Launching a New Business? Invest in Yourself

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Many experienced workers in the second half of life are joining the ranks of entrepreneurs rather than sticking with their current job or retiring. They're using their experience, skills and creativity to start new enterprises and to embrace self-employment.

Older people are well suited to the startup culture, whether they are pushed into it by involuntary retirement or pulled into it by entrepreneurial(https://www.nextavenue.org/become-entrepreneurial-retirement/) passion. These second-life entrepreneurs are adept at solving problems, thanks to long years of work experience and deep networks of business contacts.

In 1996, 14.8% of entrepreneurs were 55 to 64 years old and by 2020, 24.5% were 55 to 64 years old, according to the Kauffman Foundation (https://www.kauffman.org/) .

"Entrepreneurship can be really fun," says William Gartner, the Bertarelli Foundation Distinguished Professor of Family Entrepreneurship (https://www.babson.edu/family-entrepreneurship-institute/) at Babson College near Wellesley, Massachusetts. "Why not? Go ahead and do it."

Where to Find Financing?

The question is, how should 50-year and older entrepreneurs finance their startup? Getting access to capital to fund a new business is difficult for anyone. But older entrepreneurs confront the additional challenge that potential funders often see their advanced age as a negative.

Venture capitalists and angel investors generally are not interested. They look for businesses with national and global ambitions, while many businesses started in the second half of life are small, with a handful of employees at most.

Banks aren't eager to lend to startups, either. The credit risk is too great to offer loans to businesses without a track record.

"It can often be a challenge for a business starting out to get money," says Shakia Webb, Senior Program Officer, Capital Access, at the Kauffman Foundation. "Banks or other lenders want to see historical trends."

The primary source of startup capital? Personal savings. Bootstrap finance. Rainy day funds. That's right, founders typically finance their own startups, putting up 57% of the funding for nascent ventures, according to "Financing the Emerging Firm (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2844919) ," a 2012 paper that Gartner wrote with Casey Frid at the University of St. Thomas in Minneapolis and John C Alexander at Clemson University in South Carolina.

(An implication of their study, they note, is the amount of bootstrap financing dwarfs any other source of outside financing, including venture capital.)

"People need to realize that the money will come from their own pockets," says Gartner. "Not much will come from family and friends. Banks loans are rare."

Start as a Side Hustle

A new business typically needs about 18 to 24 months before it can sustain itself with a positive cash flow. That means you'll need enough savings to keep your business afloat that long.

Alternatively, Gartner says many entrepreneurs first nurture their business venture as a side hustle (https://www.nextavenue.org/side-hustle-business/) while still working full time to bring in an income. The real investment price paid by these entrepreneurs is time, or really a lack of time outside of work and side hustle. They learn how to generate the cash flow they need before launching their business as a full-time enterprise.

Whether financed out of savings, earnings from a job or some combination, you will want to limit your downside risk to disappointment and setbacks. "Smart entrepreneurs never lose more than what they can afford to lose," says Gartner. "You play out small wins over time and test the marketplace over time."

A Whole New Career

The experience of Rosemarie Kelly Ndupuechi is instructive. She had a long and rewarding career in national sales at the agricultural giant Cargill, the largest privately held company in the U.S. (Ndupuechi sprinkles sayings she learned at Cargill throughout our conversation. Her favorite for new entrepreneurs is the catchphrase: Crawl. Walk. Run.)

She left Cargill in 2013 and looked around at what to do next. Intrigued by the event-planning business, she initially volunteered for a well-known local planning company. She learned the ropes of event planning and in 2014, with the support of a mentor, launched 3E Productions: Engaged Energized Events.

The event planning company serves corporate and nonprofit clients in the Twin Cities and greater Minnesota. She has about eight employees on contract; they all have other jobs.

She started her business by tapping into savings. "I seeded the business," she says. "I had a rainy-day fund."

Options for Entrepreneurs

There are other ways to find money. In recent decades an ecosystem of advice, knowledge and support for would-be entrepreneurs has evolved throughout the country. Many of these organizations offer new entrepreneurs training, mentors and access to low-interest-rate loans. They also share the goal of growing the ranks of entrepreneurs, especially among Black people, women and other minorities and communities long ignored by traditional funders.

Case in point: Women Venture (https://www.womenventure.org/) in St. Paul, Minnesota. The organization can offer Small Business Administration loans ranging from $500 to $100,000 under SBA's Microloan Program. The loans, which come with a 6% interest rate, are commonly used for small but critical purchases — say, a laptop for business. New entrepreneurs with less-than-sterling credit histories can boost their credit scores by repaying the loans.

In addition to running her own business, Ndupuechi is Chief Advancement and Marketing Officer at Women Ventures.

"I tell entrepreneurs, don't use the credit card," she says. "Please, please, please don't use your credit card to access capital. That's 17% interest."

Classes and Mentors

The real value of organizations like Women Venture lies less with their ability to lend money and more in their classes and mentorship for teaching the basics of starting and running a business. A key theme that emerges from reviewing the financing options for the typical 50-plus entrepreneur is the importance of investing in expanding your knowledge and skills that will boost the odds your business idea will become profitable and succeed.

"Working for someone else is very different from working for yourself," says Ndupuechi. "Invest in yourself(https://www.nextavenue.org/want-to-work-for-yourself-heres-a-reality-check/) ."

Among the training options in your community to research are the Kauffman Foundation's FastTrac program(https://www.fasttrac.org/) . The program for aspiring entrepreneurs offers lessons and tools to start and grow your business idea. The program is flexible,

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with courses offered virtually (self-paced or with a cohort of your peers via a FastTrac affiliate) or in-person (virtual or blended course). AARP offers a number of programs for startups, including Work for Yourself@50+ (https://workforyourself.aarpfoundation.org/) .

Befriend Bankers

Assuming your business grows over time, bankers will become more interested in doing business with you. They'll want to see your books and other financial and tax documents. Yet even before you have the kind of information banks will want to see it can pay to get to know a bank. By the time it makes sense for you to do business with a lender they will already have some knowledge of your journey and progress. "Go to them first," says Webb. "Build a relationship with a banker."

Options exist when it comes to financing your business. But in the early days of transforming your business idea into a real-world enterprise the most valuable resource is your personal savings or the earnings from your job. Count on it.

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