseverance; you try again to overcome obstacles (of which there will be many). You have self-reliance and are not dependent on others.

5) Answer: C. You have a bias for action, and a

problem-solving orientation and the ability to solve problems speedily with a minimum of resources (and resources may be scarce). You have a speed of response; your emphasis is efficiency/resource allocation.

6) Answer: B. You have self-confidence and a tolerance of ambiguity and uncertainty, and are willing to put up with some risk. You take personal responsibility. You don't like to pass the buck. You don't wish to depend on others.

7) Answer: D. You are decisive, and have the ability to see what needs doing and taking action. You have a bias for action.

8) Answer: A. You learn from mistakes, and have a willingness to evaluate and take feedback. You have self-responsibility; you take responsibility for your own actions and have internal standards. You set and maintain internally driven standards of performance.

9) Answer: E. You show commitment; the need to stick with the venture through thick and thin (though note effects on others—e.g., family and friends who could suffer). You have clear goals, knowing exactly what you want and how to achieve it. You delay gratification/abstemiousness; you have a willingness to forego immediate benefits for later success, and focus on cost savings. Your priorities dictate that effort is required now—social and other benefits might arrive later.

Resource Guide

Counselors To America's Small Business Visit this Web site [www.score.org], which provides entrepreneurs with free, confidential face-to-face and online business counseling. Counseling and workshops are offered at 389 chapter offices nationwide by experienced business volunteers.

Internal Revenue Service Call the toll-free main number, 800-829-1040. Recorded information on more than 100 tax topics is available at 800-829-4477. Also visit the general IRS Web site:[www.irs.gov]. The IRS Web site for the small business community is

[www.irs.gov/smallbiz/index.htm]. To order Publication 454:Your Business Tax Kit, containing an assortment of IRS forms and publications, call 800-829-3676.

U.S. Small Business Administration For information on obtaining publications on small business topics, call 800-827-5722.

Financial Planners Visit [www.napfa.org], or call 800-366-2732, to find a fee-only financial planner in your area.

Accountants Visit [www.cpadirectory.com] to find a certified public accountant in your area.

Writing A Winning Business Plan

Do you need some help composing your business plan? The following business plan outline can serve as a guide. We adapted this from the Small Business Administration's (SBA) Web site [www.sba.gov]. We have crafted this business plan for a hypothetical massage therapist. (In-depth help on developing a sound business plan can be found on the SBA Web site in the "Starting" area.)

Introduction

Give a detailed description of the business and its goals.

My business will offer Swedish and deep tissue massage with some energy work, including reiki and craniosacral work. My goal is to be self-sufficient in one year, earning enough money to pay my personal and business bills, plus save \$5,000 a year.

Discuss the ownership of the business and the legal structure.

I have chosen to be a sole proprietor and work with my social security number.

List the skills and experience you bring to the business.

I am a licensed massage therapist; I graduated five years ago from the Chicago School of Massage. I have received extra training and certification in reiki and craniosacral work. I have three years working at a spa, and two years working at a chiropractor's office.

Discuss the advantages you and your business have over your competitors.

I have a loyal base of clients, and a warm, straightforward business manner. I am very dedicated to my work, and I will make house calls.

Marketing

Discuss the products/services offered.

For the first year, I will only offer bodywork, at

my home office, and in clients' homes. After that, I will consider offering seminars to businesses on relaxation and health, and consider teaching at my alma mater.

Identify the customer demand for your product/service.

I live and work in a college town, which has also seen a recent influx of retirees. I hope to tap into both markets: offering sports massage and stress relief to college students, and preventive and therapeutic care to the retirees.

Identify your market, its size and locations.

My market consists of my hometown and two surrounding suburbs. I will make house calls only in a 10-mile radius from my home.

Explain how your product/service will be advertised and marketed.

I will place brochures at health-care facilities in the area, and at health food stores and restaurants. I will also place ads in the local college newspaper and in the local senior news. I am considering offering incentives to clients who recommend a friend.

Explain the pricing strategy.

I will charge \$65 an hour, and \$90 for an hour and a half. I will offer a five-session massage series, for \$300.

Financial Management

Explain your source and the amount of initial equity capital.

I have saved \$8,000—approximately enough for three months living expenses if I don't earn anything at first. I also intend to keep one day a week at my current job in order to bring in around \$500 additional a month.



Develop a monthly operating budget for the first year.

Expenses:

Rent: Will work out of my home for the first year
 Oils: \$30
 Sheets: \$30
 Laundry: \$20
 Legal/Accounting: Approx. \$30 a month
 Telephone/Internet: \$80
 CDs: \$20
 Marketing/Printing: \$100
 Office Supplies: \$100
 Travel: \$150
 Utilities: \$50
 Insurance: \$300
 Licenses/Association Fees: Approx. \$40 a month
 Workshops: \$100
 Retirement: \$125
 Taxes: \$100

One-time-only start-up costs, including massage table and CD player: approximately \$200 a month averaged over the year. Personal living expenses (to be kept separate from business expenses): \$2,000 (including savings).

Develop an expected return on investment and monthly cash flow for the first year.

Ten clients a week at \$65 a session equals \$650 a week; \$2,600 a month, plus my \$500 from previous employer, and some help from my savings when need be.

Discuss your break-even point.

By the end of the first year, I hope to be working solely for myself, with 15 regular clients a week. That is my break-even point of approximately \$3,500.

Discuss who will maintain your accounting records and how they will be kept.

My accountant will be Joan Smith, CPA, of Smith Accounting. She will keep my records, and give me a copy as well.

Provide “what if” statements that address alternative approaches to any problem that may develop.

What if I get sick or disabled for an extended period of time? I will rely on my savings and my alternative healing network. I will keep myself as healthy as possible. I will get good medical insurance. I will continue to fund my emergency account if I choose not to get liability insurance.

What if I cannot get enough clients to make my own business float?

I will up my hours at my current employer, or pick up some hours at a nearby spa or health club.

What if I hate being on my own?

I will give my current employer the heads up that this is a dream of mine and may not be exactly what I expected. I will leave on good terms, with the door open. I will maintain a good network of colleagues so I can rather easily get back into an employed job if need be.

What if I run out of money? I will not borrow against my house, or go into debt to fund my business.

Operations

Explain how the business will be managed on a day-to-day basis.

I will devote an hour a day to my administration: phone calls, bills, paperwork, networking and marketing. I will spend another hour of my workday devoted to research and preparation for my clients.

Discuss hiring and personnel procedures.

I do not intend to hire anyone for the first year. After that, I will consider hiring a receptionist or business manager, if I need to. This will be done only if I can save money and time by outsourcing these duties.

Discuss insurance, lease or rent agreements, and issues pertinent to your business.

I will get a major medical policy, along with liability insurance. Instead of disability insurance,

I intend to keep a healthy savings account in case of an emergency. I will try to maintain this account so that it goes no lower than \$5,000, and I intend to build it up to reach a safer level of \$10,000. I will use my downstairs bedroom for the first year as my massage studio. I will do my administrative work at my desk in the den.

Account for the equipment necessary to produce your products or services.

I will need to buy a massage table, good CD player and oils.

Account for production and delivery of products and services.

I will pick up all my supplies, except for my table, which will be delivered to my house.

Concluding Statement

Summarize your business goals and objectives and express your commitment to the success of your business.

My goal is to be self-sufficient at my own business in a year. I hope to build a regular clientele that earns enough money to cover my personal and professional goals, plus allow me enough flexible time to have a life. I am extremely committed to my work and this business.

Once you have completed your business plan, review it with a friend, business associate, a Service Corps of Retired Executives (SCORE) or Small Business Development Center (SBDC). Remember, the business plan is a flexible document that should change as your business grows.

An Important Checklist

Business issues are part of the challenge of running your own business. For example, you must consider the stuff we all take for granted when employed by others—benefits such as health insurance, life insurance, tax withholdings and retirement savings. When you become your own boss, the onus switches to you. You are now the business department as well as the massage therapist.

Here is a quick checklist of these three areas. Remember, most business owners, no matter how small, benefit from the advice and counsel of a professional accountant, tax attorney or financial adviser. (See our Resource Guide on page 134 for help in finding a professional near you.)

Taxes

- I have a good accountant or tax adviser.
- I understand the rules for home office deductions. (I also realize that this deduction may exclude me from part of the tax break when I sell my home.)
- I understand all the deductions to which I am legally entitled.
- I keep careful track of all expenditures and income.
- I make my quarterly estimated tax payments on April 15, June 15, September 15 and January 15.
- I have a special savings account set up for the taxes I owe so I'm never caught unaware.

Insurance

- I have good health coverage that will protect me in case of an emergency.
- I have carefully researched my health policy, and I know exactly what it will pay for and what it won't.
- I have life insurance if I am the sole provider for my family.
- I have disability insurance or a savings account that can cover my business for at least six months in case I become disabled.
- I have liability insurance that protects me against lawsuits and injuries.

Retirement

- I have set up an individual retirement account, according to what's best for my business.
- I fund this account regularly, ideally using monthly automatic withdrawals from my checking or savings account.
- I am aware of the tax benefits of using pre-taxed money to fund my retirement account.
- I review my retirement account once a year.

How To Avoid Common Pitfalls

Small-business owners in any field share many of the same challenges. In this section, we list some of the mistakes that are made again and again by people starting their own venture.

Don't bet the house on your business. Avoid loans, business structures or anything else that can threaten your personal finances. That means be very careful when you use your house or car as collateral for a loan. We recommend that you seriously consider buying liability insurance to protect your personal assets should a client get hurt on your property, or you are involved in a lawsuit.

Don't sign on the dotted line without reading the fine print. From leases to partnership agreements to tax documents, always make sure that you carefully read any type of legal agreement. If you have any questions at all, consult a professional—accountant, attorney or financial adviser. It's a cliché, but always read the fine print.

Don't be a lone ranger. One of the great challenges of the self-employed is keeping a network of colleagues. Make sure you make time to have lunch, attend workshops or just generally keep in touch with your classmates from massage school, your former coworkers, or friends who run similar types of small businesses. Sometimes our best advisers are those who can tell us the truth.

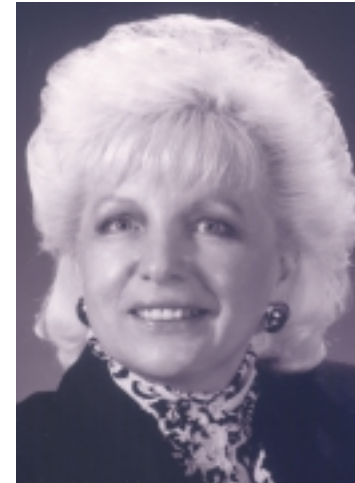
Don't put all your eggs in one basket. Always have a Plan B. As much as you want your small business to succeed, and no matter how good your odds of making it work, it never hurts to have a back-up plan in case something goes awry—such as a recession, an illness or an unexpected bout of competition. Our advice? Have the backup, but go forward with full confidence. It will help you with the “sleep” factor, an old truism about investing: If you can't sleep at night, don't do it.

Don't play fast and loose with your taxes. You're the boss now, and you have to pay all those taxes that your employer used to. And you have to do it quarterly. The key? Get a good accountant or tax adviser. You never want to invite Uncle Sam to an audit.

Don't get swamped by paperwork. Part of running a good business is keeping good records. So get a good filing system, a good bookkeeping system and an excellent office protocol system. It will help you with your taxes, your profits and your customers.

Don't skip the insurance. Part of running a business is learning how to protect your assets. And part of protecting your assets means buying the right kind of insurance, including major medical, liability and disability. (If you choose not to buy disability, make sure you have a surplus of emergency cash in case of an accident or illness.)

Don't forget why you're in the business. Set your goals, and review them from time to time. We can get so caught up in working, we can forget to smell the flowers and enjoy this process of life.



Ask An Expert

For this issue, we invited Cleveland-based financial radio host and author Tama McAleese to answer questions about self-employment.

Q. I've wanted to start my own massage therapy business for quite awhile, but I'm scared to make the leap. How can I transition into my own business without feeling overwhelmed?

A. Fear is an important survival instinct. So don't be daunted. Instead, be prepared. Since your business success depends on the general health of the economy around you, you may not want to quit your day job at first. It may take longer than expected to get your new business in the black. Successful businesses don't happen overnight. They are carefully built over time.

Draw up your business plan and realize that growing your client base is not entirely under your control. While you are doing this, make sure you check your credit rating. Contact one of the credit rating companies: Equifax [www.equifax.com]; Experian [www.experian.com] or TransUnion [www.transunion.com]. Correct any problems that could hinder you qualifying for a low-interest business loan. Find an affordable office space, whether leased or in your home, talk to others

who have valuable experiences to share, and compare the most effective ways of financing. What marketing strategies will you use? What are the costs involved? Include an exit strategy from the beginning in case the business should fail.

Insist on paying yourself a salary from the get-go even if money is tight. You are really in the money business, not the massage therapy business. Investigate the various business structures such as setting up an S-corporation or limited liability company to better protect your personal assets from business liability. Set up separate banking arrangements for your business. Analyze your insurance needs carefully.

Will you need employees, or can a spouse, friend or relative help with office duties like filing, billing, phones, correspondence and customer relations? Who will perform regular bookkeeping and tax services? Retirement plans for small business owners are plentiful but confusing, until you understand how each type works. Consult a professional, read a lot of literature on the subject or attend free workshops to learn more.

Be careful when signing contracts, such as property leases and equipment purchases. All

agreements and client service contracts should be reviewed by an attorney to be sure your interests are well-protected. Welcome to small business survival school!

Q. How do I set up a retirement plan on my own?

A. The “Golden Years” may be less than golden for those who depend solely on the traditional retirement programs, such as social security, Medicare and pensions. It is absolutely necessary that you plan for your own retirement. How much you need depends on longevity (your family genes and how well you take care of yourself), how long you want to work or will be able to, health-care costs, inflation, the lifestyle that you want in

Never risk your personal financial security to fund your business. Don't loan your practice money from your family or yourself, and above all, do not borrow from your retirement accounts.

retirement, how much your current investments are worth, and how well you invest.

Instead of the old rule of thumb that said you needed only 60 percent of today's income to live well in retirement, I suggest you aim for 100 percent: Mortgage, child care and college funding may likely be replaced in retirement by health-care needs, your lifestyle needs (travel, education, helping out family members) and aging concerns.

You will find many retirement plans for small business owners. You'll find two basic types:

defined-benefit plans, which guarantee the amount of benefits at retirement and are funded in part by the employer (which would be you, if you have employees), and defined-contribution plans, which are funded primarily by employees and do not guarantee benefits at retirement time.

SEPS, SIMPLEs, profit-sharing, money purchase plans and deferred compensation offer simpler and cheaper employer solutions when there is limited funding. A new kid on the block, the uni-K, resembles a 401(k), and is designed for sole owners and their spouses. It generally allows the maximum employee/employer salary deferral among defined-contribution plans.

Each plan type has unique options and limitations, and not all plans can be set up inside all types of business structures. Some plans require annual contributions, while others depend on the company's profitability.

In addition to these, any worker can contribute up to \$4,000 (with an extra \$500 if you are 50 or older) to a Traditional IRA or Roth IRA. Mutual fund companies administer many of these plans for a minimum cost per year. Call their toll-free numbers for step-by-step instructions and easy investing advice.

Retirement planning success depends on how much you contribute, how regularly you contribute and how your money grows.

Q. How much money do I need to go out on my own? And if I need to borrow funds, what's the best way to do that?

A. Secure at least six to 12 months of living expenses and work capital. (Watch out for larger credit lines that allow you to continue to fund a declining business.) The Internet has a variety of business expense calculators and cash flow worksheets.



Practice risk management daily. Document client records meticulously in case of a lawsuit.

Never risk your personal financial security to fund your business. Don't loan your practice money for your family or yourself, and above all, do not borrow from your retirement accounts, such as your 401(k) or IRA. Try not to mingle your personal and business money sources.

You can save your money while you're still working for someone else. Or a willing friend or relative would be a great source of capital. Some specialized federal or state loans may offer immunity from repayment in case of a business failure. Grants, where there are no repayments necessary, are another option.

I recommend borrowing unsecured money, even if the interest rate is higher. Borrowing secured money, such as a home equity loan, may jeopardize the roof over your head or personal assets if you can't repay.

Be careful what you sign. Have an attorney review and negotiate any debt documents before you sign.

Q. Do I really need liability insurance? What other insurance do I need as a business owner?

A. First and foremost, protect your personal assets, even if money is tight. Liability insurance protects you if you are held responsible for another's loss or injuries. Getting at least a \$1 million policy is prudent. Your other insurance needs may vary, and I recommend getting the advice of a competent insurance agent. For example, your car, building and equipment may need special policies.

I feel that personal life insurance, disability and catastrophic health coverage are essential. (In fact, some lenders may demand a life insurance policy before they loan you money, in case you die before the loan is repaid.)

Set up the most protective type of business corporate structure possible. Talk to an attorney or accountant about setting up an S-corporation, a limited liability company or a limited partnership. You can even use a combination of corporate structures. For example, your operations business can run through one type of corporation, while a limited liability company could own the real estate.

Practice risk management daily. Document client records meticulously in case of a lawsuit. Your business equipment should be insured against fire, theft and breakage. 📄

Tama S. McAleese is a Cleveland, Ohio-based financial adviser, and host of the radio show “Get Rich Slow.” She also is the author of 10 personal finance and investment guides, including *Get Rich Slow, 4th edition*, and the *Money Power* series. She can be reached at: 440-647-2793.

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