

# Small Business Start-up Guidelines

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**BACHMAN**  
*& Associates*

# Introductions – **THIRTY SECONDS**

- Name
- Do you have a business in mind already?
  - If so, what is it?
- What do you hope to get out of this seminar?

# Are you ready to be an entrepreneur?

- Do you have what it takes?
- Quitting a full-time job to start a business isn't something to be taken lightly.

Every year, hundreds of thousands of people make the transition from employee to entrepreneur. But while some succeed, others fail. Many that do fail simply were not ready to make the change.

- Many questions remain:
  - Do I have enough money till my business picks up?
  - Is my family ready for this?
  - Do people need a product and service like mine?
  - Who is my competition?

# Smart Tip

- According to many experts, the final element that determines whether you are ready to become an entrepreneur is if you are able to raise a significant amount of money (from investors, bankers, family, grants, Seed Money, etc.).
- Are you willing to work hard and take a risk?
- If you can make other people believe in your dream and share your goals so that they are willing to invest hard-earned cash in your venture, chances are you have what it takes.



# Beware!!!

- If you have felt unfulfilled at your job for a long time, chances are you'll harbor resentment toward your past employer after you start your business.
- But if you leave a job because you are angry, be sure not to transfer this anger to your new business, or failure is almost certain. Once you start your business, you must leave behind any bad feelings about your former job or boss.

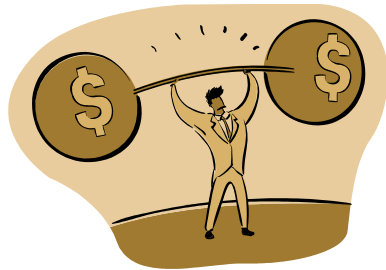


# Owning a business you hate

- You could live in an area where that business is already saturated or is not viable or they simply may not suit you and you'd end up hating your business. Just because you want a business doesn't mean you are going to like doing it and if you don't like it, chances are you will fail.
- Owning a business you hate is the same as having a job you hate. It's still hard to get out of bed in the morning and you are just not going to do it as well. What all this means is that you need to come up with your ideas first and then assess your traits to see which ideas best suit you.

# Strengths and Weakness

- Who Knows you better than You!
- Create a Personal Resume
- Analyze your personal attributes
- Analyze your professional attributes
- Worksheet



# Go for the Goal!



- **Be Specific** - Raising Capital is not the same as raising \$100,000.
- **Optimism** – A positive outlook on life
- **Realism** - Be real to yourself. Begin with small steps. Meet smaller goals first.
- **Short term and long term goals**
- **Income** - Consider how much money you need during the first year of operation and each year thereafter, up to five years (Business Plan).
- **Lifestyle changes** - How many hours are you willing to work? Which assets are you willing to risk?
- **Type of work** - Are you willing to dirty your hands, are you wanting to work outside, in front of a computer, with children around, etc.
- Ego Gratification or competing with your family members



# Business Advisor or Mentor

- Do you have the expertise needed to be successful in business?
- If not, where can you get it?
  - Free Mentors
    - SCORE – See Information Sheet
    - SBDC
  - Pay an expert for guidance and advice (part-time executive – CEO, CFO, etc. or an advisory board)

Idea for a Business

# Bright Idea

- The best place to look for ideas is to **start with what you know.**
- Look at the **business potential** of your product or service.
  - Is there an opportunity to make a lot money over the long run.
  - Or is it a “hit and run “ product, which is not necessarily bad. Some entrepreneurs have had incredible success with that.
- One of the hardest things to do is to **know when it's time to get out and let go.**

# Develop Your Ideas

- Summarize your business idea in 50 words or less.
- Test your ideas with probing questions.
  1. Where did your idea originate (from a specific experience, industry or market observation, a sudden inspiration)?
  2. New Product or Service - Describe how you plan to get it accepted in the market.
  3. Better Mouse Trap – Describe how customers will use your new improved product or service instead of the old one and why?
  4. Describe your market niche in 50 words or less.

# Develop Your Ideas (Continued)

- Test your ideas

5. List 3 qualifications that you have that make you better than the competition (experience, reputation, education, cost – should be last, etc. )
6. List your two most important personal goals for the next five years?
7. How will this business help you achieve these goals?
8. What are the two most significant barriers to starting your business?
9. How will you overcome these barriers?

# Beware!!!

- **Don't bite the hand that feeds you.** Starting a business that **competes with your current employer** may get you in hot water legally by violating **non-compete clauses** in your employment contract. Plus, **he may fire you**, which means you may unintentionally find yourself working full-time in your new business. If you were **counting on your current full time salary to pay the bills while you develop your business,** you just might be in trouble financially.
- If you start a business in the same industry, **focus on a small niche** your employer has overlooked.



# Market Matters

- You can't become so caught up in your love for what you're doing that you overlook the business realities.
- As with any business, your plan of attack should start with a thorough assessment of your idea's market potential. Often this step alone will be enough to tell you whether you should start **part-time or full-time**.

# Market Matters (Continued)

- To make sure there is a market for your products or services, you need to investigate factors such as:
  - economy in your area,
  - demographic breakdown of your client base
  - availability of potential customers.
  - competition in your industry,
- Once you've determined there is a need for your business outline your goals and strategies in a comprehensive **business plan**.



# Financial Plan

- If keeping a full-time job and a part-time business going at the same time sounds too difficult and taking the full-time plunge sounds too scary, consider taking a part-time or temporary job while you start a full-time business. This can be a way to ensure you have some money coming in while giving you time to work on your business.
- Part-time jobs often offer evening or weekend hours - a big plus if you need to be accessible to clients during regular business hours.
- A good rule of thumb is to wait until your part-time business in bringing in income equivalent to at least 30% of your current salary from your full-time job. This may vary depending on your circumstances.

# Going Part-Time or Full-Time

## Going part-time

### Advantages:

- It reduces your risk because you can rely on regular income and benefits from your full time job while you get your business off the ground. By starting part time you also allow your business the chance to grow gradually.
- This way you will find out what running a business requires, while limiting your liability if it fails.

### Disadvantages:

- This leaves you with less time to market your business, strategize and build a clientele. Since you won't be available to answer calls or solve customer's problems for most of the day clients may become frustrated and feel you're not offering adequate customer service.
- Part-time entrepreneurs may also find that prospective customers, suppliers or investors may not take them seriously.
- Perhaps the most serious problem is the risk of burnout. Holding a full-time job while running a part-time business leaves you with little, if any, leisure time; as a result, your personal and family life may suffer.

# Part-Time Pointers

1. **Involve your family** and someone you trust in the business whenever possible.
2. Be ready to **give up personal time**.
3. **Focus** on the task in front of you
4. **Delegate** tasks and be sure to **follow up** to ensure that it is done the way you like it.
5. Make the most of every minute
6. Take advantage of the time zone difference and technology for sure.
7. Don't overstep your boundaries.
8. **Be honest**



# Incubators & Partners

- If you're a part-time entrepreneur seeking a full-time professional image, check out business incubators. For a small fee business incubators provide office space, services such as answering the phone and access to equipment like copiers and fax machines.
- The biggest plus: incubators also provide start-up help such as marketing and accounting assistance.
- What do you do if you can't afford to start your business full-time, but need to be available full-time to answer client and customer calls? Consider teaming up with a partner whose available hours complement yours.
- Caution: Every partnership has at least one too many partners

# Three Ways to Get Into Business

1. Start your own business
2. Buy an existing business
3. Buy a Franchise

# Made from Scratch or Store Made

- Is it feasible for us to make or buy.
- Consider the cost of all the ingredients it takes to make your product and the labor you put in. Now see if you were to buy it from a vendor. If it is cheaper for you to buy it as long as quality is not being compromised you might be better off buying.
- Same principle goes as far as Starting a Business or Buying an Existing One.
- Also known as Turn Key Operation

# **Buying an Existing Business**

## **Pros & Cons**

# Buying an Existing Business

- In most cases buying an existing business is less risky than starting from scratch. When you buy a business you take over an operation that is already generating a cash flow. You have an established customer base and reputation as well as trained employees who are familiar with all aspects of the business.
- In not so many words you are not reinventing the wheel - setting up new procedures, systems and policies.
- You are making money from day one.
- Not spending a lot of time and money trying to tell people who you are and where you are and how to find you (Marketing).



# Beware When Buying a Business!

- Study the business
- Determine the value of the business
- Look at the Financials (Audited) & Tax Returns
- Come at different times of day and week to see the flow of traffic, if that's what drives your business
- Send someone in as a customer to get feedback
- Competition
- Observe, Observe, Observe

# Business Evaluation Checklist

- If you find a business (independent or franchise) that you would like to buy, you will need to consider a number of points before you decide whether to purchase it.
- Take a good, close look at the business and answer the following questions. They will help you determine whether the business is a sound investment.
- See list of 29 items

# Ask these questions

- Why do I want to buy a Franchise? (*Every place you see franchise you can substitute business.*)
- Why do I want to buy this particular Franchise?
- What is the value of this business?
- How long do I plan to operate this Franchise?
- What factors would suggest or require that I sell the franchise?
- When do I want to sell the business/Franchise? (or pass it on to a family member) (Exit Strategy)
- What will I do after I sell the franchise?
- How will my family life be affected? Will my family be working with me? Can I work with my family? How would that affect my family?
- Who will be in charge of what?
- Who has the final say?

Having all these issues clarified from the beginning will be essential to a good work environment.



# A Business Broker

A good broker does the following for you:

- Keeps your interest first, not the sellers
- Prescreens businesses for you
- Helps you pinpoint your interest and narrow down the choices
- Negotiates
- Assists with paper work
- Is Honest and Respectable

# Should I go in it Alone

- You may be good at making the best soup in the world, but are you a good negotiator or marketer, or accountant?
- Do you have knowledge of the market as far as rent, lease, loans, tax strategies, business valuation, etc.
- You can go to [www.bizbuysell.com](http://www.bizbuysell.com) to get broker listings and thousands of businesses for sale, you can read up on business valuation and financing.
- Remember, just because a business isn't listed doesn't mean it isn't for sale.
- Talking to business owners in the industry, many of them might not have considered it for sale, but if you make an offer that tempts them then you might be on to something.
- You might engage an experienced professional part-time (CFO, CIO, Marketing, HR, etc.).

# Short on Cash? Let's make a deal

- Use the seller's assets
- Bank on purchase orders
- Buy co-op
- Use an Employee Stock Ownership Plan (ESOP)
- Lease with an option to Buy
- Stock Purchase vs. Asset Purchase – Pros & Cons
- Assume Liabilities or decline receivables.
- Deciding on a price is just the first step in negotiating the sale.
- Ask for help with Transition time from the seller (i.e. training, consulting, vendors, and customer relations, etc.)
- See Business Evaluation Checklist

# Franchising

## Pros & Cons

# Franchises - Playing Devil's Advocate

- The allure of trying something new and being your own boss is a big draw for a lot of midcareer workers who have been laid off, bought out or are just looking for more stability.
- Smart companies are trying to capitalize on the opportunity pushing their franchise models harder and touting the best selling points of a franchised business: an **established brand** and **support from the corporate parent**. But even in the best areas for new businesses – the Triangle Included - **franchising isn't a sure thing**.



# Franchising - Costs

- Franchising Fee – Initial
- Set-up Costs
  - Construct or Rent Building
  - Equipment
- Royalties
  - Variable - Usually based on Revenue
  - Fixed – Periodically
- Advertising & Marketing

# Some Franchise Facts

- There are some 854,000 franchised businesses in the United States.
- Franchisees put \$20,000 - \$250,000 into opening the business on average, though some stores can be much more costly.
- Franchisees agree to pay a percentage of their sales back to the parent company in the form of royalties plus usually another chunk of sales for marketing/advertising.
- They are able to open up quickly, sometimes within 3 to 6 months of signing on.

# What Do I Get For The Fees I Pay?

- Proven Business System
- Initial Training
- On-going support
- Business Software
- Marketing campaigns and materials
- Equipment
- Site location assistance
- Build out assistance
- Future Vision & Operational growth plans
- Possible financing assistance



*"Your success is  
our only business"*

THE  
ENTREPRENEUR'S  
SOURCE

# I Like Dunkin Donuts!!!



- When choosing a Franchise , people decide on impulse and what they like to eat.
- Just because you like Dunkin Donuts it does not mean you should open that Franchise.
- Long Hours - In Dunkin Donuts you will be getting up early (very early) and that's where you will make your money. If the cook does not show up, you are it. It is open 7 days a week. It is open from the time the franchise tells you to the time it closes. And then you have to do it all over again.
- Having a passion for food does not qualify you to be in food business.
- Having a passion for cars does not qualify you to open a car dealership.
- So thinking clear by analyzing pros and cons of the business you want to venture into is very critical.

# Advantages of Franchises

- Name Recognition
- Strength in Numbers
- Improved Buying Power
- A Proven Method and Processes
- Training – Usually
- Established Accounting System – Usually
- Established Marketing – Maybe at a cost
- Access to Capital – Maybe

# Which Franchise is Right for you?

## Some Questions you need to ask are:

- Will you be a successful Franchisee?
- Your Personality?
- Are you a motivated self-starter?
- How much do you want to run your own business?
- What is your background?
- What type of work is most appealing to you?
- Your desired lifestyle?
- Are you willing to relocate?
- How many hours are you willing to work?
- Are you comfortable managing others?
- Owner-Operator versus owner-investor?

# Franchise Categories

- Advertising
- Automotive
- Bridal
- Business Service
- Children's Business
- Cleaning
- Computer/Internet
- Financial Services
- Food/Restaurant
- Health/Fitness
- Home Improvement
- Travel
- Lodging
- Maintenance
- Manufacturing
- Personal Care
- Pets
- Photography/Video
- Real Estate
- Securities
- Security/Investigation
- Senior Care, Sports Recreation
- Vending
- Wholesale/Distribution

# What is U.F.O.C.

- The **Uniform Franchise Offering Circular**, or UFOC, is a document that contains information franchisors must provide to franchisees by law. Its contents are regulated by the Federal Trade Commission. UFOCs are deemed to be reliable and if the information provided is false, franchisors are subject to civil penalties. However, the FTC does not require filings. There are 13 states that do keep UFOCs on file, and 23 states that require business opportunity disclosure filings.
- The UFOC is designed to give prospective franchisees all the information relevant to a franchise offering. It is made up of three basic parts: 23 sections (called Items) describing various aspects of the franchise program; a set of the franchisor's audited financial statements; and a copy of each form or contract a franchisee is expected to sign if he/she intends to buy the franchise.
- The standard Items in a UFOC are as follows:
- Item 1: The Franchisor, It's Predecessors And Affiliates
- Item 2: Business Experience
- Item 3: Litigation
- Item 4: Bankruptcy
- Item 5: Initial Franchise Fee
- Item 6: Other Fees
- Item 7: Initial Investment
- Item 8: Restrictions On Sources Of Products And Services
- Item 9: Franchisee's Obligations
- Item 10: Financing
- Item 11: Franchisor's Obligations
- Item 12: Territory
- Item 13: Trademarks
- Item 14: Patents, Copyrights and Proprietary Information
- Item 15: Obligation To Participate In The Actual Operation Of The Franchise Business
- Item 16: Restrictions On What The Franchisee May Sell
- Item 17: Renewal, Termination, Transfer And Dispute Resolution
- Item 18: Public Figures
- Item 19: Earnings Claims
- Item 20: List Of Outlets
- Item 21: Financial Statements
- Item 22: Contracts
- Item 23: Receipt
- FRAN data is more than happy to deliver just the items you need from the documents for the companies and years that you want.



# UFOC (Continued)

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# Franchise Websites that are crucial

- **International Franchise Association:**

[www.franchise.org](http://www.franchise.org)

**National franchise associations**

**American Franchise Association**

<http://www.franchisee.org/>

**The Federal Trade Commission (FTC) provides a free package of information about the FTC Franchise and Business Opportunity Rule. [www.ftc.gov](http://www.ftc.gov)**

**The American Business Opportunity Institute, Inc. is a national clearinghouse and seminar company specializing in business opportunity and franchise investment.**

# Franchise – Do Your Research

- Start by looking into a business that suits your life style.
- Talk to the Franchisee first. Some will not be that comfortable sharing information with you if you are opening the same thing they have as they will feel that you will be their competition. In that case go outside the geographic area in which you are trying to open your tentative business.
- Talk to as many Franchisees as you can. Each will have a different story.
- See if they can let you do a quick internship for a day or two.
- Observe the pros and cons.
- Try to understand your client base.
- **Involve family** and get honest opinions. Do not underestimate any one right from your 4 year old to the eldest member of the family.
- They are always and should always be number one on the list.



- **Do not yield to any pressure** from any sales person from any business models be it a Franchisor wanting to sell you the Franchise or an independent business.
- Statements such as “Territories are going fast,” or “Act now or you’ll be shut out” or “I am leaving town on Monday, so make your decision now” are obvious red flags.
- The art of a good negotiator is the person who has the ability and **willingness to walk away from the deal**.
- Never fall for instant rebates and instant gratifications, but instead look at the bigger picture.

# What is a Franchise Again?

- Franchising is an established way to distribute (market and sell) products and services.
- A franchise is a license.
- A franchisor creates a system for franchisees to follow.
- While franchising is argued to be **the safest way to go into business, it's not for everyone.**
- People from many walks of life have become successful franchisees.
- Even though the franchisor provides a system for franchisees to follow, franchisees must work hard to build a successful business!

# Things you should know

- **Advertising fee:** The fee that is paid annually or monthly by the franchisee to the franchisor to assist in the corporate advertising expenses.
- **BBB (Better Business Bureau):** An organization that acts as a trusted intermediary between consumers and business
- **Discovery day:** A day to visit a franchise's corporate office to learn more about the offer, meet key players and top management, and get a feel for the corporate culture.
- **FDD (Franchise Disclosure Document):** The FTC's mandated disclosure document that gives a wealth of information about the franchisor.
- **Franchise broker:** An agent between the buyer or the seller. (Keep in mind that he is paid by seller)
- **Franchise fee:** An up-front fee for the right to purchase a franchise.
- **Franchise termination:** A franchisor can end your franchise agreement, usually occurring if the franchisee does not pay the royalties, or abide by the franchise provisions.
- **FTC (Federal Trade Commission):** A Federal agency charged with enforcing anti-trust laws and prohibitions against false, deceptive or unfair trade or advertising practices.



# Things you should know (continued)

- **IFA** (International Franchise Association)
- **Liquidity:** Assets that can quickly be turned into cash without a significant loss such as checking, saving and money market accounts.
- **Net Worth:** Total assets minus liabilities of an individual
- **Owner-Investor:** The franchisee will purchase the franchise unit but will hire someone else to manage and run the unit, otherwise known as absentee ownership.
- **Owner-Operator:** The franchisee will run the franchise unit him or herself.
- **Renewals:** Franchise agreements generally expire after 10-20 years. After the initial agreement the contract can be renewed, but not always under the same original conditions. A renewal fee is usually less than the original franchise fee.
- **Royalties:** The franchisor receives a cut of the sales your franchise generates usually on a percent basis.

# Franchise & Business Evaluation Checklist

- If you find a business ( independent or franchise) that you would like to buy, you will need to consider a number of points before you decide whether to purchase it.
- Take a good, close look at the business and answer the following questions. They will help you determine whether the business is a sound investment.

# Ask these questions

1. Why do I want to buy a Franchise? (Every place your see franchise you can substitute business.)
2. Why do I want to buy this particular Franchise?
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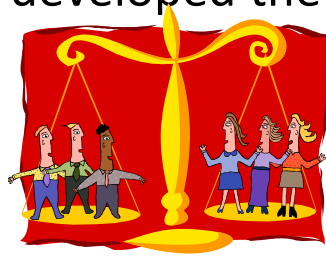
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# Franchising Check Lists

- 19 Frequently Asked Questions
- 20 Frequently Asked Questions
- Checklist for Franchise Trade Show
- 12 Worst Franchise Agreement Provisions
- USAA Article – 10 Best & Worst Franchises

# Franchises Are Not Created Equal!

- Within your industry of choice, there may be several competitive companies for you to explore. If all goes well, you'll eventually select one of these companies.
- Keep in mind that some franchise opportunities are better than others.
- Compare two, three or more companies to find the one that's best for you.
- Compare, for example, the value of the franchisor's brand.
- How well is it known in the area where you plan to open your business?
- Compare systems. You might feel more comfortable operating one system over another.
- Compare training and support. How good is it?
- Compare relationships between franchisor and franchisees. Which company appears to have developed the most favorable relationship with its franchisees?



# Franchising - Full Disclosure

- The franchisor has to qualify you to give you the rights to use their name (i.e. sell you the franchise).
- Be honest and upfront about your finances.
- Do not withhold any information about anything.
- They will find it out anyway.
- Start off on the right foot.

# Financing

## Potential Sources of Financing Capital:

- Your capital – Personal Saving & Assets (81%)
  - Savings/Investments/Severance Pay
  - Retirement Account – Withdraw or invest in your own C Corp
  - Home Equity Loan
  - Credit Cards Loans – Usually Bad
- Family Loan (or Investor)
- Commercial Bank Loan
- Credit Union
- SBA (Small Business Administration) Backed Bank Loan & SBDC
- IDA (Industrial Development Authority)
- Equity Investor – Angel Investor or Venture Capital

# Lets arrange the Finance Now!

- The **U.S. Small Business Administration (SBA)** maintains a comprehensive Web site that provides just about everything you need to consider prior to investing in a business. From *Frequently Asked Questions to Counseling Help to Financing Your Business* you'll find all this information, and much more at: <http://www.sba.gov>
- **SBA sponsors the Small Business Development Center Program (SBDC)** to provide management assistance to current and prospective small business owners. The **SBDCs** - with nearly 1,000 locations nationwide - are associated with universities.
- Call the university closest to you and ask about an SBDC office.  
**Assistance is free!**
- **SBDC counselors can help you determine how much money you can afford to invest in a business.** Plus, they can provide you with ongoing guidance! Learn more about SBDCs by searching for “small business development center” at: <http://www.sba.gov>



# Now that I have signed the dotted line

- Congratulations on living your dream. Now you have enough information to make an informed decision whether you want to have your own business.
- Now you are **your own boss**. (Yikes!!!)
- There is no one to answer to, no time restrictions, no deadlines, no pleasing anyone but yourself. (If you believe this, you haven't been listening.)
- Now there is no one to blame either because you are your boss.
- Be it a Franchise or a Small Business the next few slides will highlight the reality of being a business owner.

# If you are a small business

- **Domain Name:** Even before you finalize your name choice, make sure that there is a related domain name and buy it (about \$10)
- **Name:** You now have to think of a catchy name that will reflect and identify the products and services you want to have and the customers you want to attract (or not).
- **Website:** You have to create a website where people can find you. Do it yourself or pay a professional.
- **Social Media Profiles:** LinkedIn, Face Book, Twitter, Plaxo, etc.
- **Mission Statement:** You have to have a mission statement that clearly defines who you are and what you want yourself and your employees to follow.
- **P&P:** Establish policies and operating procedures and document them.
- **Employees:** Should you start hiring people (i.e. putting a team together) or not?
- **Training:** You have to learn yourself and then train your employees regarding how you would like things done.

# If you are a Franchisee

- You will usually go for training at the Franchisor's Corporate Office.
- You will be helped with site selection, layout and design, vendor specifications.
- You will be helped with an opening team to ensure everything goes well during the first initial days of opening.
- You will be provided with support and data.

# What Legal Structure is Best?

- Sole Proprietorship
- Partnership
- Corporation
  - C Corp
  - S Corp
- Limited Liability Company (LLC, LLP, PLLC)
- To help sort through the business structure maze, you can order free IRS publications by calling (800) Tax-Form or by downloading them from the IRS website at irs.gov.
  - Self-Employment Tax (Publications No. 533)
  - Partnerships (Publications No. 541)
  - Corporations (Publications No. 542)
  - Small Business and Self-Employed Tax Center at <http://www.irs.gov/businesses/small/> Click on Small Business Forms & Publications

# Sole Proprietorship

- The simplest structure is the sole proprietorship, which involves just one individual who owns and operates the enterprise. This is often a service business with the owner providing the service. The owner and the business are the same.
- Profits & Losses: The sole proprietor gets it all, good or bad.
- Tax filing: Done on Schedule C of your federal individual form 1040 tax return.
- If you operate as a sole proprietor, be sure you keep your business income and records separate from your personal finances. It helps to establish a business checking account and to get a credit card to use only for business expenses.
- **Advantages**: Simple and inexpensive to set-up. Maximum control.
- **Disadvantages**: Unlimited legal and financial liability. Harder to raise capital.

# Partnerships

- If your business will be owned and operated by several individuals, you'll want to take a look at structuring your business as a partnership. Partnerships come in two varieties:
- **General Partnership**: Partners manage the company and assume responsibility for the partnership's debts and other obligations.
- **Limited Partnership**: Has both general and limited partners.
  - General Partners:** Own and operated the business and assume liability for the partnerships
  - Limited Partners:** Serve as investors only. They have no control over the company and are **not subject to the same liabilities as general partners.**

# Partnerships - Continued

- Profits & Losses: Shared by partners.
- Tax Filing: Form 1065 – An added expense. Partners report earnings on their 1040 via a K-1 from the partnership.
- Advantages: Relatively simple to set up, but be sure to have a legal partnership agreement.
- Disadvantages:
  - Partners are personally liable for business debts (except for limited partners).
  - No beneficial employment tax treatment.
  - Must have at least two or more partners.
- Advice from a very good lawyer: **“Every partnership has at least one too many partners.”**

# Corporations

Two types common types of corporations:

- C Corp
- S Corp



# Corporation

- The corporate structure is more complex and expensive than most other business structures. A corporation is an independent legal entity, separate from its owners, and as such, it requires complying with more regulations and tax requirements.
- The biggest benefit for a small business owner who decides to incorporate is liability protection he or she receives. A corporation's debt is not considered that of its owners, so if you organize your business as a corporation properly, you're not putting your personal assets at risk.
- A corporation can retain some of its profits, without the owner paying tax, however the corporation has to pay corporate tax on profits, which currently is the second highest in the world. When the profits are distributed to the owners/stockholders (usually as dividends) they get taxed again.
- Another plus is the ability of a corporation to raise money. Corporations also continue indefinitely, even if one of the share holders dies, sells the shares or becomes disabled.
- Corporations are formed under the law of each state. Because a corporation requires more complex rules and regulations than partnership or sole proprietorship, it requires more accounting and tax preparation services.

# C Corp

- Profits & Losses: Remain in corporation until dividends are paid or stock is sold. Can not use losses to offset other income.
- Tax Filing: Form 1120.
- Advantages:
  - Limited Personal Liability.
  - Lower risk of tax audits.
  - Owners can deduct fringe benefits as business expense.
  - Owners can split profits between the corporation and 1040 to get a lower tax rate (but still double taxation problem).
- Disadvantages:
  - More expensive than sole proprietorship.
  - Double taxation.
  - Can not use losses to offset other income.

# S Corporation (Subchapter S)

- An **S Corp** has some appealing tax benefits that make it more attractive to small-business owners than a C Corp, but it still provides business owners with the liability protection of a corporation.
- With an S corporation, income and losses are passed through to shareholders based on their percent of stock owned and included on their individual 1040 tax returns as ordinary income (not compensation). As a result, there's just one level of federal tax to pay and you avoid the double taxation of C Corps.
- If you anticipate several years of losses in your business, you can deduct S Corp losses on your individual 1040 tax return from other income just like you would a loss from a sole proprietorship or a partnership.

# S Corp (Continued)

- Profits & Losses: Shared by stockholders on percent of ownership.
- Tax Filing: Form 1120-S. Partners report earnings on their 1040 via a K-1 from the partnership, plus W-2s.
- Advantages:
  - Limited Personal Liability.
  - Corporate Losses can offset other income.
  - Can save on employment taxes by distribution of profits instead of compensation.
  - Lower risk of tax audits.
- Disadvantages:
  - More expensive than sole proprietorship.
  - Limitations on how profits are distributed (based on stock Ownership).
  - Fringe benefits for shareholders are limited.

# Limited Liability Company

- Profits & Losses: Shared by 'members' on whatever basis they want – not controlled by ownership interest.
- Tax Filing: Form 1065. Partners report earnings on their 1040 via a K-1 from the business.
- Advantages:
  - Limited personal liability for business debt if they participate in management.
  - Business losses can offset other income.
  - Can distribute profits on whatever basis they decide.
  - Lower risk of tax audits.
- Disadvantages:
  - Somewhat more expensive than sole proprietorship.
  - All profits are treated as compensation and subject to employment taxes.

# Glossary

- Sole Proprietorship: A business entity that usually involves just one individual who owns and operates the enterprise.
- Partnership: A business that is unincorporated and organized by two or more individuals.
- Corporation: A business structure organized under state law and generally treated as a separate tax entity.
- S Corporation: A type of corporation that provides its owners with tax treatment that is similar to a partnership
- Limited Liability Company (LLC): A hybrid business structure that combines tax advantages of a partnership with liability protection of a corporation
- Self-employment tax: Tax paid by a self-employed person to help finance Social Security and Medicare.
- Deduction: Business and other expenses that reduces your income.

# Prepare a Business Plan

- Creating a Business Plan is the best way to see how much money it'll take to start your business.
- The plan will also help you estimate cash flow. (Good interactive spreadsheet at SCORE.org.)
- It will show you when to expect your business to break even, when it will generate a profit, and at what point the business will be able to pay you a salary.

# Bus Plan - Major Components

1. Executive Summary
2. Business Description
3. Product/Services Description
4. Market Description & Strategies
5. Competitive Analysis
6. Design and Development Plan
7. Operations and Management Team & Plan
8. Financial Documents



# Business Plan - Major Components

1. Executive Summary: Write this last. It's just a page or two of highlights.
2. Company Description: Legal establishment, history, start-up plans, etc.
3. Product or Service: Describe what you're selling. Focus on customer benefits.
4. Market Analysis: You need to know your market, customer needs, where they are, how to reach them, etc.
5. Strategy and Implementation: Be specific. Include management responsibilities with dates and budget.
6. Management Team: Include backgrounds of key members of the team, personnel strategy, and details. Plus D & O Insurance.
7. Financial Plan: Include profit and loss, cash flow, balance sheet, break-even analysis, assumptions, business ratios, etc.

# Business Plan

## Financial Documents (3 Years)

- Key Financials
  - Income Statement Projections
  - Cash Flow Projections
  - Break Even Analysis
  - Balance Sheet
- Other Documents
  - Sources & Uses of Funds
  - Capital Expenditures (over the 3 years)
  - Personnel/Human Resources Required
  - Historical Financial Reports – For Existing Companies

# Business Plan – Five Steps

Five steps in developing a business plan:

1. Clearly define your business idea. State the purpose and goal of your business.
2. Examine your motive: Make sure that you have a burning desire to own a business... this business.
3. Dedication and Commitment: Make sure that you are willing to dedicate the time, effort and energy to learn everything that there is to run this business and the determination to endure the frustrations and naysayers, because they will come.

# Business Plan – Five Steps (Continued)

4. Conduct a analysis of the competition in the market:
  - Competitive products
  - Prices
  - Quality
  - Service
  - Distribution
  - Advertising & Promotions
5. Get help and guidance from others with experience in this business (accounting, legal, HR, IT, finance, government agencies, other small business owners, trade associations, chamber of commerce, classes, SCORE, vendors, potential customers, etc.).

# Business Licenses and Permits

- If you are starting a sole proprietorship or a partnership, you have the option of choosing a business name or dba(“doing business as”) for your business. This is known as a fictitious business name. If you want to operate your business under a name other than your own, you may be required by the county, city or state to register your fictitious name & buy a domain name (\$10).
- The cost of filing may be from \$10.00 to \$100.00.
- Some local governments charge an annual Business Privilege Tax/License
- Your local bank may require a fictitious name certificate or EIN to open a business account for you. If so, it can tell you where to go to register. To apply for a EIN with the IRS use Form SS-4.

# Business Licenses & Permits (Continued)

- Contact your city's business license department to find out about getting a business license or permit, which grants you the right (after you pay a fee) to operate your business in that city.
- When you file your license application, the city planning or zoning department will check to make sure your area is zoned for the purpose you want to use it and that there are enough available parking spaces to meet the codes.
- You cannot operate in an area that is not properly zoned for your type of business unless you first obtain a variance or conditional use permit.
- To get a variance you need to present your case before the planning commission in your city. In many cases variances are quite easy to get as long as you can show that your business will not disrupt the character of the neighborhood where you plan to locate.

# Business Licenses & Permits (Continued)

- The State of North Carolina has no single general business license that will ensure compliance with all requirements. Some businesses may be subject to several state requirements while others may not be subject to any. There are over 700 regulatory, state issued and occupational licenses and permits. In addition, a local license may be required for your business.
- BLNC counselors will give you detailed State license information as well as the name and contact information to federal, city and county agencies. Call 1-800-228-8443 from 8 am – 5 pm EST for your customized consultation specific to your business or visit [blnc.gov/start-your-business](http://blnc.gov/start-your-business).

# Business License & Permits (Continued)

- If you do plan to sell food, you will need a county health department permit. The health department will want to inspect your property before issuing the permit.
- Liquor, Wine and Beer Licenses: In most states, you'll need to get one type of license to serve wine and beer and another to serve hard liquor license. A liquor license is more difficult to obtain than a beer-and wine-license.
- In some areas no new liquor licenses are being issued at all; you can only obtain one by buying it from an existing license holder. One advantage of buying out an existing business is that if it served liquor, you may be able to acquire the license as part of the deal.
- You can find out which licenses and permits are required for your business by calling the state and local government offices in the area in which you are going to operate. Ask them to send you information and forms if required.
- You may also need to get a permit from your fire department.



# Business Insurance

- General Liability Ins.
- Product/Professional Liability
  - Errors & Omissions
  - Directors & Officers
  - Bonded Officers & Employees
- Employment Practice Liability Ins.
- Casualty Insurance
  - Workers Compensation Insurance
  - Commercial Auto
  - Umbrella & Excess Liability
- Property Insurance
  - Building
  - Auto
- Employment Insurance
  - Workers Compensation Insurance
  - FUTA & SUI

# Accounting Basics & Systems

- Basic Financial Statements
- Accounting Principals
- Accounting Systems (e.g. QuickBooks)
- Simplified Resource for Accounting Tutorials  
<http://www.dwmbearcounter.com/tutorial/Tutorial.html>

# Basic Financial Statements

- Income Statement/Profit & Loss (P&L)
- Balance Sheet
- Cash Flow Statement

# Income Statement (P&L)

- Revenue
- Expenses
- Net Profit or (Loss)

# Expenses

- Direct Costs & Cost of Goods Sold (COGS)
  - Raw Materials and Parts that go into the finished product
  - Direct Labor – The cost of wages & salaries of people who work in the production process or service provided to the customer
  - Production Plant Costs
- Indirect Costs
  - Factory Overhead
  - Salaries & Wages paid top office, sales, & management personnel

# Expenses – Direct Costs & COGS

## (Example – Bottle of Apple Juice)

- Raw Materials
  - Apple Juice
  - Plastic bottle
  - Lid
  - Plastic shrink wrap label
  - Lithographing
- Direct Labor
  - People working on the production line in a plant (including payroll taxes, employee benefits, etc.)
  - Consultants doing the actual project work (PR OH)
- Freight In
- Factory Overhead

# Expenses – Direct Costs & COGS

## (Example – Bottle of Apple Juice)

- Factory Overhead (Production Facility Only)
  - Depreciation – Production machinery & Building
  - Electricity
  - Heat/air conditioning
  - Insurance on factory
  - Interest Expense – Mortgage on factory building
  - Water & Sewer for plant
  - Trash for the plant

# Expenses – Indirect Costs

(Example – Bottle of Apple Juice)

- Packaging & Shipping Costs – Cardboard or plastic container that hold numerous bottles
- Indirect Labor – Plant managers & supervisors who do not work on the production line, maintenance people, quality assurance, etc.
- Office & Warehouse Overhead



# Balance Sheet

- Assets
- Liabilities
- Owners Equity

# Balance Sheet - Assets

- Current Assets
  - Cash
  - Investments
  - Accounts Receivable
  - Inventory
  - Other Current Assets (Prepaid Insurance, etc.)
- Fixed Assets
  - Land & Buildings
  - Machinery & Equipment
  - Office Furniture & Fixtures
  - Computer Equipment
- Intangible Assets (Patents, Trademarks, Copyrights, etc.)

# Balance Sheet - Liabilities

- Current Liabilities (Due within one year)
  - Accounts Payable (AP)
  - Current Portion of Long Term Debt (Amount due within one year)
- Long Term Liabilities (Due in more than a year)
  - Mortgages (Portion due after 12 months)
  - Notes Payable (Automobile Loans, Equipment Loans, etc.)

# Balance Sheet – Owners Equity

- Capital Investments by Owners
- Plus or Minus Profit or Loss
- Minus Owners Withdrawals

# Balance Sheet – Formulas/Relationships

- $\text{Assets} = \text{Liabilities} + \text{Owners Equity}$
- $\text{Assets} - \text{Liabilities} = \text{Net Worth}$  (not necessarily business value)

# Accounting Terminology

- GAAP (Generally Accepted Accounting Principals)
- Cash vs. Accrual vs. Modified Accrual Basis
- Matching – Revenue & Expenses
- Cost of Goods Sold
- Single Entry vs. Double Entry System
- Debits & Credits
- Chart of Accounts
- General Ledger
- Journals
- Trial Balance

# Marketing & Advertising

- Advertising
  - Newspapers
    - Local weekly newspapers
    - Regional Newspapers (News & Observer)
  - Internet Advertising
    - Banners or Pop-up Ads
    - Click-through Ads are cheaper and more productive

# Marketing & Advertising

- Social Media Marketing
  - Company Profiles
    - LinkedIn
      - Groups
      - Blogs
    - Face Book
  - Blogs
  - Tweets
  - Email (I-Contact, Constant Contact, etc.)
  - Website



# Marketing & Advertising

- Networking Events
  - Chamber of Commerce
    - Greater Raleigh
    - Small Towns
  - Industry Associations
  - Professional Associations
  - LinkedIn Live
  - Raleigh After hours
  - Alliance for Business
  - Toastmasters, Rotary, Kiwanis, etc.
  - BNI & similar groups

# Marketing & Advertising

- Advertising
  - Local Weekly Newspapers – Inexpensive – Limited Coverage
  - News & Observer – Expensive – Good coverage
  - Triangle Business Journal (Book of Lists)
  - Pop-ups & Banners on LinkedIn & Face Book
    - Pay per ‘click through’ not per ‘pop-up’
- Email Marketing
  - I-Contact (250), Constant Comment, etc.
  - Sources of Leads – N&O, TBJ, COC, Prof. Assoc.