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THE REGISTER CITIZEN

MARKET MATTERS:

Additional print version headline:

Financial challenges of entrepreneurship

By Joseph Matthews

There was a time, not so long ago, when many parents taught their children that a primary goal in life was to find a good job in a good company, and, once hired, hang onto that job for the rest of their lives. These days, far more parents are suggesting that their children become entrepreneurs and create those jobs for other people rather than working for someone else.

A recent survey for *Junior Achievement* revealed that 88 percent of parents would support their teen-aged children's interest in entrepreneurship, while only 16 percent of teens said they had "no fears" about starting a business. The majority of respondents said their biggest concern about becoming entrepreneurs was risk compared to reward.

According to the same poll, there has been an overall decline in start-ups since the 2008 recession. Maybe it's an era of caution; youngsters have grown up in the shadow of the financial crisis, so perhaps their hesitancy to take risks is a result of the Great Recession.

Admittedly, when an individual embarks on the path of entrepreneurship, he or she faces an uncertain future. The big question is lack of job security. Will the venture fail or be successful? If the venture is a success, how long will it succeed? Sometimes new products or services experience a blip of success, but it may be short-lived. An entrepreneur does not have the security of knowing that a paycheck will arrive consistently or if there will be any paychecks at all.

Hand-in-hand with the lack of job security is the issue of uneven cash flow. Entrepreneurs who start seasonal businesses, such as landscaping, snow removal, house painting, or even a line of summer fashions, face the challenge of maintaining earnings in the offseason. Even in the offseason, entrepreneurs are not on vacation; they are at work planning for the next cycle of sales.

Lack of benefits is another challenge. The employee of a company may have health insurance, a travel stipend, and a matching 401(k)... all of which is left up to the entrepreneur to cover for him or herself. It is essential, therefore, for entrepreneurs to manage their finances wisely, taking

special care with investments. It is never too soon to look to funding retirement and all the milestones that appear along the way.

Entrepreneurs should learn money management early. Because they are responsible for their own benefits, those expenses should top the list of necessities, separate from personal expenses such as rent, food, entertainment, and others. In fact it is essential to separate business expenses from personal finances from the get-go.

A good start is to chart all expenses, including both business and personal liabilities, keeping in mind that entrepreneurs pay their own taxes, and should consult with a tax accountant in advance. Tax liability may be lowered by maximizing deductions. Business expenses can be a major source of deductions, but they must be tracked throughout the year.

Entrepreneurs should get into the habit of keeping receipts, even if they are not on paper (many apps allow for electronic copies). The expense of hiring an accountant may be written off, and the cost of working with a tax professional may be worthwhile.

It's always a good idea to maintain a cushion — some financial advisers recommend putting aside as much as six months' worth of emergency funds in a checking account. Not all clients will pay bills immediately, and personal and family expenses won't wait.

What, then, makes entrepreneurism so attractive?

Flexible hours, a flexible work location closer to home (and perhaps even no commute if one works from home), not having to answer to a “boss,” all make working for oneself appealing. Of course, there is also the jackpot: the chance to take an original, creative idea, perhaps one that satisfies an unfilled niche, and nurture it into fruition. And, there is the chance of the big “payout” if that idea takes off.

Even if the payout is years away, there is much that entrepreneurs, even brand new ones with little income to speak of, can do to stretch their finances as they grow a new business.

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