

THE BASICS

Identifying the Market

Remember, no matter how good you think your product or service is, what the customer thinks is what really counts. And, even if your product or service is well-liked, you need to be sure that your customers will buy from you often enough, and in large enough quantities to consistently generate the revenues needed to support and maintain your business and make a profit.

- **The product or service**
 - What evidence is there of a need for the prospective service or product?
 - How will you price it?
 - Why is it unique?
 - Why will customers prefer your product/service over the alternatives?
- **The customers**
 - What kinds of people have a need for your product/service?
 - Is the population of prospective customers large enough to support your business?
 - How often will the typical customer use your product or service?
 - Is the customer base growing or shrinking?
- **The competition**
 - Who are your competitors and how large are they?
 - Where are they located?
 - How do they price their products/services?
 - How are their operations similar or different from yours?
 - How many similar companies were opened last year?
 - How many similar companies went out of business last year?
- **Location of your business**
 - Is the location properly zoned for your type of business or service?
 - Is there adequate parking available for customers and employees?
 - If customer traffic is important to your business, is it adequate in the proposed location?
 - Is there room for expansion in the future?
 - Is the property well maintained?

You can determine the answers to these questions through market research that may involve talking to potential customers and future competitors or looking at census data.

WHAT FORM WILL YOUR BUSINESS TAKE?

There are four major legal forms of business organization to meet the different personal and business needs of business owners. Listed from the simplest to the most complex they are:

- The sole proprietorship
- The partnership
- The corporation - C corporation and S corporation
- The limited liability company (LLC)

- **Sole Proprietorship**
 - Most common form of business ownership
 - Owner runs the business
 - No shareholders
 - Inseparable from owner
 - Advantages
 - Quick, easy and in-expensive to set up.
 - Sole ownership of profits.
 - One owner has control and decision making power.
 - No separate taxation.
 - Disadvantages
 - Unlimited owner liability.
 - Difficulty in raising outside capital.
 - Business may dissolve when owner dies.

- **Partnership**
 - Traditional form of business ownership for professional organizations like legal and accounting firms.
 - Owned by two or more people.
 - A written partnership agreement is essential.
 - Inseparable from partners but can have debt and property in its name.
 - Advantages
 - Ease of formation.
 - Taxation as individual partners.
 - Flexibility in decision making.
 - Disadvantages
 - Unlimited partner liability, also liable for partners' acts.
 - Relative difficulty in obtaining large sums of capital.
 - Legally dissolves upon change or death of partner.

- **Corporation - C Corporation**
 - Separate legal entity created and operated with the permission of the state in which it operates.
 - Can sue or be sued, pay taxes, borrow and repay money.
 - Can have one owner or many owners.
 - Articles of incorporation are filed with Secretary of State.
 - Advantages
 - Limited liability for investors
 - Continuity of life
 - Easy transfer of ownership
 - Greater access to capital
 - Disadvantages
 - Can be costly to set up
 - Double taxation of corporation and investors
 - Extensive government regulations and required reports

- **Corporation - S Corporation**
 - Major differences between C and S Corporations.
 - Shareholders limited to 35.
 - Only one class of stock permitted.
 - Shareholders are taxed individually.

- **Limited Liability Company (LLC)**
 - Relatively new form of entity in the U.S.
 - Separate legal entity, but not perpetual .
 - Advantages
 - Limited liability.
 - Unlimited number of owners.
 - Easy to raise capital.
 - Disadvantages
 - Can be costly to set up.

- Due to its newness as a form of business ownership, the law regarding the LLC is still evolving.

THE BUSINESS PLAN

Your Business Plan is the most important document you will ever put together. It provides a road map to help guide your business as it grows. In it you establish benchmarks and a set of checks and balances to keep your business under control. It will safely guide you through the turbulent waters of constant change.

It will also serve as an instrument to raise capital and obtain financing. It is your representative at the bank and as such will provide answers to the bank loan officer and the credit committee.

The following is an outline for the business plan. The elements are flexible and can be changed or altered to fit specific situations.

Business Plan Outline

- **Introduction and Executive Summary**
 - Business description
 - Product or service to be offered
 - Market potential
 - Management and ownership
 - Amount and purpose of the proposed financing
 - Loan retirement
 - Financial summary
- **Section I: The Company**
 - Description of the company
 - State the company's goals and objectives
 - Company history (if applicable)
 - Company objectives and strategies
- **Sections II: Amount of Financing Needed**
 - Amount the business needs to borrow
 - Use of the funds
 - Payback period or Services
 - Describe the product or services
 - Describe any patents, trademarks or royalty agreements
 - Need for manufacturing and engineering (if applicable)
- **Section IV.- Marketing Strategy**
 - Industry
 - The current status and prospects for the industry
 - New products and developments, new markets and customers
 - Market
 - Market size and history
 - Seasonal fluctuations and growth potential
 - Customers
 - Demographics and size of customer base
 - Basis for purchase decision
 - Competition
 - Type of competition in terms of location, size, reputation and market share
 - Strategy
 - Define market strategy
 - Current and projected market share
 - Product pricing and profitability
 - Advertising and promotion plans
 - Selling methods
 - Service and delivery
- **Section V: Operations**
 - Plant location(s) and description
 - Cost and quality control
 - Production process
 - Labor force
 - Capital equipment requirements
 - Sales forecasts
- **Section VI: Management**
 - Organization chart
 - Management team, duties, responsibilities, skills
 - External advisors and relationships

- Board of directors (if applicable)
- **Section VII: Financials**
 - Latest balance sheet and income statement for past two to three years.
 - Profit and loss and cash flow forecasts by month and quarter for first year, and by year for years two and three.
 - Forecasted balance sheets at year end.
- **Section VIII: Proposed Financing**
 - Amount of proposed financing
 - Use of proceeds
 - Payback and collateral

HOW WILL YOU FINANCE YOUR BUSINESS?

The need for capital is common to all businesses, both large and small. However, small businesses often have a more difficult time attracting investment capital. A major cause of business failure is inadequate financing. It is important that the business owner look carefully at the needs of his/her business and develop the documents necessary to convey these needs to investors or a commercial lender.

How much money will you need to start your business?

One assumption every business owner can be assured of is that it will take more money than anticipated to start the business. Be sure to take into account the following:

- **Initial expenses**
 - Advertising and promotion
 - Beginning inventory costs
 - Supplies and furnishings
 - Renovation and/or remodeling
 - Licenses and permits
 - Signs
 - Furniture and fixtures
 - Deposits (electricity, water, telephone, gas, lease, etc.)
 - Monthly expenses
 - Salaries and wages
 - Rent
 - Utilities
 - Advertising and promotion
 - Supplies
 - Taxes
 - Interest
 - Maintenance
 - Miscellaneous

It is advisable to have working capital on hand to cover the first few months of expenses until the business begins generating income to cover these expenses.

Where will you get the money to finance you business?

- **Personal resources**
 - Savings, stocks, bonds
 - Family, friends
 - Credit cards
 - Home equity loan
 - Loan against cash surrender value of insurance
- **Equity capital**
 - Partners
 - Public stock offering
 - Sell part of the business to a venture capital company or angel investor
- **Conventional lending sources**
 - Bank loans
 - U.S. Small Business Administration
 - Finance companies
 - Certified Development Companies
 - Local revolving loan programs

HOW DO GOVERNMENT AGENCIES AND REGULATIONS AFFECT YOUR BUSINESS?

There are certain government regulations that you must adhere to. Among the things you need to do are:

- **Building Permits and Inspections:**
 - Zoning clearance (if any construction takes Place)
 - Building permit (if construction or demolition takes place)
 - Health inspection (for any food service business)
 - Electrical inspection (if additional lines needed)
 - Gas inspection (if additional lines needed)
 - Sanitation inspection (if on non-municipal septic system)
- **Licensing:**
 - City privilege license
 - State business license
 - State income tax registration
 - Federal tax registration
 - Unemployment insurance regions (businesses with one or more employees for more than 20 weeks per year or pay wages over \$1500 in a calendar quarter)
 - Workmen's compensation registration (businesses with five or more employees)
 - Incorporation registration (business wishing to incorporate)
 - MS Secretary of State Business Services Phone: (800) 256-3494
 - Franchise tax registration
 - Alcoholic beverage license (if alcohol sold on premise)
 - Surety bond (if applicable)