

GETTING STARTED

How to Start a Small Business

Starting and managing a business takes motivation, desire and talent. It also takes research and planning.

Like a chess game, success in small business starts with decisive and correct opening moves. And, although initial mistakes are not fatal, it takes skill, discipline and hard work to regain the advantage.

To increase your chance for success, take the time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and well thought out business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you set out to raise money for your business. It should also provide milestones to gauge your success.

Getting Started

Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

- ✓ You want to be your own boss.
- ✓ You want financial independence.
- ✓ You want creative freedom.
- ✓ You want to fully use your skills and knowledge.

Next you need to determine what business is "right for you." Ask yourself these questions:

- ✓ What do I like to do with my time?
- ✓ What technical skills have I learned or developed?
- ✓ What do others say I am good at?
- ✓ How much time do I have to run a successful business?
- ✓ Do I have any hobbies or interests that are marketable?

Then you should identify the niche your business will fill. Conduct the necessary research to answer these questions:

- ✓ Is my idea practical and will it fill a need?
- ✓ What is my competition?
- ✓ What is my business advantage over existing firms?

- ✓ Can I deliver a better quality service?
- ✓ Can I create a demand for your business?

The final step before developing your plan is the pre-business checklist. You should answer these questions:

- ✓ What business am I interested in starting?
- ✓ What services or products will I sell? Where will I be located?
- ✓ What skills and experience do I bring to the business?
- ✓ What will be my legal structure? (see overview below)
- ✓ What will I name my business?
- ✓ What equipment or supplies will I need?
- ✓ What insurance coverage will be needed?
- ✓ What financing will I need?
- ✓ What are my resources?
- ✓ How will I compensate myself?

Your answers will help you create focused, well researched business plan that should serve as a blueprint. It should detail how the business will be operated, managed and capitalized.

Types of Business Organizations

When organizing a new business, one of the most important decisions to be made is choosing the structure of a business. Factors influencing your decision about your business organization include:

- ✓ Legal restrictions
- ✓ Liabilities assumed
- ✓ Type of business operation
- ✓ Earnings distribution
- ✓ Capital needs
- ✓ Number of employees
- ✓ Tax advantages or disadvantages
- ✓ Length of business operation

The advantages and disadvantages of sole proprietorship, partnership and corporation are listed below.

Sole Proprietorship

This is the easiest and least costly way of starting a business. A sole proprietorship can be formed by finding a location and opening the door for business. There are likely to be fees to obtain business name registration, a fictitious name certificate and other necessary licenses. Attorney's fees for starting the business will be less than the other business forms because less preparation of documents is required and the owner has absolute authority over all business decisions.

Partnership

There are several types of partnerships. The two most common types are general and limited partnerships. A general partnership can be formed simply by an oral agreement between two or more persons, but a legal partnership agreement drawn up by an attorney is highly recommended. Legal fees for drawing up a partnership agreement are higher than those for a sole proprietorship, but may be lower than incorporating. A partnership agreement could be helpful in solving any disputes. However, partners are responsible for the other partner's business actions, as well as their own.

A Partnership Agreement should include the following:

- ✓ Type of business.
 - ✓ Amount of equity invested by each partner.
 - ✓ Division of profit or loss.
 - ✓ Partners compensation.
 - ✓ Distribution of assets on dissolution.
 - ✓ Duration of partnership.
 - ✓ Provisions for changes or dissolving the partnership.
 - ✓ Dispute settlement clause.
 - ✓ Restrictions of authority and expenditures.
 - ✓ Settlement in case of death or incapacitation.
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Corporation

A business may incorporate without an attorney, but legal advice is highly recommended. The corporate structure is usually the most complex and more costly to organize than the other two business formations. Control depends on stock ownership. Persons with the largest stock ownership, not the total number of shareholders, control the corporation. With control of stock shares or 51 percent of stock, a person or group is able to make policy decisions. Control is exercised through regular board of directors' meetings and annual stockholders' meetings. Records must be kept to document decisions made by the board of directors. Small, closely held corporations can operate more informally, but record-

keeping cannot be eliminated entirely. Officers of a corporation can be liable to stockholders for improper actions. Liability is generally limited to stock ownership, except where fraud is involved. You may want to incorporate as a "C" or "S" corporation.

Business Plan Outline

The following outline of a typical business plan can serve as a guide. You can adapt it to your specific business. Breaking down the plan into several components helps make drafting it a more manageable task.

Introduction

- Give a detailed description of the business and its goals.
- Discuss the ownership of the business and the legal structure.
- List the skills and experience you bring to the business.
- Discuss the advantages you and your business have over your competitors.

In-depth help on developing a sound business plan can be found on the SBA Web site in the Starting Area.

Marketing

- Discuss the products/services offered.
- Identify the customer demand for your product/service.
- Identify your market, its size and locations.
- Explain how your product/service will be advertised and marketed.
- Explain the pricing strategy.

Financial Management

- Explain your source and the amount of initial equity capital.
- Develop a monthly operating budget for the first year.
- Develop an expected return on investment and monthly cash flow for the first year.
- Provide projected income statements and balance sheets for a two year period.
- Discuss your break even point.
- Explain your personal balance sheet and method of compensation.
- Discuss who will maintain your accounting records and how they will be kept.
- Provide "what if" statements that address alternative approaches to any problem that may develop.

Operations

- Explain how the business will be managed on a day to day basis.
- Discuss hiring and personnel procedures.
- Discuss insurance, lease or rent agreements, and issues pertinent to your business.
- Account for the equipment necessary to produce your products or services.
- Account for production and delivery of products and services.

Concluding Statement

- Summarize your business goals and objectives and express your commitment to the success of your business.
- Once you have completed your business plan, review it with a friend or business associate or a Service Corps of Retired Executives (SCORE) or Small Business Development Center (SBDC) counselor.
- When you feel comfortable with the content and structure make an appointment to review and discuss it with your lender. The business plan is flexible document that should change as your business grows.

To Lease or Not to Lease: Things To Know

Get The Answers

Here are some questions to ask before signing a lease:

1. Does the lease specifically state the square footage of the premises? The total rentable square footage of the building?
2. Is the tenant's share of expenses based on total square footage of the building or the square footage leased by the landlord? Your share may be lower if it's based on the total square footage.
3. Do the base year expenses reflect full occupancy or are they adjusted to full occupancy (i.e., base year real estate taxes on an unfinished building are lower than in subsequent years)?
4. Must the landlord provide a detailed list of expenses, prepared by a CPA, to support increases?
5. Does the lease clearly give the tenant the right to audit the landlord's books or records?
6. If use of the building is interrupted, does the lease define the remedies available to the tenant, such as rent abatement or lease cancellation?
7. If the landlord does not meet repair responsibilities, can the tenant make the repairs, after notice to the landlord, and deduct the cost from the rent?
8. Is the landlord required to obtain nondisturbance agreements from current and future lenders?
9. Does the lease clearly define how disputes will be decided?

(Source: 327 Questions to Ask Before You Sign a Lease, by B. Alan Whitson (B. Alan Whitson Co., (800) 452 4480.)

Learn The Lingo

Lease terms you should know:

Lessor	Landlord
Lessee	Tenant
Right of First Refusal	Before vacant space is rented to someone else, landlord must offer it to the current tenant with the same terms that will be offered to the public.
Gross Lease	Tenant pays flat monthly amount; landlord pays all operating costs, including property taxes, insurance and utilities.
Triple Net Lease	Tenant pays base rent, taxes, insurance, repairs and maintenance.
Percentage Lease	Base rent, operating expenses, common area maintenance, plus percentage of tenant's gross income (most common for retailers in shopping malls).
Sublet	Tenant rents all or part of space to another business; tenant is still responsible for paying all costs to landlord.
Assign Lease	Tenant turns lease over to another business, which assumes payments and obligations under the lease.
Anchor Tenant	Major store or supermarket that attracts customers to a shopping center.
Exclusivity Provision	Shopping center can't lease to another who provides the same product or service that existing tenant does.

CAM	Common area maintenance charges including property taxes, security, parking lot lighting and maintenance; may not apply to anchor tenants in retail leases.
Nondisturbance Clause	Tenant cannot be forced to move or sign a new lease if building or shopping center is sold or undergoes foreclosure.

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