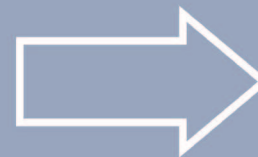


# LEARN THE BASICS OF BUILDING A SUCCESSFUL BUSINESS



THINKSTOCK IMAGES

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**Q:** I'm thinking of starting a home remodeling business with one of my close friends. He knows the most about the remodeling business because he has done it in the past and was successful with it. The only difference now is he doesn't have the capital, has a low credit score and is going through a tough divorce.

Since I'm very new to this line of work, I'd like to get all the advice and education about this business that I can before I get started.

I don't have capital we need, but I have a credit score over 720. Will I be able to take out a business loan to start a project? And if I can take out a loan, what type of loan should I get? Do I need to have some kind of collateral to take out a loan? Maybe a better question is: How does it all work?

**A:** It isn't that hard to get into the home remodeling business. In some states all you have to do is hang out a shingle, while in other locations you might have to obtain a business license that allows you to work in that field.

But making a home remodeling business work without getting into financial difficulties is likely to be the challenge you'll need to overcome.

Think about the division of labor to start. If the division of labor you imagine is that your friend will provide the home remodeling, and you're going to provide contacts and connections to get the work, and you're going to divide the profits in



half, that's fine. Or, if you're going to put up some cash to get started and he does the labor and marketing and you'll divide the profits, that's fine, too. There are many ways for you and your friend to determine how the profits of the business will be split.

The key thing is to have this conversation now and get your agreement about the business in writing before you start trying to borrow money. It's also important to figure out what type of business you are going into.

There are lots of decisions to make on the business side with your friend: You'll need to figure out what the ownership structure of the company looks like, what percent you and your friend own, what responsibilities each of you has, and how any cash you leverage or put into the business will be repaid before (or after) you and your friend get paid your salary, not bonuses. Will you hire employees? What benefits will you offer them and how

will they be paid?

If you get through this first part of determining what the structure of the home remodeling business will be and how all the details will pay out, you should then pay for an attorney to put your agreement in writing. Both of you should sign it.

If you're still on speaking terms (and a lot of prospective business partners don't make it through the first step), the next step will be to figure out how you plan to operate the business from a financial perspective.

You have a number of options: You can borrow on a home equity line of credit (which will put your house at risk but will be cheap, fairly easy-to-get cash -- if you have the equity). You can talk to your bank about getting a personal line of credit (you will need to put up some collateral, and it will be more expensive cash to borrow). Or, you can have your customers pay you as you go along to cover the costs

and expenses of the project. There may be some other opportunities as well, such as charging against a store credit card or personal credit card, getting a Small Business Administration (SBA) loan.

Finally, you'll need to know who is doing the work and how you're going to pay your people if you're going to hire someone else. So, think through how this business will work before pouring your heart, soul and equity into it. We'd suggest you sit down with your friend -- he has experience in the business -- and walk through several different projects that he completed in the past.

As he talks to you about these projects, have him explain to you how he got the project, how he got paid, and how he paid others. Your partnership will only work if you two are on the same playing field, and you understand the business that he has in mind.

Here's something to keep in mind: If you start with small jobs, you might not need much capital, if any. You can get paid for the jobs by the person hiring you. Keep all the profits in the business and use that money as capital for bigger projects. Many books have been written on the subject, and you might want to pick some up to get a handle on how it all works.

Just don't read the "get rich quick by remodeling real estate" category of books. You should read thoughtful business books that will teach you the basics of building a successful business. Then, find an attorney, a great accountant and other partners who will help you through the ups and downs of the remodeling business.

Good luck.