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ARBOR ADVICE

Helpful financial tips provided by Arbor Bank

Young Entrepreneur Pitfalls

November 6, 2012

Many factors go into making a business a success, but one of the most challenging areas -- particularly for young entrepreneurs -- is financial management. Here are some tips from the U.S. Small Business Administration (SBA) for avoiding the most common financial mistakes.

1. Build a cash reserve. A critical decision before embarking on any business venture is having sufficient personal cash in reserves. The costs of going into business aren't always high, but there's a good chance you won't make a profit immediately, and you will still need funds for cash flow and personal living expenses.

2. Consider your debt-income ratio. This is a tricky one for young entrepreneurs, especially if you are paying off student loans or other debt. Your chances of getting a business loan are diminished by debt, even if you have the projected income to repay them. Focus your efforts on repaying as much of your personal debt as early as you can. Even if you don't need financing to start your business, you may down the line.

3. Don't overinvest in your business. If you are relying on your cash reserves, credit cards or savings to start a business, try to avoid overinvestment traps that are easy to fall into -- whether it's a computer system or inventory overload. Focus instead on building a good product and customer experience. Starting a business from home or online are cost-effective ways to avoid some of these pitfalls.

One little-known option for your new business is to purchase government surplus products. Just about anything that your business might need is sold by the government at or below cost, or at fair market value.

4. Separate personal finances from business finances. Keeping your personal and business finances separate not only provides your business with credibility, it also reduces your personal liability, and helps you manage your taxes, bills and other payments.

5. Don't forget to pay yourself a salary. In the early days, it can be tempting to pour all your profits back into your business without a thought for your own financial needs. However, paying yourself a salary based on what you need to keep your own personal finances in shape and separate from your business is essential.

For more information on owning a small business, visit www.sba.gov.