

PRESS OFFICE

Release Date: November 20, 2008

Release Number: 09-01

Contact: Mia Fagley

email: Mia.Fagley@sba.gov/303-844-2607

Five Creative Ways to Start a New Small Business in a Turbulent Economy

By Greg Lopez, SBA's Colorado District Director

Creating a start-up business during turbulent economic times can be a challenging task. But business ownership can be immensely rewarding, and with good business practices, the chances of success can be good. Research by the U.S. Small Business Administration shows that nearly three-quarters of all new businesses (with or without employees) survive two years or more, approximately half survive four years or more, and about 40 percent survive six years or more. Especially in times like these, people thinking about starting a business should understand the reasons why small businesses fail, and may want to consider creative alternatives to becoming a small business owner.

Top five reasons why start-up businesses fail:

1. **Insufficient capital (money).** Start-up businesses with \$50,000 or more in initial capital have a much better chance of keeping their doors open. You will have to pay vendors, employees, utilities, rent, and a wide variety of other expenses. Plan on having a minimum of six months cash available to keep the business operating.
2. **Lack of management experience.** Many new entrepreneurs have the passion to start a company, but lack the day-to-day management skills to run a business. You may love to ski, and think you want to run a ski supply company. In addition to having a passion for skiing, you need to prepare yourself for the business aspects of starting a company too. Those include: understanding cash flows, marketing, and who your customers are.
3. **Poor business location.** If customers cannot readily find your business location, they won't buy your products and services.
4. **Poor inventory management.** Too much inventory will kill your cash flow. This is an issue many new businesses have, and many owners have no clue how to manage it.
5. **Lack of initial planning.** This includes the misuse of personal assets to fund the business, how to handle unexpected sales growth, poor sales in the first 90 days of business, understaffing, and unreliable vendors. That is why our mantra is "business plan, business plan, business plan."

-MORE-

Five Creative Ways to Start a New Business:

1. **Purchase an undervalued existing business.** During turbulent economic times, many owners may be forced to sell their businesses for various reasons. This creates an opportunity for people with capital to purchase an existing business on more reasonable terms than they would have paid a year ago. Other advantages for buying an existing business include:
 - Established businesses are “ready for business” on day one
 - Business assets and equipment may already be in place.
 - Established client base. People are already aware that the business exists.
 - Lenders will more likely provide financing to existing businesses.
 - Trained experienced employees and staff are in place.
2. **Exchange salary for equity position in business.** Most existing businesses are hungry to hire experienced, driven and innovative employees. Cash-strapped businesses that are growing, but need new talent, may be willing to exchange an equity or stock position in the company in lieu of a traditional salary and/or benefits package. This new equity position could eventually provide an employee with an ownership opportunity in the company. Consider working part-time at a new start-up business, while maintaining your regular job, in order to learn the business and eventually make an offer to purchase the firm at a future time.
3. **Virtual office is the wave of the future.** There are many creative alternatives to the traditional office or retail space. The Internet is a great way to market, promote and distribute your products and services. Working from home, and utilizing “shared office services”, are other ways to create a virtual office space. Additionally, virtual offices may significantly reduce the cost of your start-up.
4. **Establish alternative and innovative means to obtain capital.** An under-capitalized business start-up is a losing proposition. This is especially true during the current economic times. Obtain capital by bolstering your personal savings in advance of starting your business. Friends and family financing is always an option. Friends and family may provide their money in exchange for a stock or equity position in your company. Or, start your business very slowly, and use the cash flow to build up over time, without taking on any equity or debt. The less debt you incur today, the better prepared you will be when the economy improves.
5. **Leverage outside counseling before starting your new business.** Now is the time to make an appointment with one of the SBA’s many resource partners – including SCORE and the Small Business Development Centers. We can help you develop a well-defined and comprehensive business plan, realistic financial statements, and an extensive marketing strategy. Studies have shown that entrepreneurs who put a minimum of one year of planning into their new business have a better chance of succeeding in their new ventures.

Starting a new small business can be a very exciting experience. Though the risks can be high, the rewards can be great. The SBA is here throughout the entire journey, and our goal is make the experience a good one. For more information on our programs and services, please contact the SBA’s Colorado Small Business Economic Hotline at 303-844-2607 X 401.