chapter 1

Proper Preparation and the Nascent Entrepreneur

"You hit home runs not by chance, but by preparation."

— Roger Maris, New York Yankee, set a single-season home run record in 1961

Learning Objectives

Understand how entrepreneurial finance is different from traditional business finance.

Know the two major causes of business failure that are, in many cases, avoidable.

Understand what preparation a nascent entrepreneur can undertake before starting a new business that will increase his chances of entrepreneurial success.

Know how a business plan is different from a feasibility analysis and why an entrepreneur should always do a feasibility analysis before starting a business.

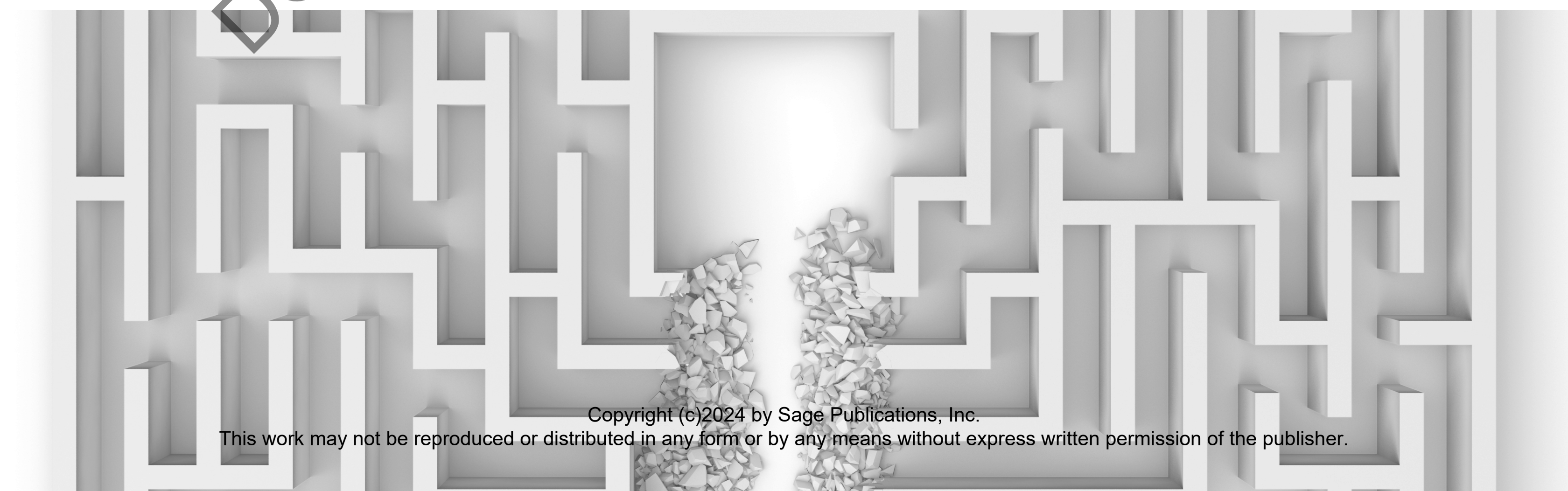
Have an appreciation for how an entrepreneur can financially sustain himself during the start-up phase of his business.

Understand why it is a problem for an entrepreneur—or one or more of his business partners—to have a low credit score and what an individual can do to improve a bad credit score.

Understand why it is wise for an entrepreneur to separate himself from his business and what specifically an entrepreneur can do to separate himself from his business.

Know the top legal and financial mistakes entrepreneurs make.

Have an appreciation for the circular nature of entrepreneurship.



Introduction

The personal finances of the nascent entrepreneur and the finances of the start-up venture he creates are inextricably linked. This is true for the following reasons:

- Most new ventures benefit from a significant financial investment from their founders.
- Many founders personally guarantee the debt or contracts of their young start-ups.
- Most new ventures are founded as pass-through entities. A **pass-through entity** is a business whose profits are not taxed at the company level but instead pass through to the business owners' individual tax returns, where they are taxed.

Beyond the fact that one discipline focuses on starting a new business and the other focuses on managing an existing business, it is the depth of the relationship between the entrepreneur's personal finances and the finances of the entity he creates that makes entrepreneurial finance fundamentally different from traditional business finance. **Entrepreneurial finance** is the study of resource acquisition, allocation, and management; financial planning and management; asset and business valuation; cash harvest strategy and contingency planning in the context of a new business venture and the entrepreneur's personal financial goals. In other words, the topic of entrepreneurial finance recognizes that, oftentimes, entrepreneurs make decisions for the businesses they've founded with their personal financial goals—and other personal goals—clearly in mind. Arguably, the relationship between a start-up venture and its founders is most pronounced when the venture is only a concept being contemplated, researched, and considered. Rare is the entrepreneur who doesn't consider his personal financial and professional future when deciding whether or not to actually start a new venture.

The rate of new business failure is notoriously high in all industries. It's interesting to note, however, that the percentage of new businesses that survive the first five years does, in fact, vary by industry. Five-year business survival rates by industry sector, from highest to lowest, are illustrated in figure 1.1.

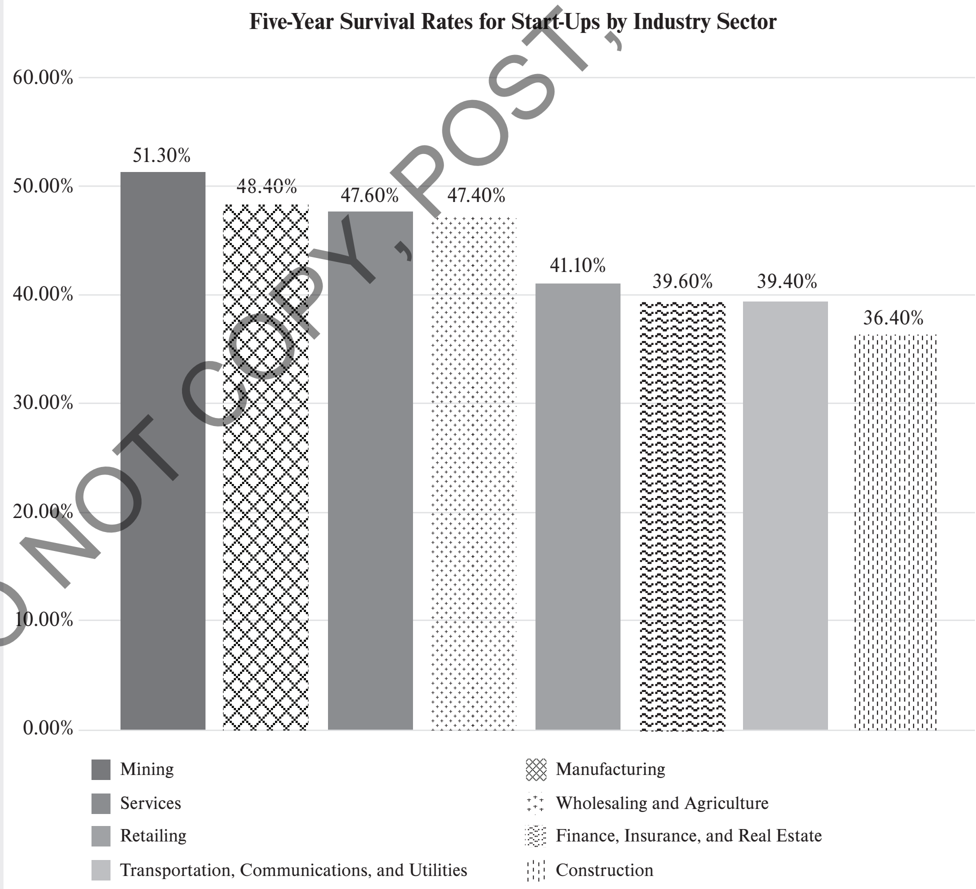


Figure 1.1. Five-year survival rates for start-ups by industry sector. Adapted from: "Are Startup Failure Rates as Bad as They Used to Be?" by Paul Chaney, Small Business Trends, August 7, 2016.

Having noted both the unique relationship between a founder and his start-up, and the high failure rate associated with new ventures, what should a nascent entrepreneur consider when deciding whether or not to pursue starting a company? What can an individual do to increase his chances of entrepreneurial success?

The answers to these questions will, of course, vary dependent upon the nature of the individual entrepreneur and the business concept under consideration, but there are two major causes of business failure that, with some effort on the part of the entrepreneur, are, in many cases, avoidable: poor timing and lack of proper preparation. Whether because of poor timing, lack of proper preparation, or another factor, the mistakes that most severely damage a business tend to be either legal or financial. With the goal of improving the entrepreneur's chances for new venture success, chapter 1 will discuss the optimal timing of the start of an entrepreneurial venture, the preparation an entrepreneur should undertake before starting a new venture, and the top legal and financial mistakes an entrepreneur should avoid making.

Timing

In a March 2015 TED talk, Bill Gross, founder of Idealab, said that after gathering and studying data from hundreds of companies, he had found one factor that seems to affect a start-up company's prospects for success more than any other: timing.[1] Often the timing of the start of an entrepreneurial venture is driven by trends in the market the concept will serve. Other times it is driven by the innovation associated with the concept itself or innovation in the environment in which the concept will exist or function. Still other times it is driven by the entrepreneur himself. It is important to note that, no matter what the reasoning behind it, poor timing is the enemy of the entrepreneur.

Suppose that market research indicates that a certain product or service is currently trending favorably with a market. For example, for the last decade, many individual securities investors have been increasingly favoring investing in exchange traded funds. An **exchange traded fund (ETF)** is a fund that invests in a basket of assets, such as stocks or bonds, and trades on a regulated exchange like the New York Stock Exchange (NYSE). ETFs offer investors an easy way to diversify their investment holdings compared to incurring the expense associated with buying small quantities of a large number of different individual stocks. A long-term upward trend in the popularity of a product—like that exhibited by ETFs—suggests that the time to introduce a new product conforming to the popular trend would be sooner rather than later. As such, the optimal time to introduce a new ETF to the market would likely be sometime in the very near future. This is true because most trends do eventually end, and if an interested entrepreneur waits too long to introduce his product to the market, he may miss the proverbial boat and instead end up boarding a sinking ship of his own making.

Suppose that instead of hopping on a trend, a concept is such that a first-to-market opportunity is available. A first-to-market opportunity generally suggests that the time to introduce a new product to the market is now. This is true because, while certainly no guarantee of success, conventional and anecdotal wisdom indicate that those who reach the market first with a truly innovative new product or service tend to be more profitable and better able to hold onto market share in the long run compared to later (copycat) entrants to the market. Examples like Amazon (which created the first online bookstore) and eBay (which created the first major online auction site) certainly illustrate the attractiveness of a first-to-market opportunity. In certain instances, a first-to-market opportunity can be enticing enough to compel an entrepreneur to start a new venture at a time that is actually personally inconvenient for the entrepreneur. There is nothing really wrong with this as long as the entrepreneur is otherwise well prepared.

pass-through entity
a business whose profits are not taxed at the company level, but instead pass through to the business owners' individual tax returns, where they are taxed

entrepreneurial finance
the study of resource acquisition, allocation, and management; financial planning and management; asset and business valuation; cash harvest strategy; and contingency planning in the context of a new business venture and the entrepreneur's personal financial goals

exchange traded fund (ETF)
a fund that invests in a basket of assets, such as stocks or bonds, and trades on a regulated exchange like the New York Stock Exchange, as many individual stocks do

Generally, the timing is right to start a business when both the customer—and the environment surrounding both the business concept and the customer—are ready for what the entrepreneur has to offer. If either the customer or the environment isn't ready, no matter how well the entrepreneur executes, the likelihood of entrepreneurial failure is high.

Preparation

There is a lot to be said for the entrepreneur being properly prepared before starting a new venture. We've all heard the saying "Success is 90 percent preparation and 10 percent perspiration." Louis Pasteur noted that "Chance favors only the prepared mind." Abraham Lincoln said, "I will prepare and someday my chance will come." Quotes like these have staying power in our culture because they have proven over time to be fundamentally true. Appropriate preparation before you start a new venture, perhaps before you even have an idea for a new venture, will serve you well as an entrepreneur.

So, what should you do? How do you prepare?

Before starting a business, in order to increase his chances for entrepreneurial success, the aspiring entrepreneur should do the following:

- Work in and learn about the industry in which he intends to start the business.
- Establish a large network both within and outside of the industry in which he intends to start the business.
- Complete a full feasibility analysis on the concept under consideration and, if deemed appropriate, also complete a business plan on the concept.
- Personally financially prepare for the pre-revenue and pre-profit phases of the business.
- Learn the basics regarding how an entrepreneur should separate himself from his business.

Feasibility Analysis

business plan
a comprehensive document that focuses on how to build a company, prepared by—and for the benefit of—the entrepreneurs involved, but written with an outside audience of potential investors, lenders, strategic partners or, major talent targets in mind

feasibility analysis
a document that concentrates on assessing the likelihood of economic success of a business, primarily for the benefit of the entrepreneurs contemplating starting that business

The rate of new business failure would likely be significantly lower if every entrepreneur took the time to do a feasibility analysis that includes a breakeven analysis (breakeven analysis will be explained and illustrated in detail in chapter 5). Many successful businesses have been started without a **business plan**—a comprehensive document that focuses on how to build a company, prepared by—and for the benefit of—the entrepreneurs involved, but written with an outside audience of potential investors, lenders, strategic partners, or major talent targets in mind—but no new business should be started without the founding team first completing a full feasibility analysis.

A **feasibility analysis** is a more narrowly focused document than a business plan as it concentrates on assessing the likelihood of economic success of a business, primarily for the benefit of the entrepreneurs contemplating starting that business. A feasibility analysis is performed to answer the following four questions:

1. Are there enough interested customers that a business based on the concept under consideration can actually turn a profit?
2. Is now a good time to introduce this product or service to the market? In other words, has the optimal time to introduce the concept already passed, or has it possibly not yet arrived?
3. Will a business based on the concept under consideration make enough of a profit to actually be worth undertaking considering both the financial and non-financial up-front investment required?

4. Can a cross-functional founding team be quickly and efficiently assembled in order to successfully get the product or service under consideration to market in a timely fashion?

A typical feasibility analysis includes the following major components:

- an executive summary, including the feasibility (i.e., "go" or "no go") decision
- a description of the business concept underlying the proposed business, which should include the following:
  - a detailed description of the proposed product or service
  - a description of the value the product or service will bring to its likely customers
  - a description of the product's or service's likely customers
  - a description of the distribution channels that will most likely be utilized to get the product or service to its customers
- a market (customer) analysis that includes a description of the product's or service's first target customers
- an industry (competitor) analysis that clearly illustrates the product's or service's competitive advantage
- a development plan that describes how the final version of the desired product or service will be realized over time
- a description of the existing or needed management team
- a financial plan that includes the following information:
  - a detailed accounting of the amount of start-up capital required by the business and how and when that start-up capital will be used
  - expected product pricing
  - expected customer demand
  - expected short- and long-term profitability
  - expected working capital needs (**working capital** is the capital required to sustain operations and support business growth after a company's start-up phase)
  - existing and potential sources of capital for the business
  - the expected return on investment
  - a breakeven analysis that supports the proposed business's economic viability

  The financial plan is the element of the feasibility analysis that we'll focus on in this textbook. All of the above components of a financial plan will be fully explained and illustrated in chapters 2–8.
- the expected timeline to launch, including objective milestones whose achievement will clearly indicate progress (or lack thereof)

working capital
the capital required to sustain operations and support business growth after a company's start-up phase

The Business Plan

While a feasibility analysis primarily proves or disproves a new concept's viability in the marketplace (i.e., if enough people will buy the product or service to make a business based on the concept viable), a business plan is more comprehensive and discusses all the operational and financial aspects of a new business. In other words, a business plan focuses on how to build a company.

The major components of a business plan include all the components of a feasibility analysis, less the "go" or "no go" feasibility decision, with the breadth and depth of each section of the feasibility analysis being fleshed out and expanded by significant additional research. Specifically, a business plan should include the following modified or additional elements:

business model
how a business concept will make a company—and ultimately the entrepreneur—money

- the business concept, fleshed out in order to illustrate a comprehensive **business model** (a company's business model indicates how a business concept will make a company—and ultimately the entrepreneur—money)

- the expected operational and organizational structures of the business
- a marketing plan (emphasizing the plan for initial market entry)
- a growth plan
- pro forma financial statements for the first three to five years of the business (**pro forma financial statements** are financial statements that attempt to estimate the future financial situation of a company based upon certain identified assumptions)
- a cash harvest strategy, including contingency plans

pro forma financial statements financial statements that attempt to estimate the future financial situation of a company based upon certain identified assumptions

Pro forma financial statements and cash harvest are elements of a business plan we will focus on later in this textbook. The business model element of a business plan we will take a moment to discuss here.

A business model broadens and extends a business concept by answering the question: How will the company make a profit from the products and services suggested by the business concept? Specifically,

- How will value be created for all of the stakeholders associated with the business?
  - Will customers benefit from the competitive advantage offered by the business and its products and services?
  - Will jobs be created?
  - Will enough cash be generated to allow for payouts of cash to the company's owners?
  - Will lenders and creditors be repaid on a timely basis?
  - Will the company create shared value that benefits both itself and society—or will the company be purely profit-driven?

  The entrepreneur should note that unsatisfied stakeholders usually don't stick around.
- How will competitive advantage be achieved? Significant sales revenue is rarely generated by a company without a clear competitive advantage.
- What are the nature, size, and relative importance of the revenue streams the business model can produce? The entrepreneur needs to identify a clear path for how the business will turn its investment in the products and services it will purchase, build, or develop back into cash to be received by the company in the form of revenue. Multiple revenue streams are preferable to one revenue stream.
- What costs most affect the business's ability to operate on both a short-term and long-term basis? Identifying a business's major costs early on—and understanding when and how those costs will be incurred—helps the entrepreneur plan appropriately regarding how to pay for and minimize such costs.
- Can the efficacy of the business model be sustained over time? In other words, will the planned business model sustain the company long term? If not, is the business model flexible enough to be adapted over time as necessary?

Two examples of business models with which many entrepreneurs are currently finding success are the subscription-based business model and the marketplace business model. Time is a finite resource for every individual and, because of real or perceived time poverty, consumers worldwide are increasingly embracing hassle-free shopping experiences. Evidence of this can be seen in the exponential growth in the number of businesses offering subscription-based products or services. For consumers, the value of the subscription-based business model lies in being able to easily set up the recurring delivery of a product or service, knowing the cost of that product or service will not change without warning and knowing the desired product or service will arrive as scheduled, without the time and trouble of reordering. For start-up businesses, the value of the subscription-based business model lies in the ability of a business to start small and grow in a controlled fashion. For more mature businesses, the value of the subscription-based business model lies in the business being able to fairly accurately predict future revenues due to the subscription-based business model's naturally occurring high rate of repeat sales. Ipsy, Blue Apron, and Dollar Shave Club are examples of some of the top subscription-based product businesses.[2] Netflix and Spotify are examples of some of the top subscription-based service businesses.[3]

A business operating under the marketplace business model is primarily engaged in bringing consumers and the businesses that serve them together in a more convenient fashion than was previously available. A marketplace business facilitates transactions between others, making money by either charging a small fee or taking a small portion of the revenue related to each transaction. Uber has successfully created a marketplace where strangers rent rides from strangers. Airbnb has successfully created a marketplace where strangers rent accommodations from strangers. Amazon has successfully created a marketplace where strangers buy products from strangers. The challenge of the marketplace business model for a start-up business is the need to quickly establish trust and achieve a broad user base. However, once they are established, as long as trust and the broad user base are adequately maintained, a marketplace business generally continues to be successful.

Personal Financial Preparation

Before starting a business, entrepreneur, you should carefully consider three entrepreneurial realities:

1. Most new businesses require a substantial time commitment from the entrepreneur.
2. Most new businesses require a significant financial investment by the entrepreneur.
3. Many start-ups earn no revenue during their first year of operations, and more than half aren't profitable in their first year.[4]

Considering these realities, it's likely you'll increase your chances for entrepreneurial success if you're in a stable life situation—that is, if you're not making major personal life changes during your new venture's start-up period. Your new venture will likely require every spare moment you have to give it. And your new venture will also likely induce certain mental and physical stresses. A wise entrepreneur doesn't voluntarily lump the stresses associated with starting a business on top of personal stresses. A wise entrepreneur adjusts his life and frees up adequate time to pursue a new venture before starting that new venture.

Further, it's likely you'll increase your chances for entrepreneurial success if you're not worried about how you're going to pay your personal bills during your new venture's start-up phase. No potential investor in your company wants to hear that you need money to pay your personal bills or that you need a salary. Saying either of these things sounds unprofessional, and you'll appear to potential investors as having not adequately planned for the start-up phase of your new business.

Generally, you can sustain yourself personally during the start-up phase of your business utilizing one or more of the following resources:

- funds you already have
- income you earn on an ongoing basis from a job or another existing business you may own
- strategic expense minimization
- funds you borrow

Some entrepreneurs have a cache of money they can dip into to survive during the start-up phase of their business. This is usually money they've saved or, perhaps, money they've inherited. Other entrepreneurs, in order to survive, work a job or operate another existing business at the same time they're starting a new business. Still others engage in strategic expense minimization or live off credit cards and other forms of debt until their new business becomes profitable enough that they can start withdrawing cash from the business.

strategic expense minimization a process in which many entrepreneurs engage before starting a business with the goal of minimizing expected future outlays of cash

Strategic expense minimization is a process in which many entrepreneurs engage before starting a business with the goal of minimizing expected future outlays of cash. Strategic expense minimization involves making your dollars serve you twice—once for business purposes and once for personal purposes—by investing in assets you can share with your business. Examples include turning the top floor of a building rented by your business into your personal residence, using a business vehicle for personal use instead of having a personal vehicle, and using a business smartphone during off hours as your personal smartphone instead of having a separate personal smartphone.

Strategic expense minimization involves:

- reviewing all of your personal expenses
- determining which are the largest—and thus the most attractive to minimize or eliminate
- determining which expenses can, in fact, be minimized or eliminated—and how
- actually executing the process of minimizing or eliminating the identified expenses

Strategic expense minimization involves truly embracing the entrepreneurial lifestyle at the beginning of a new venture. Strategic expense minimization also often simply makes good financial sense.

Imagine you're an entrepreneur who wants to quit your boring (but well-paying) day job and open a wine bar. How best could you do that?

First, you'd likely consider keeping your day job until the wine bar reaches the minimum level of profitability needed for you to pay your personal bills. Note that your personal bills will likely be significantly lower than your pre–wine bar days if you've engaged in some level of strategic expense minimization.

For example, is it really the best course of action to continue paying the mortgage on your house or the rent on your apartment during the start-up phase of this business? Might it make more sense, for many reasons, to live on the currently unoccupied second floor of the building your business is renting—the building in which you're about to open and operate your wine bar? (I'm guessing your own business would charge you reasonable rent.) And isn't it wise to be physically close to your business when it's in its infancy anyway? And if you have to share a vehicle and a smartphone in order to keep expenses low, wouldn't you prefer to share it with your own business?

As long as you keep diligent records of personal versus business use (as a start, reference Internal Revenue Service tax topic 305—recordkeeping), sharing a car or a smartphone with your business isn't a problem at all.[5, 6, 7] Remember, sharing assets with your business can significantly increase the speed with which you're able to successfully get your new business past the start-up phase and into a state of profitability so that you can quit that day job.

Next, let's consider the issue of taking on debt. For some budding entrepreneurs, taking on personal debt is the only way they can get through the start-up phase of their business.

If You Must Rely on Debt

Debt is a useful tool that has historically helped many individuals and businesses achieve goals they otherwise couldn't. But debt is something that should always be thoughtfully considered before it is incurred. Before borrowing to support an entrepreneurial start-up, an entrepreneur should always consider if there are ways to achieve the desired goal without taking on debt. This is important because taking on debt is essentially spending money you haven't yet earned.

Some individuals have no viable alternative to taking on some debt in order to pursue their entrepreneurial goals. If you must take on debt in order to pursue your entrepreneurial goals, be sure to do the following:

- Set a debt limit for yourself such that you can pay back the debt without major hardship should the business fail.
- Develop a budget detailing exactly for what (and only for what) the borrowed dollars will be used.

If you're going rely upon debt, you're obviously going to need to find someone willing to loan you money. Depending on the lender, credit scores can often play an important role in your ability to borrow money.

Your Credit Score

If you're an entrepreneur seeking to borrow money, the personal credit histories of you and your business partners—if, in fact, you have business partners—are going to come under review. One of the first things any lender will look at is your credit score. Your **credit score** is a three-digit number, typically between 300 and 850, which is calculated from your credit report in order to gauge your reliability as a borrower. Your **credit report** is a detailed report of your credit history prepared by a credit bureau.

credit score
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credit report
a detailed report of your credit history prepared by a credit bureau

Lenders and other creditors use your credit score to predict whether you'll pay back your debts on time. Your credit score also helps determine whether you're generally a good risk for a lender (i.e., lenders use it to help determine the interest rate you will pay). Generally, the higher your credit score, the more likely it is you'll be able to get a loan when you need it—and at a reasonable interest rate.

In 1981, the Fair Isaac Corporation (FICO) created a branded version of your credit score called the FICO Score.[8] According to FICO, the FICO Score is the credit score most widely used by U.S. lenders to make loan approval decisions.[9] To compute credit scores, FICO uses information provided by the three major credit reporting agencies—Equifax, Experian, and TransUnion—but FICO itself is not a credit reporting agency. Each of the three major credit reporting agencies also computes a FICO credit score for you based on the FICO formula and the information that has been reported to them about you. This means you may have as many as four different FICO Scores, one computed by each credit reporting agency and one calculated by FICO itself.

It's interesting to note that the credit reporting agencies don't seek out information from creditors or lenders. They build your credit report based solely on the information voluntarily reported to them by creditors. Figure 1.2 (on page 10) shows the factors that determine the average person's credit score.

The percentages in figure 1.2 are based on the relative importance of the five categories for the general population. For individuals falling outside the general population demographic, the relative importance of these categories will be different.

Negative information adversely affects your credit score (i.e., lowers your score). Negative information includes bankruptcy, collection actions, foreclosures, and late

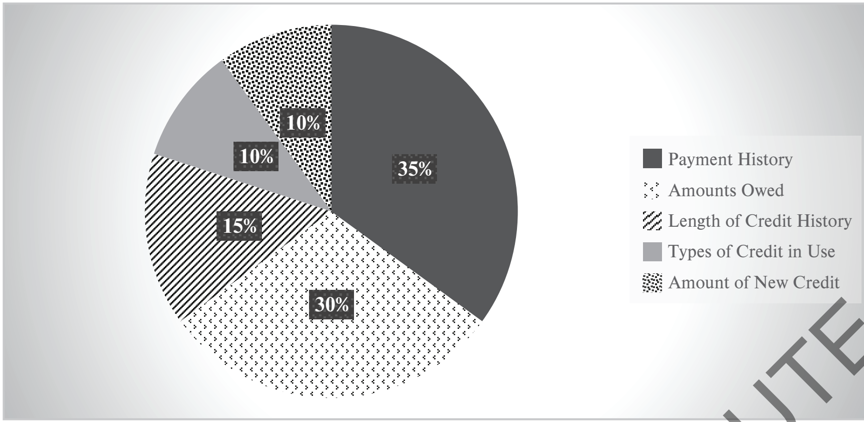

Figure 1.2. The basis for your credit score. Adapted from: Fair Isaac Corporation, "What's in my FICO scores?" 2018.

payments. Fortunately, negative information stays on your credit report for only a certain period of time—usually seven years—so positive behavior such as not taking on too much debt, not opening too many credit card accounts at one time, making on-time debt payments, and overall responsible credit use will improve your credit score over time.

A low credit score generally increases your difficulty of obtaining a loan. It also increases the interest rate you'll be charged on any debt you do obtain. If you plan to take on business partners, you should endeavor to select partners who have good credit. If you currently have bad credit and want to someday start your own business, you should immediately start working to improve your credit score by cleaning up your credit report.

Your Credit Report

It's important to check your credit report regularly. The following factors related to your credit report could negatively affect your credit score:

- The report could include inaccurate information.
- Some of your credit accounts could be missing from the report.
- Information that doesn't belong to you could be included on the report.

If you find inaccurate information, you should immediately file a dispute with the applicable credit reporting agency.

Another important reason to monitor your credit report is the very real threat of identity theft. Identity thieves who have access to too many pieces of your personal information (e.g., your social security number, date of birth, and home address) can take out loans in your name. They can also create other financial disasters you may be completely unaware of—until the Internal Revenue Service or a collection agency comes looking for you.

The Fair Credit Reporting Act requires Equifax, Experian, and TransUnion to provide you with a free copy of your credit report, at your request, once every 12 months. The most efficient way to access these credit reports is by using annualcreditreport.com. Many people make a practice of requesting one free credit report every four months and rotating these requests between the three major credit reporting agencies in order to keep a continuing eye on their credit report. You can also usually get your credit score when checking your credit report for a small fee, typically less than $10. If you want to have more regular access to your credit report and score, and also have a credit reporting agency monitor your credit report, you might want to consider investing in a credit monitoring service offered by one of the three major credit reporting agencies.

The Secured Credit Card

In many instances, the easiest way to build credit (if you don't have any) is to obtain a credit card, use it regularly, and make the required payments on time. So how do you obtain a credit card when you have no credit history? One solution is to get a secured credit card. A **secured credit card** is a real credit card—not a prepaid credit card or debit card—whose application involves opening a certificate of deposit, the amount of which will be the card's credit limit. A **certificate of deposit** (CD) is a promissory note whereby a bank promises to return to the depositor the principal amount deposited with the bank, plus interest, after a stipulated period of time. Certificates of deposit can have terms of less than one year to up to five years or more and usually have a minimum initial deposit of $500.

Your CD is a security deposit for the credit card. You earn interest on your CD, so your deposit will grow over time. The money in the CD account is yours and will remain yours as long as you don't default on your credit card payments. Ideally, at some point before you are ready to start your business, you will be able to trade in your secured credit card for a traditional credit card, thereby regaining access to the funds in the CD account you created when establishing the secured credit card.

secured credit card
a credit card whose application involves opening a certificate of deposit, the amount of which will be the card's credit limit

certificate of deposit
a promissory note whereby a bank promises to return to the depositor the principal amount deposited with the bank, plus interest, after a stipulated period of time

Separation of the Entrepreneur from the Business

Assuming you've successfully completed the many steps suggested thus far in this chapter in order to properly prepare before starting a business, there are some items of general business knowledge you should next learn before starting a business. All involve proper separation of the entrepreneur from his business.

We'll cover legal form of business in chapter 3, but it's good to know in advance of starting a company that an entrepreneur should strive to avoid being the owner of a **sole proprietorship**—a business owned and operated by an individual for profit—or a general partner in a **partnership**—an association of two or more persons who conduct business as co-owners for profit. It's often difficult to legally distinguish the owner of a sole proprietorship or a general partner in a partnership from his business. If it's difficult to distinguish the entrepreneur, as an individual, from his business, this puts both the entrepreneur and the business at risk. In most instances, forming a **corporation**—a legal entity authorized by state law to act as an artificial person in order to conduct business or engage in certain other activities—or a **limited liability company (LLC)**—a hybrid legal business entity authorized by state law featuring some of the characteristics of both partnerships and corporations—will serve the entrepreneur better than operating as sole proprietor or general partner because forming a corporation or an LLC allows the entrepreneur to more clearly separate himself from his business.

Clear separation of the entrepreneur from the business increases the likelihood that a business's financial issues won't become the entrepreneur's personal financial issues. Similarly, clear separation of the entrepreneur from the business increases the likelihood that an entrepreneur's personal financial issues—or the personal financial issues of one or more of the entrepreneur's partners—won't become the business's financial issues. In other words, the financial issues of one party do not necessarily have to become the financial issues of the other party if the entrepreneur properly separates himself from his business.

sole proprietorship
a business owned and operated by an individual for profit

partnership
an association of two or more persons who conduct business as co-owners for profit

corporation
a legal entity authorized by state law to act as an artificial person in order to conduct business or engage in certain other activities

limited liability company (LLC)
a hybrid legal business entity authorized by state law featuring some of the characteristics of both partnerships and corporations

Beyond the choice of legal form of business, an entrepreneur should do the following, as applicable, in order to clearly separate himself from his business:

- Pay the business rent or some reasonable remuneration for any significant business assets the entrepreneur uses for personal purposes (e.g., living on an unused floor of a building rented by the business, as in our earlier wine bar example).
- Make sure the use of any business vehicle is more than 50 percent business use as documented in a daily mileage log that describes the purpose of every mile driven.
- Keep separate bank and debt accounts for personal versus business use.
- Execute a formal operating agreement between the entrepreneur, the partners (if applicable), and the company.
- Always sign business documents as a representative of the company rather than personally.
- Never personally guarantee loans, contracts, or other activities of the business.

If you can't completely separate yourself from the business right at the very beginning of the business, at least be sure to keep meticulous records that clearly indicate business versus personal transactions. You'll need to do this eventually for accounting and tax purposes anyway. It's not an elegant solution, but if the best you can do at the very beginning of your company's operations is make sure all of the documentation related to the business ends up in one clearly designated box or drawer, you'll thank yourself later.

How to Properly Sign a Business Document

At the very earliest stages of any business you start, the need to separate yourself from your business will likely show up immediately with regard to one very important area: your signature. In order to properly separate yourself from your business, when you sign any document related to the business you have formed, you are no longer "Jane Doe." You are "Jane Doe, President, American XL, LLC" or "Jane Doe, Founder, American XL, LLC."

The distinction is important. Signing your name including your company title and your company's name clearly distinguishes you as signing as a representative of the company as opposed to you signing personally. The difference can be critical if problems arise—and, in business, problems often arise.

The Personal Guarantee

personal guarantee
when a third party guarantees the financial obligations of another person or a business

Before you even start your business, you can fall into the trap of failing to separate yourself from the business. A **personal guarantee** occurs when a third party guarantees the financial obligations of another person or a business. Such guarantees can be specific to one obligation or contract, or they can be general in nature. Regarding a personal guarantee, the following are some important items to consider:

- Will you be asked to personally guarantee certain aspects of your business?

  Probably, yes.
- Should you provide personal guarantees related to your business?

  No, not if you can avoid it. Why would you tie your personal financial future to a potentially negative financial situation associated with your business if you can avoid doing so?

- Do you have to provide personal guarantees to get what you want?

  No, not necessarily. Sometimes, you can offer other acceptable assurances in lieu of a personal guarantee. Acceptable alternatives to personal guarantees include providing security deposits, funds to be held in escrow, partial payments, and business assets for use as collateral. If someone requests a personal guarantee, ask them why they're requesting it. There are often many ways a vendor's or creditor's concerns can be addressed without resorting to a personal guarantee.
- Can personal guarantees have amount, time, or other limitations?

  Yes, absolutely. If you find yourself in a situation where you absolutely cannot avoid giving a personal guarantee, then at least be sure to limit both the dollar amount and the duration of the guarantee—and also to expressly limit the circumstances or transactions to which the personal guarantee applies.

Entrepreneur in Action 1.1 highlights a situation where someone wanted a personal guarantee. The example demonstrates how asking for a solution that will allay a vendor's or creditor's concerns in lieu of granting a personal guarantee can often work out well for an entrepreneur.

charge-back
when a customer uses a credit card to buy something and then cancels the transaction

Entrepreneur *in Action* 1.1

One Entrepreneur's Response to a Request for a Personal Guarantee

Joe Snyder was at a meeting with his bank about his new company, HowtoStartaBusiness.com. Joe and his web designers had spent months putting together the website, which was designed to instruct first-time entrepreneurs about how to properly set up a new business. It was almost time to launch the website. The last item on the site that needed configuration was the method for processing customer credit card payments for the $29.95 annual fee required to access the site. For that, Joe had been told he needed the cooperation of his bank.

Joe was surprised by the amount of security protocol necessary for a website to securely process credit card payments, but he and his bank had worked their way through all of the necessary paperwork, and Joe was confident he understood what he needed to instruct his web designers to do in order to guarantee all the necessary security measures were properly set up. Joe stood up to leave the meeting when the banker he was dealing with, Martin Mann, explained that there was one more thing he and Joe needed to discuss: how to handle possible credit card charge-backs. Martin explained that a credit card **charge-back** occurs when a customer uses a credit card to buy something and then cancels the transaction. Martin further explained that if Joe's company received the funds from a credit card sale in its bank account and the customer later canceled the sales transaction, there would be a problem if there wasn't enough cash in the company's bank account for the bank to withdraw the amount of the canceled sale. Martin said this type of situation was usually taken care of by the owners of a company guaranteeing they would personally cover any charge-backs exceeding the amount of funds available in the company's bank account.

There was an awkward silence as Joe pondered what was being requested of him. His lawyer had told him to try to avoid personally guaranteeing anything associated with his business. Joe looked at Martin and said he wasn't comfortable giving a personal guarantee and explained why. Martin said he understood, but then he added, "This is how the possibility of charge-backs is usually managed." Joe asked if there wasn't possibly some other way to handle the situation. Martin thought about Joe's request for a moment, left the meeting to consult with his manager, and then returned with a suggestion: If Joe could open a personal savings account at the bank and leave $2,500 on deposit there, his manager would waive the need for the personal guarantee. Martin said that his manager had noted that, after some time had passed and the bank had some historical data regarding Joe's company's average checking account balance and the average rate of charge-backs against the account, the need for Joe to maintain the personal savings account at the bank would likely go away.

Joe asked if the $2,500 would be deemed to be some sort of collateral by the bank. Martin said that it would not. Martin said the $2,500 would instead be characterized as an expression of good faith by Joe to the bank and the personal savings account would not in any way be formally tied to Joe's business. Joe agreed to deposit the $2,500 and happily exited the meeting. He was glad he'd pushed back against the bank's desire for a personal guarantee. He'd much rather deposit $2,500 of his personal funds in his company's bank than have to worry about the potential consequences associated with giving a personal guarantee.

Note that if a business has no assets or no revenues and is seeking a loan from a typical bank, in lieu of or in addition to asking for a personal guarantee, the bank may ask the entrepreneurs involved to pledge specific personal assets as collateral for the loan. As a practical matter, this practice also compromises the goal of keeping the entrepreneur separate from his business and should, therefore, be avoided if at all possible.

The Top 10 Legal and Financial Mistakes Entrepreneurs Make

Not surprisingly, entrepreneurs can err in a variety of ways. In most instances, the mistakes made by entrepreneurs that most severely damage a business are either legal or financial. Below are the top 10 legal and financial mistakes entrepreneurs make:

1. Failing to operate the business in such a way as to avoid litigation.

   As anyone who has ever spent any time in a significant legal battle knows, it's hard to think of a bigger drain of time, energy, and money than suing someone or being sued. It is therefore of paramount importance, when starting and managing a new company, that the entrepreneur make it his mission to avoid ending up in litigation.
2. Failing to keep current with regard to filing tax returns and paying taxes.

   The IRS and the other federal, state, and local entities that have jurisdiction over your business expect to be paid the amounts due to them when those amounts are due. They've heard every excuse imaginable. They aren't interested in yours.

   The IRS and other governmental entities have the power to put liens on your assets, seize your assets, cancel your licenses, suspend your permits, penalize you, fine you, and do a multitude of other unsavory things to both you and your business. The colloquialism "Don't mess with the IRS" has been around for a long time for a reason. Ultimately, the government is going to win, and you are going to lose. In order to avoid time-consuming, complicated, and expensive tax problems, a wise entrepreneur always files the required tax returns on time and always pays the taxes due on time. Period.
3. Failing to put critical agreements, terms of doing business, and other important understandings in writing.

   All your business's major agreements, especially the operating agreement, should be in writing. Even the most honest and well-intentioned human beings can genuinely forget or misremember what has been communicated only verbally. Putting the details of any important agreement into a written document to be signed by all parties concerned gives everyone a chance to reflect upon what's being agreed to and make sure all important issues are fully fleshed out and considered.

   intellectual property intangible property created from human intellect, often evidenced by copyrights, trademarks, or patents

   Often, the founders of a company will bring technology, **intellectual property** (intangible property created from human intellect, often evidenced by copyrights, trademarks, or patents), or other assets they have purchased or developed with them to the new company. After the company is formed, who owns these assets? In order to avoid future misunderstandings, the ownership of such assets, and any consideration a founder has received with regard to the contribution of such assets to the start-up, should be fully documented—ideally in an operating agreement.

   Good operating agreements are available online at reasonable prices, or for free, from websites such as ilrg.com (multi-member LLCs) and eforms.com (single-member LLCs). Note that even if a founder is a solo entrepreneur, he should still complete an operating agreement between himself and his company in order to clearly legally separate the person from the business.

Beyond operating agreements and other types of written agreements, it should go without saying that the basic terms of anyone's employment should be put in writing.

4. Allowing oneself to be hurried into signing a written agreement.

   Too often, in the rush to make a business grow, entrepreneurs sign whatever is put in front of them, especially if it comes from someone they think they can trust. Keep in mind that whoever drafted a legal document took a lot of time to prepare that document. It makes sense that you should take a lot of time to review the document and make sure it reflects what has been verbally agreed upon before you sign it.

   Could taking time to read the document completely involve an awkward silence? Yes. If you find that notion disturbing, request to take the document home for the evening for a thorough review so you can bring it back the next day and sign it after you're fully informed. Doing so could prevent you from agreeing to something that is not in your best interest. Entrepreneur in Action 1.2 (on page 16) presents a situation with an awkward silence. The vignette also shows the benefits of enduring that silence to thoroughly read an important document before signing it.

5. Not planning for disagreements between founders and changes in founders' circumstances.

   According to an article on the Bloomberg website, approximately 50 percent of all marriages end in divorce.[10] The "divorce rate" among entrepreneurial business partners is probably much higher. You should anticipate that you and your cofounders will have disputes and, as such, have an agreed-upon procedure for resolving such disputes. You should also have an agreed-upon mechanism so a partner can exit the business, if necessary.

   Business partners get sick. They become disabled. They die. Sometimes, they simply lose interest in participating in a business. How circumstances like these and others will be managed should be outlined in a formal operating agreement.

6. Not putting clear payment terms in place for customers.

   This is a common mistake for new entrepreneurs. So excited to make those first few sales, the entrepreneur doesn't clearly indicate to the customer when he expects to be paid for what he just sold. It's hard to force payment when a deadline for payment has not been established. Many are the entrepreneurs who never got paid for their first sale because they neglected to establish firm payment terms, including a deadline for payment and specified consequences for late payment.

7. Not adequately identifying, avoiding, reducing, or insuring against the risks that can destroy a business.

   A wise entrepreneur is always trying to reduce risk. **Risk management** involves an individual planning for both his business's assets and his personal assets in such a manner as to reduce uncertainty and risk. Common approaches to risk management include:

   - risk avoidance
   - risk reduction
   - risk transfer
   - risk assumption

   Risk avoidance is characterized by the avoidance of any hazard that exposes a business or an individual to risk. An example of risk avoidance would be instituting a "Cash Only" sales policy at one's business. A business owner does not have to worry about a check bouncing or a credit card charge-back if he

risk management
an individual planning for both his business's assets and his personal assets in such a manner as to reduce uncertainty and risk

risk avoidance
the avoidance of any hazard that exposes a business or an individual to risk

Entrepreneur *in Action* 1.2

The Crowne Building Company's First Land Purchase Contract

Susan Powell, the founder and chief operating officer of the Wyoming-based Crowne Building Company (Crowne), was about to make the company's first vacant lot purchase. Since Crowne's founding three years ago, it had specialized in building multimillion dollar luxury homes on property already owned by its customers. Business was booming, and Susan had decided it was time to take a risk on a different type of home building: spec home building. Spec home building involves building a residence without a particular buyer in mind and then selling that home on the open market. In order to enter this new area of business, Susan had to first buy a vacant lot, and she had picked out a beauty.

Susan was a little nervous about the transaction because she'd never purchased a vacant lot before. She'd also heard through the grapevine that the land developer from whom she was about to buy the property had a reputation for being dishonest. Susan dismissed such gossip, however, because she felt she was capable of determining for herself who was honest—and who was not. So far, she had a good feeling about the developer. The price negotiations for the property had gone smoothly, and all that was needed to close the deal was Susan's signature on the purchase and financing contract.

Crowne couldn't easily come up with the $250,000 needed to buy the exquisite lot, so Susan had negotiated a 20 percent down payment, with the remainder of the purchase price to be financed by the developer over five years at 4 percent interest. No principal was due to be repaid until the end of year 5, but if Crowne successfully built a house on the property and sold that house within Susan's planned two-year time frame, the developer could be repaid much more quickly than the permitted five years. Susan made sure of this eventuality by requesting that an early repayment option be included in the contract. Susan arrived at the land developer's cattle farm at four in the afternoon, as requested: first, for a tour of the farm; then, to sign the purchase and financing contract.

The tour of the cattle farm was amazing. The property was impressive, and the land developer and his wife were both gracious and friendly. Finally, it was time to retire to the farmhouse kitchen to sign the contract. Susan was treated to hot cocoa and warm cookies, both of which tasted fantastic on the cold November afternoon.

The land developer handed Susan the contract. Susan started to read it. She felt awkward forcing the developer and his wife to sit there while she read the entire contract, but Susan was always thorough in her business dealings. The land developer interrupted Susan after a few minutes and asked her if everything was okay. Susan replied that, yes, everything was fine, so far. The developer noted that the contract reflected what he and Susan had previously agreed upon verbally. Susan said she was sure that it did, but she liked to be thorough and completely read documents before she signed them. The land developer's wife noted that it was almost time for her and her husband to go to church. Susan began to feel uncomfortable, like she was being unreasonable making the developer and his wife sit and wait as she insisted on reading every word of the lengthy contract. Still, Susan stuck to her guns and kept reading. The land developer and his wife started talking to each other about their fund-raising plans for their charitable foundation.

Then, Susan found it. Of course, it must be an accidental error, she thought. The contract said Susan's company would be paying 21 percent interest on the unpaid balance associated with the land purchase, not 4 percent. Susan read on. The early repayment option she had requested was not included in the contract. Susan looked up to see the developer staring at her. There was a challenge in his eyes. The look on his face indicated that the anomalies in the contract were not a mistake. Susan started to speak, faltered, and then said, "I have a feeling I won't be buying this property today, will I?" "Not for 4 percent financing you won't," said the developer, as he snatched the contract out of Susan's hands. As she exited the developer's property, Susan struggled to absorb the depth of his dishonesty and the severity of the financial consequences that would have befallen her young company if she hadn't taken the time to read every word of the contract the developer had prepared for her signature.

does not accept checks or credit cards. Similarly, a business owner does not have to worry about late or unpaid accounts receivable if he does not offer customers the opportunity to make purchases using credit or trade credit. (**Accounts receivable** represent the amounts customers owe a company related to their purchases from that company utilizing the credit or trade credit offered by that company. **Trade credit** is a business-to-business arrangement by which the customer business can purchase items from the supplier business on account—paying no cash at the time of purchase, but instead paying for the items at a later date.)

accounts receivable
the amounts customers owe a company related to their purchases from that company utilizing the credit or trade credit offered by that company

trade credit
a business-to-business arrangement by which the customer business can purchase items from the supplier business on account—paying no cash at the time of purchase, but instead paying for the items at a later date

Risk reduction involves engaging in behaviors and programs specifically designed to reduce risk. An example of a risk reduction behavior would be installing a sprinkler system and a security system at one's business facility.

While by no means guaranteeing that neither will happen, a sprinkler system and a security system do significantly reduce the likelihood that one's business will be destroyed by fire or burglarized.

Risk transfer involves proactively transferring risk to another party. An example of risk transfer would be selling a business's accounts receivable to a factor. A **factor** is a third party who, for a fee that is usually equivalent in amount to 1 percent to 5 percent of the total accounts receivable sold, provides the business owner with immediate cash for the accounts receivable and then goes about collecting the accounts receivable themselves.[11, 12] Another example of risk transfer would be paying for insurance policies that reimburse one for losses associated with one's personal or business assets. The key elements of insurance will be explained in chapter 12.

Risk assumption occurs when one proactively assumes risk because one believes that the loss or cost one is likely to incur by assuming that risk is less than the loss or cost associated with risk avoidance, risk reduction, or risk transfer. For example, many businesses accept checks and credit cards from their customers or offer credit or trade credit to their customers because they believe the cost of the occasional bad check, credit card charge-back, or bad account receivable is more than offset by the increased level of sales they enjoy by assuming the risk of possible customer nonpayment. As a further example, some businesses self-insure their employees' medical coverage because they believe that the amount they will pay out of pocket to settle their employees' medical bills will be less than the cost of the medical insurance premiums they would have to pay in order for an insurance company to settle those medical bills.

risk reduction
engaging in behaviors and programs specifically designed to reduce risk

risk transfer
proactively transferring risk to another party

factor
a third party who, for a fee, provides a business owner with immediate cash for accounts receivable and then goes about collecting the accounts receivable themselves

risk assumption
when one proactively assumes risk because one believes that the loss or cost one is likely to incur by assuming that risk is less than the loss or cost associated with risk avoidance, risk reduction, or risk transfer

8. Expecting too much—or too little—in return for sweat equity.

   Maybe the concept you and your founding team are pursuing was your idea. Maybe you did most of the research to complete the feasibility analysis. Perhaps you've spent long hours fabricating the working prototype for your fledgling product company. Or perhaps you've instead spent long hours working out the operating processes for your fledgling service company. You've been told by your family and friends not to start a business and you've done it anyway. You've been told by naysayers that you're going to fail and you keep going anyway. The mental and physical stresses you've endured are many. Now that you've perfected your product or service, you need funding to grow your fledgling company. It'd be great if you had the money yourself, but you don't.

   Remember that equity is dear and shouldn't be given away without careful consideration, because once you give away a portion of the ownership of your company, it's unlikely you'll ever get it back. However, remember also that those who can afford to fund your company generally have many promising start-ups from which to choose. A wise entrepreneur thinks far into the future and attempts to determine in advance what he would value highly enough that it would be worth giving up equity to obtain it.

9. Processing payroll internally.

   For those of you who aren't certified public accountants (CPAs) or accountants, you may think doing payroll sounds complicated. You're right. Outsource the payroll function. Outsourcing payroll is actually quite inexpensive and one very wise step to take to help ensure you don't walk into the mine field of trouble described in item 2 of this list.

   You may think because you're a CPA or an accountant, you should do the payroll for your own business. Think again. Of all the things you could be spending your time on, entrepreneur, this is absolutely last on the list. Your time is valuable. Outsource the payroll function.

10. Using vague or ambiguous terms in written agreements.

Vague terms create confusion. Classic examples of vague terms are the words *many*, *right*, *nice*, and *good*. Depending upon the context in which they're used, your interpretation of the meaning of these words might be entirely different from the interpretation of their meaning by your business partners or others. The whole point of a written agreement is to clarify issues and create understanding, not confusion. Be sure to replace the vague words in any written agreement with specific words that have clear meanings to everyone involved.

Ambiguous references, by definition, can have more than one meaning. Classic instances of ambiguity are often caused by the inappropriate use of pronouns. For example, consider the following statement: "Ron Smith is responsible for in-processing all deliveries and will assist Karl Jones with unpacking and stacking all such deliveries. His signature of approval will be required on all packing lists." Whose signature of approval will be required on all packing lists, Ron's or Karl's? Note that rewriting entire sentences, not just trading out a word or two, may be necessary in order to clarify ambiguous references.

The Circular Nature of Entrepreneurship

When starting a new venture, an entrepreneur must be mindful of the circular nature of entrepreneurship. In other words, when starting a new venture, an entrepreneur must be aware that the beginning needs to consider the desired ending.

A lot of what can or will happen with regard to a new venture depends very much upon the decisions made at the new venture's start. Some choices—like those regarding legal form of business—are changeable. Other choices—like some decisions regarding sources of funding—can involve long-term consequences that are not changeable. Legal form of business and sources of funding—topics covered in chapters 2 and 3 of this textbook—are not, however, the only decisions made at a new venture's start that can have a lasting impact on the new venture. Decisions regarding whether or not to pursue patents, in which state a business should legally form, which product or service should be developed first, even the naming of a business can have significant long-term effects on the viability and success of a business. The end shot is that every major decision the entrepreneur makes should clearly support the end game desired by the entrepreneur, whether that end game is selling the company, growing the company, or some other goal—topics covered in chapter 11 of this textbook.

Failure to consider the desired ending at the start of a new venture can create situations that make certain desired endings impossible to attain. A wise entrepreneur carefully considers the impact of every major decision he makes in order to safeguard the flexibility and the overall potential of the entity he starts.

Summary

Before starting a new business, an entrepreneur can increase his chances of entrepreneurial success by:

- choosing the timing of the start of the business carefully—to the extent this is possible
- aiming to be both personally and financially well prepared by:
  - working in and learning about the industry in which he intends to start the business
  - establishing a large network both within and outside of the industry in which he intends to start the business
  - completing a full feasibility analysis on the concept under consideration and, if deemed appropriate, also completing a business plan on the concept

  - personally financially preparing for the pre-revenue and pre-profit phases of the business
  - learning the basics regarding how an entrepreneur should separate himself from his business
- resolving to avoid making the most common entrepreneurial legal and financial mistakes

In addition, when starting a new venture, an entrepreneur must be mindful of the circular nature of entrepreneurship. In other words, an entrepreneur must be aware that a lot of what can or will happen with regard to a new venture depends very much upon the decisions made at the new venture's start. A wise entrepreneur carefully considers the impact of every major decision he makes in order to safeguard the potential and flexibility of the entity he starts.

Key Terms

accounts receivable
business model
business plan
certificate of deposit
charge-back
corporation
credit report
credit score
entrepreneurial finance
exchange traded fund (ETF)
factor
feasibility analysis
intellectual property
limited liability company (LLC)
partnership
pass-through entity
personal guarantee
pro forma financial statements
risk assumption
risk avoidance
risk management
risk reduction
risk transfer
secured credit card
sole proprietorship
strategic expense minimization
trade credit
working capital

Review and Discussion Questions

1. How is entrepreneurial finance different from traditional business finance?
2. What should a nascent entrepreneur do to prepare for starting a new business?
3. What is a business plan and how is it different from a feasibility analysis? Why should an entrepreneur always do a feasibility analysis before starting a business?
4. How can an entrepreneur financially sustain himself during the start-up phase of a new business?
5. Why is it a problem for an entrepreneur—or one or more of his business partners—to have a low credit score? What can an individual do to improve a bad credit score?
6. What can an entrepreneur do to separate himself from his business? Why is it wise for an entrepreneur to separate himself from his business?

Exercises

1. Appropriate preparation before you start a new venture, perhaps before you even have an idea for a new venture, will serve you well as an entrepreneur. Write a two- to three-page paper detailing the following about your favorite entrepreneur: (1) the person's company and the significant products or services it offers, (2) the inspiration for the entrepreneur starting the company (i.e., the problem he wanted to solve), (3) the preparation performed and education completed by the entrepreneur prior to starting the company, (4) the major reasons for the entrepreneur's success, and (5) anything you feel is important about the entrepreneur and his or her company.

2. Before starting a business, an entrepreneur should have established a large network both within and outside of the industry in which he intends to start the business. One of the best ways for an entrepreneur to make, keep in contact with, and keep track of business connections is via LinkedIn (linkedin.com). Review the LinkedIn profiles of a famous entrepreneur, an entrepreneur based in your hometown, and the head of a major corporation. Write two to three paragraphs comparing and contrasting the profiles. Indicate whose profile is the best, in your opinion, and explain why.
3. It is important to check your credit report regularly because (1) the report could include inaccurate information, (2) some of your credit accounts could be missing from the report, and (3) information that doesn't belong to you could be included on your report. Go to annualcreditreport.com and request a free copy of your credit report. Is all of the information in the report correct? Is any important information missing? Is there any information that surprised you? Without disclosing any personal details, write two to three paragraphs describing the process of obtaining the free credit report and any surprises, inaccuracies, or items of interest you may have discovered along the way.
4. One of the top legal and financial mistakes entrepreneurs make is failing to keep current with regard to filing tax returns and paying taxes. That said, how do you keep current with regard to tax law, entrepreneurial finance, and related topics? One great way is to read a magazine that regularly addresses these topics. Search "finance" at entrepreneur.com or inc.com. Read a finance article of your choice. Write two to three paragraphs describing the concepts included in the article and especially highlighting anything you learned as a result of reading the article. Be sure to include the title, date, and web address of the article you read.
5. All your business's major agreements—especially the operating agreement—should be in writing. Read the member-managed operating agreement for your state at ilrg.com. You can read the agreement without paying for it or downloading it. Next, write two to three paragraphs detailing what items included in the agreement are items you likely wouldn't have addressed with potential business partners without such a document prompting you to do so. What items, if any, do you think should be added to the agreement?

Endnotes

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