START SMART

This guide is authored by the Shenandoah Valley Small Business Development Center (SV SBDC). The mission of the SV SBDC is to advice, train, and inform small businesses to help them achieve success.

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Contents

Are You Ready?

Identify Your Reasons

As a first and often overlooked step, ask yourself why you want to own your own business.

- ☐ Freedom from the 9-5 daily work routine.
- ☐ Being your own boss.
- ☐ Doing what you want when you want to do it.
- ☐ Improving your standard of living.
- ☐ Boredom with your present job.
- ☐ Having a product or service for which you feel there is a demand.

✳ Some reasons are better than others; none are wrong. However, be aware that there are tradeoffs. For example, you can escape the 9-5 daily routine, but you may replace it with a 6 a.m. to 8 p.m. routine!

Personal Characteristics

Going into business requires certain personal characteristics. This portion of the checklist deals with you, the individual. These questions require serious thought. Try to be objective. Remember, it is your future that is at stake!

- ☐ Are you a leader; are you self-confident?
- ☐ Do you like to make your own decisions?
- ☐ Do others turn to you for help in making decisions?
- ☐ Do you enjoy competition?
- ☐ Do you have will power and self-discipline?
- ☐ Do you plan ahead?
- ☐ Do you like people and get along well with lots of different types?
- ☐ Do you get things done on time?
- ☐ Do you adapt well to changes; can you be flexible to new situations?
- ☐ Do you handle disappointment or rejection well?

✳ Ask someone who knows you well—and is brutally honest—to answer these questions about you.

Personal Conditions

This next group of questions is vitally important to the success of your dream. It covers the physical, emotional, and financial strains you will encounter in starting a new business.

- ☐ Are you aware that running your own business may require working 12-16 hours a day, 6-7 days a week?
- ☐ Are you in good health; do you have the physical and emotional stamina to handle the workload and schedule?
- ☐ Are you prepared to lower your standard of living if needed until your business is firmly established?
- ☐ Is your family prepared to do likewise; will they adjust to strains they too must bear?
- ☐ Is your personal credit in good shape? If not, have you started steps to correct errors or rectify problems?
- ☐ Do you have equity to invest (20-30% of start-up costs) in order to secure your business loan?
- ☐ Are you prepared to lose your investment?
- ☐ Is your spouse aware of the risks?

Business Skills and Experience

It is unlikely that you alone possess all the required skills and experience needed to operate a successful business. You may need to hire personnel to supply the skills you lack.

✳ These questions will help you identify the skills you possess and those you lack.

- ☐ Have you identified the basic skills you will need in order to have a successful business?
- ☐ Do you possess those skills?
- ☐ Have you ever worked in a managerial or supervisory capacity?
- ☐ Have you ever worked in a business similar to the one you want to start?
- ☐ Have you had any business training in school?
- ☐ When hiring personnel, will you be able to determine if the applicants' skills meet the requirements for the positions you are filling?
- ☐ Could you assemble an effective management team to advise you?
- ☐ If you discover you don't have the basic skills needed for your business, will you be willing to delay your plans until you've acquired the necessary skills?

Is Your Idea Viable?

1. Do you have a clear idea about what product(s) or service(s) you wish to sell?

2. What are the benefits to your prospective customers/clients that they will get by buying from you?

3. What market research have you done to learn about the demographics, market size, competition, and pricing options you will have?

4. What will you do or have that will make your business unique, different from that of your competition? (a great niche) If there is little to no competition, why not?

5. Can your business legally be run from the location you have in mind?

6. What is your income goal? What income do you require?

7. What will your total startup costs be? Do you have, or can you get that money?

8. How much money do you have to start the business? Is it enough?
   Total start-up costs + Money needed to survive until you reach break-even and/or until you make a profit + Money you will need to put into the business after startup for marketing, inventory, and unexpected expenses.

9. How many units/items/ products/contracts will you have to sell to get the net profit after taxes that you need?

10. Have you prepared either a mini-business plan or a full business plan, whichever is appropriate for your needs?

11. Have you prepared a marketing plan for your business?

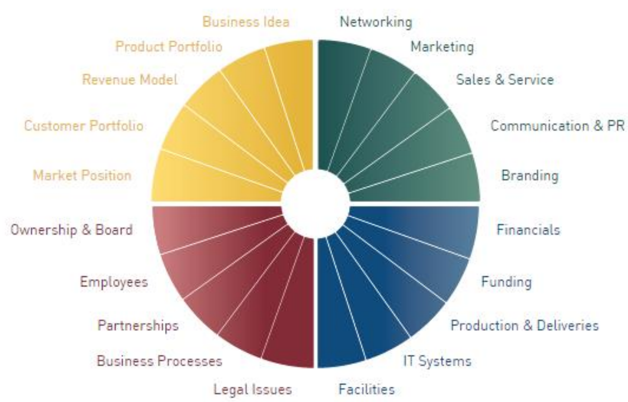
12. What, if any, experience do you have in this business or in owning a business?

13. Are you the right person to do this? Is your personality the type that will lead to success in business?

14. Consider the four aspects: Business Concept, Customer Relations, Operations and Organization. (see the Growth Wheel 360˚Screening) Which aspect of running a business do you like to do; which are you good at; which do you not like to do?

Introduction to Growth Wheel

Growth Wheel is a visual toolbox. The 4 colors you see in the wheel are a symbol of the 4 challenges you are going to have when growing your business. These are challenges that everyone will face, no matter what size of business or industry you are in. The first challenge you have is to create an attractive **Business Concept**. You have to make a product, a service, or a technology that somebody wants to buy. The second challenge is to establish a strong **Organization** to deliver this concept. Now, even if you have a strong business concept and you have a solid team of people and partners, the revenue can only come from one place, the customers. So the third challenge is to build lasting **Customer Relations** - get knew clients, keep them and grow them. Even after you establish your customers and sales, there is still one last challenge, and that is to make money and have profitable operations. So the fourth challenge is to maintain profitable **Operations.**



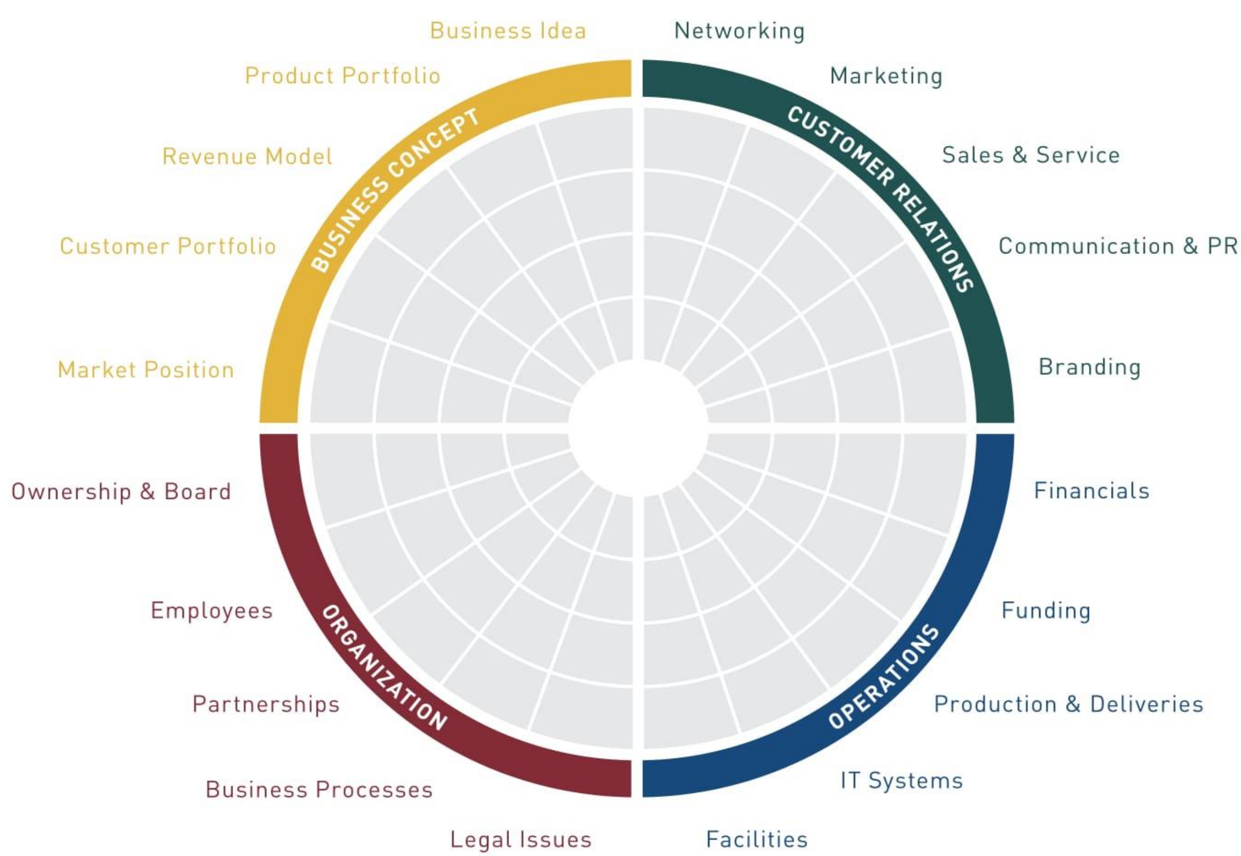
Growth Wheel breaks down these challenges into 20 focus areas, and that gives you a full 360 perspective on your business so you can avoid blind spots and make smarter decisions. To make or grow a company you need to make decisions and take actions. One of the first decisions you must make is what you are going to do now and what you are going to do later, what decisions you are going to make now, and which ones can wait. That's where Growth Wheel, as an interactive and comprehensive checklist, helps. By giving a 360 view of the business, you can better choose what to do first and develop a structure to follow and a language to use when you have this conversation with those around you.

GrowthWheel® 360° Screening
Get Focus

Date:

Name:

Company/Project:



GrowthWheel 360° Screening
Three ways to get focus

The GrowthWheel 360° Screening gives you a 360° view on your business. This will help you make sure that you don't leave out anything when deciding what to focus on next.

There are three different types of screenings. Choose a type on the right and go through the simple process to get the right focus.

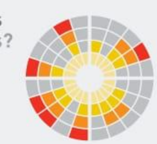
#1: Assess your Status
How is your business going?

Go through the 20 Focus Areas and assess how well you think your business is doing at the moment.

Score your business status within each Focus Area with 25%, 50%, 75%, or 100%.

Finish your screening by adding a circle around 1 to 3 Focus Areas you want to work on now.

#2: Assess your Opportunities
Where do you see possibilities?



Go through the 20 Focus Areas in the wheel and assess the opportunities you see for your business right now.

Score your opportunities within each Focus Area with 25%, 50%, 75%, or 100%.

Finish your screening by adding a circle around 1 to 3 Focus Areas you want to work on now.

#3: Assess your Skills
What do you need to learn?

Go through the 20 Focus Areas in the wheel and assess the competencies of yourself, your team, or your business.

Score your skills within each Focus Area with 25%, 50%, 75%, or 100%.

Finish your screening by adding a circle around 1 to 3 Focus Areas you want to work on now.

GrowthWheel®

Y1.04

BUSINESS CONCEPT
/Business Idea

DECISION SHEET

v2.0

Intention

It is one thing to have a great idea, but another to explain the idea in a convincing way to customers, end-users, business partners, or investors.

By making a clear idea description, it gets easier to explain and sell an idea, as well as getting feedback on it.

Process

Start by writing down a name for the idea you are working on.

Continue by getting an overview of the various components of the idea that you want to describe. Use the checklist for inspiration on further items to be included in the idea description.

Finish by putting words under each headline to describe the idea.

Next step

- Write a final document describing the entire idea.
- Write draft text for a website or presentation.
- Send your idea description to people who can give you feedback.

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Developed by: GrowthWheel®

Idea Description

Decide the key components of the idea and find the best way to describe them

√ **CHECKLIST: ADDITIONAL COMPONENTS**

- Personal ambitions
- Rights to the idea
- Problems the idea solves
- Competency needs
- Competitor profiles
- Market potential
- Distribution and logistics
- Packing
- Packaging (bundling)

NAME OF THE IDEA:	

COMPONENTS OF THE IDEA	**DESCRIPTION**	**COMPONENTS OF THE IDEA**	**DESCRIPTION**
Summary of the idea		**Product description** (functions, design, technology)	
History of the idea (how it emerged)		**Revenue model** (price levels, price plans, discounts)	
Needs the idea will satisfy (problems, new opportunities, savings, etc.)	• • •	**Costs and investments** (establishment, operations)	
Customer groups and markets	• • •	**Production readiness** (obstacles)	
Competitors and substitutes (current and future)	• • •		
Patent opportunities (news value)			

Date: | Name: | Company:

Y1.01

BUSINESS CONCEPT
/Business Idea

DECISION SHEET

v2.0

Intention

The company's mission has to do with the motivation and drive that built the business idea and the foundation of the company.

A clear written mission can create an ongoing sense of meaningfulness for both the company and its target group.

Process

Start by giving a short answer to each of the 5 questions about your company.

Continue by using the answers as an inspiration to come up with a sentence that can be used as a first draft of your written mission.

Finish by trying to reduce the written mission to a mantra of 2-5 words.

Next Step

- Use draft and mantra to make a more freely written mission.
- Send your written mission to people who can give feedback.
- Make action plan for how your company's mission can be experienced by customers.

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Mission
Formulate the company's purpose and mission

CATEGORY	KEY QUESTION	ANSWER
CONCEPT/ PRODUCT	**WHAT** problem does the company solve?	1
CUSTOMER/ TARGET GROUP	**WHO** is the company solving the problem for?	2
PROCESS/ TECHNOLOGY	**HOW** is the problem solved?	3
VALUE CREATION	**WHICH** value is created for the target group?	4
PURPOSE	**WHY** does it matter?	5

THE DRAFT MISSION IN ONE SENTENCE

The company's mission is to deliver/make/develop...

1

to the customer group...

2

in the way that we...

3

and thereby help our customers to...

4

We are passionate about this task because...

5

The mission told as a mantra:

Date:

Name:

Company:

Y4.06

BUSINESS CONCEPT
/Customer Portfolio

DECISION SHEET

v2.0

Intention

By getting to understand who our customers are and what they think, feel, and do, we can better figure out how to create value for them and communicate with them in the best way.

A good communication about a product that also fits our client's needs gives good chances of selling.

Process

Start by writing down any facts you know about one of your typical customer personas.

Continue by noting keywords on how you imagine that your customer thinks, what he/she feels, does, and where he/she is going in life.

Finish by writing down details about your customer persona's current situation as for challenges, needs, circumstances, environment, and other elements you can think of.

Next Step

- Decide if it is useful to describe other customer personas.
- Use your notes to write a more coherent description of your typical customer.
- Decide what to change in your product and/or communication to better fit your customers.

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Customer Persona

Get a better understanding of your customers by describing typical profiles

FACTS ON TYPICAL CUSTOMER PERSONA

Age	
Gender	
Education	
Position	
Report to	
Industry	
Location	

CUSTOMER PERSONA: THINKING

Ideas	
Assumptions	
Opinions	

CUSTOMER PERSONA: FEELING

Concerns	
Interest	
Preferences	

CUSTOMER PERSONA: DOING

Responsibilities	
Projects	
Activities	

CUSTOMER PERSONA: GOING

Direction	
Changes	
Opportunities	

CUSTOMER PERSONA'S CURRENT SITUATION

Challenges	Needs	Circumstances	Environment	Resources human, financial)	Other

Date: Name: Company:

Y2.07

BUSINESS CONCEPT

/Product Portfolio

DECISION SHEET

v2.0

Intention

There is a difference between a product's physical features, the benefits these features provide, and the actual value these benefits give the customer in the end.

By clarifying the difference between the features, benefits, and value, we can make better products and more easily communicate their value.

Process

Start by writing down the name of the product you want to look into.

Continue by making a list of the physical, technical, functional, or design related features of the product. Next, list the benefits each feature gives the product.

Finish by writing down the actual value these product features and benefits will personally give the customer. Use the checklist for inspiration.

Next step

- Figure out which new product features might add to the value the customer is getting.
- Explore how to create customer value in different ways.
- Update the company's marketing materials to focus on product values rather than product features.

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Product Value Proposition

Find out how the product or service creates actual value for customers

√ CHECKLIST: PRODUCT VALUES

- More sales
- Cost savings
- Brand strengthening
- Goal achievement
- Problem solving
- Opportunity creation
- Risk reduction
- Good experience

PRODUCT:

PRODUCT FEATURES (physical, technical, functional, design etc.)	**PRODUCT BENEFITS** (e.g. easy to use, fit, flexibility, etc.)	**PRODUCT VALUE** (financial, organizational, or personal impact)

Date: | Name: | Company:

9 Ways to Learn More About Businesses

If this is a new venture for you, it is imperative that you have a realistic understanding of what will be involved. Below are some suggestions to gather more information. Maybe you'll visit and study a business exactly like the one you want to start. Maybe it will be similar to it. That's ok too.

The first thing to do is to make up a list of questions. Remember, your goal is to find out as much about the business as you can, <u>before</u> you put your money at risk. Every business has little idiosyncrasies, tricks of the trade, and problems that are not easily seen.

Try one or more of these techniques to learn about a business type:

1. Find similar businesses in a location where you will not be in direct competition. Visit the store and observe, contact the owner/manager and ask for some time to talk and learn. Many entrepreneurs are glad to help you as long as you are not a direct competitor, and in some industries, even that is not a deterrent to honest conversation.
2. Get a part-time job in a similar business, so you can talk to people who work there; observe what's going on and how things are done.
3. Volunteer your time to an owner of a similar business, but be honest about what you want to learn and why.
4. Take an owner or manager to lunch. Ask questions about the business and its processes.
5. Hire the manager you consult, on an hourly basis, to help you learn what you need to learn.
6. Attend tradeshows for your industry. If needed, call the owner of a business that advertises in the industry trade magazine and ask for a ticket to the next show so you can visit his booth at the show.
7. Go to the library and on-line Reference Desks and gather as much information as you can about the industry and about the type of business you are considering.
8. Subscribe to the industry trade magazine, and ask for previous issues of it; read them and learn.
9. Conduct a survey of potential customers about their needs for your products or services.
10. Test products or services if at all possible to learn and improve.

Here is the maxim: the more information you have, the lower your risk. It would be foolish to put money into a start-up without doing your homework first.

Locating Your Business

Here are 30 questions to consider, depending on the type of business you are starting.

1. What research did you do before you selected a location?
2. For retail: have you researched traffic patterns for foot traffic, vehicle traffic, origin of traffic, destination of traffic, stoplights, turn lanes, speed limit, etc.
3. How much will the location cost?
4. How much will it cost compared to other locations?
5. Will the site intercept traffic (foot or vehicle) going to another store or office?
6. Are there physical barriers to access? (freeways, rivers, etc.)
7. What is the tenant mix around you? How will they impact your business, for good or bad?
8. How is parking affected by weather? (sun, rain snow), ease of access, etc.
9. Is the site vulnerable to unfriendly competition?
10. What are the population demographics in the area?
11. Is there a trending change in demographics?
12. How much competition is there in the area?
13. Should you be located near your competitors or far from them?
14. What is the neighborhood like that your customers must drive through to get to you?
15. What are noise factors?
16. Is it good for night business or being there at night?
17. Is there adequate labor pool to draw from to get employees?
18. Is there adequate police and fire protection?
19. Is good signage or place for good signage available? What regulations are in place about signage?
20. What insurance will be needed?
21. Will pick-up or delivery be easy?
22. Is it near where you live?
23. Is public transportation available near it?
24. If in a shopping center, where is it in the center?
25. Are customer restrooms available?
26. How much space do you need now and potentially in the future?
27. What renovations will be needed to make the space “meet code” and meet your needs?
28. What is the local business climate in the area?
29. What is the tax burden?
30. What are the wage/salary rates in the area?

Two more tips:

1. Decide on objective factors, not on emotions.
2. When you are not sure, don’t commit.

Home-Based Business

Most jurisdictions permit individuals to operate certain types of businesses within their homes but will require you to obtain a "Home Occupation Permit" or similar permit. Before moving ahead with a home-based business, call the Zoning Office in your area for more information.

In general, permits are not allowed or have significant barriers if your business creates excess noise, traffic, odors, or other "un-neighborly" aspects. Do not assume; ask first.

Here are some "typical" limitations that apply:

- Restrictions on signs and displays of merchandise
- Limitations on storage of supplies, equipment and merchandise
- Parking, traffic and noise restrictions
- The home occupation shall be a secondary use of the dwelling. All business activity shall be conducted wholly within the building.
- Restrictions on changes to the physical dwelling to accommodate the business
- The home occupation permit are not transferrable

There are other limitations that apply to home occupations. It is important for you to verify zoning requirements with the Zoning Office before you sign a lease, purchase a property, or make any improvements.

Reasons to Run a Home-Based Business

- There may be tax benefits.
- You get to work at home and may save child-care costs, auto costs, etc.
- It's cheaper than renting office space.
- It takes less money to get started.
- You can work any time of the day or night.

Reasons to Not Run a Home-Based Business

- There may be zoning or other laws that prohibit it or restrict it too much.
- There is a risk that your home life and business life will flow into each other.
- You may not be enough of a self-disciplined person.
- The type of business you want to have may not lend itself to using your home to run it.
- When the operational work of the business is done you may go do home-related work instead of doing the entrepreneurial work you should do for the business.
- There may be many too many interruptions from your kids, neighbors, etc.

Choosing Your Legal Entity

One of the early decisions that you will want to make as a business owner is how the company should be structured—what legal entity you should use.

✳ First, there is no "best" entity choice for small businesses.
Take some time to educate yourself about the various entity choices and turn to experts to help you understand the issues—some of which you may not have even known existed. An attorney and a tax accountant have insights and specific legal and financial information that could affect your venture.

In making a choice, you will want to take into account the following:

- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of "structure" you are willing to deal with.
- The business's vulnerability to lawsuits.
- Tax implications of the different ownership structures.
- Expected profit (or loss) of the business.
- Whether or not you need to re-invest earnings into the business.
- Your need to take cash out of the business for yourself.

SOLE PROPRIETORSHIPS

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law, you are one in the same with the business.

> **Sole Proprietorship**
>
> + Easy to organize
> + Owner has complete control.
> + Owner receives all income.
> - Owner has unlimited liability.
> - Benefits are not business deductions.

Advantages of a Sole Proprietorship

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow-through directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages of a Sole Proprietorship

- Sole proprietors have unlimited liability and are legally responsible for all debts and legal judgments against the business. Their business and personal assets are at risk.
- May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
- May have a hard time attracting high-caliber employees, or those that are motivated by the opportunity to own a part of the business.

- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).
- When the owner dies, a sole proprietorship no longer exists. Assets and liabilities of the business become part of the owner's estate.

PARTNERSHIPS

In a partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The partners should have a legal agreement[1] that sets forth:

- how much time and money each partner will contribute,
- how decisions will be made,
- how profits and losses will be shared,
- how disputes will be resolved,
- how future partners will be admitted to the partnership,
- how partners can be bought out or what steps will be taken to dissolve the partnership when needed.

✳ It's hard to think about a "break-up" when the business is just getting started, but many partnerships split up at crisis times and, unless there is a defined process, there may be greater problems.

Partnership

+ Easy to organize, but needs agreement.
+ Partners receive all income.
- Partners have unlimited liability.
- Partners may disagree.
- Life of business may be limited.

Types of Partnerships:

General Partnership
Partners divide responsibility for management and liability, as well as the shares of profit or loss according to their internal agreement.

Limited Partnership
A limited partnership consists of one or more general partners (i.e., those who are generally liable for the business) and one or more limited partners (i.e., those who have limited liability). If the statutory requirements are not followed, a limited partnership will be treated as a general partnership; therefore, it is important that you consult with an attorney in creating a limited partnership.

Joint Venture
Acts like a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership and will have to file as such, and distribute accumulated partnership assets upon dissolution of the entity.

Advantages of a Partnership

- Partnerships are deceptively easy to establish (by oral agreement); however time should be invested in developing the written partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal tax returns.
- Prospective employees may be attracted to the business if given the incentive to become a partner.

- The business usually will benefit from partners who have complementary skills.

Disadvantages of a Partnership

- Partners are jointly and individually liable for the actions of the other partners, unless a limited partnership is specifically created.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

CORPORATIONS

A corporation, chartered by the state in which it is headquartered, is considered by law to be a unique entity, separate and apart from those who own it. A corporation can be taxed; it can be sued; it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee major policies and decisions and appoint the management of the company.[1] The corporation has a life of its own and does not dissolve when ownership changes.

Corporation

+ Shareholders have limited liability.
+ Can raise funds thru sale of stock.
+ Life of business is unlimited.
- Incorporating takes time and money.
- May result in higher taxes overall.

Advantages of a Corporation

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect Subchapter S status (S Corp) if certain requirements are met. This election enables the company to be taxed similarly to a partnership.

Disadvantages of a Corporation

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. As a separate entity, the corporation pays income tax on its profits. Dividends paid to shareholders are not deductible from the business income; thus this income can be taxed twice.

Subchapter S Corporations

Under the Subchapter S corporate status, the company does not pay taxes on the income generated. Instead, the income or losses are passed through to the shareholders and reported on their individual tax returns. As a shareholder, you may be required to pay tax on the income of an S Corp even if you have not been paid any of the profits in the form of dividends or distributions.

If the shareholder is also employed by the company, wages paid to him/her must meet standards of "reasonable compensation". This can vary by geographical region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job (as long as there is enough profit to do so). If you do not pay reasonable compensation, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for payroll taxes on the total amount.

LIMITED LIABILITY COMPANIES (LLC)

The LLC is a relatively new type of hybrid business structure that is now permissible in most states. It is designed to combine the best features of a corporation and a partnership. Formation is more complex and formal than that of a general partnership[1]. The owners are called "members", and the duration of the LLC is usually determined when the organization papers are filed with the SCC.

Advantages of an LLC

- It has the tax benefits of a partnership: members are taxed for profits at their individual tax rates.
- Members have management control of the business without risking liability.
- An LLC is considered a separate legal entity.
- Members can be individuals, partnerships, trusts, corporations or other LLCs.
- LLCs are (so far) free of many of the regulations imposed on S Corporations, i.e., members who work for the business are not considered employees.

Disadvantages of an LLC

- The process of forming the LLC requires time and money; legal and accounting assistance is recommended.
- Owners have the same self-employment tax treatment as partners and sole proprietors.
- States may differ in their tax treatment of LLCs.
- Some attorneys still worry that there is little case law testing the LLC structure and that it still has an "evolving" tax status.

1. Consider: If a corporation, limited partnership, or LLC fails to register and/or conduct its affairs according to the regulations for that entity, its status can be terminated and it will be considered to be a General Partnership or Sole Proprietorship for taxation and liability issues.

NON-PROFITS

A nonprofit is a tax-exempt organization that serves the public interest. In general, the purpose of this type of organization must be charitable, educational, scientific, religious or literary. Legally, a nonprofit organization is one that does not declare a profit and instead utilizes all revenue available after normal operating expenses in service to the public interest. These organizations can be unincorporated or incorporated. An unincorporated nonprofit cannot be given federal tax-exempt status or the designation of being a 501(c)(3) organization as defined by the Internal Revenue Service. When a nonprofit organization is incorporated, it shares many traits with for-profit corporations except that there are no shareholders.

Advantages of a Non-Profit

- Organizations that qualify as public charities under Internal Revenue Code 501(c)(3) are eligible for federal exemption from payment of corporate income tax. Once exempt from this tax, the nonprofit will usually be exempt from similar state and local taxes.
- Nonprofit organizations are allowed to solicit charitable donations from the public. If an organization has obtained 501(c)(3) tax exempt status, an individual's or company's charitable contributions to this entity are tax-deductible.
- Nonprofit organizations are eligible for government and private sector grants.

Disadvantages of a Non-Profit

- It takes time, effort, and money. Because a nonprofit organization is a legal entity under federal, state, and local laws, the use of an attorney, accountant, or other professional may be necessary. Aside from legal or other consultant fees, applying for Federal tax exemption can cost $275-$850 or more, in addition to state fees for incorporation.
- As an exempt corporation, a nonprofit must keep detailed records and submit annual filings to the state and IRS by stated deadlines in order to keep its active and exempt status.
- Personal control is limited. A nonprofit organization is subject to laws and regulations, including its own articles of incorporation and bylaws. In some states, a nonprofit is required to have several directors, who in turn are the only people who are allowed to elect or appoint the officers who determine policy.

BENEFIT CORPORATIONS

A benefit corporation is an incorporating structure similar to LLC or a C Corp. Such entities agree in their founding documents to take account of wider stakeholders than just their shareholders, including the environment, community, and workers. State tests of “benefit” are often quite vague, ranging from “general public benefit” to something more specific, like improving an education standard. It’s important to note that a Benefit Corporation is not the same as a B Corp status (which is a certification policed by B Lab, a nonprofit group).

Advantages of a Benefit Corporation

- Benefit Corporation statutes offer some protection from people who might change a company’s social mission down the road (though the law isn’t settled on these questions).
- Companies have greater latitude to pursue social goals without fear of being sued by their investors for failing to produce sufficient profits.
- Many investors are attracted to the social and environmental impacts of Benefit Corps.

Disadvantages of a Benefit Corporation

- Benefit Corps are new to the business world. There is a level of uncertainty that exists that only time will tell of its challenges and how businesses owners will navigate potential problems in the future.
- There aren’t any corporate tax breaks (unless you have tax-exempt status).
- Not everybody has accessibility to this type of incorporation. Because it’s so new, you’ll need to check with your state to see if this is a viable option.

❋ In summary, deciding the form of ownership that best suits your business venture should be given careful consideration. Use your key advisors to assist you in the process.

R5.04

ORGANIZATION
/Legal Issues

DECISION SHEET

v2.0

Intention

A new business can choose a number of different legal structures for the business entity.

By exploring the different factors to consider, we can find the best fit to the business and owners.

Process

Start by going through the different factors to consider when selecting a business entity. Next, tick off how important each factor is.

Continue by writing down any special needs and requirements of the company owners that influence the decision.

Finish by listing the type of incorporation that might fit the requirement.

Next Step

- Talk to an advisor or attorney about the best legal structure for the company.
- Prepare drafts of the documents needed for the incorporation.
- Make a plan for any filings needed.

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Company Legal Structure

Select the best type of business entity

FACTORS TO CONSIDER	IMPORTANCE			SPECIAL NEEDS AND REQUIREMENTS	TYPES OF INCORPORATION THAT FIT REQUIREMENT
	Low	Med.	High		
Limited personal liability A type of incorporation which will limit the owners' or managers' personal liability for debt and losses					
Terms for capital injection A type of incorporation which has no limits on number, type or nationality of shareholders and their returns					
Complexity of formation and administration A type of incorporation that requires limited resources to register and maintain corporate records					
Taxable entity A type of incorporation in which tax is treated at the personal level of the owners as opposed to the corporate level					
Conversion to other entity A type of incorporation which makes it easy to convert to a more suitable entity if venture capital is sought					
Management requirements A type of incorporation where the company can be managed without electing directors					
Capital requirements A type of incorporation which requires none or a limited amount of capital injected as share capital					

Date: Name: Company:

Common Mistakes Start-Up Businesses Make

Small business failure is usually tied to several clearly identifiable mistakes, which if small business owners were aware of, could increase their chances of survival. Here are 21 common mistakes that small businesses tend to make.

1. **Lack of Market Research**
   When a budding entrepreneur comes up with an idea for a new business he assumes that because he would buy such a product or service then everyone else will. This may be the case for day-to-day necessities but for other items this is usually not so.
   It's important that when you start up you carefully research the market to check that:
   a. There is demand at a level which would lead to a sustainable business
   b. People are prepared to pay the price required for you to make a decent profit
   Undertaking market research may appear time consuming but the effort will pay off.

2. **Poor Record Keeping**
   Some business people are not born administrators; they feel more comfortable getting out there and 'doing the business'. Paperwork is easy to ignore but can never be put off indefinitely. Sales, purchases and other expenditure must be carefully documented, so you know whether you are making a profit or not. Invoices must be issued on time and chased up promptly if there is a delay in payment. It's all very well having the sales but poor record keeping can hold you back. Having your paperwork in order will also save you time when it comes to your accountant doing your year-end books!

3. **Insufficient Capital**
   When starting off it's easy to decide what capital is required for fixtures and fittings, machinery and stock. What many new business owners forget about is the cash needed to fund day-to-day requirements, i.e. cash to pay expenses before your customers pay you. This is known as your working capital requirement. Small businesses can fail because they have insufficient cash to meet these immediate expenses. If you wish to survive make sure you set aside enough cash to meet all of your needs for the first few months.

4. **Ineffective Marketing Or None At All**
   You cannot afford to treat the cost of marketing as an unnecessary expense. A business with no marketing is like waving in the dark – you know you are doing it but no one else does! There are many ways to promote your business on a small budget. It just requires being inventive and creative. Whatever you do, don't assume that people will quickly know you are in business – they won't, unless you tell them.

5. **Ongoing Changes In The Market Place**
   As a small business owner it's very easy to get immersed in your business and not see what is happening around you in the market place. Always keep your eyes and ears open to what the competition is doing and what your customers want. Don't get left behind.

6. **Owner's Attitude**
   Attitude is everything in business. Don't forget that the real boss in your business is the customer. Running a business may make you feel important but don't let this develop into an "I am better than you" attitude. Do this and you will quickly chase your customers away.

7. **Spending On The Wrong Things**
   Being in business can be exciting, especially as the cash starts to roll in! However, don't be tempted to spend it on a new car, a house or just a good time. If you are to own a successful business then you have to keep some cash back to fund future growth. A business cannot grow without cash, so commit to spending business money on the business.

Money does not solve all problems. Putting more money into it may prevent you from taking a long hard look at what the problem really is. To go out and borrow money to pour into your business unless you absolutely must may cause your business to go out of business.

8. **Dependent On A Small Number Of Customers**
   Don't fall into the trap of setting up a business just because one person says they will buy from you every week or month. Setting up and running a business, which is dependent on one customer, is not a recipe for success. Before embarking on a new venture make sure you have a sufficient number of customers such that if a few go elsewhere you can still continue trading.

9. **Growing Too Quickly**
   Surprisingly, growing too quickly can be a problem. You have to be disciplined enough to only take on work you can handle. If you are tempted to accept too much you could end up disappointing not only the new client but also your existing ones. Also, don't underestimate the impact rapid growth can have your administrative burden. As I mentioned earlier, getting behind on the paperwork can have an equally damaging effect on your business.

10. **Trying To Do Everything**
    Finally, the problem most small business owners have is the fact that everything falls on their plate. Inevitably this is how it's likely to be in the beginning, when the limited budget means that staff are a luxury, but as the business grows be aware that you cannot continue to do all tasks. There will come a point when you become inefficient and not have enough time to complete everything in sufficient detail. Taking on an extra pair of hands will increase your costs but you will be surprised at how much time will be saved, allowing you to do what you do best – getting the business in.

11. **Using the Wrong Name**
    If you bought an existing business, don't keep the old name if the goodwill was overestimated. Don't create a new name if the goodwill was accurate or underestimated. Make your company name have marketing value. Do some market research to see if your potential customers like your new name before you change it. If they like it use it, even if you don't like it. See page 43.

12. **Not Getting the Right Help**
    There is nothing wrong with needing help. All business owners need it at times. See yourself as a learner, rather than as a doer. You need to learn how to build the business, not just learn how to do it. If all you do is do it, you will not achieve your goals. People you ask for help will be happy to help you. It makes them feel good about themselves. When you feel a need for help, get it right away. Time works against you if you don't.

13. **Wrong Form of Legal Structure**
    Any form is the right one, be it a sole proprietorship, partnership, general partner or corporation-but not for everyone at the same time. It depends on your situation. As a rule of thumb, start as a sole proprietor. You can easily shift to one of the others later, but it is hard to go the other way. Always use an attorney for any form other than sole proprietorship. See page 12 for more information on the different legal structures.

14. **No Business Plan**
    Why have one? It gives you better ability to project your sales, budgets, and cash flow. It is needed to get money from a bank or smart relative. It lets your suppliers know that you are financially sound and that you know what you are doing. A business plan makes you think through all of the aspects of your business before you start operating. It substitutes a plan for plain old hope. See examples on pages 30-39.

15. **Wrong Location**
    Unless you are operating from your home, this is a very important decision. Maybe even the most important. Here are some mistakes you could make: a) locate it where it is good for you, but not your customers, suppliers, or employees; b) locate it where it attracts a customer base that is different from the market to which you sell; c) misjudge how fast your business will expand and outgrow it too soon; d) locate where the lease is good for the landlord but not for you. See page 10 for more considerations on locating your business.

16. **Not Knowing How to Price your Goods or Services**
    Pricing is part of your marketing strategy. Just copying the competition is not the way to do it. You can't ignore what the competition is charging, but you must consider other important factors, or else your competition is pricing your product or service. What it costs you to sell your-product is not the same as what you paid for it from your supplier (if it's a tangible product). If it's a service, it's not just what you charge per hour for your service. Other factors enter in: a) your marketing strategy, b) how new your business is, c) your positioning in the marketplace. Sometimes price is not a big factor, depending on the niche you have or the demographic profile of your target market. See page 41-43 for methods of pricing.

17. **Not Knowing How to Hire**
    To hire poorly will cost you more, in the long run, to rehire and then train a new person. You need to have the following to do it well: a) a written interview process, b) a written interview questionnaire, c) a written description of what the position tasks are, what the responsibilities are, and what the standards are by which it will be measured.

18. **Not Having a Written Agreement**
    No matter who it is, even your spouse, put it in writing. Who is going to do what? Who will have authority to do what? Are equity share and authority the same or not? What happens if one party violates the agreement? Problems occur when one partner or one family member: a) has more authority than another one who has more equity in the business; b) when the one who is out selling has more authority than the one who is actually running the day-to-day operations; c) when one is a silent member, but is influencing things behind the scenes.

19. **Failure to Delegate**
    You need to learn to let go. To delegate some power, some authority, and some responsibility is the key to building a business and seeing it grow. If you delegate the task, delegate the authority to make decisions related to it. This will empower your employees and increase their loyalty. It shows them you have faith in them. If you can't emotionally afford to delegate, then don't go into business. To try to do it all yourself and carry it all yourself is not wisdom, it's folly.

20. **Being Too Tied to the Way It Is**
    Nothing out there ever stays the same. Neither does a business. You must move with the changes or you'll lose touch with the business. Always staying in your comfort zone will keep you from the taking the necessary risks that are part of any business that is growing. "Change is good" should be your motto.

21. **Not Knowing Your Target Market**
    How to market is one issue. So is when to market. Where to market is just as important.
    You cannot market to everybody. There is no everybody. If you don't know the age, sex, education level, occupational profile, and income level of your potential customer you are wasting your marketing money.

Business Plan Outline

Thinking about and planning for a new business—or the expansion of an existing business—can be very exciting. Entrepreneurs usually have lots of ideas, hopes, and expectations in their head, jotted in notes, and maybe even shared with family, friends, or business associates. The idea of writing it all down can seem unnecessary or even overwhelming…but it usually pays off with profits!

The greatest value in creating a business plan is not in getting a finished document in hand, although having a good plan can be crucial if you're seeking financing, negotiating a property lease, or getting an important vendor to accept you as a client. The greatest value of business planning lies in the *process* of researching and thinking about your business in a thorough and systematic way. This process takes time now, but avoids costly, perhaps disastrous, mistakes later. And, by working through this process you will not only end up with a finished plan in hand that can convince others to believe in the concept and *your* competence to run it, you also will be well on your way to being truly prepared to start or grow your business. You'll be prepared to succeed.

Depending on the size and complexity of the business, it can take from several weeks to many months to complete a good plan. Most of that time is spent researching and re-thinking your ideas and assumptions as you determine how to make your concept work under current and anticipated conditions. It is worth the time to do the job properly because your written business plan is a roadmap for the successful future of your business—it describes your destination and how you will get there. Just as a map can help you get back on the right road if you wonder off, a business plan helps the owner-operator get back on track after unexpected detours in the flow of business.

There are several templates you can use to put together your business plan. The one that is used in this book happens to follow the Growth Wheel model. A more extensive model/outline can be found on our website at the link provided below, and we/you can find many other templates online. You will modify it to suit your particular circumstances. The level of detail will depend on the complexity of your business. You will find a general description of each section along with information that should be included in that section and/or questions to be answered. Your goal is to provide the reader the best overall picture of how this business will operate, who its target market is, and why it will be successful.

We always recommend that the business owner(s) write the plan personally because of the need for you to make and re-make decisions throughout the process. However, the Shenandoah Valley SBDC's Business Advisors and other staff are available by appointment to assist you at any point between the first draft and the final plan. We have experience helping our clients address difficult questions, developing cash projections, and putting dreams into words. If you would like assistance with your business plan, please reach out to us.

*****This document is available online at **www.ValleySBDC.org/forms**

Business Plan

Business Name

Owner

Address

Contact

Date

Confidentiality Understanding: Information, data and drawings embodied in this business plan are strictly confidential and are supplied on the understanding that they will be held confidentially and not disclosed to third parties without the prior written consent of…..

EXECUTIVE SUMMARY

This section appears first, but should be written last, and be very brief. It may include the mission and strategic goals.

BUSINESS CONCEPT

An overview of the business – the name and location, principal owners, legal structure (sole proprietor, partnership, LLC, S-Corp, or C-Corp), status (start-up, expansion, or acquisition), and brief description of type of business (manufacturing, retail, wholesale, service - or a combination). If the business is not a start-up, give a brief history of the business to date.

PRODUCT PORTFOLIO

Describe the goods and services of this business in such a way that the reader has a clear understanding. What does the product do? What benefit does it provide? What marketplace need does the product meet, or what problem does it solve? Are there primary or secondary applications for the product? What are some of the unique features of the product(s)?

DIFFERENTIATION

Key success factors (may refer to Industry reports) and how you are unique.

REVENUE MODEL

How are you going to make money and be sustainable?

CUSTOMER PORTFOLIO

Target Markets, Market Segments – Describe the ideal customer, what s/he is seeking, and why.

MARKET POSITION

INDUSTRY OUTLOOK

Describe local, regional, national industry outlook (IBIS Industry reports, Trade Association news)

COMPETITIVE LANDSCAPE

Describe competitors and what differentiates your business
Strengths/Weaknesses/Opportunities/Threats

ORGANIZATION

OWNERSHIP

Describe the legal structure of this business. Identify key individuals.

MANAGEMENT – KEY POSITIONS

Include job descriptions, compensation, relevant business background, and management experience as well as formal and informal education. Relate past experience to future success potential. What tasks will these individuals have? How are decisions made?

EMPLOYEES

Will you need to hire employees or outsource some work? What are the tasks and what skills or knowledge will be required? Will you need to train? Will you hire full-time, part-time, temporary workers? Is there a planned point at which you will hire additional employees? What are the pay scales in your area and in your industry?

PARTNERSHIPS & ALLIANCES

SUPPLIERS

What vendors, suppliers, and other businesses will you buy from, work with, or collaborate with? Discuss supply alternatives and costs or other supplier factors that could affect your ability to manufacture your product or perform your service.

ADVISORS

Do you have the marketing, management, and financial skills to do it all yourself? If not, then describe relationships that fill the gaps. Include the names of the resources you will use: Attorney, Accountant, Insurance Agent, Banker, other Consultants you will use (i.e., Small Business Development Center), and Associations you will join (Chamber of Commerce, Professional or Trade groups).

BUSINESS PROCESSES

Describe the internal processes and workflow of managing customers, scheduling work, billing, etc. What are the contingency plans if you or other key people are not available?

You may also want to include long-range plans (more than 2-3 years from now) for growth or expansion.

LEGAL ISSUES

Are there trademarks, copyrights, or patents that need to be in place? Do you have a plan if competitors with an improved process suddenly appear?

CUSTOMER RELATIONS

The sections below include all marketing and branding strategies and activities. Use them to fully describe the scope of work needed to inform customers and the public at large of your business.

NETWORKING

Who do you value for sharing stories, making connections, and being known and seen in the community and beyond?

MARKETING

A Marketing Plan with Budget might include the following:

Print Collateral (brochures, business cards, direct mail campaigns)
Website/Electronic/Social Media
Advertising Placement (directory ads, newsprint ads, magazine)
Sponsorships (community involvement)
Trade Shows
Public Relations (press releases and stories)
Memberships (Chamber of Commerce, LDI, trade associations, etc.)
Media (radio, TV)

SALES AND SERVICE

How do you directly meet customer demand and expectations?

COMMUNICATION AND PR

How will you share your business story and all your activities?

BRANDING

Describe your business brand: What do you value and represent to the public? How do you want to be known?

OPERATIONS

FINANCIALS

Projections – Describe in words what you will show in the Assumptions and the Cash Flow Analysis that is attached to this plan
How much start-up capital is needed?
How profitable will this business be and when? How is it sustainable?

FUNDING

What are the sources for your start-up costs, working capital, and expansion needs? What portion is from your investment, from individuals, or from commercial lenders or other?

PRODUCTION & DELIVERIES

What are the systems and costs for production and /or delivering the product to the customer? What challenges or obstacles must be addressed?

IT SYSTEMS

What system(s) are needed for operations, communication, sales, etc. to assure smooth operations? What are security and backup considerations?

FACILITIES

What type of physical facility is needed? Will you lease or own? Describe characteristics of the most desirable location: customer access, inventory storage, merchandise displays, production or sales space, equipment, fixtures, and furniture needs, HVAC needs or environmental requirements, displays, etc.

APPENDIX

Attachments to this plan might include:

- Floor plans
- Menus
- Marketing materials
- Estimate sheets or contracts
- Asset or Supply Lists
- Term Sheet for Lease Agreement
- Financial Assumptions
- Startup Costs Worksheet
- Cash Flow Projections: Year 1, 2 and 3
- 3-year Personal and/or Business Tax Returns
- Personal Financial Statement

Financial Information

Cash Flow for Startups

The main reason for doing a cash flow projection is so you can predict, month by month, if you will have enough cash on hand to pay your bills. It will show any lender that you have enough cash to make your loan payments on time. It will also enable you to plan ahead.

The Startup Worksheet allows you to separate your startup expenses, “getting the doors open”, from your ongoing expenses, “keeping the lights on”.

Here is the overall formula for your cash flow projections:

Starting cash balance + cash revenue receipts – expenses and capital purchases = ending cash balance

<u>Steps in the Process</u>

1. Do your sales projections. Do them month by month for the first year, as your sales revenues may vary due to seasonality and the growth of your business. Remember, you count sales receipts in the month you actually get the money.
2. Separate your fixed expenses and variable expenses. For variable costs and purchases, such as cost of goods sold, if you sell a product, enter the cost in the month you will actually pay for it if you are given credit terms.
3. For fixed expenses, often called overhead expenses, enter the same cost for each month, unless seasonality makes them vary from season to season.
4. Do not forget to put in any loan payments or purchases of equipment you plan to make in any given month.
5. The ending cash balance for any given month becomes your starting cash balance for the next month.
6. If the ending cash balance for any given month is a positive number, you should have the money on hand to pay the bills (if your sales projections and budget projections are accurate). If the bottom line number is a negative number you will need to make adjustments to cover the bills for that month.
7. To cover a negative number at the bottom line you can get cash from a credit line at the bank, or by overdraft projection, or by increasing sales, or by decreasing your expenses, or by putting more money into your business from your personal savings. It can be done via credit card cash advances, but this is very risky and not advised.
8. Be sure to state somewhere in your business plan and your projections exactly what assumptions you have made to arrive at the sales and expense projections. In other words, how did you calculate utility costs, wages, advertising, etc? What assumptions did you make?
9. For the first year do your projections month by month. For the next year(s) do them quarterly, semi-annually, or annually, depending on your need and the requirement of the lender.
10. There are cash flow projection worksheets on the SBDC website for you to use and the SBDC Business Advisors are available to assist you. (www.valleysbdc.org/forms)

Estimating Business Expenses

Estimating costs is often much easier than estimating sales. Before we get started, you should familiarize yourself with these simple accounting terms:

Fixed costs are expenses that do not vary with the level of your sales. Examples of fixed costs would be rent, manager's salary, utilities, and insurance. They remain fixed in good months and bad.

Variable costs are directly related to sales volume and include items such as raw materials, purchases to be re-sold, direct labor or commissions. When you have high sales, these expenses will be high as well.

Break-even point is the sales level at which your business has neither a profit nor a loss. In other words, it is the point at which your revenue from sales equals your fixed and variable costs. (Total income = Total expenses). Every dollar of revenue above this point is profit for you.

Contribution Margin is the difference between the price (sales revenue) of a product and the variable cost of that product. It is the amount you have available to pay the fixed costs and realize a profit. (Price –Variable Cost = Cont. Margin)

Gross Margin is expressed as a percentage where Gross margin equals Gross income divided by Net sales. (Gross Margin = Gross income / Net sales)

Categorize your costs as either fixed or variable using the definitions above.
Tip: If you still need help determining whether or not an expense is fixed or variable, ask yourself if that cost would change if your sales increased by $1,000. If the cost would increase as well, this it is a variable cost; if not, the cost is fixed.
Create a detailed list of what those expenses are and how much you expect them to cost you on a monthly and annual basis. For variable costs, make sure you also show what those costs are per unit. It might be helpful to organize your expenses in a spreadsheet. You can employ simple formulas to help you demonstrate how your costs will change due to an increase in output and input without having to go back and recalculate your figures manually. If you are not familiar with spreadsheet modeling, or don't have access to a computer, creating a simple table will be sufficient for now.

TYPICAL EXPENSES

Accounting Services
Advertising
Bank Service Charges
Credit Card Fees
Delivery Charges
Deposits for Utilities
Estimated Taxes
Health Insurance
Hiring Costs
Installation/Repair of Equipment
Interest on Debt
Inventory Purchases
Legal Expenses
Licenses/Permits
Loan Payments
Office Supplies
Payroll
Taxes
Printing
Professional Fees
Rent/Lease Payments
Retirement Contributions
Subscriptions and Dues
Utilities and Telephone
Vehicle Expenses
Marketing
Sales
Web-based
Other

TOTAL EXPENSES

This figure, your total expenses, will be used in your Pro Forma Budget (Startup Budget) and in your Startup Profit and Loss Statement and in calculating your gross margin and your net margin as percentages. Your market research can help you get more accurate numbers to plug in on your budget.

Estimating Sales Projections

Method #1

1. Define your target market (how many prospect buyers in your market). If there is more than one target, then you need to do this separately for each target.
2. Estimate the usage rate. How often will a user need to buy the product or service, or how many will he or she buy in a year.
3. Get numbers via market research.
4. Take selling price and multiply it by the total of the annual user rate and the number of buyers your project, and this will be your projected sales revenue for the year.

Method #2

1. Do market research (you have to do this – use the top quartile for your industry/business type.)
2. Obtain the ratio of sale to net worth for the top quartile. Net worth is how much money is invested in the business. If, for example, the top quartile has a ratio of 1:15 (for each $1 invested there are $15 of sales)
3. Apply the ratio for your industry/business type to the amount you have invested in your business and you will come up with a sales projection.

Method #3

1. Research and find the total number of people in your target market (or markets if you have more than one target)
2. Research and find the average number of dollars spent annually by each customer in your industry/business type.
3. Estimate what percent of the target market you will capture.
4. Multiply the number of prospective customers in your target market by the percent of those you expect to capture to become your customers. This gives you your number of customers.
5. Multiply that number of customers by how much each customer spends annually on your product/service and you get your projected sales figure.

Target Market x *Market capture = # of customers*
# of customers x *capture of annual purchases = sales projection*

Method #4 Service Business

1. Estimate how many customers can be serviced in a given time period (hour, day, week)
2. Do market research and find out the average dollar spent by each customer on your service for each purchase of the service.
3. Multiply the number of dollars by the number of service fulfillments in the time period.
4. Multiply it to get the annual figure.

Assumptions

Your sales projections must be based on realistic assumptions. You need to make a list of your assumptions on which your sales projections are based. Here are some things to consider: Be conservative.

1. Competition: Will there be more next year or maybe less? How will this affect your pricing? Your sales?
2. Adding products/services: will there be any new one added?
3. Advertising changes: Going to do more? Less? Different kinds? New target markets?
4. Price changes: Raising or lowering them? Will this increase or decrease sales?

5. Supplier changes: Will their prices go up? Will you buy in bulk to get lower prices?
6. Demographic changes: Will mix of age, sex, income, and education change your market and affect sales?
7. Tax changes: Any anticipated?
8. Legal changes: Any new laws, regulations or ordinances coming into effect?
9. Economy factors: How will they affect your sales?
10. Interest rate changes: Will they affect your sales?
11. Changes in your rent or loan interest rate?
12. Sales effort: Will more time be put into selling? Will your market territory expand or contract?
13. Sales strategy: Are you going to change your sales practices, sales mediums, etc.?
14. Sales staff: Will it be bigger, smaller, new commission structure? New incentive plan?
15. Abnormal sales: Did you have any super large one-time sales? Do you expect to this year?
16. Physical changes: moving to a new location, adding new equipment, making improvements to site – how will these affect your sales?
17. Seasonal Changes?
18. Any other changes you can think of?

Tips

1. Your sales will probably be lower than you think. So do three sales projections:
    a. Worst case
    b. Most likely case
    c. Best case
2. If you sell more than one product, do a sales projection for each product and then combine them.
3. It is often easier to think about your sales in terms of weeks or months. Use this figure and multiple to determine annual sales.
4. Then project it out for 3 years.
5. Calculate your break-even point and match it against your sales projections to see if it is realistic. Remember, if it takes you longer to break even you may not have enough cash in the business to hold on. A rule of thumb is to reduce your projection by 50% for each month until break even.
6. Try using different methods and see what you get.

Why Sales Projections are important

You can:

1. Know customers' demands for specific products in the next period of time
2. Make better allocation of financial and other resources
3. Use it as a starting point for business planning
4. Use it in a marketing plan
5. Create a real budget for the next year
6. Plan next business investments
7. Use it in your cash flow calculations
8. Plan future employment

The following sample pages are excerpts from our Cash Flow Projection Worksheet and Excel document that is available online at www.ValleySBDC.org/forms Our business advisors are available to assist you in using this worksheet to capture your business' projected costs and sales.

Start-Up Worksheet

START-UP Worksheet for:		
business name		
Owner Investment	13,000	
Loans	6,000	
Other		
Cash Available to start	**19,000**	
Start Up Costs		
Fixed Assets land, equipment, buildings, vehicles	5,000	
Remodeling building, fixtures, signs, paint, cleaning	3,000	
Installations equipment, phones, hookup charges	1,000	
Deposits required utilities, leases, phones, etc	300	
Licenses/ certification fees		
Legal		
Accounting or other professional fees	200	
Pre-opening Training costs	200	
Beginning Inventory	4,000	
Supplies - letterhead, bus cards, forms, etc		
Marketing - mailings, ads, brochures, etc		
Other:		
Other:		
Working Capital at Start	5,300	will become the beginning cash balance for CF Yr 1
Total Start-Up Requirements	**19,000**	
Funding still needed:	**0.00**	adjust investments, expenses, or working capital to bring this line to 0.00

Monthly Cash Flow Projection

Cash Flow Projection - Year 1 for: business name

Note that in almost all cases, this worksheet is completed with formulas using data from the Assumptions page. After reviewing the samples, start with your Assumptions or Start-up Tab. Hover mouse across cells with red triangles for tips. Work with your SBDC Business Advisor to test your assumptions and refine/adjust these pages to fit your specific business.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	% of sales
Beginning Cash Balance	5,300	5,380	5,860	6,340	6,820	6,900	7,380	7,860	8,340	8,420	8,900	9,380	5,300	
CASH RECEIPTS														
Sales	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000	100%
Other	-												-	0%
Total Cash Receipts	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**24,000**	**100%**
CASH DISBURSEMENTS														
Cost of Goods Sold	600	600	600	600	600	600	600	600	600	600	600	600	7,200	30%
Gross Wages	500	500	500	500	500	500	500	500	500	500	500	500	6,000	25%
Payroll Expenses	55	55	55	55	55	55	55	55	55	55	55	55	660	3%
Supplies (Office & Operating)	100	100	100	100	100	100	100	100	100	100	100	100	1,200	5%
Repairs and Maintenance	50	50	50	50	50	50	50	50	50	50	50	50	600	3%
Marketing	500	100	100	100	500	100	100	100	500	100	100	100	2,400	10%
Travel	100	100	100	100	100	100	100	100	100	100	100	100	1,200	5%
Accounting and Legal													-	0%
Rent	300	300	300	300	300	300	300	300	300	300	300	300	3,600	15%
Telephone	30	30	30	30	30	30	30	30	30	30	30	30	360	2%
Utilities	100	100	100	100	100	100	100	100	100	100	100	100	1,200	5%
Insurance													-	0%
Taxes (Real estate, personal prop)								-					-	0%
Total Cash Disbursements	**1,735**	**1,335**	**1,335**	**1,335**	**1,735**	**1,335**	**1,335**	**1,335**	**1,735**	**1,335**	**1,335**	**1,335**	**17,220**	**72%**
Net Cash Flow	265	665	665	665	265	665	665	665	265	665	665	665	6,780	
Adjustments to Net Cash Flow														
(+) New Owner Investment														0%
(+) Other Investments														0%
(-) Debt-Loan Paymts	185	185	185	185	185	185	185	185	185	185	185	185	2,220	9%
(-) Owner Withdrawals	-	-	-	-	-	-	-	-	-	-	-	-	-	0%
Adjusted Net Cash Flow	80	480	480	480	80	480	480	480	80	480	480	480	4,560	
Ending Cash Balance	**5,380**	**5,860**	**6,340**	**6,820**	**6,900**	**7,380**	**7,860**	**8,340**	**8,420**	**8,900**	**9,380**	**9,860**	**9,860**	

Assumptions Used in Cash Flow Projection

Assumptions for:	**Date:**														
business name		Key Cells are outlined in red. Enter data in key cells.		hover mouse across cells with red triangles to read comments and tips					Sample						
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**Total**
Income															
Sales			2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	**24,000**
Other															**-**
Total Sales per Month			2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	**24,000**
Disbursements															
Cost of Goods Sold	30%	enter a % of sales													
Salaries & Wages	enter monthly gross		500	500	500	500	500	500	500	500	500	500	500	500	**6,000**
	based on:														
Payroll Expense	11%	% of gross wages based on: 7.65% Employer's match + %State Unemployment + %Fed Unemployment													
Supplies (office & operating)	monthly or quarterly amount		100	100	100	100	100	100	100	100	100	100	100	100	**1,200**
	based on:														
Repairs and Maintenance	monthly or quarterly amount		50	50	50	50	50	50	50	50	50	50	50	50	**600**
	based on:														
Marketing	see Marketing Plan, Budget, & Schedule		500	100	100	100	500	100	100	100	500	100	100	100	**2,400**
Travel	100	For regular travel, estimate monthly expense here. For sporadic travel, fill in the CF sheet as needed													
Accounting and Legal		Enter monthly, quarterly or annual payments on CF sheet, per expected use and timing													
Rent	300	Per month, per lease													
Telephone	30	per month, based on:													
Utilities	100	per month. Start w/ yearly estimates: to arrive at monthly estimates.													
Insurance		based on quotes from: fill in CF sheet at appropriate month due													
Taxes: Real Estate, Per Prop		yearly estimate based on: fill in CF sheet at appropriate month due													
Owner Withdrawals		enter annual draw desired													
		enter estimated self-employment tax rate													
	-	= Monthly draw													
Debt- Loan Payments	185	consult an amortization schedule to calculate monthly payments													

Elect:		year / 12	-	a month	based on:
Water:		year / 12	-	a month	
Gas:	1,200	year / 12	100	a month	
Other:		year / 12	-	a month	
Total Monthly Utilities			**100**		

Glossary of Financial Terms

- **Accounts payable:** money the firm owes to other organizations.
- **Accounts receivable:** money other organizations owe to the firm.
- **Accrual basis:** financial record-keeping system in which income is recorded when it is earned and expenses recorded when incurred.
- **Amortization:** reduction of debt through installment payments.
- **Assets:** cash, property and other resources owned by the firm.
- **Balance sheet:** a financial document summarizing the firm’s assets, liabilities and net worth as of a given point in time.
- **Break-even point:** the point at which the amount of sales income covers costs.
- **Business plan:** a document that describes all management, marketing, financial and operation activities for the business, which is often required to secure financing.
- **Cash flow statement:** a financial tool that describes moneys coming into and going out of a business.
- **Collateral:** assets pledged toward repayment of a debt.
- **Current assets:** cash, inventory, accounts receivable and other assets that will be used in the operation of a business within one year.
- **Current liabilities:** debts which a business will pay within one year.
- **Depreciation:** the reduction in value of an asset as the result of use.
- **Equity financing:** money contributed to the firm by the owner(s) and investors, which results in an ownership stake in an enterprise.
- **Fixed costs:** expenses that don’t change regardless of production increases or decreases (rent, insurance, interest on loans, etc).
- **Gross profit:** the result of subtracting the cost of goods sold from sales.
- **Guarantor:** the person who makes a commitment to repay a loan if another defaults.
- **Income statement:** financial statement showing a firm’s profit or loss within a specified period of time.
- **Liabilities:** amounts owed to others.
- **Line-of-credit:** a lender agrees to allow a borrower to draw a pre-specified amount from an account on an as-needed basis.
- **Net profit:** the result obtained when expenses are subtracted from revenues.
- **Operating ratios:** expenses expressed as a percent of sales.
- **Owner’s draw:** the amount of money taken from the business by the owner.
- **Profit and loss statement:** a statement of the results of business operation for a specified period; the bottom line shows the net profit or loss of a firm.
- **Principal:** the amount owed on a loan (not including interest).
- **Pro forma:** a financial planning statement that projects future performance.
- **Receivables:** money owed to a firm by its customers.
- **Return on investment:** profit generated from investing money in a firm.
- **Variable costs:** costs that change as production output changes (raw materials, production labor, storage and shipping, etc).
- **Working capital:** money available to a firm for daily operations.

Facts about Small Business Loans

1. **Start with a good Business Plan.** To be successful in obtaining a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. Remember, banks make money by lending money – but only if it is repaid! And the money they are lending belongs to their depositors. They cannot afford to take high-risks with their clients' funds. You must be able to convince your lender that you are a good credit risk.

2. **You will need good credit.** If there are any problems on your credit report that can be remedied *before* meeting with a banker, do so. A lender may be able to make exceptions if you can document that a negative report was due to circumstances beyond your control. Include a detailed written explanation with supporting information in your financing proposal. However, if the report shows that you are irresponsible and you have not demonstrated a willingness to repay obligations, the lender will be unable to make a loan.

3. **There is no such thing as 100% financing.** You are going to have to put some money into the business and the more the better. Usually at least 15-20% will be expected. **A bank will require you to personally guarantee the loan** even if you are incorporated. There is no way to avoid putting personal collateral at risk. If you are unwilling to risk some of your own money, the lender will not risk the bank's.

4. **Some businesses are easier to finance than others.** Since over 60% of all small business start-ups fail within 5 years, lenders know that the odds are against a new business being around long enough to repay a loan. An existing business is easier to finance if profits are sufficient to repay the loan. Also, many sellers are willing to hold some of the financing. Franchises are generally easier to finance than independent start-up businesses.

5. **The process is not quick.** If you must have the money to open by a certain date, make your loan application as far in advance as possible.

6. **There is no such thing as a grant.** Generally speaking, grants to for-profit businesses are very rare. An exception might be for a high technology business or similar established business producing products or doing research that is in demand by agencies or departments involved in our nation's defense. Generally, grants are made by foundations or government agencies to not-for-profit organizations.

7. **The Small Business Administration does not lend money.** The SBA has a guaranty program that is designed to provide security to *lenders* so that they will in turn lend money to small businesses which were deemed too risky for a regular bank loan. Interest rates and repayment terms are negotiated between you and the lending institution; there is a small guaranty fee. Your SBDC business counselor can provide additional details when you discuss your particular business venture.

Two Types of Funding

There are two basic types of funding for a small business – equity and debt.

Equity funding requires that you sell a partial interest or ownership in your company. In return for their money, equity investors ask for a share of your profit. Equity partners will require an exit strategy.

Types of equity investors:

- Informal investors
- Private of limited stock offering
- Venture capital firms
- Initial public offering (IPO)

Debt funding is borrowing the money that you need to finance operations and growth. Most small businesses prefer debt funding for financing. The cost is usually far less, since the owner does not give up ownership or control in how the business is managed. In addition, the cost of credit is generally far less than the return that an equity investor will require.

Types of debt funding:

Personal loans

- Personal bank loans
- Loans from life insurance
- Credit cards
- Home equity credit
- Friends and Relatives

Business loans

- Term loans
- Demand Notes
- Lines of credit
- Government-assisted loans

Operations-related financing

- Supplier credit
- Customer credit
- Leasing
- Accounts-receivable financing
- Factoring
- Asset-based financing

How to Choose a Banker

Because the choice of a banker is such an important decision, the new business should shop around before making a choice. They key when choosing a bank should be service. Specifically, some important criteria in choosing a banker should include the size of the bank. A bank that is too small may be appropriate while your company is small, however, they may not be able to service your needs for larger loans as your company grows. A bank that is too large may be indifferent to your needs while your company is small.

What a lender looks for

1. Capital
2. Collateral
3. Capacity to repay
4. Conditions
5. Character

How you will be evaluated by lenders

1. Equity
2. Debt-to-worth ratio
3. Collateral
4. Ability to carry debt service
5. A secondary source of repayment
6. Personal guarantees

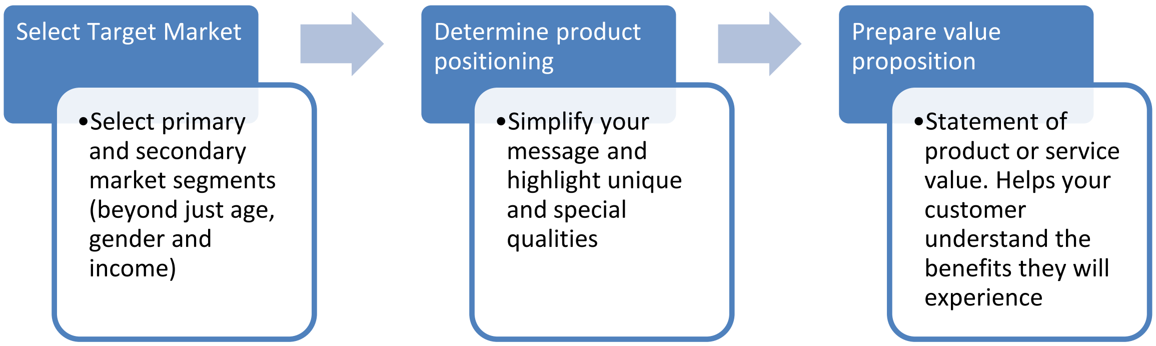
Marketing Planning Process

The exercise of preparing a marketing plan is valuable in helping you understand how your business will operate in the marketplace. A good marketing plan should answer the following questions:

- What is the condition of the operation now?
- What do we want the operation to be like in the future?
- How do we reach our goals?
- How do we know goals have been reached?

Developing a Marketing Strategy

Your marketing plan must be written out … It is too easy for a mental plan to shift as the situation changes. A written marketing plan is valuable not only because of the decisions and contingencies that it includes, but also because of the information you collect and the knowledge you acquire during the planning process.



It also helps to keep the 6 “P” elements in mind:

1. People (Customers)
2. Product (or Service)
3. Place (Target Market)
4. Promotion
5. Package (How the product is presented)
6. Price (In comparison to competition/based on cost + profit)

While developing your concept plan, it is essential to assess both your customer needs and the factors that affect the market environment. A simple way to do this is conducting a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. The SWOT Grid and Competitive Analysis is on a separate worksheet.

SWOT

Strengths/Weakness/Opportunities/Threats Comparison Worksheet by: Shenandoah Valley Small Business Development Center

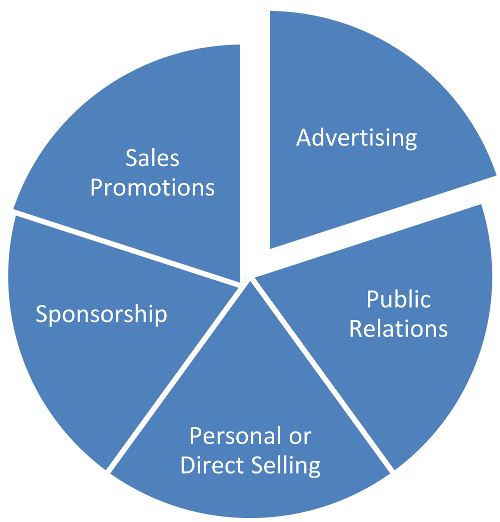
	My Company	Competitor A	Competitor B
Strengths	Indicate Strengths of your operation - areas where the operation excels. Examples include a well-trained staff, good location, well-kept and clean facilities, strong marketing abilities, high food quality and service that exceeds customer's expectations		
What are your business advantages?			
What are your core competencies (advantages that others cannot easily replicate)?			
What do you envision as being your specialty? Where do you expect to make the most money?			
Weaknesses	Identify current weakness. This is done so that weaknesses can later be eliminated or even turned into strengths. There may be certain barriers to success - things outside your immediate control that could cause weakness. Some barriers can be overcome by proper planning and execution.		
What areas in business do you tend to avoid?			
What resources do you need that hold you back?			
What skills or abilities do you lack?			
SWOT cont.	**My Company**	**Competitor A**	**Competitor B**
Opportunities	Some examples of Opportunities might include a new business opening in the area, an increasing number of tourist attractions, an ineffective competitor, or new partnerships enabling a volume discount with a reputable supplier. Opportunities to either increase revenue or decrease costs.		
What emerging trends can you detect and exploit?			
Are there niches that competitors are missing?			
New technologies or resources that you can capitalize on?			
Threats	Threats come from outside your business. Identifying possible threats is important so that you can control them before they control you. Examples of threats may include an increased number of competitors, increased taxes, poor economic conditions or road construction that disrupts regular traffic patterns.		
Obstacles to overcome?			
Successful competitors? What advantage might they have?			
Negative economic conditions? Changing business climate?			

Promotion Budget

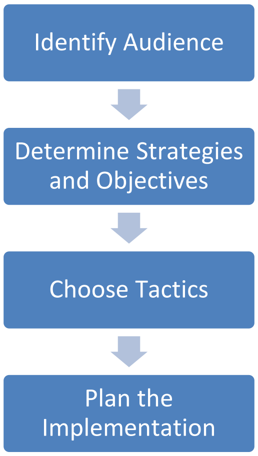
The promotional plan needs to be centered around a budget based on what the business can afford and on a percentage of actual or forecasted sales. It should include the objectives and actions needed to achieve them. Developing the best promotion mix for your restaurant will increase your overall success by providing many benefits:

- Attracting customers from your target market
- Increasing business in general and during slow periods
- Introducing new products or services and showcasing special events
- Making your business more competitive
- Reinforcing or redefining your image

The Promotion Mix



Promotion Mix Planning



To determine strategies and objectives for your promotion plan, you should consider several questions:

- How will the promotion plan support the overall marketing plan and objectives?
- When should the promotion start and end? Build a 12 month marketing calendar
- What should the promotion accomplish (in measurable terms)?
- What message should the promotion communicate?

Choosing Media

The media you choose for your advertising can make or break your marketing plan. The media outlets should be based on your audience and objectives.

Media Type	Pros	Cons
Television	Can target specific markets Reach a large population Both Audio and Visual	Usually expensive Limited time for conveying a message
Radio	Low cost Specific target markets	Not "visual" Transitory
Newspaper	Local Area targeting Short lead time for placement	High level of competition Low production quality
Electronic (Internet)	Social Media! Can be interactive Measurable	Open to negative public critique
Magazine	Long life span High quality	Long lead time for ads Costly
Direct Mail	Very specific target marketing	Requires accurate, timely information
Outdoor	Provides high exposure	Not optimal for targeting

Budgeting your Ad Spending

Marketing Budget Plan					
Category	Quantity	Estimated Cost per Unit	New 2017 Budget		Notes
Print					
Newsprint Advertising					
Newspaper Advertising					
DNR - Daily News Record (6) 6x6's					
Special Advertising					
Bloom or other					
Signage					
Banners					
Other signs					
Print Total			$ -		
Print Collateral					
Business Cards					
Rack Card					
Brochure					
Design Fees					
Printing					
Distribution					
Other Printing					
Print Collateral Total			$ -		
		Sub Total Print	$ -		
Public Relations					
Travel Trade Organizations					
Memberships - Association					
Memberships - Chamber					
Network					
Network					
Travel Trade Organizations Total			$ -		
Sponsorships					
Local School					
Local Fire					

Crafting your Message

Attention: Get the audience's attention

Interest: Interest the audience

Desire: Create a desire for your product

Action: Prompt the audience to take the desired action

Social Media Content Calendar						
Month & Theme	**Monthly/ Seasonal Feature**	**Promotional Events**	**Special Partner Events**	**Regional Events**		
January						
February						
March						
April						
May						
June						

Monitor and Measure Results

Several ways to Measure customer feedback include:

- Survey Customers
- Get Direct Feedback - verbally
- Track electronic marketing statistics
- Track promotions, coupon redemption

Branding: Consistency is Key

(Adapted From www.foodservicewarehouse.com)

Branding is a marketing technique that uses messages and designs, such as logos and symbols, to promote awareness and loyalty to your restaurant's brand. The key to effective branding is to implement a consistent creative marketing concept. A good restaurant marketing campaign will feature consistent messages and visual designs in all of its marketing materials including the interior and exterior appearance of the restaurant. When developing your restaurant's branding techniques, consider the following:

Target Market

Your design concept should match your target market. For example, if your target market is children and families, you should choose a fun, playful design. If you cater to empty nesters, your designs should probably be more sophisticated.

Consistency of Appearance

The "look" of your marketing materials and the restaurant's design should create a consistent image for your brand. Make sure your advertisements, signs, menu, and interior decorating all use a similar design. This will encourage customers to strongly associate your restaurant with certain symbols and colors. You should also incorporate consistent scents and sounds into your branding efforts. Once your restaurant has created an "image," every time customers see your logo or design or smell your food, they will remember the entire brand and customer experience that goes with it.

Consistency of Message

Make sure the message that you send in your designs, slogans and advertising copy is consistent and matches the concept of your restaurant. Do not, for example, market yourself as a family restaurant in your advertisements and as an elegant fine-dining establishment in your menu copy and design. Branding requires that you repeatedly send your customers a message about what your restaurant can provide, and if that message is not consistent, your branding efforts will not have as great of an impact.

Make it unique

Make sure your logo cannot be mistaken for another. If your design is too similar to another company, it will be difficult to create a clear association between your symbol and your brand.

Match your logo to your concept

In order to send a consistent message about what your business has to offer, your logo should match the rest of your concept.

Hire a professional

A graphic designer will be able to create a unique and attractive logo. Make sure the logo looks like a single graphic rather than several images stuck together. A scattered or confusing logo has little impact and is difficult to remember.

Put your logo on all of your marketing materials, including advertisements, signs, takeout bags, merchandise and menus. The more customers that see your logo, the more memorable your marketing message will be.

Mission Statement

A useful addition to the restaurant concept is a mission statement - the written purpose of the operation, describing its reason for existence. Mission statements should be:

- Easy to explain and understand
- Focused - be very specific with clear goals
- Straightforward - get to the point of what you want to accomplish
- Realistic

Mission Statements usually focus on five main points.

- Customers
- Employees
- Shareholders
- Communities
- Suppliers

101 Instant Marketing Strategies

1. Newsletter/e-letter
2. Business cards that double as referral cards
3. Postcards with specials & discount programs
4. Thank you cards for current customers
5. Monthly drawings
6. Daily newspaper ads
7. Local newspaper ads
8. Magazine ads
9. Trade magazine ads
10. Trade Expos
11. Radio ads
12. Bulletin Boards
13. School Newspapers
14. Door hangers
15. Flyers
16. Introduction letters
17. Monthly specials
18. Retainer program
19. Affiliate program
20. Strategic partnering
21. Collect customer info
22. Evaluation sheets
23. Give-a-ways
24. Community events
25. Article/column in the local paper
26. Establish yourself as an expert
27. Become a resource
28. Mystery shop your competition
29. Develop a unique selling proposition
30. Host events
31. Volunteer
32. Network regularly
33. Be active in community groups
34. Send out weekly news releases
35. Court the media
36. Have company uniforms
37. Create letterhead
38. Put your logo on everything
39. Tell everyone you meet
40. Develop a website
41. Use web banner ads
42. Frequent internet chat rooms
43. Post your information on internet community boards
44. Maintain a presence on as many websites as possible
45. Learn what your customers' motivation is for buying
46. Have monthly discussion with your industry peers
47. Posters
48. Yard signs
49. Car signs
50. Get involved with "Hot" themes, items or people
51. Collect testimonials
52. Get involves with popular dates (i.e. National days, sales tax day, etc.)
53. Speak at local business organizations and events
54. Product packaging
55. Fridge magnets
56. Billboards
57. Brochures
58. Catalogs
59. Directories
60. Fax letters
61. Local TV ads
62. Promotional Gifts
63. Industry newsletter ads
64. Newsletter inserts
65. Direct mail
66. Sponsorships
67. Cinema ads
68. Window displays
69. Indoor displays
70. Create an industry newsletter
71. Cold calling
72. Network marketing
73. Seminars
74. Write a book
75. Market days
76. More locations
77. Develop agents
78. Franchise
79. Change operating hours
80. Expand your market reach
81. Hire salespeople
82. Selling incentives
83. Referral incentives
84. Innovate current products
85. Add new products
86. Sell others products
87. Cross promote
88. Start an experts panel
89. Shopping center promotions
90. Video displays
91. Tags and stickers
92. Electronic badges
93. Electronic car signage
94. Building signage
95. Sidewalk signage
96. Corporate discounts
97. Bulk purchases
98. Public relations
99. Use viral marketing tactics

Planning Your Start-Up: A Checklist

Doing some simple planning before you start is one of the best ways to assure business success and continued growth. Your SV SBDC Business Advisor is trained to help you through this process and will remain available to you as you grow. Use this checklist as a guide, but use your SV SBDC and its resources throughout the life of your company. This guide is also available with hyperlinks to the resources indicated on our website at www.valleySBDC.org/forms

1. **Determine the Feasibility of Your Business Idea**
   Who is your market? What are the projected costs for start-up and for the first one to three years? What are the projected revenues for that same time period? Who will manage the daily operations? What are your income requirements? What capital will be needed to open and stay in business? Where will it come from? If you need a loan, what portion will you be investing?
2. **Prepare a Business Plan with Loan Proposal if required**
   Your SBDC advisor can assist you through the planning process. In addition to no-fee business consulting, you can also take advantage of SBDC training opportunities. Examples of business plan outlines begins on page 30.
3. **Assemble a Management Team**
   Your Banker, Accountant/Bookkeeper, Attorney, Insurance Agent, and SBDC Advisor can all be helpful and instrumental to your success. Use their knowledge and experience to build a strong foundation for your business.
4. **Research Financing Options**
   When seeking outside financing, take into account the funding environment, have realistic expectations, know lenders' requirements, and present your request in a professional manner. Be prepared with cash flow projections that can be supported. Also be prepared to contribute a portion of the funding on your own.
   After you have done your planning and know what your financial obligations will be, continue working through the other steps in this checklist.

☐ **Research Locations**

Be sure you are going to be able to finance and move ahead with the business before committing to a lease or purchase. Verify zoning requirements and understand any restrictions on operation or required permits. Do not assume that the existence of a similar business or past businesses at that site means your business will be acceptable. Home-based businesses also may require permits and zoning. Contact your **local Zoning Office and/or Office of Community Development** to learn about your local requirements. See pages 10-11 for more details.

☐ **Choose a Business Name**

Investigate names in use in the geographic area and industry niche you will be serving. Conduct a web search to see if the domain is available. Pay attention to other similar sounding names in your market area. Check the availability of an entity name at the **State Corporation Commission**: http://www.scc.virginia.gov/clk/bussrch.aspx.

☐ **Choose Your Legal Structure**

The best legal entity varies for each owner and each business. There is no one "best" structure to use. It is wise to consult with an attorney, an accountant, and/or business advisor. Consider the type of business, your business and personal goals, and your personal finances when making this decision. For any legal structure other than sole proprietorship, register the appropriate documents with the **State Corporation Commission**: http://www.scc.virginia.gov/clk/begin.aspx. The different legal structures are explained in detail on page 12.

- ☐ **Obtain a Federal Employer Identification Number (EIN)**
  The EIN identifies your business's tax accounts on all federal and state tax forms. All employers, corporations, partnerships, and LLCs are required to obtain an EIN. A sole proprietor without employees does not need one, but would have to display the owner's social security number instead. Your EIN is provided FREE from the **Internal Revenue Service.** Visit **www.irs.gov** and search for EIN or the SS4 form.

- ☐ **Determine State Tax Requirements; Register with Virginia Department of Taxation**
  Every company transacting business in Virginia must register with the **Virginia Department of Taxation** (http://www.tax.virginia.gov) for all taxes that may apply to the operations. **Form R-1**, the **Combined Registration Application Form** allows registration for all of the taxes listed below. No application fee is required. Find the form and more information under the Businesses link on their site. You will be assigned a Virginia Tax Identification Number, also called your Certificate Registration Number, to be included on all correspondence with the Department.

  Sales and Use Tax: If you indicate on your R-1 Application that you will be collecting sales tax or remitting use tax, the Department will send you a Virginia Certificate of Registration for Sales Tax. This is your permit to collect sales tax and to issue and receive exemption certificates. The Virginia Certificate of Registration must be displayed at your place of business. The Department will also send **ST-9** forms (used to report sales & use tax liabilities and to submit the taxes). Reporting and payment can also be made on-line.

  Employee Withholding: If federal law requires an employer to withhold taxes from any employee's pay, the Virginia Department of Taxation will also require Virginia withholding. You will register as a Virginia employer on Form R-1 and the Department will send you the correct forms to use. Reporting and payment can also be done on-line from www.tax.virginia.gov

  Other taxes: Corporate Income, Litter, various agricultural, and other taxes are also covered on the R-1 form.

  Certificate of Exemption: If you will be purchasing goods for resale, you will need to provide a Sales and Use Certificate of Exemption to the seller. This certificate affirms that you do not have to pay sales tax as you will be re-selling the goods and will collect sales tax at the time of the sale. Obtain **Form ST-10** at: https://www.tax.virginia.gov/sites/default/files/taxforms/exemption-certificates/any/st-10-any.pdf

- ☐ **Register with the Virginia Employment Commission**
  Employers are liable for unemployment taxes in Virginia if you have had one employee in each of 20 weeks or more during a calendar year or have had a quarterly payroll of $1,500 or more. If you are subject to any Federal Unemployment, you are also liable in Virginia. Full details are available at the **VEC website or your local VEC field office.**

  Virginia Employment Commission: http://www.vec.virginia.gov/employers

- ☐ **File a Certificate of Assumed or Fictitious Name**
  Any business using a name which does not identify the owner of the business must register a trade name with the **Clerk of the Circuit Court** in each county/city where business is conducted. Registering this name does not prevent it from being used by any other business. It is done to assist the public by providing information about the true owner of a company. If the entity is a limited partnership, a limited liability company, or a corporation, a certified copy of the form must be filed with the State Corporation Commission. Link to Form CC-1050.

VIRGINIA: If a business is conducted in Virginia under a name other than the legal business name, an assumed or fictitious name certificate must be filed in each county or city where business is to be conducted. In addition, if the entity is a limited partnership, a limited liability company or a corporation, it must obtain a copy of each fictitious name certificate, attested by the Clerk of the Circuit Court where the original was filed, and file it with the Clerk of the State Corporation Commission.

- ☐ **Apply for Local Business Licenses; Inquire about Local Taxes or Permits**

  A Business License may be required in some cities or counties where you operate. The fee is usually prepaid as part of the application and the tax rates vary depending on the type of business. Most businesses pay a tax based on gross receipts; a few categories pay a flat fee. New businesses will be asked to estimate their first year gross receipts and the tax will be adjusted at a later date to reflect actual. Contact your local **Commissioner of the Revenue or Town Administrator** to satisfy local license requirements and to inquire about any other local taxes such as local sales, meals or hospitality taxes or vendor fees.

- ☐ **Obtain Insurance Needed**

  Discuss property, liability, and other insurance needs with a qualified insurance professional to manage your risk and protection. Virginia law requires every employer who regularly employs three or more full-time or part-time employees to purchase and maintain workers' compensation insurance. Employers with fewer than three employees may voluntarily come under the Act. See the **VWC website** for details: http://www.vwc.state.va.us/.

- ☐ **Consider Professional or Occupational Licenses specific to your industry or trade**

  Virginia Department of Professional and Occupational Regulation: http://www.dpor.virginia.gov/

- ☐ **Open a Business Checking Account**

  It is important to keep your business accounts separate from your personal finances. An integral part of that is a separate business checking account and/or credit card so that all business records are clear and documented and not at risk of being mixed with personal expenditures. Consult your banker for best options for a business account.

- ☐ **Other Considerations**

  Employment & Hiring Practices – Report newly hired and re-hired employees to the Virginia New Hire Reporting Center: http://www.va-newhire.com/. Complete Employment Eligibility Verification Forms (Form I-9) for all employees. https://www.uscis.gov/i-9-central/complete-and-correct-form-i-9.

  Employment Taxes – Virginia Withholding Tax Guide; Federal Employer's Tax Guide

  eVA Registration – http://www.eva.virginia.gov
  Virginia's web-based electronic marketplace to bring government buyers and sellers together.

  Small, Women, or Minority-Owned (SWAM) Certifications – https://www.sbsd.virginia.gov/
  Provides for the certification of minority and women-owned businesses who wish to do business with state government agencies.

  Please note: This checklist is by no means all-inclusive. Each business may have unique registration or reporting requirements depending on the industry, type of business entity, location, employment issues, and other. Do your homework by reading and studying the Web sites and booklets prepared for your use by your federal, state, and local government offices. Consult your business accountant, attorney, or SBDC advisor if in doubt.