START & RUN A BOOKKEEPING BUSINESS

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Chapter 1

GETTING STARTED

Before you jump in with both feet, it's useful to take some time to examine your motivation for starting your own business. This will most likely save you vast amounts of time, money, and grief in the future.

Assess Your Skills and Goals

Every business owner/manager has to learn three major skills: building a business, managing a business, and doing what the business does. You may be interested in doing only one of these three things. For example, you might get great pleasure out of hairstyling, but have little patience for managing the day-to-day operations of such a business. In that case, you might want to reconsider your decision to open a hair salon. No matter how much joy it gives you to "be your own boss" while doing the thing you do best, you will come to despise all the other tasks that go along with owning and managing a small business.

On the other hand, you may love building the business: designing the office space, putting together the marketing plan, forecasting, and building the customer base. You may, however, be thoroughly bored with the management aspect or with doing what the business does. Entrepreneurs who feel this way tend to build a business, get it up and running, sell it, and start all over again. The thrill for them is in the creation process.

If you plan to build your business, manage it, and be its chief employee, make sure you have the energy and the skills to do all three things. If not, you will have to hire other people to do the things you do not wish to do yourself — or rethink your business plan entirely.

Worksheet 1 provides some skill-testing questions you should ask yourself as you consider your decision to start a bookkeeping business. If you answer no to any question, you should think about how you will develop skills and knowledge in that particular area, as each is critical to your success as a business owner and manager.

Once you have assessed your strengths and weaknesses in terms of building, managing, and operating a business, it's time to look at your personal goals. Why do you want to start your own business? You may want to start your own business to make more money than you could if you were an employee. You may get a rush from building something from nothing. There are a myriad reasons why entrepreneurs start businesses. Let's look at three of the main motivators: money, freedom, and "empire building."

(a) *Money.* Owning and running a business has the potential for providing you with a higher level of investment return and remuneration than you would receive working for someone else. The profit potential is definitely there, but high profits are a trade-off for high risks. Starting a small business is a risky proposition and you, as the owner, face the potential for financial loss as well as gain. It's important to keep this in mind as you build your business. Make sure you not only have the financial ability to survive failure, but also the ability to tolerate risk.

    When small-business owners talk about money, though, they don't usually mean they want money for money's sake. Money means something slightly different to each person, but in general, it represents financial independence, prosperity,

WORKSHEET 1
SKILLS ASSESSMENT

Do you have the skills you need to start a bookkeeping business?			
		Yes	No
1.	Are you comfortable promoting yourself and your business to prospective clients?		
2.	Do you have experience or training in basic double-entry bookkeeping, up to preparation of financial statements?		
3.	Are you proficient in managing your own schedule?		
4.	Do you know how to analyze your industry and your competitors?		
5.	Do you know how to develop a marketing and promotion strategy for your proposed business?		
6.	Can you manage multiple client engagements at the same time?		
7.	Do you have access to enough financial resources to start your business?		
8.	Do you know how to project your revenues and expenses in the start-up period?		
9.	Can you handle drawbacks and failures?		
10.	Do you have strong "people skills" to deal with clients, suppliers, and employees in an effective way?		
11.	Are the people around you (spouse, children, parents) supportive of your entrepreneurial ambitions?		
12.	Are you willing to spend the time it takes to get a new business off the ground?		
13.	Do you have enough attention to detail to make certain that your business is on track with its financial projections?		

and security. Think about what money represents to you. The more time you spend planning your business model before you begin, the more likely you will be building a profitable enterprise that will meet your personal financial goals.

(b) *Freedom.* Many small-business owners like the freedom that comes with not having a boss and being able to make their own decisions. However, with this freedom comes ultimate responsibility for the business, including responsibility for customer satisfaction, working conditions, supplier shortages, product failure, and the economic well-being of your employees. Look at whether you are the type of person who can handle these responsibilities while simultaneously making considered, but quick, decisions on a daily basis.

(c) "*Empire building.*" For many small-business owners, the most important consideration is that they are building something that will outlive them and perhaps provide income and stability to future generations. If this is an important consideration for you, it will be critical to make sure that you are building a business that has value, and that the value can be transferred to others through sale of the business or inheritance. The unfortunate reality is that over 80 percent of small businesses do not survive into the next generation but die with their owners. Planning ahead for the eventual transfer of ownership will help preserve the value of your business.

Why Bookkeeping?

Now that you've examined your skills and your motivations for becoming an entrepreneur, it's time to assess why you have chosen bookkeeping services as your business's main offering. Here are some questions to ask yourself:

- Do you currently work as an employee bookkeeper and enjoy the work?
- Do you feel there is an unmet market need for bookkeeping services?
- Do you think you can fill a certain niche and attract business because of your different way of doing things?

Take some time to write down your rationale for starting a bookkeeping services business as if you had to explain it to a group of people. The better you can articulate your reasoning, the more it will solidify and reinforce your focus and commitment. You will need to do this exercise as part of your business plan (discussed later in this chapter).

Approaches to Starting Your Business

Once you have definitively decided that you want to start a bookkeeping services business, there are two ways you can go about it. You can build your practice from scratch, customer by customer, or you can buy an existing practice. There are benefits and downsides to both approaches. You will have to assess which considerations are most important to you and your situation. Let's look at these considerations.

Building a business from scratch

When you build a business from scratch, you will start with nothing but the tiniest grain of an idea. You will spend months or longer mapping out that idea, running cash-flow scenarios, doing market and competitive analysis, writing a business plan and a management operating plan, and working on the business's vision and mission statements. You will be meeting with bankers, accountants, lawyers, and financial planners as you build your external advisory team.

You will probably open your doors before you take in the first dollar in revenue, and you will take the enormous leap of faith that customers will actually want the services you are selling as you had envisioned in your business plan.

The process may sound scary, but designing and building the business that exists in your head can be an extremely fulfilling and gratifying experience — so much so that many successful entrepreneurs design and build businesses, then sell them once they're up and running. Then they start all over again and build another one.

Here are the pros of building a business from scratch:

- ✍ You can design internal systems the way you want them to work right from the beginning
- ✍ It can be less expensive than buying an existing operation
- ✍ There is no risk of acquiring the previous owner's liabilities or having to satisfy pre-existing warranties

Designing and building the business that exists in your head can be an extremely fulfilling and gratifying experience.

- ✍ You can manage staffing needs more carefully (i.e., you don't inherit employees that are sub-par and/or difficult to fire)

There are also some cons to building a business from scratch:

- ✍ Attracting investors can be more difficult and expensive. Because the venture doesn't yet exist, investing will be a riskier proposition.
- ✍ Generating profits can take longer than with an existing business
- ✍ Building name recognition and goodwill with customers can take a long time
- ✍ There is a much greater risk of failure than with a business that has a proven track record

Buying an existing business

Buying an existing business is, in general, less of a risk for you as the major investor. You have the opportunity to watch the business in action, and you will be able to access the historical financial information to determine patterns such as growth rate, profitability, and solvency. You know that you will be able to generate a return on your investment almost immediately as well as be remunerated for your management role in the business (and perhaps also your operational role).

You may choose to buy a business because you want to quickly introduce a new product to an existing customer base before there are too many competitors in the market. For example, if you have developed a brand-new print-on-demand self-serve book station, you may want to have instant access to a thriving bookstore's customers before copycats come on the market.

Here are some of the pros of buying an existing business:

- ✍ Obtaining external financing can be easier than if you build a business from scratch because the business has a track record
- ✍ You can market your existing products to a new customer base
- ✍ Managing and fine-tuning an existing business model can be easier than building it from the ground up
- ✍ You can generate profits right from the purchase date

- You can continue the business with the existing goodwill and name recognition

The cons to buying an existing business include the following:

- You may be inheriting the hidden headaches of the previous owner
- You may be inheriting negative goodwill if the business has a bad name in the community
- It may take as long to reshape the business the way you want it as it would have taken had you started a new business from scratch
- The clients you are "buying" may have only been loyal to the former owner and may choose not to stay on as clients when you take over

Decide which priorities are most important to you and make your decision to build or buy a business based on sound reasoning.

Setting Up Your Own Books

There are many different ways you can set up the books for your bookkeeping practice. You may not have given this much thought, because primarily you help others with *their* bookkeeping. However, as a bookkeeping practice, you will need to keep the following goals and objectives in mind when considering what type of system to use:

- *You will need to track your time spent on each client*. Even if you don't do your billings based on time spent (more on this in chapter 3), you will still need to assess what your recovery rate is so that you can understand your efficiency. The system you choose should be able to track time by client in a clear, concise way.
- *You will need to track separately the revenues from each of the services you offer*. When you analyze your financial statements, you will need to know which of your areas of practice (such as monthly business bookkeeping, taxes, and investment tracking) are growing and which are the most profitable.
- *You will need a system that can be updated quickly and easily*. You don't want your own set of books to be onerous and take up time that could be spent on client work.

There is always a balance in any business enterprise between time and money.

Choosing Your Accounting Software

Given these general system requirements, what accounting software should you choose? And how will you know when it's time to upgrade? Your considerations when choosing your first system are the same as when you will upgrade in the future. If you keep in mind your potential future record-keeping needs, this will help with your initial decisions.

You will at some point outgrow your current accounting system, whether you started out with a manual ledger, an Excel or Lotus spreadsheet, or simply a shoe box (or refrigerator box, depending on the number of receipts your business accumulates).

The need for a new accounting system may manifest itself in many different forms. You may find that payroll is becoming more onerous to calculate and track as you hire more employees. A manufacturing or resale business may keep running out of stock on high-turnover items because they are out before they know it. In a service business, you may start losing track of how much time should be billed to each customer. Regardless of the various symptoms, the problem remains the same: your bookkeeping system is taking more of your time than it's worth.

There is always a balance in any business enterprise between time and money. You can spend either time or money (or both). Scrimping on one will cost you more of the other. For example, if you decide to buy the least-frills accounting package you can find on the shelves of your local office supply store, you may spend an extra ten hours per week forcing it to do what you want it to do. If you could take that ten hours and use it to sell more to your customers, then perhaps it would be worth spending more on the software package.

Recently, Deloitte & Touche did a study of the top criteria used by businesses when selecting their bookkeeping software. It's quite interesting to see that first-time business owners and seasoned entrepreneurs have different priorities in this regard. This would suggest that experience teaches business owners what's really important when choosing financial software.

The top three criteria used by first-time business owners when selecting bookkeeping software are —

(1) price of software,

(2) ease of implementation, and

(3) ease of use.

These reasons make sense. They are all important things to consider in the purchasing decision. But now take a look at the top three criteria used by businesses selecting their second bookkeeping system —

(1) level of support provided by the local firm

(2) developer's track record of performance

(3) software's ability to fit the business

What do the experienced business owners know that the neophytes don't? Let's take a look at each point separately.

Level of support provided by the local firm

Many of the entry-level accounting systems are billed as being turnkey systems; you just load the software and you're up and running. However, setting them up is never quite that simple. It's important to make sure that you can easily and economically access customer and technical support for your new system. Some software companies charge for support calls, which is fine as long as you can get hold of someone when you need them. You will also want to consider whether there are consultants based locally that can come into your business and provide customized setup and training. When you're looking at consumer reviews of the product, pay special attention to what they say about support.

Developer's track record of performance

A first-time software buyer may very well discount the importance of how well the software has worked in the past, but seasoned entrepreneurs understand how much time it takes to work around bugs in the software or to install patches to fix problems as they arise. Keep in mind that bookkeeping software is generally updated annually, so there are many opportunities for programming errors to arise. Knowing that the company has been in business for several years with little incidence of major programming bugs can ease your mind in this area.

Software's ability to fit the business

Entry-level bookkeeping software systems try to be "one size fits all." They allow you to customize the chart of accounts to make sense for different types of businesses. For example, for a computer consultant, it doesn't make any sense to have inventory accounts showing up in the books. However, each software system has strengths and weaknesses for every type of business. Some handle real-time inventory better than others. Some track billable time better. Having a good understanding of what's important to track for your particular business will help you assess which package is best for you — and help you advise clients on choosing bookkeeping software as well.

As you can see, there are more considerations than just price when purchasing accounting software. Spend time to understand all of the critical considerations. You should also ask fellow business owners what they use and how it's working for them. Another important source of information is your accountant. One caveat is to make sure that your accountant is familiar and comfortable with all of the popular accounting packages. For example, if your accountant has worked only with QuickBooks, more than likely it will be QuickBooks that he or she recommends. Not exactly an objective opinion! All of the major software websites have either screen shots of the program or downloadable test versions. This gives you the opportunity to "test drive" the package to make sure you're comfortable with it. Worksheet 2 provides some questions to help you evaluate your choice.

Selecting your bookkeeping software is an important task in your small business and may seem daunting. Keep in mind, however, that most systems can be converted to other systems fairly painlessly. Mistakes are not terminal. Take your time up front in the selection process and you will be making the best decision regardless of the system you choose.

You'll Need a Business Plan

You no doubt have heard it from your banker or your accountant: "Prepare a business plan!" Everyone advises it (and you can advise your bookkeeping clients to do one if they haven't already), but do you know the purpose of a business plan?

A business plan is not simply a document that you cobble together for your bank when you approach the bank to borrow money. It is a living, breathing map of where your business is headed. It encompasses your vision of the business and the steps you will take to get it there. It quantifies your dreams. If that seems a little cold and

WORKSHEET 2
EVALUATING ACCOUNTING SOFTWARE

Ask yourself the following questions to help evaluate your choice of accounting software for your bookkeeping business:			
		Yes	No
1.	Does the system provide you with profit and loss information about each of your different services (e.g., bookkeeping, government filings, personal income tax)?		
2.	What is the maximum capacity (in dollars or number of transactions) your system can handle? Is it adequate?		
3.	If the maximum capacity of the system is not enough to handle your planned future growth, will the system be easy and inexpensive to upgrade?		
4.	Can your accounting system be converted to another system without having to reenter all of the data manually?		
5.	When you call the software technical support line, are you able to speak to a technician in a reasonable amount of time?		
6.	Does the system give you quick and easy access to your data?		

impersonal, remember that no one gets to their destination without a map.

When I refer to your business plan as a living, breathing document, it means that, as circumstances change, so should your business model. You will have to continually make course corrections as you go along and as you gain understanding about how your business performs over time.

Although you will always be not only the creator but also the main audience for your business plan, there will be others who will want to see your business plan from time to time, including the following:

- ✍ *Lenders*. They will want to make sure that they are lending money to a solid enterprise that has a probability of success.

- ✍ *Key employees*. When you hire a manager or other employee critical to the success of your bookkeeping practice, you will want to make sure that person knows the business plan and will manage the business accordingly.
- ✍ *Investors*. Venture capitalists and other potential investors will want to ensure their money will be well invested.
- ✍ *Clients*. There may be times when securing a large contract means providing background material on your business, and your business plan is an important document in that context.
- ✍ *Potential merger partners or acquisition targets*. If you are proposing to merge with or buy another company, the owners of that company will want to make certain your business is both financially and philosophically sound.

Your business plan should be detailed enough so that readers can understand what the business does and how it will go about doing it, but not so long or detailed that they will get lost in the minutiae.

There are as many opinions on what should be included in a business plan as there are advisers, but Sample 1 is an example of critical information that should be included. Note also that you may alter your basic business plan depending on the reader. For example, a bank may be interested in very different information than a key employee. When preparing your business plan for a certain audience, make sure you have ascertained what type of information they require and what is most important to them. For example, as outlined above, investors will want information on their return on investment. Bankers will want information on insolvency. Be prepared to tailor your plan to different groups of readers.

At first, the sheer volume of the information required for this document may overwhelm you, but take it one piece at a time. All of this information should be thought about and planned out before you open your doors. It may take several months for you to gather the information and do your planning. However, the more up-front planning you do, the greater your probability of success.

Consider Your Exit Strategy

As you're starting up your bookkeeping practice, the last thing you want to think about is ending it, just like it's never any fun to think about funerals or estate planning. But having a plan in place for the

SAMPLE 1
BUSINESS PLAN OUTLINE

BUSINESS PLAN OUTLINE

I. EXECUTIVE SUMMARY

1. Overall purpose of the business
2. The competition and the business's place in the industry
3. The market
4. Growth strategy
5. Profitability and projections
6. Human resources
7. Financing structure and requirements

II. EXTERNAL ENVIRONMENT AND INDUSTRY ANALYSIS

1. Geographical operating environment and constraints
2. The industry
3. Product or service analysis
4. Development and operating strategy

III. THE MARKET

1. Market size in the geographical operating environment
2. Competitive analysis of market servicing
3. Customer group profile
4. Market share growth strategy

IV. OPERATIONAL MANAGEMENT

1. Cash-flow projections: 12 months and 5 years
2. Break-even and capacity analysis
3. Cost structure of business
4. Profitability potential and timing
5. Operating location and warehousing
6. Operating cycle
7. Life cycle timing

V. MARKETING AND PROMOTION

1. Competitive strategy
2. Sales strategies and outlets
3. Pricing analysis
4. Advertising strategy
5. Product distribution or service provision
6. Servicing

SAMPLE 1 — CONTINUED

VI. GROWTH STRATEGY

1. Overall growth strategy
2. Financing plan
3. Growth limitations and constraints
4. External and internal challenges and obstacles
5. New product or service development and introduction
6. Exit and harvest strategies

VII. HUMAN RESOURCES

1. Organizational structure
2. Key employee profiles
3. Ownership and investment structure
4. Remuneration and performance evaluation
5. Governance
6. External advisory team

VIII. FINANCING REQUIREMENTS

1. Amount and use of required funds
2. Current debt/equity structure
3. Proposed return on funds

IX. HISTORICAL FINANCIAL INFORMATION (when available)

1. Balance sheet
2. Income statement
3. Statement of cash flows
4. Ratio analysis

eventual sale or transfer of your business will help to ensure that you operate it aware that you are building value over time. Many small-business owners don't consider whether they're building a business that would be worth anything if they died or wanted to sell. Businesses that rely on the presence or personality of the owner cannot easily be sold to someone else. Customer loyalty is built on that personal relationship.

You want to build the "personality" of your business so that, with training, one of your employees or a new owner can provide the same quality of service that you do. Think about a company like McDonald's. You probably don't even know the entrepreneur who owns the local franchise. McDonald's itself has a strong corporate identity or "personality" that you as a customer are familiar and comfortable with. This is what keeps you coming back.

As you start up your business, think about your ultimate goals. Do you want to build it and sell it for a profit in ten years? Do you want to pass it on to your children when you die? Worksheet 3 provides additional questions to consider.

When you begin with the end in sight, you will be able to aim your business to that ultimate goal and will be much more likely to meet that goal when you're ready. For a more in-depth discussion of exit strategies, you may wish to refer to *Managing Business Growth: Get a Grip on the Numbers That Count* (Self-Counsel Press, 2003).

Selecting External Advisers

The most successful entrepreneurs in the world understand that no business survives and thrives in the long run without being surrounded by a competent and visionary group of external advisers: lawyers, accountants, financial planners, and a board of directors. It can be a very daunting task, though, to choose those advisers. How will you know what their credentials are? Will you feel comfortable with them? Will they align their goals for your business with yours?

When you first start your bookkeeping practice, you may think that this would be a good area in which to conserve your already limited start-up funds. As a financial adviser yourself, you may think you know enough about the financial, legal, and accounting aspects of your business that you don't need to bring expensive consultants on board. I highly recommend, however, that you invest in good external advisers. A few hundred dollars now can save you a few thousand (or more) later.

WORKSHEET 3
PLANNING YOUR EXIT STRATEGY

Before you start your business, answer the following questions about how you will get out of the business:	
1.	How many years do you want to own your business?
2.	Are there others in your family who may wish to take over your business someday?
3.	For what price do you want to be able to sell your business?
4.	At what point do you want someone else to manage the day-to-day operations?
5.	Will the remuneration and salary you receive from your business plus its selling price give you enough future income on which to retire?
6.	Can your business survive not having you there or is it totally dependent upon your presence?
7.	How much of the value of your business relates to its physical assets and how much to less liquid and less definable attributes (e.g., customer lists, name recognition)?

Different advisers will provide different services, but in general, here's what each adviser can provide you and your business:

(a) *Your lawyer*. You will need a lawyer to advise your small business on many issues, including the following:

- Incorporation
- Labor laws
- Contracts (with customers, suppliers, and employees)
- Mergers and acquisitions
- Estate planning matters
- Exit strategies
- Personal wills and powers of attorney

(b) *Your accountant*. Although, as a bookkeeper, you already have a strong financial and accounting background, a good accountant has experience in the following areas:

- Selecting and setting up your record-keeping system
- Developing your monthly management operating plan
- Defining your key success factors
- Preparing cash-flow projections
- Tax planning
- Exit strategy planning
- Mergers and acquisitions
- Human resource interviewing and screening
- Growth strategies
- Estate planning

(c) *Your financial adviser*. Of all of your advisers, your choice of financial planner can have the greatest impact on your personal and business wealth. Most financial planners can do the following for you:

- Draw up an investment plan for your retirement
- Recommend the mix of investments your portfolio should contain
- Recommend specific investments and even be able to purchase them on your behalf

- Help you determine your insurance needs
- Recommend other financial products, such as mortgages and tax-deferred shelters

Questions to Ask Advisers

You will want to ask your potential external advisers several key questions to ensure that they are a good fit with you personally and with your company. You not only need to assess their experience and skill level, but also softer skills, such as communication style and availability. Here's a starting list of questions to ask:

- How long have you been doing this type of work?
- How many other clients similar to my company do you deal with?
- Can you describe your background and training?
- On what basis will you be billing me?
- Do you prefer face-to-face meetings or telephone calls or e-mail?
- Can you provide me with references?
- How do you see your role in helping my company?

As you evaluate the answers to these questions, you will also be assessing your comfort level with these professionals. Always trust your intuition. You will have to work with these advisers for many years to come, and it's imperative that you feel comfortable with them.

Finding a Board of Directors

As you start your business, you may consider it silly to think about putting together a board of directors. In business news and on television, a board of directors is usually portrayed in a large corporation such as IBM. Every corporation, though, is required to maintain a board of directors, regardless of its size. It may only be a single director (you) that is required. It's advisable to at least have an informal board of directors for your bookkeeping practice.

A board of directors is simply a group of people who help advise and guide the management and owners of a company. Board members may comprise mentors, retired business owners, or others who have skills that can help your business. The incorporation documents of a corporation outline the board's duties and responsibilities, including which issues must be voted on by the board.

In a small company, getting external board members may be difficult, as they will take on some liabilities for the operation of the company, but having them is even more critical than in a larger organization. Experienced board members bring knowledge and advisory skills to the table that you may lack. If nothing else, they bring new ideas and opinions.

Assess what your competitors do well and where they are weak.

Know Your Competitors

Before you start up your bookkeeping practice, take some time to assess who your competition will be. It won't just be other bookkeeping practices, but also accounting firms, tax preparation outfits, and bookkeeping software companies who make it seem so easy for business owners to do their own bookkeeping.

Assess what your competitors do well and where they are weak. Is the bookkeeping practice across town offering a service guarantee? That may be a model you should adopt for your company. Is the accounting firm charging $75 per hour for bookkeeping with no added support to the client? Perhaps you can improve on that level of service.

The process of finding who your competitors are and what they're doing is called competitive intelligence, and it is something every smart entrepreneur does on a continuous basis. It is simply the process of uncovering, analyzing, and presenting publicly available information on your business's competitors in order to maintain a competitive advantage in the marketplace.

Here are the basic steps to learning more about your competitors. For a more in-depth discussion of competitive intelligence, you may wish to refer to *Financing Your Business: Get a Grip on Finding the Money* (Self-Counsel Press, 2005).

(1) *Identify the competition*. Find out both who is competing directly with your services and who is competing for the same customer dollars.

(2) *Analyze what they do right and what they do wrong*. Assess the strengths and weaknesses of your identified competition.

(3) *Determine how they are positioned to take advantage of opportunities*. In this step, you will assess how well you think your competition could adjust to changes in their external environments, such as what might happen if they hired a tax expert.

(4) *Assess how vulnerable your competition is to changing market conditions*. How would your competition be able to handle external threats to their businesses, such as changing tax laws, legal action, new competitors, or theft — all things that are potential land mines for businesses that are not prepared.

(5) *Consider how your business stacks up against the competition*. Once you understand your competitors better, determine where you stand in relation to them based on the same criteria. Are there things you can improve in your business model to make your business stronger in the markets you serve?

Chapter Summary

- Before you start your bookkeeping practice, spend time articulating your motivations for wanting to start such a venture.
- Plan your business thoroughly and set up a preliminary business plan that projects where your business is headed.
- Begin by thinking about the end. Have an exit strategy in place so you will know how to harvest the value from your business.
- Choose your external advisers carefully, for they will have much influence over your success.
- Gather all the information you can about the markets you will be operating in and your competitors. This will help you strengthen your own business and find your niche.