

Starting on a Shoestring

Perhaps the biggest challenge to starting a new business is finding adequate capital to fund it. One way to address that problem is to reduce the amount of capital you need by starting as small as possible – that is, “on a shoestring”. You may envision yourself running a large enterprise, but the best way to get there may well be to grow your way into it, rather than trying to start out big. If you’re frugal enough, you may even be able to start your business without the need for any outside capital at all.

For example, renting space requires much less capital than buying or building a facility for your business. It’s also less risky from a financial standpoint. And if possible, you can reduce costs even more by operating your business out of your home. Can that spare bedroom be an office? Is there space in your garage to store inventory or supplies? It always pays to use the resources you already have available. If you must use rented space outside of your home, make certain you only take on as much space as you really need.

Payroll costs are another opportunity to reduce your need for capital. When you’re starting out, try to keep your labor costs as low as possible by using part time employees, or even contract labor where appropriate. Of course, it may be best simply to do the work yourself, rather than paying someone else at all. But be careful. Make sure you’re capable of doing the job properly, and that it’s not keeping you from doing more important or more productive work.

As a new business owner, you’ll be faced with many opportunities to make purchases that may be appealing, but that would eat into your precious capital resources. Office supplies are a good example. Do you really need that fancy new hole punch, or will bringing over the old one over from the house work just as well. Do you need to purchase a shredder, or can you use a free shredding service in your community? Pennies and dollars count, so evaluate even the smallest purchases skeptically.

Finally, steer clear of “vanity” purchases. Don’t buy that fancy new truck simply because it might now be considered a business expense and will reduce your taxes a bit. Sure, it looks great in the driveway, but you still have to pay for the truck, and the tax savings will never be more than a fraction of the cost. You’re much better off buying or leasing the lowest cost vehicle that will do the job for your business.

When you’re starting a business, “pinching your pennies” is always a valuable strategy. Starting on a shoestring allows you to preserve your capital for a later date when you really need it to fund your growth, or to help you get through a rough patch in the economy.