

Chapter 2

Start Up, Capital Reserves, and Credit Cards

If you are just getting into the business, you will probably not like this chapter. But... this is reality. If you have been in the business for a while then you will know how important this chapter is.

Business can only run with capital. Without money, you come to a screeching halt. Your CRM, Website, Lead Generation, and Marketing Outlets do not care you are broke BUT YOU SHOULD.

You have two options right now. Lead with Revenue or Use Credit Cards, or even a combination of both. I prefer leading with revenue more than credit cards. Credit cards are great for emergencies or initial startup costs, and they are also a great piece of the long-term strategy, but when you come to depend on them that is

where the trouble starts. So I caution this, use credit cards but be disciplined with them. I will explain my personal credit card strategy later in the chapter.

I personally hate debt. Therefore, I always lead with revenue. I have one business card for business travel or some unexpected expense, but it is paid off asap. It makes no sense to be paying interest and it is too easy to let it get out of control. You do what makes you comfortable, this is what works for me and what I have taught countless others to similar success.

Think of this for a minute. If you rack up 10k in debt in the beginning and you are one of the 80% statistics that don't make it and you get out of the business, then you still owe 10,000 bucks to the credit card company. This is why I caution against credit card usage.

So, you have created your budgets. Let's assume that you need 3,500 a month for personal expenses. I would suggest having 14,000 - 21,000 stashed away. This is 4-6 months of reserves. I know most may not have that much money on hand, so the lowest I would suggest is 3 months of saving, which in this scenario would be 10,500. I can promise you this, it is going to be some time until you see a check so it only makes sense to plan for that now.

What about the business budget. In the beginning, it may not be too bad. I would only add to the business budget as you make sales and attribute money to the business account. But you will have business startup costs that you will need to consider.

Some of these costs may be a one time or annual cost but some of them are listed below. Now I am assuming that you prefer to join a franchise to start and want MLS. Each state will be different and this is just to give you an idea of the initial out of pocket fees required.

NAR and local boards: +/- 600 /yr.

For Sale Signs: 60 each

Open House Signs: 20-50 each

Business Cards: 50

License fees: +/- 100

Professional Headshot: 50-100

MLS fees: 50-100 +/-

Franchise fee: 50-500 +/-

That is just a snapshot of the fees and costs that you will incur.

Granted, it is logical that you can start with less, but if you come into this with a level of stress that you **MUST** make money now, it will be so much more difficult. By having a proper plan in place, you will find achieving success to be so much easier. I also understand that you may be in a position where the spouse makes enough to cover the bills and you may not need these reserves. I was not that fortunate and I have witnessed many people who came into this business ill-equipped or with no real business plan and reserves and before you know it I would see them working as a host/hostess at a restaurant.

Credit Cards and Bank Accounts

A logical strategy with credit cards is to get one that pays great points. American Express is my favorite since it forces me to be honest in my spending. Meaning I need to pay it off at the end of the month.

That is the most logical strategy. To carry debt on a credit card and pay interest to me does not make long-term sense. I get it, you may put your startup costs on the card but before you buy anything else get it paid off. All of my expenses go on to one card. That card is then paid off at the end of the month. Therefore, I earn points, pay for my expenses, and then pay them off monthly.

This is why you need to know your budgets. To go in blindly can leave you with more debt each month than income coming in. I have 2 cards. One I use for my personal expenses and one I use for business expenses. I also have 2 bank accounts, which I urge you to create as well. One for personal and one for business and do not cross contaminate them. If you ever get audited, it is easy to prove business expenses by having a separate business account.

I use Capital One 360 for this. It allows me to have multiple checking accounts and savings accounts and they are all linked. So when the commission comes into the business account, it is then broken down based upon my needs. We will also discuss this further in the Finance Chapter.

It works like this. Let's say 5,000 comes into my business account.

First, 1,250 is moved into a Tax savings account. I retain 1,000 in my business account. Then I move 550 to my Rainy Day savings account and move the remaining 2,200 to my personal account. We will break this down further later on so you understand why.

Please understand, one of the other top reasons business fail is lack of capital and income. By understanding and defining what is really and truly required you can plan your full-time entry into this business. By understanding that the whole commission is not yours, you can plan how to attain what is required. Again, lack of planning is one of the top reasons business fail.

A quick word on Retirement. It is up to you and your financial planner or CPA to determine what best works for you. Once you understand what is best for YOU, plan accordingly. I put a large sum away for the end of the year based upon where my tax liability is. I also invest in real estate which is my long-term retirement strategy so I may not put as much away as others. There are personal reasons for this. I want to have access to as much capital as possible without penalties.

I personally think a 3-family building is a better investment than my IRA. And when I am ready to retire that building is paid off and I have a 300,000 nest egg, which has paid for itself all along and has allowed me the luxury of leveraging the equity or income over time allowing me to do other things. But this is a strategy I designed with the help of professionals. Speak with them and do what works for you. Make a plan, carry it out and succeed.

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To learn the systems and tools we use and recommend visit

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