



Small Business Builder: Creative Financing

How One Small Business Owner Found Financing

By [Mary Campbell](#)

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Artemis, a 24-year-old mechanic working for a large auto-service chain, wanted to start his own repair shop.

His only assets were his house and the quarter-acre it sat on, in which he had about \$5,000 in equity. With \$1,500 in the bank but no other savings, his personal debt was just under \$3,000.

Initially, Artemis thought he'd need \$40,000 for all his expenses: to build a garage on his lot, buy tools and equipment, consult an attorney and an accountant, obtain liability insurance and business permits, advertise his grand opening, purchase health insurance for himself and his family (his wife, Theodora, would be a part-time employee), cover supplies and other expenses (including utilities) and pay personal bills for a couple of months.

But his accountant, Randall, tacked \$15,000 onto Artemis's estimate and advised him to prepare a detailed business plan, including income, expense and cash-flow projections for two years.

The figures Artemis eventually developed for the business plan indicated he'd need about \$60,000 to open the shop and pay six months' worth of expenses. Less than half could be secured by his property and equipment.

Tighten Your Belt

Though Artemis had held his current job for more than five years, his youth and inexperience worked against him, even in his own family and circle of friends — none of whom had much spare cash anyway. Nevertheless, three months after writing his business plan, Artemis was in business. Here's how he raised the money:

\$25,000 by taking out a second mortgage — refinancing his house at a lower interest rate and funding construction of the garage. Randall, the accountant, helped Artemis obtain the loan through his personal contacts and his knowledge of the industry.

\$4,000 in credit (at 19 percent) from the company that sold him equipment and tools.

\$2,000 in credit from a supplier at 13 percent.

\$5,700 in low-interest loans from seven customers who had been dissatisfied with Artemis's employer and had been the first to encourage him to go solo. These customers, plus the equipment vendor and the supplier, agreed to forgo payment for six months.

\$8,000 in personal credit from three credit-card companies at 3.9, 8.9 and 17 percent.

According to the business plan, Artemis still needed about \$15,000 to reach his \$60,000 goal. He reduced the cost of the garage by doing more of the work himself than originally planned and by building in phases & delaying installation of plumbing and air conditioning, for example, by at least a year.

He and Theodora searched for ways to cut their household expenses. By careful budgeting and judicious belt-tightening, they shaved more than \$4,000 off their expenses over a six-month period. Against Randall's advice, they went without health insurance for two months.

Pay Promptly, But Not Too Promptly

Randall became the young entrepreneur's advocate because he was impressed by Artemis's enthusiasm, energy and willingness to work hard and make sacrifices. Among his advice to Artemis:

Empty your personal savings account and pay off high-interest debt.

Pay your bills on time, just before payments are due. Once you've established a good payment record, ask for credit-limit increases on low-interest accounts and pay off bills with higher interest rates. Try to get credit issued in the business's name. Keep personal and business expenses separate. Building a responsible financial history and keeping records professionally will help you obtain more favorable financing when you want to upgrade or expand.

"Network" with suppliers and others in your industry. Dealing with people who like and trust you not only makes doing business pleasant, it can save money and open doors.

Track your income and expenses meticulously, using small-business accounting software to record transactions and schedule payments, including quarterly tax deposits. (Such software, naturally, doesn't eliminate the need for an accountant to help with strategic and financial planning.)

Incorporate. In the state where Artemis and Theodora lived, their small corporation qualified for favorable group health-insurance rates. The corporation could pay 100 percent of the family's health-insurance premiums, and the payment would be 100-percent tax-deductible. (For tax year 2001, the IRS allows only a 60-percent health-insurance deduction for the self-employed.)

An editor since the age of 6, when she returned a love letter with corrections marked in red, Mary Campbell founded Zero Gravity in 1984 to provide writing, editing, marketing and other services to small businesses. Her presentations and workshops address small-business topics from Web sites to business writing. An editor of and contributor to dozens of publications (books, journals and newsletters), she is co-author □ with her sister, Pippi Campbell Peterson □ of the second edition of *Ready, Set, Organize! A Workbook for the Organizationally Challenged* (JIST Publishing, 2001). Please e-mail her your comments, questions and suggestions at smallbiz@zgravity.biz. Small Business Builder is published every other Wednesday.

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