

CONSUMER CREDIT COUNSELING SERVICE OF THE BLACK HILLS

MARCH/APRIL, 2011

2310 N. MAPLE AVE. RAPID CITY, SD 57709



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<http://www.cccsbh.com/information/newsletters.html>

What causes some small businesses to fail?

Note: This list of reasons why businesses fail comes from the New York Times and Yahoo Finance. It is written by Jay Goltz, who owns five small businesses in Chicago. If you are interested in starting a small business but want to avoid many of these pitfalls, contact Consumer Credit Counseling Service of the Black Hills. We offer Start Right: Build Your Own Business classes every month.

One of the least understood aspects of entrepreneurship is why small businesses fail. But most of the evidence comes from the entrepreneurs themselves. I have had a close-up view of numerous business failures—including a few start-ups of my own. And from my observation, the reasons for failure cited by the owners are frequently off-point, which kind of makes sense when you think about it. If the owners really knew what they were doing wrong, they might have been able to fix the problem. Often, it's simply a matter of denial or of not knowing what they needed to know.

In many cases, the customers—or, I should say, ex-customers—have a better understanding than the owners of what wasn't working. The usual suspects that the owners tend to blame are the bank, the government, or the idiot partner. Rarely does the owner's finger point at himself or herself. Of course, there are cases where something out of the owner's control has gone terribly wrong, but I have found those instances to be in the minority. What follows—based on my own experiences and observations—are my top 10 reasons why small businesses fail.

1. The math just doesn't work. There is not enough demand for the product or service at a price that will produce a profit for the company. This, for example, would include a start-up trying to compete against big box stores.

2. Owners who cannot get out of their own way. They may be stubborn, risk adverse, conflict adverse—meaning they need to be liked by everyone (even employees and vendors who can't do their jobs). They may be perfectionistic, greedy, self-righteous, paranoid, indignant, or insecure. You get the idea. Sometimes, you can even tell these owners the problem, and they will recognize that you are right—but continue to make the same mistakes over and over.



3. Out-of-control growth. This one might be the saddest of all reasons for failure—a successful business that is ruined by overexpansion. This would include moving into markets that are not as profitable, experiencing growing pains that damage the business, or borrowing too much money in an attempt to keep growth at a particular rate. Sometimes less is more.

4. Poor accounting. You cannot be in control of a business if you don't know what is going on. With bad numbers, or no numbers, a company is flying blind, and it happens all of the time. Why? For one thing, it is a common—and disastrous—misconception that an outside accounting firm hired primarily to do the taxes will keep watch over the business. In reality, that is the job of the chief financial officer, one of the many hats an entrepreneur has to wear until a real one is hired.

5. Lack of a cash cushion. If we have learned anything from this recession (I know it's "over" but my customers don't seem to have gotten the memo), it's that business is cyclical and that bad things can and will happen over time—the loss of an important customer or critical employee, the arrival of a new competitor, the filing of a lawsuit. These things can all stress the finances of a company. If that company is already out of cash (and borrowing potential), it may not be able to recover.

6. Operational mediocrity. I have never met a business owner who described his or her operation as mediocre. But we can't all be above average. Repeat and referral business is critical for most businesses, as is some degree of marketing (depending on the business).

7. Operational inefficiencies. These include paying too much for rent, labor, and materials. Now more than ever, the lean companies are at an advantage. Not having the tenacity or stomach to negotiate terms that are reflective

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March and April

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Letter from the director...

The Washington Post recently published an article saying that growing numbers of retailers and stores are offering financial services, ranging from check-cashing services to prepaid cards. The article goes on to say these services are convenient for many. People are looking for financial services, but they may not be choosing to use a bank or a credit union.

While financial services at stores may be convenient, they may not be the best options for anyone who wants to get ahead with his or her finances. There are three basic steps an individual needs to take to lay the groundwork for a sound financial future: have a budget, develop a relationship with a bank or credit union, and use credit wisely.

Developing a relationship with a bank or credit union is key to your financial future. The first step is easy—open a checking and/or savings account. Once the account is open, it is important to handle the account responsibly and not bounce

checks. Then, when you want to purchase items on credit, such as a car or home, you already have a relationship with a financial institution. Most of us will never purchase a car or home without financing it and often, banks and credit unions offer the best deals.

When you don't take the time to develop a relationship with a bank or credit union, you'll often find yourself with limited credit choices—and high rates of interest—when you want to borrow money. You won't get ahead financially if you continually pay high rates of interest on your purchases.

It is important to take that first step and develop a relationship with a bank or credit union. A bank or credit union isn't going to sell you groceries or gasoline. They are in business to provide financial services for you—that's what they do.

-Bonnie



Find ways to stretch your Social Security benefits

Wait—Although you can claim Social Security any time between the ages of 62 and 70, the longer you wait to retire and draw Social Security, the more your monthly check will be when you get it. If you file for Social Security at the age of 62, your retirement benefit will be reduced to only 74% of the full retirement age benefit.

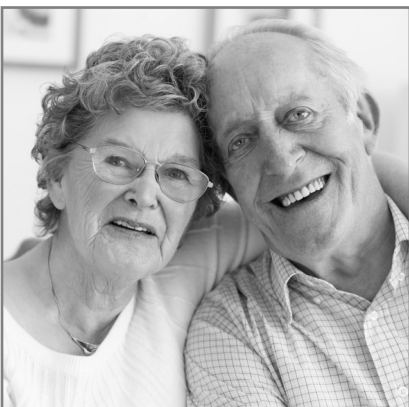
Wait even longer—If you can wait until age 70, you will score a bonus. For each year you delay claiming your full amount, your benefit payments will continue to rise by an extra 7% to 8%. You can earn up to 32% more if you put off your retirement filing until age 70, instead of age 66.

Stay at your job — Social Security payments are calculated by your 35 highest earnings. So if you can bring in more income in your 50s and 60s, your payments will be higher.

Get married — Married couples can choose to receive Social Security benefits based on their own income,

or they can opt to receive a payout worth 50% of their spouse's Social Security benefits. If you're married and really want to make the most of Social Security, some financial experts recommend that the lower earner file for benefits at the age of 62. Then the main breadwinner can wait until the age of 70 (or as late as possible) to earn the higher benefit amount. That means you can start that income stream today, but earn even more tomorrow.

Correct your early filing slip-up—If you retired at the age of 62, you actually have a second chance by filing Social Security Form 521, the "request for withdrawal of application." By submitting this form, you're essentially coming out of retirement. You will have to pay back all the Social Security benefits you've received thus far. But if you can afford to do that, it's well worth the effort and expense.





...Why small businesses fail, continued

(Continued from page 1)

of today's economy may leave a company uncompetitive.

8. Dysfunctional management. This includes a lack of focus, vision, planning, standards and everything else that goes into good management. Throw fighting partners or unhappy relatives into the mix, and you have a disaster.

9. The lack of a succession plan. We're talking nepotism, power struggles, significant players being replaced by people who are in over their heads—all reasons many family businesses do not make it to the next generation.

10. A declining market. Bookstores, music stores, printing businesses and many others are dealing with changes in technology, consumer demand, and competition from huge companies with more buying power and advertising dollars.

In life, you may have forgiving friends and relatives, but entrepreneurship is rarely forgiving. Eventually, everything shows up in the soup. If people don't like the soup, employees stop working for you, and customers stop doing business with you. And that is why businesses fail.

What can you do to succeed in business?

Note: This information is provided by Consumer Credit Counseling Service of the Black Hills (CCCSBH).

Start Right: Build Your Own Business classes guide you through the process of starting a small business that can succeed. When you enroll in the class, you will receive the *Start Right: Build Your Own Business* workbook.

The book was created by the American Center for Credit Education (ACCE) in Rapid City and Jeannine Lecy. ACCE is a division of CCCS/BH that publishes national financial education materials. Lecy of Rapid City is a small-business expert who has helped launch more than 650 businesses and has helped many others survive financial difficulties. A Black Hills small-business owner who is using the information Lecy provides in *Start Right* says it's working for his business.

Dr. Bob McIntosh graduated from Western States Chiropractic College in Portland, Ore., 14 months ago, and opened his chiropractic practice in Spearfish 10 months ago.

"Having (Lecy's) step by step checklist to starting a business was essential," McIntosh said.

"One of the biggest things in the beginning is that people take the wrong steps first," he said. "They have an idea of what they want to do and where they want to be, but they don't understand or know the steps of getting a lawyer, setting up a proper entity for their business and what is proper for their business. Those were initial

steps that I absolutely needed." Following the advice Lecy shares in *Start Right*, McIntosh made a good impression on his local lender.

"When I walked into the bank, they were amazed at the preparation that I had put into (my business) plan," he said. "They said it was much more complete than a client who had recently come in asking for a \$1.5 million loan."

McIntosh has since opened a practice that is staffed by himself and his secretary. The information in *Start Right* about organizing an office and filing system has made managing an office much easier. "If I need something, I can pull that information and know exactly where it is," he said.

If you want to be well-prepared to open and run a business, try *Start Right*. Through the class and workbook, you'll learn how to write a business plan, choose lawyers, bankers and other professionals to help you, manage your business finances, set up an organized filing system, and learn how to brand and market your business. You'll also learn why getting and keeping your personal finances in order is a key part of running your business. The next *Start Right* classes will be offered March 15 and April 12 at Consumer Credit Counseling Service of the Black Hills. For more information call 605.348.4550.

Hours Of Operation

Mon8am - 5pm
Tues.....8am - 9pm
Wed.....8am - 9:30pm
Thurs.....8am - 9pm
Friday.....8am - 3pm

2310 North Maple Avenue
Rapid City, SD 57709

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Class Schedule for CCCS/BH: March & April 2011

To pre-register, call (605) 348-4550
All classes are held at 2310 N. Maple Ave., Rapid City

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|--|-----------------------|--|-----------------------|--|-----------------------|
| Wednesday, March 2nd | Rapid City, SD | Tuesday, March 29th | Rapid City, SD | Wednesday, April 13th | Rapid City, SD |
| Make Your Move ... A Guide to Homeownership 6:00-9:00 p.m. Lessons 1-5 | | Credit When Credit Is Due 8:30 a.m.-3:30 p.m. Lessons 1-12 | | Credit When Credit Is Due 6:00-9:00 p.m. Lessons 1-6 | |
| Wednesday, March 9th | Rapid City, SD | Tuesday, March 29th | Rapid City, SD | Wednesday, April 20th | Rapid City, SD |
| Make Your Move ... A Guide to Homeownership 6:00-9:00 p.m. Lessons 6-9 | | CheckWise 6:00-8:00 p.m. Lessons 1-6 | | Credit When Credit Is Due 6:00-9:00 p.m. Lessons 7-12 | |
| Tuesday, March 15th | Rapid City, SD | Wednesday, March 30th | Rapid City, SD | Tuesday, April 26th | Rapid City, SD |
| Start Right: Build Your Own Business 6:00-9:00 p.m. Lessons 1-10 | | Make Your Move ... A Guide to Homeownership 6:00-9:00 p.m. Lessons 1-5 | | Credit When Credit Is Due 8:30 a.m.-3:30 p.m. Lessons 1-12 | |
| Wednesday, March 16th | Rapid City, SD | Wednesday, April 6th | Rapid City, SD | Tuesday, April 26th | Rapid City, SD |
| Credit When Credit Is Due 6:00-9:00 p.m. Lessons 1-6 | | Make Your Move ... A Guide to Homeownership 6:00-9:00 p.m. Lessons 6-9 | | CheckWise 6:00-8:00 p.m. Lessons 1-6 | |
| Wednesday, March 23rd | Rapid City, SD | Tuesday, April 12th | Rapid City, SD | Wednesday, April 27th | Rapid City, SD |
| Credit When Credit Is Due 6:00-9:00 p.m. Lessons 7-12 | | Start Right: Build Your Own Business 6:00-9:00 p.m. Lessons 1-10 | | Make Your Move ... A Guide to Homeownership 6:00-9:00 p.m. Lessons 1-5 | |