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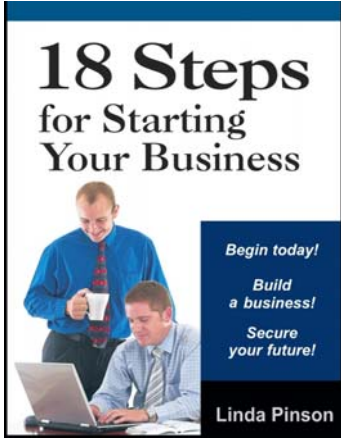
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18 Steps to Starting Your Business, English edition eBook
(for Windows® and Macintosh®)



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About the Author

Linda Pinson is an award-winning author, business planning expert, speaker, consultant, and nationally recognized business educator with a specialty in financial management and small business curriculum development. The author of nine popular entrepreneurial books, she has also developed and published the bestselling business plan software program, Automate Your Business Plan. Linda's books are widely used as curriculum in colleges, universities, and entrepreneurial training centers. They have been translated into several foreign languages including Spanish, Chinese, and Italian. Anatomy of a Business Plan has been localized in Australia and the UK.



Linda is an officer on the Small Business Financial Development Corporation OC Board of Directors. She also serves on the Tri County SBDC Advisory Board and is a member of the Entrepreneurial Advisory Committee at California State University at Fullerton. Her dedication to the small business community has been recognized through awards from the U.S. Small Business Administration, the National Association of Women Business Owners, and the State of California. Linda served as a delegate and tax issue chair at the White House Conference on Small Business.

Linda resides in Tustin, California with her husband Ray. She is an avid golfer (one hole-in-one) and bowler, paints watercolors, and loves to fish. Linda and Ray have two sons, two daughter-in-laws, one grandson, and one granddaughter (all great, of course).

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During the latest writing of this edition of my business start-up book and its subsequent translation to Spanish, it has been my good fortune to have the help of many talented and generous individuals.

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- **The Entrepreneurial Training Community**. I have been working at the idea of producing a Spanish start-up book for three or four years. In order for it to happen, all of the right things had to fall into place. It was necessary to determine if there was a need for the book. The next job was to decide on the content and write an English edition (this book). Then, I needed a translator and editor (since I know only enough Spanish to be dangerous). I got all of this, and more, from people involved with the various entrepreneurial programs in schools and training centers. No person succeeds alone. I thank all of you for talking with me, referring me to sources, and encouraging me to complete this book. You have been invaluable.

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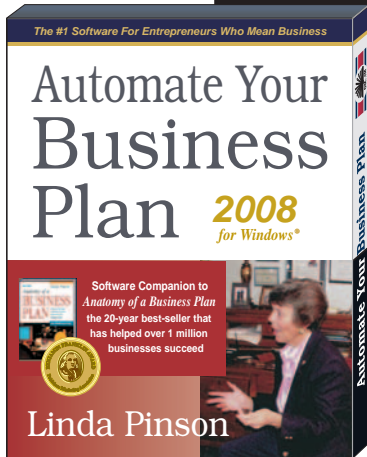
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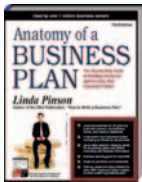
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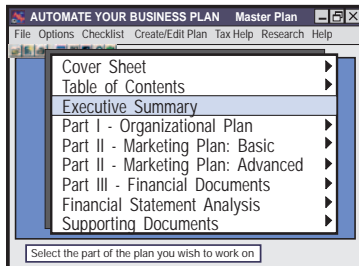
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Author of the SBA Publication, "How to Write a Business Plan"

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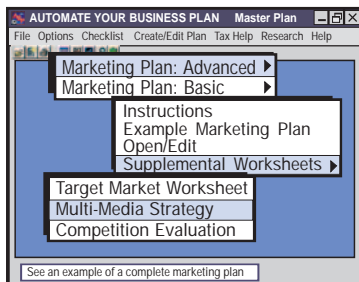
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Sales/Revenues	\$200,000
Cost of Goods Sold	85,000
Beginning Inventory	87,000
Purchases	162,000
Goods Available	77,000
Less Ending Inventory	
Gross Profit	\$115,000
EXPENSES	
Variable Expenses	\$21,500

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Preface

Thank you for choosing *18 Steps to Starting Your Business* as the tool to help you start your new business or to use as a textbook in your entrepreneurial classes. I hope that it will prove to be of great help to you.



It has often been said that, “You can run your business by the seat of your pants—but you will probably end up with torn pants.” One of the principal reasons for business failure is the lack of proper planning. In today’s world, both small and large businesses have come to understand that they need to take the time to evaluate their business potential and map a plan for the future. Start-up is where the planning and implementation begins.

It is the goal of this book to give a clear, concise, and easy-to-understand process to follow during business start-up. I have been working with business owners for many years and most of them have the same problem—they are experts in their industries, but are novices when it comes to knowing how to start and operate a business.

I, on the other hand, am not an expert in most industries, but I can provide you with what I hope are the necessary guidelines to follow in order to get a business organized, legalized, and operating. I would suggest that you start by reading through the entire book to get an overall picture of what you will be doing. Then you can go back to the beginning and work your way through the start-up process.

Who is this book for?

This business start-up book has been written for new business owners and for small business training instructors.

- **If you are a new business owner**, you can use it as a home-study course, moving along at a pace that will meet your own goals. Each chapter will take you through a particular task and provide you with instructions, examples, and references.
- **If you are an instructor**, you can use our printed book, *Steps to Small Business Start-Up* as a classroom text. I will be happy provide a free Instructor’s Manual that has lesson plans and student activities for each chapter, numerous overheads, and even a couple of tests. To get the instructor’s manual, please give me a call at 714-544-0248 or email me at LPinson@aol.com

Thank you again for choosing *18 Steps to Starting Your Business* to help you accomplish your goals. I appreciate your confidence in the book and wish you success in your new venture.

Linda Pinson

It's Time to Be Your Own Boss

You have decided that you would like to be a business owner. You want to quit working at that “nine to five” job that doesn’t seem to pay well or to bring any excitement to your life. Instead, it sounds like a great idea to take the leap into entrepreneurship and be your own boss.

Why Do You Want to Own a Business?

Business ownership is often looked upon as a means of creating wealth and achieving personal freedom. Some of the most common reasons why you might choose to go into your own business are:

- ✓ *To build a business for yourself instead of for someone else*
- ✓ *To pursue a passion (e.g. "I've always wanted to own a restaurant.")*
- ✓ *To be your own boss and master of your own time*
- ✓ *To make a living doing what really enjoy doing (woodworking, photography, writing, childcare, etc.)*
- ✓ *To capitalize on an invention*
- ✓ *To replace income from the loss of a job*
- ✓ *To create net worth (long-term capital appreciation)*

Are You Are Ready to Make the Transition?

When you are contemplating business ownership, it tends to be exhilarating. However, it is common to experience uncertainty as well. Am I willing to invest the time it takes to start and run a business? Can I deal with the emotions that come with running a business? Will enough people use my services or buy my products? Will I make enough money to sustain the business and my desired lifestyle? Am I mentally prepared to give up my current salary and accept the financial uncertainties that come with running my own business? Will I be able to support my family?

In order to be successful in your new business you have to be fully committed to your vision. Instead of working eight hours a day, most new business owners work sixteen hours a day with very few days off for leisure activities. You will indeed be your own boss and the master of your time – but, that does not mean that you will be free. I have always thought that I am the toughest boss that I ever worked for.

Think about it and make sure that the timing is right to make your move from employee to business owner. Review possible threats that are likely to arise and determine how you will mitigate them. Determine what your strengths are and how you will use them to get your business up and running and on the road to profitability.

To complete your reality check, ask yourself the all-important question, “*Am I ready accept the responsibilities of business ownership?*” If the answer is “yes,” then it is time for you to move forward in a logical way to decide on a business and to get it off the ground and running smoothly.

Match Your Skills and Interests to Your Business

Skills are the things that you are good at. Interests are the things that you like to do. When you are considering the type of business you want to start, it is generally best to find one that utilizes your skills **and** that captures your interest. If you are good at something, but don’t like doing it, you will soon find yourself wishing that you were doing something else. Likewise, if you are interested in what you are pursuing, but you are not good at it, you are not likely to stick with it for long.

After you have identified your various skills and interests, you can then begin to identify potential businesses that satisfy both requirements. This is where the true entrepreneur can use the imaginative processing to come up with creative ideas for new and unique businesses.

Examples:

- You know lots about flowers and plants, but you do not like to be outdoors. Don’t go into the landscaping business. However, you might think about providing and maintaining indoor plants for restaurants, professional offices, real estate brokerages, and other commercial businesses.
- You are like working with pre-school children (interest) and you are trained as an elementary school teacher (skill). You might consider opening a day care center that specializes in learning activities and also offers after school care and tutoring.

- You have always wanted to open a clothing store. However, you hate being indoors. Most likely, you will probably always resent being stuck inside. Think about starting some kind of a kiosk clothing business in an outdoor mall or specialize in clothing sold at outdoor sports events, such as car rallies or surfing competitions.



Skills & Interests Business Matching Worksheet

To help you think your way through the above process, you will find a worksheet at the end of this chapter (page 6).

Look at Your Financial Situation

One of the most glaring problems that I often see with potential business owners is their failure to plan properly for the financial transition from employee to business owner. Cash flow problems can lead to unpaid bills, continuous calls from debtors, and emotional stress. Consider your financial situation before starting your business.

- **Consider your personal financial situation.** If you plan to quit your current job and devote all of your energies to your new business, it is a great idea to set aside enough money to pay your living expenses for at least six months. If you have a spouse or other family members that work, can you live on their earnings?

New businesses frequently are not very profitable in the early stages. Prior planning can provide you with a much-needed cushion in case you cannot take any money out of your business for a period of time.

- **Think about start-up costs.** If you are starting a new business from scratch, do you have the money you have to spend in order to get the business up and running? Think about whether you will have to rent an office, buy furniture, buy equipment, advertise, pay for permits, hire a lawyer, or number of other initial things that require spending money before you make money. Fitness centers and restaurants are examples of businesses that are required to expend significant amounts of money before they open their doors.
- **Look realistically at initial sales potential of the business.** The opportunities for initial earnings vary greatly from business to business. For instance many service companies can be profitable from the very beginning.

If you open a consulting business and have your office in your home, your earnings are limited only by your ability to attract and service clients. Likewise, a landscape or yard maintenance business can earn early profits if it has the right equipment, skilled labor, and customers. On the other hand, most product businesses, cannot earn income until the products are developed or purchased, advertised, and sold.

- **If you need a funding, be aware of lender requirements.** Get rid of the idea that business capital is easy to get. It is a common misconception that the U.S. Small Business Administration (SBA) and other government entities are waiting in the wings to dish out free money to entrepreneurs with great ideas. Nothing could be further from the truth. What is commonly referred to as an “SBA Loan” is really a loan from a traditional lending institution (bank), but guaranteed up to a certain percentage by the SBA to reduce the bank’s risk factor.

In addition to asking for a solid business plan, the bank will require that you have a high credit rating (FICO score), cash to invest in the business, and personal assets (equity) that can be captured in case you default on the loan.



Note: See Chapter 16 for more information on financing your business.

Find a Mentor

Before you go into business, it would be great to align yourself with someone with experience in your industry and experience in business management. Working with a mentor can prepare you for the travels that lie ahead in your business journey by sharing knowledge and expertise. The relationship with your mentor will help prepare you for success and protect you from failure.

If you are one of the fortunate few, you will have a close friend or business associate who has the necessary skills and would be willing to advise you. If not, business mentors can be generally be found through your local chamber of commerce and various business organizations.

Provided below are some resources:

- **Service Corps Of Retired Executives (SCORE)** – A national organization sponsored by the Small Business Administration (SBA) of volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people. Local SCORE chapters consist of retired professionals who are available to give free business advice. (www.score.org)
- **Small Business Development Centers (SBDCs)** – Sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- **Small Business Institutes (SBIs)** – Organized through the SBA on more than 500 college campuses around the nation. The institutes provide counseling by students and faculty to small business clients.
- **Chambers of Commerce** – Local branches of your chamber of commerce can be a great resource for mentors. An example is the Greater Dallas Hispanic Chamber of Commerce. (www.gdhcc.com)
- **MicroMentors** – MicroMentors help entrepreneurs grow their businesses through mentoring relationships with experienced business professionals. (www.micromentor.org)

Tech Tip

Search for Information about Business Mentors

You can also find useful information and articles on the Internet regarding business mentoring. Here are some web addresses that you might want to look at.

- www.score.org/60_guide_business_mentor.html
- www.score.org/article_value_of_business_mentor.html
- www.inc.com/guides/growth/24509.html
- http://www.entrepreneur.com/startingabusiness/startup_basics/findinghelp/article45254.html
- <http://www.peermentoring.com>

What's Next?

In this chapter, you were encouraged to evaluate your own readiness to make the transition from employee to business owner. By now, you should also better understand how evaluate business opportunities that match your skills and interests as well as your personal financial situation.

Chapter 2 will focus on the choices you will have as to whether you want to start a new business, buy an existing business, or purchase a franchise. You will also find some information to think about if you are toying with the idea of starting a non-profit business or you are wondering how to capitalize on a new product or invention.

Think About Ways to Start a Business

You have decided that entrepreneurship is for you and are ready to start a business. The next decision you will have to make is what kind of a business you will start. There are many routes that can be taken toward owning a business. For instance, you can:

- ✓ *Start your own business*
- ✓ *Buy an existing business*
- ✓ *Buy a franchise*
- ✓ *Invent a product and take it to market*
- ✓ *Become a social entrepreneur*

Start Your Own Business

Having decided to become a business owner, you now need to determine what business you will start. To help you in your decision making, ask yourself these questions. What kind of things do I like to do? Can my hobby or interests be turned into a commercially viable venture? Is there a need in the marketplace that I can fill? The last question will also help you determine if there is a niche in the marketplace that your new business will fit into.

Before embarking on your venture, do some research to determine who your competitors will be. Look at their strengths and weaknesses. Then think about how your business will be different and whether or not you can reasonably expect to gain that all important competitive edge in your industry and specifically within your target market.

If you are thinking of starting a business, there are several questions that you should ask yourself. The table below will guide you through some of those things.

Things to Consider as you Start Your Business	
Issue	Questions to Ask
<i>About Me</i>	What are my strengths? What skills do I have? What are my hobbies Can any of these attributes be turned into a business venture?
<i>Type of Business</i>	What is the best legal structure for my business? Do I need a business partner? What skills and strengths does the potential business partner have? Will the partner have investment capital?
<i>Location</i>	Where will my business be located? Can I operate my business from home? Will I buy or lease a facility? How much space will I need to operate my business?
<i>Money</i>	How much money do I have to put into the business? Where will the rest of the money I need come from? Is my credit in good standing in case I need a bank loan? Are there specific financial programs that will help me start my business?
<i>Customers</i>	Who are my customers? How will I find my customers?
<i>Advertising</i>	How will I let people know my business exists? Where will I advertise my business? How much will it cost for advertising? Can I afford to hire an advertising professional or agency?

Buy an Existing Business

If you decide to buy an existing business, the first thing you will want to do is determine the type of business you want to own. This decision will be based on your skills, qualifications, interests, and overall abilities. In making this decision, find a business that will give you the opportunity to use your skills effectively.

How Do You Find a Business to Buy?

When you have decided on the type of business that you are best suited for, the next step is to search for a business. There are several considerations you will have to keep in mind as you look for a business to buy. These include location and how much you can afford to spend (budget). Now that you have an idea about where you want to look for a business and how much you have to spend, you can start looking.

- The Internet is a great place for you to start looking. You can simply start by going to any search engine and typing “businesses for sale” in the search box. Be more specific by putting your location. For example, if you are looking for a business in Phoenix, Arizona, type “businesses for sale in Phoenix, Arizona.” Conducting the search on your own may prove to be time consuming and may not yield the best results. If so, you might want to use a business broker. You may be responsible for some business broker expenses. Doing your own searching on the Internet will be free.
- Business brokers help people buy or sell a business and have the resources to help you reach your goals. You can tell them the type of business you would like to buy and they can search within their database to see if one is available. If not, they can search for one that meets your criteria, saving you the time. Business brokers typically charge the seller a percentage of the final sale price, payable at the close of the deal. Be sure to ask a broker up front if there are any fees or expenses you will be responsible for as the buyer and perform due diligence before selecting a business broker. Get references and check to see if he or she is a member of a local or national business broker association.
- Another free resource is your local newspaper. The Business Opportunities section will feature advertisements with business for sale. The Sunday paper has a larger listing in that section. You can also use the newspaper and the Internet to place an ad stating the specific type of business you are looking to purchase.
- You can also search for a business to buy by attending various networking events and using word of mouth as a starting point. Start by attending local civic and business organization meetings as well as events sponsored by your local Chamber of Commerce. There are also industry specific organizations or associations that you can visit. Networking with people that are in a specific industry will enable you to learn more about available opportunities.

Due Diligence Required

Regardless of the route you choose to take in your search, there are some key things you will need to do once you have found a business you are interested in buying. The first is doing comprehensive due diligence. A business may appear to be successful and show a profit. However, that does not mean it has no problems. You will want to find out everything about the

business including what is owned, borrowed, leased, and owed. You do not want to get into a situation that leaves you with a stack of bills, unpaid vendors, rent due, and other outstanding debt.

The second thing you will want to know is the value of the business. You will have to conduct a detailed financial analysis and valuation to determine the appropriate price to pay. As part of your analysis, you will review profit and loss statements, balance sheets, key assets, contingent and actual liabilities, and cash flow statements.

With your due diligence and financial analysis complete, you are ready to move forward with the acquisition of the business.

Buy a Franchise

Buying a franchise is one of the most popular ways to start a business. By acquiring a franchise, you open yourself up to the possibility of selling products and/or services that have instant name recognition. You will also benefit from the training you will receive at the beginning as well as the ongoing support to help you become successful. Like any business venture, there are costs associated with purchasing a franchise. You may pay some or all of the following fees to the franchise: initial franchise fee, ongoing royalty payments, and advertising fees. Other start up costs will include rent, build-out, equipment, inventory, licenses, and insurance.

There are two common ways for participating in a franchise program.

- The classic method is to buy a new franchise. This means you will have to find a location and do the build out yourself. This is a start-up situation and you dive into the new business as an owner/operator. Many successful entrepreneurs have built multi-unit empires this way. Newer franchises usually provide this route for business ownership. During the process, you will have the assistance of the franchisor.
- The other way is to buy an existing franchise. Several types of franchises are available in various industries. To find a franchise of your choice, you can attend franchise trade shows with the goal of visiting exhibitors in an industry that has a strong appeal to you. While listening to the presentations given by the exhibitors, be sure to get answers to some of the following questions. How long has the franchisor been around? How many franchise units exist in your local area and where are they located? What is the initial franchise fee and are there additional start-up costs? Are there ongoing royalty payments and if so, how much are they? What assistance is provided at the beginning and on a continuing basis? What controls are imposed by the franchisor?

Before You Buy a Franchise

Before buying a franchise, there are several things to consider including the amount of money you have to invest, your skills and abilities, and the goals you have set for yourself. The table on the next page will guide you through some of the things you need to consider in order to make a sound decision.

Things to Consider When Selecting a Franchise	
Issue	Questions to Ask
Investment	<p>How much do I have to invest?</p> <p>Will I need financing?</p> <p>Will I purchase the franchise by myself or with others (partners)?</p>
Skills & Knowledge	<p>What industry experience is required by the franchisor?</p> <p>What skills do I have that can be applied to this franchise?</p> <p>What specialized knowledge do I have?</p>
Goals	<p>Am I interested in getting into a particular industry?</p> <p>Am I interested in retail sales or providing a service?</p> <p>Do I want to operate the business myself or hire a manager?</p> <p>Will the income from the franchise be adequate if it is my only source of income – or does the franchise need only to serve as a source of supplemental income?</p> <p>Am I interested in owning just one franchise unit or several?</p>

Caution! Read the Franchise Offering Carefully!

Franchise offers are written to convince prospective buyers that they should sign on the dotted line and send in their franchise fees as soon as possible. Proceed with caution. It is not always true that, “He who hesitates is lost.” I periodically read franchise offers for clients and have discovered that they range from very simple to very complicated. The common denominator is that by law the franchisor is required to disclose somewhere in the document certain pieces of information that will allow you to perform a fairly accurate picture of the viability of the franchise opportunity.

It is important that you read between the lines. Don’t just look at revenue projections. Chart out all of the possible financial requirements that may be imposed on you by the franchisor during the opening and operating of the franchise – royalties, advertising, training, insurance, etc. If you are not careful, you can find yourself caught in a contract full of legal obligations that eat heavily into your profits.

Finally, be sure that there is a sufficient demand for the products or service in your geographic location. What works in one part of the country may not be feasible in another, either financially or otherwise. Talk to current franchisees to see how things are working out for them and what level of support they are receiving from the franchisor.

Tech Tip

Use the Internet to Research Franchises

You can also use the following resources on the Internet to find a franchise:

1. www.entrepreneur.com/franchise
2. <http://www.franchise.org>
3. http://www.smallbusiness.com/wiki/Buying_a_franchise
4. <http://www.franchisetimes.com>

Invent a Product

Many great businesses have been developed from new product ideas. You may have a new business concept or a new product you feel would be viable in the marketplace. Be aware that the process of taking a new idea product onto the marketplace can be lengthy and in some cases difficult.

In his book, *Successful Inventing*, Norman Parrish (inventor, author, and mentor) states that product development and business planning must be a concurrent process. "In order to have the financial support necessary to accomplish all of the tasks required to take an idea from its conceptual state through all of the subsequent stages, the inventor should have a realistic business plan and understand the nature of cash flow and how to manage it."

- The first step in launching your product is to determine its feasibility. This will let you know whether your new product is viable and help you determine the potential of it becoming a commercial success. Determining feasibility is a very important step and we suggest you take it seriously. You will need to make an informed decision as to whether to proceed with your business idea before you invest a lot of time and money only to find out it has no commercial value.
- If you have determined that your product has commercial viability, you will then want to check to make sure there are no similar products on the market. More importantly, there are no products that have intellectual property you may infringe upon as this could result in lawsuits against you. To do this, go to the United States Patent and Trademark Office (USPTO) website (www.uspto.gov) to conduct a patent search.
- Now that you have determined that your product has commercial viability and know that there are no similar products out there with intellectual property

protection, you are now ready to move to the next step: protecting your product. You will want to protect your product with a patent(s) or related intellectual property rights. You can do this step on your own by going to the USPTO website. You can also use the services of a patent attorney. While costly, consulting with a patent attorney or patent agent at an early stage will provide you with the best solution for protecting your product as well as your business.

- Once the product has been protected, you will need to develop a working prototype of your invention. You can do this by buying the various components that make up your invention and assemble them yourself. Alternatively, you can work with a manufacturer in your area to build the prototype. At this stage you will have to decide whether you want to license your invention to a company that will manufacture and market the product or start a business of your own. In making your decision, consider the costs associated with starting your own business.

Become a Social Entrepreneur **(Commonly a Non-Profit)**

You can start a business by becoming a social entrepreneur. A social entrepreneur recognizes a social problem and uses entrepreneurial skills and traits to start a business that will address the social problem and make a significant change. Success for the social entrepreneur is measured by the impact they have on society as opposed to financial measures.

Your vehicle as a social entrepreneur will most likely be a non-profit organization. Social entrepreneurship is becoming so popular that a growing number of colleges and universities are establishing programs focused on educating and training social entrepreneurs.

Creating a non-profit organization is like creating a for-profit business. Just as you would do when creating a for-profit company, you will need to do some extensive planning before you start filing incorporation papers and applying for your tax exemption from the Internal Revenue Services. Running a non-profit organization will take more than just compassion. Much like starting a for-profit entity, you will have to conduct research and ask yourself several questions. What non-profit am I interested in starting? What products and/or services will be offered through my organization?

What needs will my organization fulfill in the community? Who currently provides similar services in the community (competition)? What competitive advantages do I have over existing non-profit organizations? What will I do to create demand for my organization and sustain operations?

As you would need to start a for-profit business, you will need start-up finances. The capital will enable you meet your start up expenses as well as help you to obtain professional services such as legal and accounting. You will want to seek legal assistance to incorporate into a non-profit entity. The professional you use will also help you draft a set of corporate bylaws, which will serve as the procedure that the Board of Directors, and possibly the members of the corporation, will utilize to make decisions on behalf of the corporation. Once you have drafted your bylaws, you will hold an organizational meeting to formally create the non-profit corporation. At this meeting the bylaws should be adopted, the Board of Directors should be elected, and all other relevant business should be conducted.

Before developing your non-profit organization, ask yourself the following questions. Do I have the necessary skills and experience to operate a non-profit organization? What managerial and financial resources do I have access to? Who will make up my Board of Directors? Where will I locate my organization? What position will I hold in the organization and how will I be compensated? The answers to these questions will help you create an operational plan that will serve as a blueprint for running a successful non-profit organization.

Tech Tip

Examples of Social Entrepreneurs

Below are examples of successful social entrepreneurs:

1. Margarita Quihuis, Hispanic-Net
<http://www.hispanic-net.org>
2. Muhammad Yunus, Grameen Bank
<http://www.grameen-info.org>
3. Margaret Sanger, Planned Parenthood Federation of America
<http://www.plannedparenthood.org>
4. Vikram Akula, SKS Microfinance
<http://www.sksindia.com>
5. John Muir, The Sierra Club
<http://www.sierraclub.org>

Start Branding Your Business: Name, Logo, Business Card, Letterhead

Branding defines and focuses a company's image. Branding is one of the most important concepts in today's business world.

Strong brands today are reinforced through a mix of advertising online and offline, public relations strategies, sales incentives, and customer service efforts. Consumer reaction defines the branding in the long run.

Where do you begin?

When your company is in the start-up phase, you can begin the branding process by properly packaging your company's image to be visually recognizable.

In this chapter, we will guide you through the following processes:

- ✓ *Naming your company to its best advantage*
- ✓ *Developing an effective logo for your company*
- ✓ *Designing your first business cards*
- ✓ *Creating letterhead and envelopes*

Name Your Company!

Choosing your business name will be one of the most important decisions you will make when you are starting your company. It is the first opportunity you have to package – or brand – your company for everyone with whom your business will be dealing.

Whenever your company name is heard or viewed in written form, it will be the defining factor as to how your company is initially perceived (branded) in the mind of your target audience. If your company manages to stay in business for the next twenty years, the name you chose will still be with you unless you changed it somewhere along the way.

Many times a prospective business owner is in a hurry and picks a company name that seems to be appropriate at the time, only to find out later on that it has become a nemesis. That actually happened in my own case.

My company name, established in 1986, has the name **OUT OF YOUR MIND...AND INTO THE MARKETPLACE™**. I taught entrepreneurial classes to inventors and called the class by the same name. I was soon selling a self-help book, also by the same name. Then I needed a business name to obtain a business license, repay sales tax to the SBE, and to file income tax returns. Why not use the same name? And that's just what I did. That was fine at the time, but eventually, I became a publisher of business books and business plan software. I began dealing with large companies, universities and colleges, and other major clients and vendors. It has now been twenty-one years since I named my company. Others say what a neat name it is.

As for me, I have regretted it for every reason, but one – it is memorable. It does not reflect what I do (publishing business books and developing business plan software), it is not a very serious sounding name, and it sometimes embarrasses me to say it in front of certain audiences with whom I have had no previous business relationship. However, after twenty-one years, I would be hard-put to change the name and to get the information out to my expanded marketplace. I have learned to smile and accept that it is my business name and will be until the business dies. However, I have had to combat it with a dignified logo, credibility, and incredible customer service.

How Do You Choose a Name for Your Business?

There are several questions you can ask yourself when you are considering the name for your business. Some of them might be as follows:

- **Are you buying a franchise?** If so, chances are that the business will already be named. In that case, your problem is solved for you. If not, the franchisor will guide you as to what names will be acceptable to them.
- **Are you buying an existing business?** You will have to decide if you want to keep the current name of the company or rename it. Ask yourself if the current name suits your vision of the business and if it is important to keep it the same in order to best serve previous customers. If the answer is “no”, you will have to decide on a new name. If so, apply the following questions to the renaming of the business.

- **Is your name descriptive of the business?** It is important that your business name conveys an image of your products and/or services. The name should not be long and cumbersome. Your target market needs to perceive that yours is the company that can solve its problems and fill its needs.
- **If your business expands, will the name still be appropriate?** The name you choose should not be restrictive. It should be general enough that it will still encompass the essence of the company after several years' growth and expansion.
- **How well will your name combine with your logo?** Can the name be abbreviated and be utilized as an acronym? Can you incorporate it into your logo to further brand your company? I have used **OM..IM** with my logo (a fanned book). It looks great, but when you say it out loud, it doesn't have much of a ring to it.
- **Should you consider using your domain name as your business name?** Many companies who operate solely on the Internet choose to use their domain names as their business names. Examples are "buy.com" and "Amazon.com". If the company has brand identity, using its domain name provides customers with instant recall of both name and location on the net.
- **Where will your name fall in alphabetical listings?** It has long been a habit on most occasions to place lists of names in alphabetical order. This holds true for telephone books, internet listings, membership directories, etc. People also tend to choose the first name that they perceive as appropriate to what they are looking for. If it will work for you, you might just as well choose a name beginning with "A" as one that begins with "Z"
- **Will your name work internationally?** Sometimes, a company name does not translate well in other languages. "Osco" was the name of a well-known drugstore in the U.S. The name did not have a pleasant meaning in Spanish. The name was changed to maintain the large Hispanic customer base.
- **What is your legal structure?** Depending on the legal structure you have chosen (and the form of that legal structure), your name may have to reflect that choice. For instance, corporation names generally end with "Inc." Law firm partnerships often have the designation "LLP".
- **Would your business be best served by using your own name?** Many service providers (and/or product sellers) already have name identity and credibility. In that case, it might be best to use your own name, either by itself or in conjunction with words that describe your business. Some examples might be:
 - Naming a law firm "Ortega and Chavez, LLP"
 - Incorporating a tax firm under the name, "Lopez and Ochoa, Inc."
 - Naming a company "Mario Ortega Professional Diving School"

Develop a List of Business Names

After taking all of the previous questions into consideration, it is best to formulate a list of possible names for your business and then make your decision.

- **Enlist other people to help you come up with names.** Sharing your ideas with other people who understand the nature of your business and the market that you are targeting can be interesting. They can often come up with names that you have not thought of.
- **After you make your list, sort the names according to priority.** Then go back and look at the questions on the previous page to see if the selected names meet most of the criteria for choosing an effective business name.
- **Resort your list of names and establish their final priority.** You will now have the most desirable candidates for your business name.

If the Name is Available, Register It

The final links in the process of naming your business are to: 1. find out if the name(s) on your list are available for use. – and - 2. file your DBA or your Certificate of Incorporation.

- **If you are a sole proprietor or a partnership,** you should check with the county in which your business will be located. All businesses operating under a fictitious name are required to submit a Fictitious Name Statement to register their DBA (Doing Business As) business name. The county will have a record of all DBAs that have been filed and are current.

If a business has already registered the name that you were planning to use, you cannot use the same name. Go to the second name on your list and check that out – and so on – until you arrive at the name that is both appropriate and available.

The next step is to go ahead and file your DBA to gain ownership of your business name. Be aware that you will have to name a location for your business in the process. (For more information, see Chapter 9 – Register Your Fictitious Name (DBA).)

- **If your business is a corporation,** you will need to check out the availability of your corporate name at the state level. Generally there will be an office under the jurisdiction of the Secretary of State that is responsible for the registration of businesses incorporated within the state, registration of out-of-state corporations qualified to do business within the state, and names registered or reserved by other corporations.

If the name you have selected is available, you can use it when you file your certificate of incorporation. A charter will not be issued until the state determines that the name is available, the certificate has been executed, and there has been no violation of state law.

Develop Your Company's Logo

After you have decided on your company name and established its ownership through registration with the county and/or your state, the next step is to design your logo – the graphic image that you will use identify your business and distinguish it from the competition.

Your logo should be chosen before your business is launched on the market. It will become increasingly important as your business matures. The right logo will help promote your business in the market and will aid in attracting potential customers. Two examples of logos that have become well-known over the years are McDonalds' golden arches and Nike's single swoosh.

Your logo should create a long-lasting impression on your customers and evoke feelings of trust and reliability. Just this morning, a plumbing company's van passed me on the freeway. The first thing I noticed was the company logo. It was a graphic of a plumber cheerfully scrambling to fix his customer's problem. It wasn't the name that attracted me. It was the logo!

Designing Your Logo

A logo design should be eye catching and simple. The most important logo features are the shape of the design and the balance of the colors used.

Simplicity is the key to an effective logo. It should not have overwhelming colors and details. If you use lettering, it should be in a simple and easy-to-read font type. Remember that your logo should attract and make a positive impact on your customers.

There are several alternative as to who will design your company logo.

- **You can hire a graphic designer.** If you decide to use a professional to design your logo, it would be a good idea to ask to see samples of other logos developed for previous customers. In the beginning, it will be necessary for you to work together to decide on the components (shape, color, lettering) of the logo. The designer needs to know what your business is all about and what message you wish to convey to your customers. You will most likely be provided with four or five design ideas to choose from. As the design progresses, you will continue to proof changes until the logo has been refined to your satisfaction.
- **You may choose to design your own logo.** This could work very well, especially if you or one of your friends has artistic talent and a working knowledge of graphics software such as CorelDraw or Adobe Illustrator. This would give you unlimited creative freedom.
- **You can opt to use logo design software.** The best logo programs have a friendly user interface and will help you to generate logos using predefined designs combined with color and other choices. The disadvantage of using logo software is that your logo may end up being similar to those of other businesses.

Tech Tip

Free Logo Designs

If you are on a really tight budget, free logo designs may be a great option. There are many logo design companies on the internet that offer free logo designs. They are absolutely free of cost and come with no extra hidden charges.

Free logo designs are easy to get, simple designs that can convey your business' message in the simplest terms. They come in nearly every color and all that is required is of you is adding your company name. With literally hundreds of logo designs to choose from, getting a free logo design is ideal for those who cannot afford to spend much when starting a business.

Note: Since they are free you can have no modifications made to them aside from adding your company name. Any modifications you wish to make with free logo designs require extra charges.

Design Your Business Cards

Business cards are the one marketing tool used by every business, large or small. They give your business credibility and provide your customers and your associates with a reminder of what your business is about and that you are the person who will be their point of contact.

Your business card will incorporate the name of your company and your logo, utilizing the basic design and colors that you have chosen. In addition, your business cards should have the following information:

- Key information about your products and services
- Your name and position with the company
- Company address
- Telephone number
- Fax number
- Web site address
- Email address

In the beginning, I would suggest that you do not print too many business cards unless you are sure that all of the information will stay the same. If you have a computer, you can buy business card stock from you local office supply store and use your jet ink printer for your first cards. When you are ready for higher quality cards, you can use a printer and make selections regarding paper quality, type of printing, colors, size, etc.

Create Letterhead and Envelopes

The last of the basics needed for initially branding your company is to design and print your letterhead and envelopes. It is important when you communicate by mail for your company to project professionalism. Even the smallest business will be well-served by having simple, well-designed stationary.

This is generally a fairly simple task. It generally utilizes your logo and your company name. In addition, both the letterhead and envelope will have the company's contact information including:

- Company address
- Telephone number
- Fax number
- Web site address
- Email address



Note: *If your company is a corporation, the letterhead may contain additional information, such as corporate officers, board members, etc. Generally these are in small print on the left side of the letterhead.*

As with business cards, I would suggest that you do not print letterhead and envelopes in large quantities unless you are sure that all of the information will stay the same. You can buy good quality paper and business envelopes (in whatever color and texture you choose) from your local office supply store. Lay out your letterhead and envelopes in your word processor or a graphics program. Your jet ink printer will provide for your needs without a heavy front-end investment.

Later on, if you decide that you want higher quality letterhead and envelopes in a larger quantity, you can use a printer. The key is deciding which choice will serve your company better in terms of budget, timing, and quality.

Summary

The purpose of this chapter has been to lead you through some of the key tasks that will begin the branding process for your company – your name, your logo, your business cards, and your letterhead and envelopes.

In the marketing chapter (Chapter 17), you will develop your marketing strategy and see how everything you do in this chapter will contribute to defining and focusing your company's image and successfully selling your products and/or services into the marketplace.

Learn About Proprietary Rights: Copyrights, Trademarks, and Patents

Copyright, Trademark, and Patent are three of the most often confused terms in U.S. government. All three protect your rights to own, use and potentially make money from things you create.

This chapter is meant to give you basic information – not legal advice – and to guide you to some resources where you can learn more about proprietary rights that you may need to secure for your business.

In the following pages, you will learn the basics about copyrights, trademarks, and patents.

- ✓ *What are they?*
- ✓ *Which one(s) do you need?*
- ✓ *How do you get them?*

Copyrights

What is a Copyright?

Copyright is a form of protection provided by the laws of the United States to the authors of “original works of authorship,” including literary, dramatic, musical, artistic, and certain other intellectual works.

Copyright protection is available to both published and unpublished works. Section 106 of the 1976 Copyright Act generally gives the owner of copyright the exclusive right to do and to authorize others to do the following:

- To reproduce the work in copies or phonorecords;
- To prepare derivative works based upon the work;
- To distribute copies or phonorecords of the work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- To perform the work publicly, in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works;
- To display the work publicly, in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work; and
- In the case of sound recordings, to perform the work publicly by means of a digital audio transmission.

Who Needs a Copyright?

Persons or organizations creating "original works of authorship" including literary, dramatic, musical, architectural, cartographic, choreographic, pantomimic, pictorial, graphic, sculptural, and audiovisual displays usually register copyrights. Authors, artists, song writers and creators of computer programs typically register copyrights. Businesses often copyright their logos and other artwork that is representative of their companies.



Important Note: There is no need to "apply" for a copyright. A copyright is automatically considered to be granted to the author or creator of the work as soon as it is finished and considered "fixed" in a copy or recording. While there is no need to apply for copyrights, there are definite advantages to registering them through the Copyright Office. Primarily, registering a copyright establishes a legally enforceable public record of the creator's copyright claim.

What a Copyright Does

The word "copyright" literally means the right to copy. According to the U.S. Copyright Office, "The owner of copyright has the exclusive right to reproduce, distribute, and, in the case of certain works, publicly perform or display the work; to prepare derivative works; or to license others to engage in the same acts under specific terms and conditions." For example, the author of a book will typically sell all or part of his or her copyrights to a publisher who actually prints and markets the book to the public.

What Can and Cannot Be Copyrighted?

The U.S. Copyright Office defines the following broad categories of works for which copyrights can be registered:

- literary works
- musical works, including any accompanying words
- dramatic works, including any accompanying music
- pantomimes and choreographic work
- pictorial, graphic, and sculptural works
- motion pictures and other audiovisual works
- sound recordings
- architectural works

Computer program copyrights are typically registered as "literary works." Architectural plans and maps are registered as "pictorial, graphic, and sculptural works."

Things that cannot be copyrighted include any inventions, ideas, procedures, processes, slogans, principles, or discoveries.

Notice of Copyright

The required use of a copyright notice (1976 Copyright Act) was eliminated when the United States adhered to the Berne Convention, effective March 1, 1989. Because prior law did contain such a requirement, however, the use of notice is still relevant to the copyright status of older works.

Use of the notice may be important because it informs the public that the work is protected by copyright, identifies the copyright owner, and shows the year of first publication. The use of the copyright notice is the responsibility of the copyright owner and does not require advance permission from, or registration with, the Copyright Office.

Form of Notice for Visually Perceptible Copies: The notice for visually perceptible copies should contain all the following three elements:

1. The symbol © (the letter C in a circle), or the word "Copyright," or the abbreviation "Copr.;" and
2. The year of first publication of the work.
3. The name of the owner of copyright in the work, or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner.

Example: © 2006 John Doe

The "C in a circle" notice is used only on "visually perceptible copies." Certain kinds of works—for example, musical, dramatic, and literary works—may be fixed not in "copies" but by means of sound in an audio recording. Since audio recordings such as audio tapes and phonograph disks are "phonorecords" and not "copies," the "C in a circle" notice is not used to indicate protection of the underlying musical, dramatic, or literary work that is recorded.

Tech Tip

How to Register a Copyright

The process of registering a copyright differs considerably depending on the type of work created. To find the links below to related information from the U.S. Copyright Office's *Copyright Basics* Circular 1, go to:

<http://usgovinfo.about.com/gi/dynamic/offsite.htm?site=http://www.loc.gov/copyright/circs/circ1.html>

- [Copyright Information Circulars and Factsheets](#)
Available as either text or .pdf files, these publications explain all phases and procedures of securing a copyright.
- [Copyright Office Fees](#)
Fees effective as of July 1, 1999.
- [Copyright Office Forms](#)
A different form is required for each category of creative work. **Be sure** to read the instructions for filling out and submitting the forms.
- [How to "Secure" a Copyright](#)
An explanation of how copyrights are automatically secured at the time a work is created, and exactly when that is.
- [U.S. Copyright Laws](#)
Available individually or as a complete set in .pdf and text formats.
- [Frequently Asked Questions](#)
Answers to questions commonly received by the Copyright Office.

For More Information

You can call the Copyright Public Information Office at (202) 707-3000, 8:30 a.m. to 5:00 p.m. eastern time, Monday through Friday, except federal holidays. Or, you may write for information to:

Library of Congress
Copyright Office
101 Independence Avenue, S.E.
Washington, D.C. 20559-6000

Trademarks

What is a Trademark or Service Mark?

According to the U.S. Patent and Trademark office:

- **A trademark** is a word, phrase, symbol or design, or a combination of words, phrases, symbols or designs, that identifies and distinguishes the source of the goods of one party from those of others.
- **A service mark** is the same as a trademark, except that it identifies and distinguishes the source of a service rather than a product.

Registering a trademark is not required by law. However, most businesses choose to do so. Registering a mark with the federal government establishes legal public notice of the registrant's claim of ownership of the mark. In addition, registration establishes the registrant's exclusive legal right to use the mark throughout the United States.

Is Registration of Your Mark Required?

Registering a trademark is not required by law. However, most businesses choose to do so. You can establish rights in a mark based on legitimate use of the mark. However, owning a federal trademark registration on the Principal Register provides several advantages, e.g.,

- constructive notice to the public of the registrant's claim of ownership of the mark;
- a legal presumption of the registrant's ownership of the mark and the registrant's exclusive right to use the mark nationwide on or in connection with the goods and/or services listed in the registration;
- the ability to bring an action concerning the mark in federal court;
- the use of the U.S. registration as a basis to obtain registration in foreign countries; and
- the ability to file the U.S. registration with the U.S. Customs Service to prevent importation of infringing foreign goods.

Using the Trademark Symbols: TM, SM and ®

Any time you claim rights in a mark, you may use the "TM" (trademark) or "SM" (service mark) designation to alert the public to your claim, regardless of whether you have filed an application with the USPTO. However, you may use the federal registration symbol "®" **only** after the USPTO actually *registers a mark*, and **not** while an application is pending. Also, you may use the registration symbol with the mark only on or in connection with the goods and/or services listed in the federal trademark registration.

Research and Register Your Trademark or Service Mark

The first thing to do is make sure nobody else has already registered a similar trade or service mark. One way to do this is by using [TESS](#) - the Trademark Electronic Search System. Updated daily, TESS now contains more than 3 million pending, registered and dead federal trademarks.

Tech Tip

Learn More and Register Online

To learn more details about trademarks and service marks and how to file an online application, you can access the United States Patent and Trademark Office website. Go to the USPTO “Basic Facts about Trademarks” web page at:

<http://www.uspto.gov/web/offices/tac/doc/basic/>

Hand Deliver or Mail an Application

While the Patent and Trademark Office prefers online filing, you can file an application by hand or regular mail. The only way you can get a paper copy of the trademark application form is by calling USPTO's automated telephone line, at (703) 308-9000 or (800) 786-9199. Paper trademark applications should be mailed to:

Commissioner for Trademarks
Box-New App-Fee
2900 Crystal Drive
Arlington, VA 22202-3513

For More Information

While it is greatly preferred that you file electronically using TEAS, you may either mail or hand deliver a paper application to the USPTO. You can call the USPTO's automated telephone line at (800) 786-9199 to obtain a printed form. *You may NOT submit an application by facsimile.*

The mailing address to file a new application is:

Commissioner for Trademarks
P.O. Box 1451
Alexandria, VA 22313-1451

Applications delivered by hand or courier should be taken to:

Trademark Assistance Center
James Madison Building - East Wing
Concourse Level, 600 Dulany Street
Alexandria, VA

Patents

What is a Patent?

A patent for an invention is the grant of a property right to the inventor, issued by the United States Patent and Trademark Office. Generally, the term of a new patent is 20 years from the date on which the application for the patent was filed in the United States or, in special cases, from the date an earlier related application was filed, subject to the payment of maintenance fees. U.S. patent grants are effective only within the United States, U.S. territories, and U.S. possessions. Under certain circumstances, patent term extensions or adjustments may be available.

The right conferred by the patent grant is “the right to exclude others from making, using, offering for sale, or selling” the invention in the United States or “importing” the invention into the United States. What is granted is not the right to make, use, offer for sale, sell or import, but the right to exclude others from making, using, offering for sale, selling or importing the invention. Once a patent is issued, the patentee must enforce the patent without aid of the USPTO.

Utility, Design, and Plant Patents

There are three types of patents:

- **Utility** patents may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof. Inventors of the proverbial "better mousetrap," seek utility patents.
- **Design** patents may be granted to anyone who invents a new, original, and ornamental design for an article of manufacture. For example, if you design an ornamental telephone that in no way improves or changes the basic function of the telephone, you might seek a design patent.
- **Plant** patents may be granted to anyone who invents or discovers and asexually reproduces any distinct and new variety of plant.

Do You Need a Patent?

For several years, I gave business planning seminars at the Invention Convention in Pasadena, CA. The first thing an inventor worried about was how to keep the invention a secret until a patent was obtained. Since this process takes up to two year (or more) to accomplish, there was a problem – getting the invention to market. Mike Rounds, who taught marketing for inventors, maintained that the decision as to whether or not to go after a patent should be determined according to whether the product was “timeless” or “timely”. In other words, if it was a hot product that needed to be marketed quickly, “skip the patent, produce the product, and jump on the market before someone else does.” If it was a timeless invention (like the paper clip) that would have staying power, take the time to apply for a patent and protect your rights.

Applying for a Patent

Understanding about and applying for a patent can be a very daunting experience. In all probability, you will require help from a Patent Agent or Patent Attorney to guide you through the process.

Tech Tip

Learn More About Patents Online

The best way to learn more about the patenting process is to pay a visit to the U.S. Patent and Trademark Office “General Information Concerning Patents” web page. You can access it at: <http://www.uspto.gov/web/offices/pac/doc/general/index.html#patent>

At this site, you will find links to patent laws, patent searches, listings of PTO registered patent attorneys and agents, independent inventor resources, applications, drawing specifications, fees, etc.

For More Information

All business with the United States Patent and Trademark Office (USPTO or Office) should be transacted in writing. Be sure to include your full return address, including zip code. All correspondence relating to patent matters should be addressed to:

Commissioner For Patents
P.O. Box 1450
Alexandria, VA 22313-1450

The principal location of the USPTO is:

U.S. Patent and Trademark Office
600 Dulany Street
Alexandria, Virginia

Questions of a general nature only can be answered by Patent Assistance Center telephone service. Telephone numbers are: Toll Free - 800-PTO-9199 (800-786-9199) or 703-308-HELP (703-308-4357).

Decide on Your Business Location

Where will your business be located? Fifty years ago, almost every business was operated out of a commercial location. Skip forward to today's world of technology and the scenario is very different.

In the first chapter of this book, you were encouraged to think about your own skills and interests and make a decision as to what kind of business you would like to go into. You also had to decide on whether you would start a new business, buy an existing business, or purchase a franchise. Once that decision has been made, it is time for you to choose a location (or base of operation) for your business.

How do You Choose a Location?

Establishing your location is no longer a matter of checking for available commercial property and renting (or buying) the most suitable site. It is now a process of looking closely at your business and its particular needs for dealing most effectively with its customers.

A good way to begin the decision making process, is to look at the type of business that you are planning to operate and how the location will support the needs of your target markets. In other words, how will your location affect your efforts to reach your customers?

Retail Stores

If you are planning to open a “brick-and-mortar” retail store, you need to be accessible to your customers. The question you should ask yourself is, “What locations are available that are frequented by consumers who are likely to buy my particular products?” The type of retail business you are in will definitely drive your decision.

If you are opening a grocery store specializing in Latino foods, you should consider locating in an area with a predominantly Hispanic population. If you are selling music CDs, you will probably need to locate in a shopping mall or strip center that has adequate parking as well as foot traffic. On the other hand, if you are opening a sandwich shop to service students taking night classes, it would obviously be best to see if you can actually locate in an area in the school and adjacent to the classrooms.

- **If you are buying an existing retail business:** The business will already have a location. Before you buy, you should determine if the present location is a plus or minus for the business.
- If you are not also buying the facility, you will have to negotiate a lease agreement with the landlord. Be sure that you understand the terms of the agreement before you enter into it. How much is the rent? How long will it be in effect? Is it renewable? Who pays the expenses (leasehold improvements, maintenance, utilities, insurance, etc.)? Generally, it is best to have an attorney look over your lease agreement so that any issues can be resolved ahead of time.
- **If you are starting a new retail business:** Putting your business in the right location might be the single most important thing you do. No matter how good your products are, you will not sell them unless you can get the customers through the door.

Assess your situation. Make a list of your location requirements – population density, traffic patterns, access, zoning and permits, affordability, etc. Then you can search for available properties that will meet those needs. You can probably do a property search via the Internet. Alternately, there are business brokers who specialize in finding available property and helping you to negotiate a lease agreement. You can also check with the Chamber of Commerce in the area in which you wish to locate.

- **If you are buying a retail franchise:** You should have already evaluated the franchise in terms of the concept and product. Now it is time to look for a location. It should be visible to the flow of traffic and have easy access for your customers’ convenience. The franchisor will control the area where you operate and will most likely help you to decide on and negotiate the location.

Wholesalers and Manufacturers

Wholesalers and manufacturers sell their products in bulk (at a discount) to retailers who in turn sell those products to their customers. Therefore, location would not be driven by the consumer market. Following are some of the questions that you would most likely ask yourself before making your decision.

- How much square footage will my business require?
- What are the choices available that will work for my business?
- What are the costs per square foot of available locations?
- Can my products easily be distributed from this location?
- If I am manufacturing my products, is the location zoned for this purpose?
- Will I be able to get all of the permits I need to legally operate my business?

Service Businesses

Due to the nature of service businesses, there are several alternatives regarding location. The location may be the place where the service takes place or it may be used solely for administrative purposes – or it may be a combination of both.

- **The location is used to service the customer.** There are many service businesses that are wholly dependent on being able to service their customers at their locations. Examples of these businesses would be medical offices, beauty salons, shoe and jewelry repair shops, dry cleaners, day care facilities, and professional (legal and accounting) practices. Although some of these service businesses could legally operate from a home location, they might choose a commercial location to be perceived as more credible and high-end by their clients.

In cases such as these, your considerations will be much the same as those of a retail business. Your location should be easily accessible to the customer, especially if your clients only use your service when the occasion arises and your business is dependent on consistently attracting new customers.

- **The location is used for administrative purposes only.** These service businesses do not meet with their customers at their location. The office is used solely to do administrative work such as bookkeeping and arranging appointments to service the customers. Typically, this might be the case if you have a landscaping, house cleaning, plumbing, painting, or other type of maintenance or repair service. It would also apply if you have a mobile service business, such as screen repair, pool cleaning, or food catering.

If your location is not used to meet with your customers, it would be best to consider a low-cost location that will adequately service your business and that will not require extensive travel time to and from work.

Small service businesses can often benefit by having their administrative offices at home. However, cities and counties do have some restrictions regarding licensing of home-based businesses. Also, if you want to utilize deductions for a home office, you will have to abide by IRS rulings. (See, Chapter 6, Home Based Business: Is It Right for You?)

The Virtual Location

With the advent and subsequent advances in technology, another type of business location has emerged – the virtual location. Millions of product and service businesses now exist entirely on the Internet. There are no limits to the ways that they operate.

- Retailers who choose not to setup brick and mortar (physical) locations, put their products up on their web sites and use online marketing strategies to reach and sell to their target markets via shopping carts.
- Affiliates set up web sites and sell other people's products without ever handling the merchandise. They merely advertise the product, take the order, and use the manufacturer for fulfillment.
- Virtual service professionals utilize company websites and email databases to simultaneously market their services and keep clients abreast of the latest industry information. Then they service their customers via electronic communications, sometimes never physically meeting face-to-face.

The interesting feature of the virtual location is that the consumer seldom knows (or cares) what is behind the scenes in the operation. The only thing that matters is that the product or service fills his needs in terms of quality and timing.

The opportunities are as limitless as the imagination in the minds of today's entrepreneurs. I have seen thousands of part-time employees contracted out for construction jobs, heavy equipment moved across the country, giant auctions taking place, cars sold, betting taking place, and every other unimaginable type of trade pursued – all arranged and taking place from virtual offices in homes. Now, with smart phones and other portable communication devices, businesses can communicate with customers and vendors from literally any location that is within range of wireless connectivity.

Making the Final Decision

I think you can now see that choosing your location requires that you consider the nature of your business, who your customers are and how you will reach them, and how your choice will affect your bottom line (profitability).

Some businesses require commercial locations and others are appropriately operated in out-of-the-way locations or as home-based businesses. Some will find their best option to be a physical location enhanced by an online presence. Others will operate 100% online.

If your business grows or changes, you can always re-evaluate your location needs. The important thing is to make the best choice you can for your initial location needs. That will help you to get your company off the ground and headed in the right direction.



Note: You will find a Location Analysis Worksheet for your own use in Appendix II, Blank Forms and Worksheets, page 183.

Home-Based Business: Is it Right for You?

One of the fastest growing markets in the United States is the home-based business. It's interesting to note that one in four businesses located in an office or industrial area started in the home, including such well-known companies as Mary Kay, Hershey, Hewlett Packard, Lillian Vernon, Ford, and Apple. It has been estimated that more than 32 million Americans are self-employed and working at home. This does not count those who were doing so on a part-time basis while holding a "regular" job. Part-time self-employed home workers numbered an additional 1,000,000+.

Home-based businesses span a wide range of occupations and industries. One multi-state study conducted by a team of university-based researchers found that the top five occupations were marketing/sales (24%), contracting (15%), mechanical/transportation (13%), services (12%), and professional/technical (12%). Other studies yield varying results, but they all indicate that home businesses represent a wide range of occupations and industries.

The trend toward home-based business has occurred for several reasons. The advent of the electronic age with its computers, fax machines, copiers and other office technology has made it possible for almost every family to start a business from home. Job insecurities and layoffs have forced white-collar workers to pile out of corporations. Many of these displaced middle-management people have taken their skills home and translated them into viable businesses run from their home offices. The trend toward home-based business has also been impacted by economic considerations such as eliminating rent and utilizing other home-office deductions. As an additional bonus, having a home-based business has allowed parents to stay home with their families and addressed elder care and parental leave without added costs.

Home-based businesses can be very successful. They can also turn into disasters or, at the very least, unproductive semi-attempts at dabbling at business. In order to help you get off to a good start, we have devoted this chapter to some of the most important considerations that will contribute to the success of your home-based business.

How Does a Home-Based Business Differ from Other Businesses?

With the exception of the location, a home-based business is the same as any other business. All other issues including the need for a strong marketing plan and sufficient funding apply. The determining factor that favors operating out of your home will be that marketing your business will not be adversely affected by the physical location of your business.

Advantages

Lower Overhead
Work Flexibility

Disdvantages

Feeling Isolated
Need for Self-Discipline

Do You Qualify for a Home-Office Deduction?

To qualify for a home office deduction for the business use of your home, you must use that portion of your home *exclusively* and *regularly* for your trade or business and it must be your *principal place of business*.

1. **Exclusive Use:** To qualify under the exclusive use test, you must use a specific area of your home *only* for your trade or business. The area used for business can be a room or other separately identifiable space. The space does not need to be marked off by a permanent partition. You do not meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes. Exceptions apply if you use part of your home for the storage of inventory or product samples, or you use part of your home as a day-care facility.
2. **Regular Use:** To qualify under the regular use test, you must use a specific area of your home for business on a continuing basis. You do not meet the test if your business use of the area is only occasional or incidental, even if you do not use that area for any other purpose.
3. **Trade or Business Use:** To qualify under the trade or business use test, you must use part of your home in connection with a trade or business. If you use your home for a profit-seeking activity that is not a trade or business, you cannot take a deduction for its business use.
4. **Principal Place of Business:** You can have more than one business location, including your home, for a single trade or business. To qualify to deduct the expenses for the business use of your home, your home must be your principal place of business for that trade or business.

Your home office will qualify as your principal place of business for deducting expenses for its use if:

- You use it exclusively and regularly for administrative or management activities of your trade or business and

- You have no other fixed location where you conduct substantial administrative or management activities of your trade or business. Some of these activities are:
 - Billing customers, clients or patients.
 - Keeping books and records.
 - Ordering supplies.
 - Setting up appointments.
 - Forwarding orders or writing reports.

The following administrative or management activities performed at other locations *will not disqualify* your home office as your principal place of business.

- You have others conduct your administrative or management activities at locations other than your home. (For example, another company does your billing from its place of business.)
- You conduct administrative or management activities at places that are not fixed locations of your business, such as in a car or a hotel room.
- You occasionally conduct minimal administrative or management activities at a fixed location outside your home.
- You conduct substantial non-administrative or non-management business activities at a fixed location outside your home. (For example, you meet with or provide services to customers, clients, or patients at a fixed location of the business outside your home.)
- You have suitable space to conduct administrative or management activities outside your home, but choose to use your home office for those activities instead.

Other Tests: The rules for “*principal place of business*” will not affect the other tests you must meet to claim the expenses for the business use of your home. You still must use the business part of your home both **exclusively** and **regularly** for your trade or business. If you are an employee, the business use of your home must be for **the convenience of your employer**. In addition your deduction may be limited if your gross income from the business use of your home is less than your total business expenses.

5. Place to Meet Patients, Clients, or Customers: If you meet or deal with patients, clients, or customers in your home in the normal course of your business, even though you also carry on business at another location, you can deduct your expenses for the part of your home used exclusively and regularly for business if you meet the following tests.

- You physically meet with patients, clients or customers on your premises. The part of your home that you use exclusively and regularly for these meetings does not have to be your principal place of business.

- Their use of your home is substantial and integral to the conduct of your business.

Note: *Using your home for occasional meetings and telephone calls will not qualify you for a home-office deduction.*

- 6. Separate Structure:** You can deduct expenses (subject to the deduction limit) for a separate free-standing structure, such as a studio, garage, or barn, if you use it exclusively and regularly for your business. The structure does not have to be your principal place of business or a place where you meet patients, clients, or customers.



To Help You

“Can You Deduct Business Use of Your Home Expenses?” Flowchart

On page 45 you will find a flow chart that will help you to determine if you will qualify for a home office deduction.

IRS Form 8829: Expenses for Business Use of Your Home

For your convenience, you can see a filled-in example of the IRS form that is used to report deductions for business use of your home on page 46.

Calculating Your Deduction

After you determine that you meet the tests that qualify you for a home office deduction, you can figure how much you can deduct. You will need to figure the percentage of your home used for business and the limit on the deduction.

Business Percentage

To determine the deduction for the business use of your home, you have to compare the size of the part of your home that you use for business to your whole house and find the percentage that is being used for business.

The following are two commonly used methods for figuring the percentage.

- Divide the area (length multiplied by the width) used for business by the total area of your home.
- If the rooms in your home are all about the same size, you can divide the number of rooms used for business by the total number of rooms in your home.

For example, *if your home measures 2,000 square feet and you are using 500 square feet for your home office, you will be able to deduct 25 percent of expenses such as rent, mortgage, interest, depreciation, taxes, insurance, utilities, repairs, etc. There are also other issues to be considered pertaining to the legalities of deductions. You will have to spend some time familiarizing yourself with them.*

Part-Year Use

You cannot deduct expenses for the business use of your home incurred during any part of the year you did not use your home for business purposes. Consider only your expenses for the business use portion of the year.

Deduction Limit

If gross income from the business use of your home equals or exceeds your total business expenses (including depreciation), you can deduct all of your business expenses related to the use of your home. If gross income from the business use of your home is less than your total business expenses, your deduction of otherwise nondeductible expenses, such as insurance, utilities, and depreciation, allocable to the business is limited. (See IRS Pub. 587 for thorough explanation)

Deducting Expenses

If you qualify to deduct expenses for the business use of your home, you will also have to divide the expenses of operating your home between personal and business use.

Types of Expenses

The part of your home operating expense you can use to figure your deduction depends on both of the following:

- Whether the expense is direct, indirect, or unrelated.
- The percentage of your home used for business.

Descriptions and examples of direct, indirect, and unrelated expenses are:

Direct (expenses only for business part of your home): painting or repairs only in the area used for business. These expenses are deductible in full (subject to the deduction limit). The exception is that they may be only partially deductible in a daycare facility.

Indirect (expenses for keeping up and running your entire home): insurance, utilities, and general repairs. Deductibility is based on the percentage of your home used for business.

Unrelated (expenses only for the parts of your home not used for business): lawn care or painting a room not used for business. These expenses are not deductible.

Examples of Expenses

Certain expenses are deductible whether or not you use your home for business. If you claim business use of the home expenses, use the business percentage of these expenses to figure your total business use of the home deduction. These expenses include the following:

- Real estate taxes
- Deductible mortgage interest
- Casualty loss

Other expenses are deductible only if you use your home for business. You can use the business percentage of these expenses to figure your total business use of the home deduction. These expenses generally include (but are not limited to) the following:

- Depreciation (see rulings)
- Insurance
- Rent
- Repairs
- Security system
- Utilities and Services

Tech Tip

Download and Print IRS Pub. 587: Business Use of Your Home

The Internal Revenue Service has a 31-page publication that will give you more comprehensive information on issues pertaining to business use of your home. It addresses such things as: qualifying for a deduction, figuring deductions, deducting expenses, depreciating your home, day-care facilities, sale or exchange of your home, business furniture and equipment, recordkeeping, etc. It also contains worksheets that will help you figure your own deduction.

Publication 587, *Business Use of Your Home (Including Use by Day-Care Providers)*, can be downloaded via the Internet from: www.irs.gov Select “Forms and Publications from menu on the left. Then choose “Download forms and publications by: → Publication number”

Note: *In order to read and/or print the publication, you will need Acrobat Reader, a software program that is available for free from Adobe (www.adobe.com). Download the publication, open Acrobat Reader, and then open the downloaded file.*

Increasing Your Chances for Success

If you are going to operate out of your home, there are several things you can do to ensure that you will be more successful. Home offices have long been under scrutiny by many who wish to question their credibility. In the following pages, we will discuss some of the issues that may make the difference between success and failure.

Organize Your Work Space

Setting aside your work space is not only an IRS requirement, but a necessary element of any business. It is important to understand that a home-based business is the same as a business in a commercial location with the exception of some special tax considerations. That's exactly the way you should treat it.

Organize your work space in an efficient manner and eliminate non-work items so that you will not be tempted to mix the two during working hours. If you are operating a lawn mower repair shop out of your garage, don't use it to house your cars, bicycles, freezer and old clothes. If you have an office in your family room, get rid of the TV, pool table, exercise machine and ironing board. When a customer steps through the door into your office, it should feel like a business.

Take Care of Legal Responsibilities

A home business has the same legal requirements as any other business. You will still need a business license, DBA, seller's permit, etc. You should never mix your business finances with your personal finances. An effective recordkeeping system will have to be set up and you will need to find an accounting professional who can help you to maximize your tax benefits and prepare your final tax return. You will need a separate bank account and a business telephone. You will need business insurance tailored to your products and services.

In other words, pretend that you have just opened business in a commercial location and do the same things that you would have to do to get your business underway.

Set Business Hours

It will be very important for you to establish regular business hours. Credibility is hard to come by, but especially if you work out of your home. Your customers will take you more seriously if they see that you are operating on a schedule. If you are not available when they call, you will soon find that they will be looking elsewhere for the same service or product.

When you are required to be away from your business during normal working hours, be sure that you have provided for a way to take a message and return your customer's call. Invest in a good answering machine and leave a new message telling when you will be back in your office and assuring the customer that you will return the call.

I knew one business owner who continually left the message, "I am away from my office right now and will return in two hours." The problem was that the caller never knew what time the message was left or when the two hours would be up. A better message would have been, "I have an appointment with a client and will be back in my office at 2 p.m." Also be sure to ask for a name and phone number and offer to return the call.

Protect Your Work Hours

Inform your family and friends that you are serious about your business and will need to work without interruption. For some reason, a home-based business is usually perceived as being a place where visitors are welcome to show up and stay for a friendly visit. They would never think of popping into a corporate office for a cup of coffee, but surely you would welcome a break in your working hours! We wish we had a nickel for all the times when we have had to work late into the night because well-meaning friends decided that we needed their company during the day.

Unfortunately, this is one of the most serious problems encountered in home-based businesses and one that is difficult to solve. It not only applies to family and friends, but to some of your customers who are anxious to establish a friendly relationship. We have used every trick in the book to get rid of unwanted visitors without offending them. We have resorted to proclaiming nonexistent appointments, calling each other from a telephone in the other room, walking the visitor slowly out the door and any other means within our imaginations. When all else fails, tell the truth and it might just work.

Protect Your Free Hours

In addition to protecting your business hours, you will also have to decide what days and hours you wish to be closed and promise yourself that you will use them for non-business pursuits. In fact, guard that free time with your life.

Be sure to inform your customers in regard to your working hours. If they want to come during your off hours, tell them nicely but firmly that you are closed. Most will respect you and return during your regular business hours.

At the end of your working day, turn on your answering machine and shut the door to your business. Plan for activities with your family or friends and try not to overwhelm them with your business problems. The idea is to have fun and give yourself a break. You will soon feel overwhelmed and tired of your business if you never have the opportunity to get away from it.

It would be naive to pretend that a business owner will never have to work extra hours to make the business prosper. Do what you need to do run your business, but don't let it run you—and don't let it cause you to burn out your enthusiasm and create problems with the people you care about. Remember, owning your own business is supposed to be a plus in your life!

Be Self-Disciplined

Owning your own business requires a great deal of time and effort. We have heard potential business owners exclaim that they are going to quit working eight hours a day for a company and be free to set their own hours. It is true that you can decide on your hours. However, working for yourself will probably be equivalent to holding down two jobs, at least for the first three or four years until the business is functioning smoothly. For this reason, it will be necessary to develop a high degree of self-discipline.

Be willing to work long hours when it is necessary. If an extra effort is needed to get a job done, you will have to do it. Decide what hours you are willing to work and stick to your schedule. Don't fall into the trap of thinking that you are free. You are your own boss and you will have to treat yourself as you would an employee.

Dress for Success

Just because you are working at home, don't use it as an excuse to be a slob. Every trade has an acceptable mode of dress that should be adhered to. A home business is the perfect target for a 24-

hour a day onslaught by customers. They will call on the telephone and ring the doorbell seven days a week from dawn to dark--and that includes holidays. No one can see what you look like on the other end of the phone, but if you are going to answer the door, look like a business person. If your customer is going to have confidence in your products or services, he or she must first have confidence in you. You are your best advertisement.

Be Totally Credible

Home-based business has come to represent a large segment of today's workforce and a powerful force in the economy. In fact, due in a large part to modern technology, almost every kind of business imaginable is being run out of a home office somewhere. Unfortunately, those same home businesses are often regarded as "little hobbies." Both of us were in home-based businesses long before we started teaching business classes and writing and publishing business books. It would probably be impossible to count the times that we were told what wonderful hobbies we had. We liked our businesses, but can assure you that our reasons for being in business were measured in dollars as well as fun.

The truth is that a home-based business owner will have to expend extra effort to prove credibility and attract customers. Many professional business organizations, including chambers of commerce, are forming focus groups to help overcome this stigma. Meanwhile, professionalism is the only weapon that can be effectively used to overcome misconceptions about the seriousness of this major economic force.

A Last Reminder

- Check zoning laws to be sure that you can legally operate your business out of your home.
- Be self-disciplined and don't allow distractions.
- Set fixed hours and an environment of professionalism.
- Have dedicated space for your business.
- Dress for work.
- Ensure that you have the technological support and furnishings without going overboard (fax, separate phone line, copier, computer, professional answering machine, etc.).
- Make sure your business is compatible with your homeowner's policy; look at commercial coverage as an option.
- Keep efficient records.
- NEVER combine home and business accounts.
- Set up a network to avoid isolation.
- Have a good relationship with your neighbors and be sensitive to deliveries, customer parking, etc.
- Maintain a supportive family network.

IRS Warning!

Home-Based Business Tax Avoidance Schemes

The Internal Revenue Service has issued consumer alerts regarding home-based business schemes that purport to offer tax "relief." In reality they provide bad advice to unwary taxpayers that, if followed, results in improper tax avoidance.

Promoters of these schemes claim that individual taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a bogus home-based business. But the tax code firmly establishes that a clear business purpose and profit motive must exist in order to generate and claim allowable business expenses.

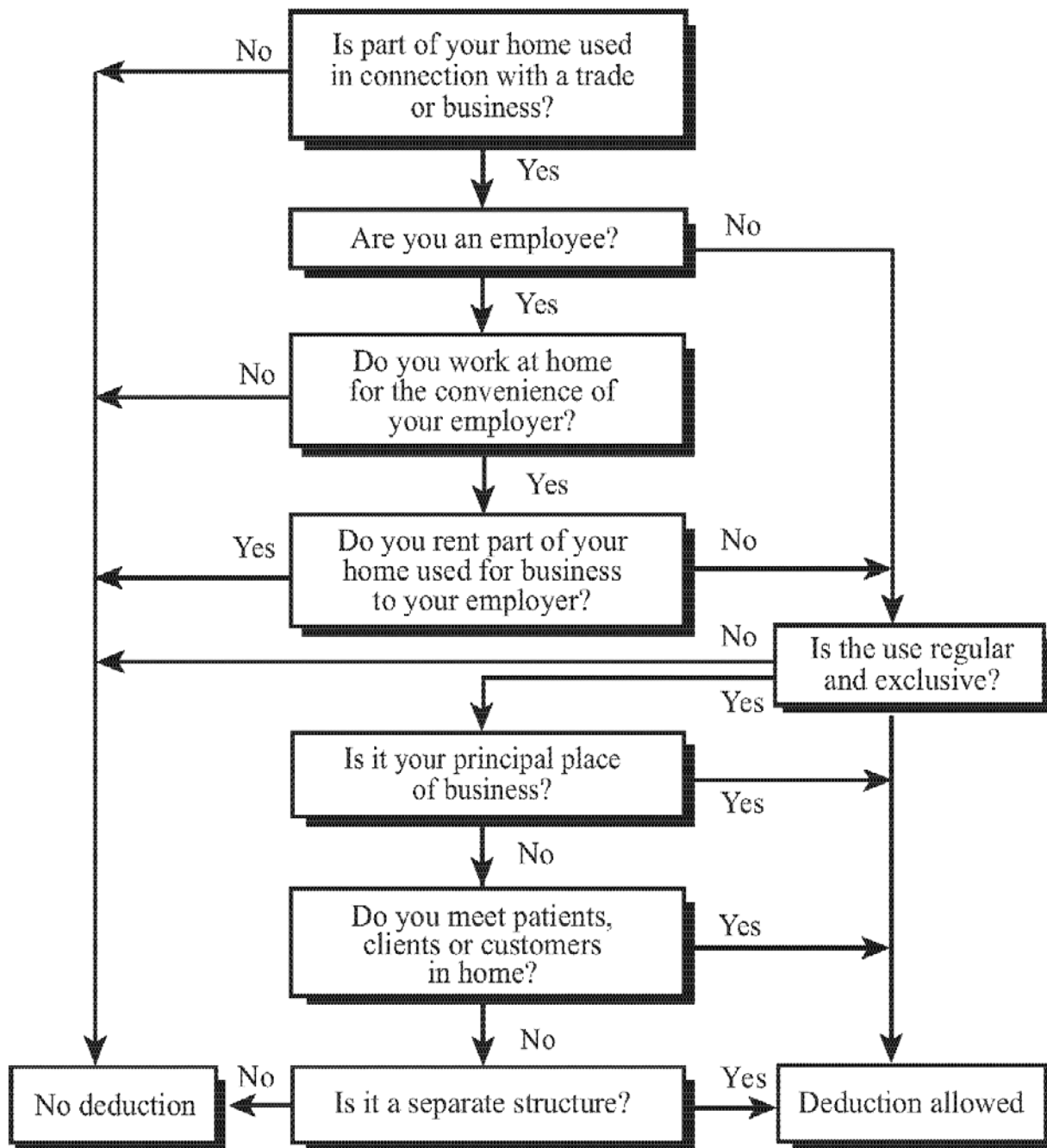
Some examples of personal expenses that are not deductible, but are commonly claimed business expenses in home-based business tax avoidance schemes include

- Deducting all or most of the cost and operation of a personal residence. For example, placing a calendar, desk, file cabinet, telephone, or other business-related item in each room does not increase the amount that can be deducted.
- Deducting a portion of the total house payment is not allowable if the business is not real.
- Paying children a salary for services, such as answering telephones, washing cars or other tasks and then deducting these costs as a business expense is not real.
- Deducting education expenses from the salary wrongfully paid to children as employees is not allowed
- Deducting excessive car and truck expenses when the vehicle has been used for both business and personal use is not allowed.
- Deducting personal furniture, home entertainment equipment, children's toys, etc. is not allowed.
- Deducting personal travel, meals, and entertainment under the guise that "everyone is a potential client" is not allowed.

Any tax scheme that claims a person can deduct what would normally be personal expenses should be considered highly suspect. Taxpayers who have questions on this subject or wish to report possible schemes can call 1-866-775-7474. They can also contact the IRS by sending an e-mail to irs.tax.shelter.hotline@irs.gov.

Can You Deduct Business Use of Home Expenses?

source: IRS Publication 587, Business Use of Your Home



Note: Daycare and inventory storage are exceptions to the exclusive use test.

IRS Form 8829

Expenses for Business Use of Your Home

Form 8829 Department of the Treasury Internal Revenue Service (99)	Expenses for Business Use of Your Home ▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ See separate instructions.	OMB No. 1545-0074 <div style="text-align: center; font-size: 24pt; font-weight: bold;">2007</div> Attachment Sequence No. 66
Name(s) of proprietor(s)		Your social security number
Part I Part of Your Home Used for Business		
1 Area used regularly and exclusively for business, regularly for daycare, or for storage of inventory or product samples (see instructions)	1	
2 Total area of home	2	
3 Divide line 1 by line 2. Enter the result as a percentage	3	%
For daycare facilities not used exclusively for business, go to line 4. All others go to line 7.		
4 Multiply days used for daycare during year by hours used per day	4	hr.
5 Total hours available for use during the year (365 days × 24 hours) (see instructions)	5	8,760 hr.
6 Divide line 4 by line 5. Enter the result as a decimal amount	6	
7 Business percentage. For daycare facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3	7	%
Part II Figure Your Allowable Deduction		
8 Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If more than one place of business, see instructions	8	
See instructions for columns (a) and (b) before completing lines 9-21.		
	(a) Direct expenses	(b) Indirect expenses
9 Casualty losses (see instructions)	9	
10 Deductible mortgage interest (see instructions)	10	
11 Real estate taxes (see instructions)	11	
12 Add lines 9, 10, and 11	12	
13 Multiply line 12, column (b) by line 7	13	
14 Add line 12, column (a) and line 13	14	
15 Subtract line 14 from line 8. If zero or less, enter -0-	15	
16 Excess mortgage interest (see instructions)	16	
17 Insurance	17	
18 Rent	18	
19 Repairs and maintenance	19	
20 Utilities	20	
21 Other expenses (see instructions)	21	
22 Add lines 16 through 21	22	
23 Multiply line 22, column (b) by line 7	23	
24 Carryover of operating expenses from 2006 Form 8829, line 42	24	
25 Add line 22 in column (a), line 23, and line 24	25	
26 Allowable operating expenses. Enter the smaller of line 15 or line 25	26	
27 Limit on excess casualty losses and depreciation. Subtract line 26 from line 15	27	
28 Excess casualty losses (see instructions)	28	
29 Depreciation of your home from Part III below	29	
30 Carryover of excess casualty losses and depreciation from 2006 Form 8829, line 43	30	
31 Add lines 28 through 30	31	
32 Allowable excess casualty losses and depreciation. Enter the smaller of line 27 or line 31	32	
33 Add lines 14, 26, and 32	33	
34 Casualty loss portion, if any, from lines 14 and 32. Carry amount to Form 4684, Section B	34	
35 Allowable expenses for business use of your home. Subtract line 34 from line 33. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions	35	
Part III Depreciation of Your Home		
36 Enter the smaller of your home's adjusted basis or its fair market value (see instructions)	36	
37 Value of land included on line 36	37	
38 Basis of building. Subtract line 37 from line 36	38	
39 Business basis of building. Multiply line 38 by line 7	39	
40 Depreciation percentage (see instructions)	40	%
41 Depreciation allowable (see instructions). Multiply line 39 by line 40. Enter here and on line 29 above	41	
Part IV Carryover of Unallowed Expenses to 2008		
42 Operating expenses. Subtract line 26 from line 25. If less than zero, enter -0-	42	
43 Excess casualty losses and depreciation. Subtract line 32 from line 31. If less than zero, enter -0-	43	
For Paperwork Reduction Act Notice, see page 4 of separate instructions.		
Cat. No. 13232M	Form 8829 (2007)	

Choose Your Legal Structure

When you start your business, it will be necessary for you to select its legal structure. This chapter will help you to understand and make your decision by introducing you to the definition, benefits, and risks of each of the following legal entities.

- ✓ *Sole Proprietor*
- ✓ *Partnership*
- ✓ *S Corporation*
- ✓ *Corporation*
- ✓ *Limited Liability Company (LLC)*

Will your business be a sole proprietorship, partnership, S corporation, corporation, or a limited liability company? Before you make that decision, you should ask yourself a few basic questions regarding the business and your own personal situation. Answering the questions on the next page will help you to make an intelligent decision.

- What type of business will you start?
- How small (or large) will the business be?
- How many owners will there be?
- Who will be making decisions for company?
- Where (geographically) will you be doing business?
- Will you need capital from a lender or investor?
- What are the liability risks of the business?
- What kind of personal assets do you have?
- Will you need to protect those assets from the business?

Do You Need Professional Help?

If your company will be anything other than a sole proprietorship, I would suggest that you at least consult with a professional (business attorney or business accountant) to help you choose and legally form your business entity. This can help you to avoid many problems in the future.

For instance, in today's world, many new entrepreneurs form partnerships with their friends and associates, but fail to clearly define the terms of the partnership. It is a well-recognized fact that a majority of partnerships do not work out for various reasons – lack of defined responsibilities, failure on partners to contribute equal effort, disagreement over expenditures, partners wishing to exit the business, etc. A well-executed partnership agreement will spell out contributions and responsibilities of the partners and provide for an equitable dissolution in the event that it is necessary.

Another example would be using a professional to help you choose between corporate structures. Many new companies decide for themselves that they will form a limited liability company (LLC), which is a state entity. The laws that govern this legal structure have great variations from one state to another. If your company intends to operate throughout the United States or internationally, it may be advisable to incorporate under national law. A professional can help you to make the correct choice.

Note: Although you can change the legal structure of your company at a later date it is less expensive and less time consuming to make the right choice in the beginning. Also, keep in mind that moving from a sole proprietorship (or partnership) to a corporation is easier than moving backwards from a corporation to a more simple legal structure.

Understanding Legal Structures

The choice you make requires that you understand the definition of each type of legal structure, its benefits and risks, and how they would affect your business and your personal situation.

1. Sole Proprietor

You are a sole proprietor if you are self-employed and are the sole owner of an unincorporated business. You report your income, expenses, and net profit from your business or profession on a Schedule C and file it with your regular Form 1040 income tax return. There is no tax effect if you transfer money to or from your business. Sole proprietors pay estimated income and self-employment taxes to the IRS on a quarterly basis based on net earnings from the business.



Benefits

- **It is the simplest form of legal structure.** Becoming a sole proprietor does not require a legal agreement. If you file a DBA (business name statement) and obtain a business license from your city or county government, you are generally considered to be a sole proprietor.
- **You are sole owner of the business.** As the sole owner, you make 100% of the profits of the business (or losses). You also have the power to make all decisions and accept all responsibilities regarding the business.
- **You are taxed as an individual.** The business itself does not pay taxes. The profits (losses) from a sole proprietorship are reported as earnings from a business on your personal tax return and are computed with other earnings and deductions at the appropriate rate.
- **There are fewer governing regulations.** Some legal structures must follow extensive government regulations during operation. If a sole proprietor is licensed and files tax returns, there are generally no other regulations relating to legal structure.



Risks

- **The responsibility is all yours.** You bear the sole responsibility for everything that happens in your business. You are the ultimate decision maker and you will also bear all of the responsibility for the outcome of those decisions. This disadvantage can be mitigated as you grow by utilizing advisors and designating certain tasks to employees with the proper skills. If you fail to grow past a one-person operation, you will have to cover all areas such as, accounting, marketing, and customer relations, as well as everything else related to offering your products and/or services.
- **You are liable personally for the debts of your business.** You will be personally liable for all business debts. This means that your personal assets (home equity, savings, vehicle, etc.) are at risk if your business becomes indebted beyond its capability to pay.
- **Financing may be difficult to obtain.** Because your business is dependent on one person only, a banker or investor may be less likely to give you a loan or invest funds in your company. If you do get funding, you will be personally liable for repayment.

- **The business is dependent on your ability to operate it.** If you do not have other people who are capable of carrying on the business in your absence, it can be disastrous. What's more, if you should die, the business ceases to exist as a legal entity.

2. Partnership

A partnership is the relationship between two or more persons who join together to carry on a trade or business with each person contributing money, property, labor, or skill, and each expecting to share in the profits and losses of the business.

Partnership profits are not taxed to the partnership. Each partner must take into account his or her distributive share of partnership profits (losses) on his or her own income tax return (whether distributed or not). The business files a Form 1065 for its tax years, but it is mainly an information return. Each partner's distributive share is usually included in figuring earnings from self-employment.

Partnerships can have General and Limited Partners.

- **General Partners** are active in the control of the business. They share financing, decision-making, and management responsibilities according to terms spelled out in the partnership agreement. They also share in the liability.
- **Limited Partners** are generally taken on by a company to raise capital for the business. As long as the limited partners do not participate in the management or control of the business, they do not share in the liability. Limited partnerships are by contractual agreement spelling out the terms for the capital infusion, return on investment, and exit terms.



Do not form a partnership without a partnership agreement. *This is a good time to point out that every partnership should have a formal partnership agreement. The Uniform Partnership act (UPA) is a law (adopted in all states except Louisiana) that established the most basic legal rules applicable to partnerships. In order to spell out specifics applying to the business relationship, it is imperative that the partners draw up and sign a partnership agreement. A general form can be downloaded from the net or obtained from any office supply store. If you don't want to consult an attorney, Nolo Press has a partnership legal self-help book that will take you through the process and help you to address the terms and provisions. Some of the things that need to be covered are: equity shares, financial contributions, distribution of profits and losses, contributed capital, and assets, partners' managerial and work responsibilities, provisions for a partner's exit due to death, disability, or desire, methods for settling disputes, the duration of the agreement and terms for dissolution of the business.*



Benefits

- **It is easy to form a partnership.** If you file a DBA (fictitious business name statement) and obtain a business license from your city or county government, your partnership is generally considered as having been established. As with a sole proprietorship, if a partnership is files required

information and other tax returns, there are generally no other regulations relating to legal structure.

- **Partners share the responsibility of the business.** Unlike sole proprietors, partners have the advantage of being able to divide the work load, blend skills, share ideas, and make joint decisions that will make the business more profitable.
- **Partnerships have more access to funding.** Having two or more individuals contributing money to operate the business is always helpful. In addition, if the partners' personal equity is significant, the partnership will probably be more successful in attracting funding from lenders or investors.
- **Partners – not the partnership – are taxed.** The business itself does not pay taxes. Distributive shares of the profits (losses) of a partnership are reported as earnings from a business on the partners' personal tax returns and are computed with their other earnings and deductions at the appropriate rate.



Risks

- **Dissolution of a partnership can be difficult.** Although it is not required by law, it is wise to have a formal partnership agreement spelling out not only the contributions and responsibilities of each of the partners, but providing for a partner to exit the partnership by buying out or selling to other partners.
- **Partners with more equity or assets stand to lose more.** If the business fails, the partners with the most equity or the most personal assets stand to lose more.
- **Profits belong to all partners according to equity share.** The business will have to make earnings sufficient to support each of the partners. Partners must agree on when and what portion of their earnings should be retained to operate the company and when and what portion should be distributed as owner draws.
- **Partners are bound by each other's decisions.** The nature of a partnership is that all general partners* have a right to act on behalf of the company. Unless spelled out otherwise in the partnership agreement, partners can individually make contracts, spend money, borrow money, etc. and the other partners will be bound by those decisions.

3. Corporation

A corporation is a distinct legal entity, separate from the individuals who own it. It is formed by the authority of the state government, with approval from the secretary of state. If business is conducted in more than one state, you must comply with the federal laws regarding interstate commerce. Federal and state laws may vary considerably.

Forming a corporation involves a transfer of either money, property, or both by the prospective shareholders in exchange for capital stock in the corporation.

Every corporation unless it is specifically exempt or has dissolved, must file a tax return, even if it has no taxable income for the year and regardless of the amount of its gross income. Corporate profits normally are taxed to the corporation. When the profits are distributed as dividends, the dividends are then taxed to the shareholders.

Note: *The cost and complexity of the corporate legal structure often make it an unrealistic option for many small businesses. S corporations or Limited Liability Companies (LLCs) may provide less complex alternatives with some of the same advantages.*

Articles of Incorporation. Due the complexity of the corporation, you should consult an attorney and/or accounting professional to draft the company's articles of incorporation and handle the filing of its Certificate of Incorporation.

The following is a summary of the types of information that will be needed to complete the Certificate of Incorporation. Your legal advisor can provide more detail and work with you adequately address requirements.

- Corporate name of the company
- Purposes of the corporation
- Length of time the corporation will exist
- Names and addresses of incorporators
- Location of the registered office of the corporation in the state of incorporation
- Proposed capital structure
- Management
- Director (person who will serve until 1st stockholder meeting)

If the designated state official determines that the corporation name is available, the certificate has been completely and properly executed, and there has been no violation, the charter will be issued. However, the incorporation process will not be complete until the stockholders meet, elect a board of directors, and adopt bylaws. The board of directors will in turn elect the officers (generally including a president, secretary, and treasurer) who will actually have charge of operating the corporation. In small corporations, the officers may be selected from the board of directors.

Bylaws. The bylaws are the governing rules of the corporation. They generally address and provide for the following: the location of the principal office and other offices; time, location, and notice of stockholder meetings, number of directors, their compensation, terms of office, method of election, and the filling of vacancies; time and location of directors' meetings; quorum and voting methods; insurance and form of stock certificates; methods of selecting officers and designating their titles, duties, terms of office, and salaries; method of paying dividends; decisions regarding the fiscal year; and procedure for amending the bylaws.



Benefits

- **Liability rests on the corporation.** The corporation is a separate legal entity responsible and liable for its debts. It has an existence apart from the people who own it. Its shareholders are liable only for the amount of they have invested.

- **Ownership is readily transferable.** Stock can be purchased, sold, or transferred. The corporation does not cease to exist with the death of an owner.
- **There is increased access to business expertise.** The corporation can draw on the experience and expertise of its board of directors, officers, advisors, and managers.
- **There is increased opportunity for raising capital.** The corporation can substantially increase its capital through the sale of stock.



Risks

- **There is an increased tax burden.** Income tax is paid on the corporate net income (profit). Individual salaries and dividends are also taxed.
- **Corporations are difficult – and expensive – to form and maintain.** Some of the costs unique to corporations are the fees for setting up a corporate structure, costs of holding stockholders' and board of directors meetings, increased costs for documentation requirements, and legal and accounting fees.
- **They must conform to extensive government regulations.** Corporations are complex to manage and highly regulated. Burdensome local, state, and federal reports must be filed, and regular stockholder meetings must be held.

4. S Corporation

Some corporations may elect not to be subject to income tax. If a corporation qualifies and chooses to become an S corporation, its income usually will be taxed to the shareholders.

Formation of an S corporation is only allowable under certain circumstances.

- It must be a domestic corporation either organized in the United States or organized under federal or state law.
- It must have only one class of stock.
- It must have no more than 75 shareholders.
- It must have as shareholders only individuals, estates, and certain trusts. Partnerships and corporations cannot be shareholders in an S corporation.
- It must have shareholders who are citizens or residents of the United States. Non-resident aliens cannot become shareholders.

The formation of an S corporation can be an advantageous form of legal structure. However, if you enter into it without careful planning, it can result in more taxes – instead of less, as anticipated.



Benefits

- **S corporations have the limited liability of a corporation.** The S corporation is a separate legal entity and has an existence apart from the people who own it. The corporation is responsible and liable for its debts. Shareholders are liable only for the amount they have invested.
- **Income is generally taxed to the shareholders.** As with a partnership, the business itself does not pay taxes. The corporation files a Form 1120S income tax return. Each shareholder is provided with a Schedule K, summarizing the corporation's income, deductions, credits, etc. reportable by the shareholders. Schedule K-1 shows each shareholder's separate share and each individual shareholder's earnings are reported on their personal tax returns and taxes are computed with their other earnings and deductions at the appropriate rate.
- **S corporations are likely to have more access to funding.** If the S corporation's equity is significant, it will probably be more successful in attracting funding from lenders or investors.



Risks

- **Specific rules and conditions must be met.** As with any corporation, rules and regulations are more stringent. The S corporation must operate under specific rules and conditions to maintain its S corporation status.
- **There are limits on the origin of gross income.** No more than 25% of the corporation's gross income can be derived from passive investment activities.
- **Deductions are limited.** The corporation may not deduct the cost of fringe benefits provided to employee shareholders who own more than 2% of the corporations. Shareholders may not deduct corporate losses that exceed the amount of the investment in the company minus a few adjustments.

5. Limited Liability Company (LLC)

A Limited Liability Company (LLC) is a relatively new business structure allowed by state statute. LLCs are popular because, similar to a corporation, owners have limited personal liability for the debts and actions of the LLC. Other features of LLCs are more like a partnership, providing management flexibility and the benefit of pass-through taxation.

Owners of an LLC are called members. Since most states do not restrict ownership, members may include individuals, corporations, other LLCs and foreign entities. There is no maximum number of members. Most states also permit "single member" LLCs, those having only one owner.

A few types of businesses generally cannot be LLCs, such as banks, insurance companies and nonprofit organizations. Check your state's requirements and the federal tax regulations for further information. There are special rules for foreign LLCs.

To set up an LLC, you follow a path similar to the formation of a corporation. You must submit an article of organization and the appropriate filing fees to the secretary of state in the state where your business is organized. Because states differ in the information required, it is wise to consult your attorney or accountant if you think the limited liability company form of legal structure is right for your business.



Benefits

- **LLCs offer greater flexibility than S corporations.** You can accomplish the goals of limited liability and pass-through taxation. It offers its owners greater flexibility in allocating profits and losses and is not subject to the many restrictions of an S corporation.
- **Loss deductions are more liberal for LLCs.** The owners of an LLC do not assume liability for the business's debt, and any losses can be used as tax deductions against active income. Loss deductions are more limited under an S corporation.
- **There is less restriction on participation.** An LLC can be formed with just one person in every state except Massachusetts, which requires at least two owners. There is not maximum number of owners allowed.
- **LLCs can offer more stock options.** Unlike an S corporation, and LLC can offer several different classes of stock with different rights.



Risks

- **Different rules apply in different states.** An LLC is a state entity and the business is governed by the code of that state. In some states, the business is dissolved on the death, retirement, resignation, or expulsion of an owner. Be sure to check your state's code to see if an LLC is the best form of legal structure for your business.
- **It may be difficult to operate in other states.** Expansion of the business out of state may be inhibited. If a company doing business as and LLC wished to do business in another state without similar legislation, there is no provision for it to legally register to conduct business in that state.
- **Converting an existing business may have tax implications.** Special rules may apply when your LLC has an operating loss. The amount of loss you can deduct may be limited because of your limited liability for LLC debts. Passive Activity Loss limitation may restrict the amount of loss you can deduct. Also, if you convert an existing business, such as a corporation, into an LLC, the conversion may result in a taxable gain. Employment tax wage bases may also be affected.

Changing Your Legal Structure

Most small businesses will initially operate as sole proprietors. As the business grows and complications set in, you may wish to change your legal structure. You may choose to take on partners to help you shoulder the load. If you need to expand your financial opportunities and decrease your financial liabilities, you may wish to form a corporation.

If you change the legal structure of your existing business, you must notify the Internal Revenue Service and your state tax agency.

- **Sole proprietorships and partnerships** are required to change legal form through the business license bureau.
- **Corporations** must register with the office of secretary of state.

If you are unsure as to how to legally accomplish a desired change in legal structure, you would be wise to consult an attorney or accounting professional. It is better to be safe than sorry.

In Summary

Choosing the legal structure for your business requires careful consideration of the available options. Your choice should match the short- and long-term personal and business goals.

What assets do you own and how much are you willing to risk? How much money will you need to run your business and where will the money come from? What are your own industry and managerial skills? Can you run your business by yourself – or will you need to bring other people into the business as owners or shareholders? What would happen to your business if you were not able to run it? Why did you start your business and what is your vision for its future?

Tech Tip

Tax Information on Legal Structures

The Internal Revenue Service provides specific business tax information for each form of legal structure. Go to the IRS Web site: www.irs.gov

Click on “businesses” under “contents.” You will be able to access information on tax considerations by legal structure. You can download general publications, tax worksheets and forms for each legal structure. You will also have access to online workshops.

Additional research sites

By going to any of the major search engines, you can type in the various types of legal structure. You will be provided with links to any of a number of informative sites where you can gain an instant education on this subject.

Get a Business License

Why do you need a business license? The answer is simple. If your company is going to operate within the law, the city or county in which you will be doing business will require you to obtain a license or permit.

If that business is service-related and performs any portion of its work in other cities outside of its operational center, you may also be required to buy licenses in those cities. For example, if you have a repair service and you make several calls to homes away from the city where your shop is located, you could be obligated to purchase business licenses in the cities you service. For occasional work in another city, you may only be required to obtain a permit for those days on which you perform the work.

Business licenses are serious matters in most cities. They provide a source of revenue for the city or county. Licensing is also a means of controlling the types of businesses that operate within their jurisdictions.

It is true that many businesses are currently operating without licenses. A crackdown in one major city showed that almost 50% of its businesses had failed to produce current business licenses. Fines were imposed and ultimatums issued that failure to secure licenses would result in shutdowns. A business license is inexpensive and lends credibility to your operation. Without one, you, too, run the risk of being discovered and fined and/or barred from doing any business at all.

Location Considerations

In Chapter 5, "Decide on Your Business Location" you learned the basics of selecting the site of your business. Selecting your location and getting your business license is an interactive process. A business license is granted for a specific location and the selection of the location must take into account licensing restrictions.

Contact the City or County Clerk's Office in the city or county where you wish to locate your base of operation. They are an excellent source of information regarding police, fire and health permits needed for your business. Since any business location must fall within the zoning regulations, you may obtain verification from the zoning commission to determine if your business is approved for the location you have chosen. The local business license bureau can also help you with your decision by giving you information on any special restrictions as to types of businesses allowed or disallowed at any location.

If you have decided to locate in a shopping center or industrial area or other commercial location, call the chamber of commerce or city and ask for any publications with listings of facilities available showing number of square feet, price per square foot and other pertinent information.

You may also contact the management of the commercial or industrial complex you are considering and request written information about that location and current availability of leasing space. You should be able to get detailed information as to lease terms, restrictions, traffic patterns and other demographics. Be sure to read carefully and understand all the terms contained in a lease agreement. They vary and may well spell the difference between profit and loss for your business.

Licensing a Home-Based Business

If you have elected to have a home-based business, restrictions may not permit you to get a business license to operate in your city. You may be forced to move your business outside the home or operate outside of the law. If your family happens to be moving and you are a seasoned entrepreneur, you may wish to select your home partly on the basis of whether or not that city's ordinances will allow you to operate your business – or any business – out of your home.

If you are thinking of living in a planned community, don't forget to check into any restrictions that the association may have that relate to business use of your home. Even if the city will allow you to operate your business, the association may preclude that option.

The passage of the Model Zoning Ordinance did much to help protect the legalities of working from home. However, different types of businesses may be subject to special restrictions by the city or county. For instance, a mail-order business may be allowed in your home, but a direct-sales operation may be prohibited. Repair services may be allowed, but only if they do not involve the use of toxic chemicals. Food services will probably be disallowed, but the city may allow you to use your home as an administrative office for your business.

In most cities and planned communities, home-based businesses are not permitted to change the appearance of the neighborhood and, therefore, you may be prohibited the use advertising or equipment that can be viewed from the street. Very often, police or fire inspections will be conducted to see that your business does not violate any of several restrictions. Doing some diligent ground work ahead of time may eliminate the possibility of selecting a business location only to find later that it was not an appropriate and/or legal choice.

Applying for a Business License

Once you have determined that your business meets all the specific requirements for operation within the city or county you have chosen, you are ready for a trip to the Business License Bureau or the City or County Clerk's Office to legalize your business.

You will be asked to fill out an application. Call ahead to find out what information you will need to complete the application. This will save you time and ensure that you have all of your information on hand when it is needed.

The application is usually fairly simple and will require only general information. You will probably be required to supply such specifics as:

- business name and address
- owner names and contact information
- organization information (manufacturing, wholesale, retail, service)
- type of legal structure
- nature of the business
- expected number of employees
- Federal Employer ID (FEIN) and State Sales Tax No. (Resale)
- expected gross
- other relevant information.

A typical fee for a business may be as little as 10 cents per \$1,000 of projected revenues. We have also seen specific license fees applied to certain kinds of business. For instance, in one eastern city the charge for a home business license is \$350.

You will probably be asked to submit your completed application together with one year's fee (frequently based on projected gross revenues). Your application will be reviewed by the proper agents and a license will either be issued or refused within a few days.

Business licenses are renewed annually, subject to that city or county's codes and regulations. Your renewal notice will be sent to you, but it is your responsibility to see that you renew should you fail to hear from the licensing agency.

Tech Tip

Business License Applications and Information for many cities is available via the Internet. The example in this chapter was downloaded as a pdf file for Adobe Acrobat Reader by searching the words, "[Irvine, CA](#)" and following the links to the official site for the city and to its business license information.

You can also research most city websites for other licenses and permits needed for your specific type of business.

Always Post Your Business License

Having a business is a way of assuring customers that yours is a legal business. Your business license should be posted in a visible place at your business location. If you are exhibiting or selling at a trade show, you should (in fact, may be required to) have a copy on display. A copy of your business license may also be requested to establish accounts with vendors or to gain admission to trade and industry shows.



Example Application

To give you an idea of some of the types of information that may be requested, a sample of a business license application can be seen on the next two pages. Applications will vary according to your city or county.

City of Irvine

Business License Application



David L. Maggard, Jr.
Chief of Police

IRVINE POLICE DEPARTMENT
REGULATORY AFFAIRS UNIT
IRVINE POLICE DEPARTMENT • ONE CIVIC CENTER PLAZA
P.O. BOX 19575, IRVINE, CALIFORNIA 92623 - 9575 • (949) 724-6310
Internet: <http://www.irvinepd.org> • E-Mail: ipd@irvinepd.org

OFFICE USE ONLY
BUSINESS LICENSE NUMBER

Important!

- Astensk (*) Indicates Required Information If Applicable To This Business.
- Please Print Clearly.
- Be sure to complete and submit both sides of the application.

*1. Business Name: _____

*2. Add'l Business Names (DBA's): _____

*3. Business Address: _____
Street (P.O. Box NOT acceptable) Suite

City _____ State _____ Zip _____

*4. Mailing Address: _____
Street Suite

City _____ State _____ Zip _____

*5. Business Phone: _____ *6. Fax Number: _____

*7. Web Address: _____ *8. E-Mail Address: _____

*9. Please describe the exact nature of the business activity to be conducted (i.e., Consultant, Physician, Painter, etc.)

OWNER AND EMERGENCY CONTACT INFORMATION

*10. List residence, address, phone, title, and driver's license number of Owner, President, Partner, CEO, CFO, etc.
(Note: The name of the person listed here will be printed on the Business License Certificate; if necessary, attach a list of additional contacts)

Last Name	First Name	Residence address	City	State	Zip
Title		Residential Phone	Driver's License Number and State		

*11. Please indicate whom the City should contact (other than the owner) in the event of an emergency (i.e. fire, securing the building, etc.):

Last Name	First Name	Title	Phone
-----------	------------	-------	-------

IS YOUR OCCUPATION LICENSED BY THE STATE? No Yes

*12. State License Type: _____ *13. State License # _____ *14. Expiration: _____
Month/Day/Year

*15. Specify job location in Irvine: _____

*16. Does your business create, store, generate, or use hazardous substances or any products that are considered to be corrosive, reactive, ignitable, toxic, and/or ozone depleters? No Yes

*17. Is this business conducted from your home in Irvine? No Yes (If yes, complete the Home Occupancy Form)

*18. Indicate the type of business being done at the Irvine location: Please check box(es)	<input type="checkbox"/> Manufacturing	<input type="checkbox"/> Wholesale	<input type="checkbox"/> Retail (Complete line #23)
	<input type="checkbox"/> Research & Development	<input type="checkbox"/> Durable and/or	<input type="checkbox"/> Non-Durable Goods
*19. Type of Ownership: (check one of the following five options)			
<input type="checkbox"/> Sole Proprietorship (Owner's Social Security No. _____)		<input type="checkbox"/> Partnership (Complete Line #21)	
<input type="checkbox"/> Corporation (Complete Line #21)		<input type="checkbox"/> Limited Liability Co. (Complete Line #21)	
<input type="checkbox"/> Trust (Complete Line #21)			

*20. Is your organization Tax Exempt? No Yes If Yes, specify below & submit documentation with application *
 Non-Profit Organization or Organization paying in-lieu-of taxes to the state

*21. Federal Employer ID (FEIN): _____ *22. State Employer ID (SEIN/EDD number): _____

*23. State Sales Tax Number (RESALE): _____ *24. Date Business Started in Irvine: _____
(mm/dd/yy)

*25. Did you purchase this business? No Yes (If yes, enter date of purchase)

*26. How many people (including owners, contract workers, full & part-time employees) are working at this specific location, *in Irvine*, for your business? _____

City of Irvine

Business License Application – page 2

FOR BUSINESSES LOCATED IN THE CITY OF IRVINE ONLY

- *27. Do you manufacture/wholesale/sell taxable products or provide a taxable service such as renting products/equipment or fabrication labor from your location in Irvine? (Complete Line 23) No Yes If yes, what types of products are sold?
-
- *28. Is this application made to move an existing business from another location? No Yes If yes, please list the former address
-
- *29. If your business is located in Irvine, does it have a security alarm? No Yes If yes, does your location have an Irvine Police Department alarm permit? No Yes

EMPLOYERS MUST HAVE WORKERS' COMPENSATION INSURANCE

I understand that under California law, I am required to carry workers' compensation insurance for my employees at all times.

I further understand that my failure to have the appropriate coverage will subject me to civil penalties of \$10,000 per employee who is not covered by workers' compensation AND criminal penalties of up to one year in jail and/or a fine of up to \$10,000.

I know that even if I don't have employees right now, I will be required to get workers' compensation coverage as soon as I have one or more employees.

I currently have employees:	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
-----------------------------	-----	--------------------------	----	--------------------------

¹ If your organization has multiple branch locations under the same Social Security Number or Federal Employer Identification Number, please indicate the business license certificate number(s) on the line provided below and omit payment.

APPLICATION CANNOT BE ACCEPTED OR PROCESSED WITHOUT SIGNATURE AND PAYMENT
 It is the responsibility of the applicant/ licensee to ensure THEIR business complies with all applicable City of Irvine Codes and the City Zoning Ordinance. In the event it is determined the business does not comply, the City may revoke the business license. I hereby certify, under penalty of perjury, the information provided on this application is true and correct. **For administrative, executive or similar functions that do not generate income, the annual fee is fixed at \$50.00.**

Please make checks payable to: City of Irvine Business License

*Projected Annual Gross Receipts (or Income)

*Print Applicant's Name and Title

X _____

*Applicant Signature

*Date Signed

29 COMPUTATION OF FEES ^{1,5}	
A. Annual Fee	\$ 50.00
<small>(If Projected Annual Gross Receipts (or Income) is less than \$4,000 please call us to compute your fee)</small>	
B. Prior Year Adjustment:	\$
Choose the amount that applies from below:	
If the start date is:	
- Less than 60 days	0.00
- Greater than 60 days but less than 1 year	\$ 50.00
- Greater than 1 year but less than 2 years	\$ 150.00
- Greater than 2 years but less than 3 years	\$ 250.00
- 3 years or greater	\$ 300.00
Add Lines A and B. This is your Total Fee	\$

Register Your Fictitious Name (File a DBA)

What is a Fictitious Name (DBA)?

A fictitious name is commonly referred to as a DBA, which stands for “*Doing Business As*”. A fictitious name is any business name that does not contain your own name as a part of it. In some states, that means your legal name (frequently first and last).

If you are not a corporation and you plan to conduct business under a fictitious name, you must file a DBA. If you are a corporation, ownership of your name is ensured when you incorporate. Also, if your legal name is considered very common, you may be required to file a DBA.

The following are examples to illustrate this point:

- ✓ *Peak Rescue - DBA required*
- ✓ *Glenn's Peak Rescue - DBA required*
- ✓ *Pinson's Peak Rescue - DBA probably required*
- ✓ *Glenn Pinson's Peak Rescue - No DBA required*
- ✓ *John Smith's Peak Rescue - DBA may be required
(because name is common)*
- ✓ *Peak Rescue, Inc. - No DBA required (corporation)*

Filing your DBA is one of the first tasks to be undertaken because every other piece of paperwork requires the business name. Your bank will also require a copy of your DBA before they will open a business account under that name. This is the only authorization they have for depositing or cashing checks made out to that business name or written against its account.

Your business name should be free of conflict with names already registered in your area. Find out if a corporation has staked a claim to your name by calling your state's office of name availability. You may also wish to check the DBA books at the county clerk's office. Finding out at a later date that your name is already legally registered to another business will result in your having to redo all of your paperwork.

Note: You may wish to refer back to Chapter 4, "Choosing a Business Name," for further information on how to research the name of your business.

If You Fail to File

Registering a business name is very important for your own protection as well as for compliance with the law. Registration of that name gives you exclusive rights to it. It also keeps others from filing the same or a similar name and capitalizing on the hard work and investments you have made in your business.

Unfortunately, there are individuals who lurk in the shadows waiting for just such an opportunity. About eight years ago, we had a business owner in one of our classes who had built a very successful electronics firm. However, he failed to file a DBA. Someone else discovered his error, filed under his business name and offered the option of either paying to buy the name back or ceasing to do business under that name. The business owner refused to pay the blackmail and chose to re-establish under a new name. However the continuity of his business was set back and he lost a large amount of business trying to re-establish under the new name.

The time and money required to file a DBA is very small compared to the benefits you will derive from becoming the legal owner of your business name.

How to File a DBA

Assuming that you have chosen a fictitious name, it is time to register it (or file it) with the city or county in which you are doing business. This is a two-part process: first you must publish your fictitious name through a general circulation newspaper and ; second you must file that name with the county clerk.

- 1. Publishing your fictitious name:** Your fictitious name must be published in a general circulation newspaper in your area. It must appear in four consecutive editions. When your fictitious name is published, the newspaper will send you a copy of the publication and issue a Publication Certificate. The fee for this service is usually from \$20 and \$75.
- 2. Filing with the county clerk:** The Publication Certificate has to be filed with City or County Clerk. They will send you proof that it has been recorded. Fees for filing your DBA will vary, but generally run somewhere between \$15 and \$50.

Some newspapers will collect your fees **and** file for you after publishing. This will save you a trip to the County Clerk's office. Others publish only and require that you do your own filing. As you can see above, there is also a lot of variation in the fees they charge for this service. Local newspapers frequently charge less and are easier to access. It would be wise for you to do some calling to various newspapers and ask the following questions:

- Do you publish new DBAs?
- What is your charge for the publication of a DBA?
- Do you (the newspaper) also file with the City or County Clerk? If so what are the fees for filing?
- What information do I need to bring with me in order to complete the Fictitious Name Statement?

Tech Tip

Download Forms from the Internet

Fictitious Business Name Statement forms can be downloaded via the Internet in pdf format from most official country sites. The example at the end of the chapter was downloaded by searching the name, "[Orange County, CA](#)" and following the links to the official website for the county and then choosing "forms to download"

Renewal of Your DBA

You will be required to renew your DBA at certain intervals -- such as every five years. You will be notified by the filing agency when it is time to renew. Again, it is your responsibility to know when it must be done and to protect yourself by inquiring if you do not receive your renewal notification. Renewal does not require republishing, but will involve a fee to the City or County Clerk.

Warning!

There are many companies that keep track of expiring DBAs and send you official-looking notices(with forms) to refile. They also build in a hidden fee for themselves. Refiling is very simple. Be sure your notice is the official one from the County Clerk. If, for some reason, you do not receive notification from the County Clerk before your DBA is due to expire, it is your responsibility to contact them and request a renewal form.



Example Forms

The next two pages contain examples of a Fictitious Business Name Statement and a Proof of Publication that has been filed with the County Clerk's office.

Fictitious Business Name Statement

Orange County, California

TOM DALY
ORANGE COUNTY CLERK-RECORDER
12 CIVIC CENTER PLAZA, ROOM 106
POST OFFICE BOX 238
SANTA ANA, CA 92702-0238

[HOME PAGE](#)

FICTITIOUS BUSINESS NAME STATEMENT [FILING INSTRUCTIONS](#)

To ensure a prompt and accurate record of your filing, type or print in black ink only.
 DO NOT ABBREVIATE.

THE FOLLOWING PERSON(S) IS (ARE) DOING BUSINESS AS:

1.	Fictitious Business Name(s) ? Additional Names	(optional) ? Business Phone No. (____) _____
1A.	<input type="checkbox"/> New Statement <input type="checkbox"/> Refile—List Previous No. _____ <input type="checkbox"/> Change ?	
2.	Street Address, City & State of Principal place of Business City State Zip Code ? (Do NOT use a P.O. Box or P.M.B.)	
3.	Full name of Registrant (If Corporation, enter corporation name) ? Additional Registrants	If Corporation/L.L.C. State of Incorporation or organization
	Res./Corp. Address (Do NOT use a P.O. Box or P.M.B.) City State Zip Code	
	Full name of Registrant (If Corporation, enter corporation name)	If Corporation/L.L.C. State of Incorporation or organization
	Res./Corp. Address (Do NOT use a P.O. Box or P.M.B.) City State Zip Code	
	Full name of Registrant (If Corporation, enter corporation name)	If Corporation/L.L.C. State of Incorporation or organization
	Res./Corp. Address (Do NOT use a P.O. Box or P.M.B.) City State Zip Code	
4.	(CHECK ONE ONLY) This business is conducted by <input type="radio"/> an individual <input type="radio"/> a general partnership <input type="radio"/> a limited partnership <input type="radio"/> an unincorporated association other than a partnership <input type="radio"/> a corporation <input type="radio"/> a business trust <input type="radio"/> co-partners <input type="radio"/> husband and wife <input type="radio"/> joint venture <input type="radio"/> Limited Liability Co. <input type="radio"/> Other—Specify _____	
5.	Have you started doing business yet? ? Yes <input type="checkbox"/> Insert the date you started: _____ No <input type="checkbox"/>	NOTICE: THIS FICTITIOUS NAME STATEMENT EXPIRES FIVE YEARS FROM THE DATE IT WAS FILED IN THE OFFICE OF THE COUNTY CLERK-RECORDER. A NEW FICTITIOUS BUSINESS NAME STATEMENT MUST BE FILED BEFORE THAT DATE. THE FILING OF THIS STATEMENT DOES NOT OF ITSELF AUTHORIZE THE USE IN THIS STATE OF A FICTITIOUS BUSINESS NAME IN VIOLATION OF THE RIGHTS OF ANOTHER UNDER FEDERAL, STATE, OR COMMON LAW (SEE SECTION 14411 ET SEQ., BUSINESS AND PROFESSIONS CODE).
6.	If Registrant is NOT a corporation, sign below: (See instructions on the reverse side of this form.) ? Signature _____ _____ (Type or Print Name) I declare that all information in this statement is true and correct. (A registrant who declares as true information which he or she knows to be false is guilty of a crime.)	If Registrant is a corporation, an officer of the corporation signs below: If Registrant is a limited liability company, a manager or an officer signs below. ? _____ Limited Liability Company Name/Corporation Name _____ Signature and Title of Officer or Manager I declare that all information in this statement is true and correct. (A registrant who declares as true information which he or she knows to be false is guilty of a crime.) _____ Print or Type Officer's/Manager's Name and Title

(THIS FEE APPLIES AT THE TIME OF FILING)
 FILING FEE \$23.00 FOR ONE BUSINESS NAME.
 \$7.00 FOR EACH ADDITIONAL BUSINESS NAME.
 \$7.00 FOR EACH ADDITIONAL PARTNER AFTER FIRST TWO.
 PROVIDE A SELF-ADDRESSED, STAMPED, RETURN ENVELOPE IF MAILED.

Example Proof of Publication Certificate

PROOF OF PUBLICATION
(2015.5c.c.p.)

STATE OF CALIFORNIA
COUNTY OF ORANGE

I am a citizen of the United States and a resident of the County aforesaid; I am over the age of eighteen years, and not a party to or interested in the above-entitled matter. I am the principal clerk of the printer of the the Orange Big News, a newspaper of general circulation printed and published weekly in the City of Orangetown, County of Orange, and which newspaper has been adjudged a newspaper of general circulation by the Superior Court of the County of Orange, State of California, under the date of April 14, 1987, Case Number A-62222, that the notice of which the annexed is a printed copy (set in type not smaller than nonpareil), has been published in each regular and entire issue of said newspaper and not in any supplement thereof on the following dates, to wit:

..... 9/07 9/14 9/21 9/28

all in the year 20⁰⁶.....

I certify (or declare) under penalty of perjury that the foregoing is true and correct.

Dated at Orangetown, California, this.....28th.....day

of.....September....., 20...06.

Arlene S. Herzog

.....
Signature

ORANGE BIG NEWS
533 W Harper
Orangetown, California 92622

This space is for the County Clerk's Filing Stamp

FILED
SEP 28 2006
PETER M. JONES, County Clerk
By _____ DEPUTY

Proof of Publication of

**FICTITIOUS
BUSINESS NAME
STATEMENT
F5987003**

The following person(s) are
doing business as:
Ace Sporting Goods
12345 Edwards St.
Anytown, CA 93456

- 1. JOHN R. SMITH
2345 Newstreet Drive
Anytown, CA 93456
This business is conducted
by an individual.
The registrant commenced
to transact business under the
fictitious business name or
names listed above on June 7,
2006.
Published: Orange Big News
September 7, 14, 21, 28, 2006

Obtain a Seller's Permit

An anyone who purchases items for resale or provides a taxable service must obtain a seller's permit number. This number is required in all states where sales tax is collected.

Applying for a Seller's Permit

Information regarding sales tax and getting a seller's permit can be obtained through your state's Department of Revenue. Applications can be made through your local state offices. After filling out your application, you will be called in to interview. Following this interview and review of your application, it will be determined whether or not you qualify for a seller's permit. For this reason, it is imperative that you understand exactly what you are requesting and the purpose for which you are requesting it. The wrong answer to a question can result in the denial of your certificate.



Example Form: An example application from the California State Board of Equalization is included in the last part of this chapter (page 74).

Purpose of a Seller's Permit

A sales tax is imposed upon retailers for the privilege of selling tangible personal property at retail within a state. The retailer, not the customer, is the person liable and responsible for paying the sales tax. Consequently, every seller engaged in the business of selling a tangible product or providing a taxable service in a state where sales tax is collected is required to hold a seller's permit for the purpose of reporting and paying their sales and use tax liability. The seller's permit is more commonly referred to as a *resale tax number*.

Because of the complications involved in the sales tax process, it may be difficult to determine which of your products and services will be taxable. You may request information sheets from the State Department of Revenue or your local State Board of Equalization that will explain the sales tax regulations on your particular type of business. You may also request a ruling to determine whether or not your product or service is taxable under a particular circumstance. Later, you must be sure to keep abreast of any changes that are made regarding the taxing of sales for your particular industry.

Your request must be on the basis that your business will be selling taxable items to your customers or providing a taxable service. Any other reason for your request will be grounds for denial. For example, many food services are not taxable unless they are provided at an event that charges admission. Therefore, a resale tax number would not be warranted.

Warning! *Do not use the word “buy” when you are applying for a seller’s permit. Even though you may gain some purchasing advantages by having a seller’s permit, this is not a valid reason for getting one. In fact, the mention of your intent to use it for the purchase of goods may prejudice the interviewer against you.*

State Laws Vary

The laws governing the collection of sales tax in any state can be complex. They also vary from state to state. There have been many attempts to come up with a uniform sales tax system that would be fair to the consumer and, at the same time, guarantee collection of tax on all applicable sales. Individual states are also working to ensure that out-of-state companies servicing their companies in state and selling their products through local outlets are collecting and reporting sales tax.

Some states (including California) have laws that require buyers of out-of-state goods to pay a use tax – a law that would increase state revenues significantly, but is difficult to monitor or enforce.

Finally, there is the never-ending debate regarding the legalities of selling via the Internet without collecting or reporting sales tax. Brick and mortar businesses feel that selling tax-free via the Internet gives online sellers an unfair advantage. Internet sellers think they should not have to collect sales taxes. It remains to be seen how the issue will be resolved.

Misuse of Your Seller’s Permit

Once you have been issued a resale tax number, it is imperative that you use it only for the purpose for which it was intended. Many tax numbers have been used to avoid paying sales tax on business-related purchases as well as tax on personal items. Purposeful misuse of a seller’s permit has long been a laughing matter with many users. If you get caught, however, it may cease to be something to brag about. Most states are expanding their efforts to catch offenders. The penalties for misuse are serious and may involve a heavy fine and/or jail sentence.

The rule of thumb is: If you do not intend to resell your purchase through your business, do not use your resale number in order to buy it without paying sales tax.

At this point, it is only fair to say that there is some validity to using your resale number to purchase wholesale. Many wholesalers do ask you to file a resale card with them before they will sell to you at wholesale prices. However, this does not mean you are not required to pay sales tax if you are not purchasing for resale. It may only be a means of adding credibility as a business owner. In fact, if the seller does not collect from you at the time of the sale, you will be required to include the purchase in your periodic sales tax report and pay the sales tax at that time.

Resale Certificate

If you are purchasing goods for resale, the supplier or manufacturer will ask you to fill out a resale certificate that may be kept on file to validate selling to you on a tax-free basis. By the same token, when you sell to another dealer, you must also have him or her fill out a resale card for your files. If the state later questions your nontaxable sales, you will have documentation as to why you did not collect tax on the sale. Pads of resale certificates may be purchased at almost any stationery supply store.



Example Form: A sample resale certificate form can be found at the end of this chapter (page 78).

Reporting Sales Tax

As previously stated, the purpose of a seller's permit is to provide the state with a means of collecting sales tax. To accomplish this, the sales tax must be accounted for by the final seller and sent to the state along with a report of the sources of those taxes. For this reason, the seller must keep accurate records on the types of sales made and the amount of sales falling within each of the following categories:

- Gross sales
- Purchase price of property you bought without paying sales tax and that you used for purposes other than resale
- Sales to other retailers for purposes of resale
- Nontaxable sale of food products
- Nontaxable labor (repair and installation)
- Sales to the U.S. government
- Sales in interstate or foreign commerce to out-of-state consumers
- Bad debt losses on taxable sales
- Other exempt transactions

Note: Sales tax rates may vary from county to county. When you are selling out of your local area, you will collect sales tax based on the current rate in that area. You will also be required to keep an accurate record of those sales. In many cases a portion of your state's sales tax may be designated as belonging to a transit district, special assessment, etc. For instance, the State of California has many transit districts that are allocated one half of one percent to support their mass transportation systems. Therefore, a retailer from Los Angeles selling at a trade show in San Francisco will have to report the amount of those sales so the fund may be properly divided by the state agency.

The state will require you to file a quarterly report in which you summarize your sales for the period. If your taxable sales are unusually small, you may only have to report annually. If they are excessive, you may be required to place a bond and report monthly. The reporting forms will be sent to you by the Department of Revenue or State Board of Equalization. You must complete the report and mail it to the state, along with your check in the amount of sales tax due, by a certain date (usually at the end of the month following the reporting period).

A note of caution about responsibility for reporting

If you do not receive a report form in the mail, it will be your responsibility to call the Department of Revenue and request that officials send you one.

When you receive this report, you will also receive a tax information sheet with featured articles on sales tax regulations and crackdowns. Take the time to read it carefully, especially the information that may pertain to your particular industry. Failure to properly report may result in loss of your resale privilege as well as the more serious penalties mentioned above.



Sample Report Form: A copy of a California State Board of Equalization Report form is included on page 76. The form for your state will probably be similar.

Tech Tip

Keeping Track of Sales for Easy Sales Tax Reporting

Sales tax reporting can be a long and tedious process—or you can do it at the click of a mouse! The secret is to utilize your accounting software to generate the information you need for your report to your local sales tax authority.

In order to generate the right information, you will have to think in terms of sales tax reporting when you set up your chart of accounts. This means that revenue accounts will need to be divided not only by the types of products and services you sell, but also according to their applicability to sales tax reporting responsibility.

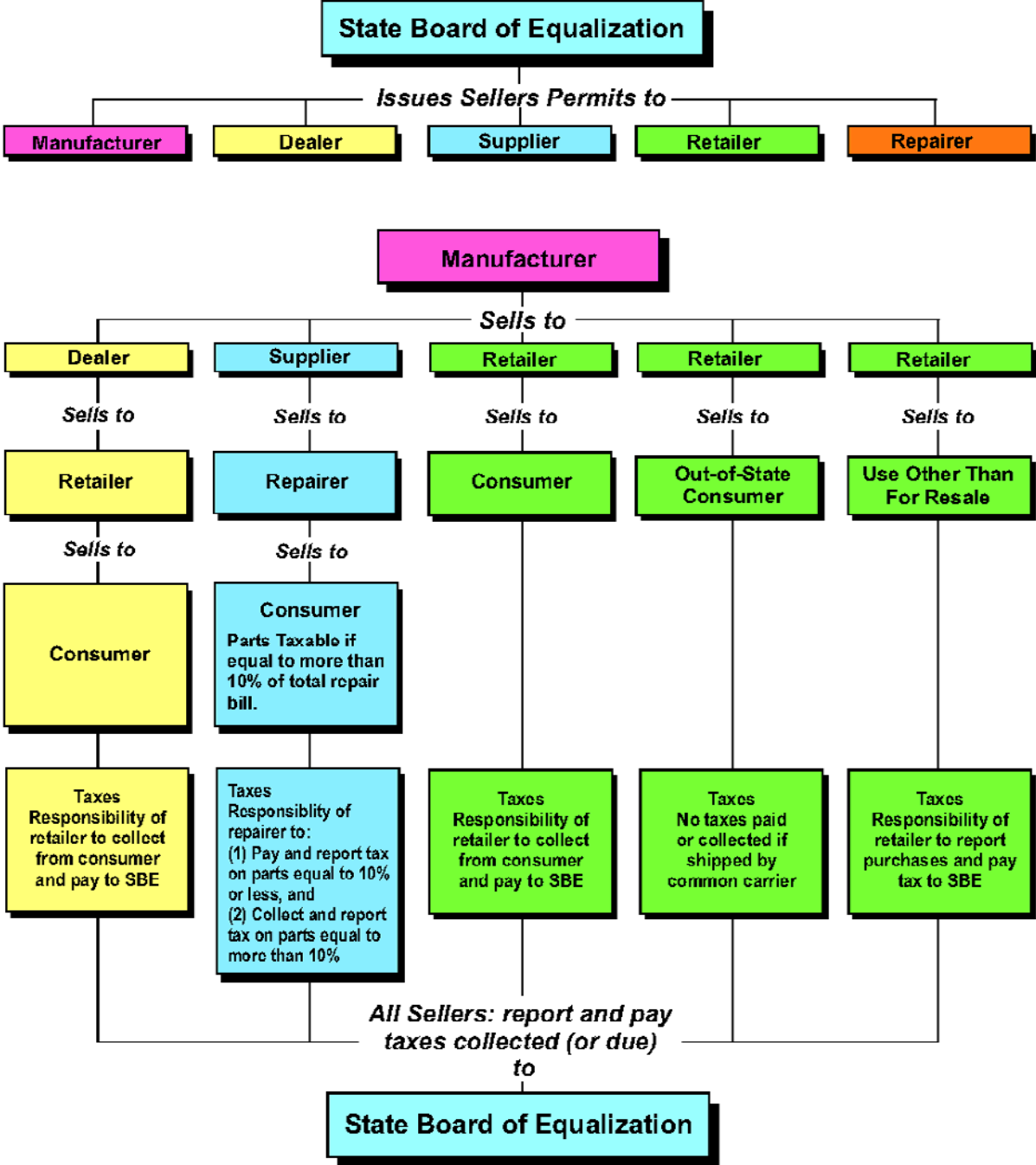
Example: If you are in the business of selling two taxable products and your state requires sales information on taxable sales, out-of-state sales, sales to resellers, and sales tax payable, your chart of revenue accounts could be set up as follows:

<u>Taxable Sales</u>	<u>Out-of State Sales</u>	<u>Reseller Sales</u>
Product #1	Product #1	Product #1
Product #2	Product #2	Product #2

When sales revenue deposits are made, they are “split” deposits and revenues are allocated among the appropriate accounts. Sales tax amounts will be automatically calculated on the taxable sales.

The Benefit: At any given time, you will be able to generate a report that will give you the numbers you need for your state’s sales tax report.

Sales Tax Flowchart



Note: When a manufacturer sells to an out-of-state retailer who, in turn, sells to a consumer in that state, the sales tax is collected by the retailer and paid to that state. If mailed directly to the out-of-state consumer (via common carrier), no sales tax is collected or paid on the product.

Application for Seller's Permit

State of California - Page 1

BOE-400-CSC (FRONT) (2-05)

**APPLICATION FOR CERTIFICATE OF REGISTRATION
USE TAX ACCOUNT**

STATE OF CALIFORNIA
BOARD OF EQUALIZATION

Use additional sheets to include information for more than two individuals.

1. TYPE OF OWNERSHIP (check one) <small>* Must provide partnership agreement</small> <input type="checkbox"/> Sole Owner <input type="checkbox"/> Husband/Wife Co-ownership <input type="checkbox"/> Corporation <input type="checkbox"/> Limited Liability Company (LLC) (Must provide Articles of Incorporation or Operating Agreement) <input type="checkbox"/> General Partnership <input type="checkbox"/> Unincorporated Business Trust (Must provide Trust Agreement) <input type="checkbox"/> Limited Partnership (LP) * <input type="checkbox"/> Limited Liability Partnership (LLP) * (Registered to practice law, accounting, or architecture) <input type="checkbox"/> Domestic Partnership <input type="checkbox"/> Other (describe) _____		FOR BOARD USE ONLY			
		TAX	IND	OFFICE	ACCOUNT NUMBER
		SC			
		NAICS CODE	BUSINESS CODE	A.O.C.	AREA CODE
		PROCESSED BY	CERTIFICATE FOR PERMIT ISSUE DATE		REPORTING BASIS
			____ / ____ / ____		VERIFICATION <input type="checkbox"/> DL <input type="checkbox"/> PA <input type="checkbox"/> Other
2. NAME OF SOLE OWNER, CORPORATION, LLC, PARTNERSHIP, OR TRUST			3. STATE OF INCORPORATION OR ORGANIZATION		
4. BUSINESS TRADE NAME (DBA) (if any)			5. DATE SALES OR LEASES BEGAN IN CALIFORNIA (month, day, and year)		
6. CORPORATE, LLC, LLP OR LP NUMBER FROM CALIFORNIA SECRETARY OF STATE			7. FEDERAL EMPLOYER IDENTIFICATION NUMBER (FEIN)		
CHECK ONE <input type="checkbox"/> Owner/Co-Owners <input type="checkbox"/> Partners <input type="checkbox"/> Domestic Partners <input type="checkbox"/> Corp. Officers <input type="checkbox"/> LLC Officers/Managers/Members <input type="checkbox"/> Trustees/Beneficiaries <small>Use additional sheets to include information for more than three individuals.</small>					
8. FULL NAME (first, middle, last)				9. TITLE	
10. SOCIAL SECURITY NUMBER (corporate officers excluded)			11. DRIVER LICENSE NUMBER (attach copy)		
12. HOME ADDRESS (street, city, state, zip code)				13. HOME TELEPHONE NUMBER ()	
14. FULL NAME (first, middle, last)				15. TITLE	
16. SOCIAL SECURITY NUMBER (corporate officers excluded)			17. DRIVER LICENSE NUMBER (attach copy)		
18. HOME ADDRESS (street, city, state, zip code)				19. HOME TELEPHONE NUMBER ()	
20. FULL NAME (first, middle, last)				21. TITLE	
22. SOCIAL SECURITY NUMBER (corporate officers excluded)			23. DRIVER LICENSE NUMBER (attach copy)		
24. HOME ADDRESS (street, city, state, zip code)				25. HOME TELEPHONE NUMBER ()	
26. TYPE OF BUSINESS (check one that best describes your business) <input type="checkbox"/> Retail <input type="checkbox"/> Wholesale <input type="checkbox"/> Mfg. <input type="checkbox"/> Repair <input type="checkbox"/> Service <input type="checkbox"/> Construction Contractor <input type="checkbox"/> Leasing					
27. WHAT ITEMS WILL YOU SELL OR LEASE?					
28. DO YOU MAKE INTERNET SALES? <input type="checkbox"/> Yes <input type="checkbox"/> No			29. BUSINESS WEBSITE ADDRESS WWW.		
30. BUSINESS ADDRESS (street, city, state, zip code) (do not list PO Box or mailing service)				31. BUSINESS TELEPHONE NUMBER ()	
32. MAILING ADDRESS (street, city, state, zip code) (if different from business address)				33. BUSINESS FAX NUMBER ()	
34. NAME OF PERSON MAINTAINING YOUR RECORDS		35. ADDRESS (street, city, state, zip code)		36. TELEPHONE NUMBER ()	
37. ADDRESS WHERE BOOKS AND RECORDS, SUITABLE FOR AUDIT PURPOSES, ARE MAINTAINED (street, city, state, zip code)					
38. OTHER BOARD ACCOUNT NUMBERS					
39. PROJECTED MONTHLY GROSS SALES IN CALIFORNIA \$			40. PROJECTED MONTHLY TAXABLE SALES IN CALIFORNIA \$		
41. NAME OF BANK OR OTHER FINANCIAL INSTITUTION (note whether business or personal)			42. BANK BRANCH LOCATION		
43. NAME OF MERCHANT CREDIT CARD PROCESSOR (if you accept credit cards)			44. MERCHANT CARD ACCOUNT NUMBER		

(continued on reverse)

Application for Seller's Permit

State of California - Page 2

BOE-400-CSC (BACK) (2-05)

45. NAMES OF MAJOR CALIFORNIA-BASED CUSTOMERS 46. ADDRESSES (street, city, state, zip code)
(attach additional sheets, if necessary)

CALIFORNIA LOCATIONS (List All Locations - Attach Additional Sheets, if Needed)

47. ADDRESS (street, city, state, zip code)	FUNCTION (Warehouse, Service, etc.)	TELEPHONE NUMBER	DO YOU HAVE INVENTORY IN CALIFORNIA?	ARE SALES NEGOTIATED FROM CALIFORNIA LOCATION(S)?
		()	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
		()	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

48. CHECK ANY OF THE FOLLOWING ACTIVITIES PERFORMED IN CALIFORNIA BY YOUR COMPANY OR BY AN INDEPENDENT COMPANY ON YOUR BEHALF:
 Installation Soliciting Orders Training On-site customer assistance Delivery in your own vehicle

49. INDICATE WHICH OF THE FOLLOWING INDIVIDUALS PROVIDE THE ABOVE-REFERENCED ACTIVITIES:
 Salesperson Solicitor Manufacturer's Agent Independent Contractor Installer Canvasser

50. LIST NAME, ADDRESS, AND TELEPHONE NUMBER OF ANY OF THE INDIVIDUALS CHECKED IN 48 AND 49 ABOVE

51. DO YOU ATTEND TRADE SHOWS IN CALIFORNIA?
 Yes No If yes, number of event days per year _____ Amount of sales per year \$ _____

OWNERSHIP AND ORGANIZATIONAL CHANGES

52. Are you buying an existing business? Yes No If yes, complete items 55 and 56.
 53. Are you changing from one type of business organization to another (for example, from a sole owner to a corporation or from a partnership to a limited liability company, etc.)? Yes No If yes, complete items 55 and 56.
 54. Other Ownership Changes (please describe): _____

55. FORMER OWNER'S NAME	56. SELLER'S PERMIT NUMBER
-------------------------	----------------------------

CERTIFICATION

All Corporate Officers, LLC Managing Members, Partners, or Owners must sign below.
 I am duly authorized to sign the application and certify that the statements made are correct to the best of my knowledge and belief. I also represent and acknowledge that the applicant will be engaged in or conduct businesses as a seller of tangible personal property.

NAME (typed or printed)	SIGNATURE	DATE
NAME (typed or printed)	SIGNATURE	DATE
NAME (typed or printed)	SIGNATURE	DATE

FOR BOARD USE ONLY

<p style="text-align: center;">SECURITY REVIEW</p> <p><input type="checkbox"/> BOE-598 (\$ _____) or <input type="checkbox"/> BOE-1009</p> <hr/> <p>REQUIRED BY _____ APPROVED BY _____</p>	<p style="text-align: center;">FORMS</p> <p><input type="checkbox"/> BOE-8 <input type="checkbox"/> BOE-400-Y <input type="checkbox"/> BOE-162 <input type="checkbox"/> BOE-519 <input type="checkbox"/> BOE-467 <input type="checkbox"/> BOE-1241-D</p> <p style="text-align: center;">REGULATIONS</p> <p><input type="checkbox"/> REG. 1668 <input type="checkbox"/> REG. 1698 <input type="checkbox"/> REG. 1700 <input type="checkbox"/> _____</p>	<p style="text-align: center;">PUBLICATIONS</p> <p><input type="checkbox"/> PUB 73 <input type="checkbox"/> PUB DE 44</p> <hr/> <hr/> <p style="text-align: center;">RETURNS</p> <hr/> <hr/>
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CLEAR PRINT

State Board of Equalization Report

Page 1

BOE-401-A-2 (S1) REV. 07 (7-05)

STATE, LOCAL and DISTRICT SALES and USE TAX RETURN

STATE OF CALIFORNIA
BOARD OF EQUALIZATION

DUE ON OR BEFORE	FOR	PERIOD	YEAR
-------------------------	------------	--------	------

IMPORTANT:
Your account number and reporting period are required.

SELLER'S PERMIT ACCOUNT NUMBER (i.e., SRT XX-20202020)
Select one

Mail To:
BOARD OF EQUALIZATION
PO BOX 942879
SACRAMENTO CA 94279-7072



NAME

BUSINESS ADDRESS

CITY STATE ZIP

BOARD USE ONLY		
RA-TT	LOC	REG
RA-BTR	AACS	RF
EFF		

READ RETURN INSTRUCTIONS 05-1 BEFORE PREPARING THIS RETURN

1. TOTAL (gross) SALES	1	\$.00
2. PURCHASES SUBJECT TO USE TAX	2		.00
3. TOTAL (add lines 1 and 2)	3		.00
PLEASE COMPLETE LINES 4 THRU 10 () ON THE BACK PAGE OF THIS RETURN.			
11. TOTAL NONTAXABLE TRANSACTIONS REPORTED (Enter total deductions from line 11 on the back page)	11.		.00
12. TRANSACTIONS SUBJECT TO STATE TAX (subtract line 11 from line 3)	12.		.00
12(a) ENTER AMOUNT FROM TAX ADJUSTMENT WORKSHEET LINE 12, COLUMN C	12(a)		.00
13. STATE TAX 6% (multiply line 12 by .06 OR enter line 12, Column C from the Tax Adjustment Worksheet)	13.		.00
14. (a) TRANSACTIONS SUBJECT TO COUNTY TAX (add amount in box 67 (back) and line 12 above)	14(a)		.00
(b) COUNTY TAX 1.4% (multiply line 14(a) by .014)	14(b)		.00
15. ADJUSTMENTS FOR LOCAL TAX (see line 15 instructions)	15.		.00
16. TRANSACTIONS SUBJECT TO LOCAL TAX (add or subtract line 15 to/from line 14(a))	16.		.00
17. COMBINED STATE AND LOCAL TAX 1% (multiply line 16 by .01)	17.		.00
18. DISTRICT TAX (from Schedule A, line A 77) YOU MUST COMPLETE FORM BOE-531-A, SCHEDULE A IF YOU ARE ENGAGED IN BUSINESS IN A TRANSACTIONS AND USE TAX DISTRICT	18.		.00
19. TOTAL STATE, COUNTY, LOCAL AND DISTRICT TAX (add lines 13, 14(b), 17, & 18)	19.		.00
20. DEDUCT SALES OR USE TAX IMPOSED BY OTHER STATES AND PAID ON THE PURCHASE PRICE OF TANGIBLE PERSONAL PROPERTY. THE PURCHASE PRICE MUST BE INCLUDED IN LINE 2 ABOVE.	20.		.00
21. NET TAX (subtract line 20 from line 19)	21.		.00
22. LESS-TAX PREPAYMENTS	22.		.00
23. REMAINING TAX (subtract line 22 from line 21)	23.		.00
24. PENALTY of 10% (10) is due if your tax payment is made, or your return is filed, after the due date shown above. (see line 24 instructions)	24.		.00
25. INTEREST: One month's interest is due on tax for each month or fraction of a month that payment is delayed after the due date. The adjusted monthly interest rate is .00657 (8% divided by 12)	25.		.00
26. TOTAL AMOUNT DUE AND PAYABLE (add lines 23, 24, and 25)	26.	\$.00

IF YOU PAID BY CREDIT CARD AS DESCRIBED ON PAGE 1 OF THE INSTRUCTIONS, CHECK HERE [] .

I hereby certify that this return, including any accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.

YOUR SIGNATURE AND TITLE	TELEPHONE NUMBER ()	DATE
PAID PREPARER'S USE ONLY	PAID PREPARER'S NAME	PREPARER'S TELEPHONE NUMBER ()

I/F

Make a copy for your records.

CONTINUE

State Board of Equalization Report

Page 2

BOE-401-A2 (S2) REV. 97 (7-05)

STATE OF CALIFORNIA
BOARD OF EQUALIZATION

STATE, LOCAL and DISTRICT SALES and USE TAX RETURN

YOUR ACCOUNT NO.	REPORTING PERIOD
------------------	------------------

Deductions/Exemptions Schedule

4. SALES TO OTHER RETAILERS FOR PURPOSES OF RESALE	50	\$.00
5. NONTAXABLE SALES OF FOOD PRODUCTS	51		.00
6. NONTAXABLE LABOR (<i>repair and installation</i>)	52		.00
7. SALES TO THE UNITED STATES GOVERNMENT	53		.00
8. SALES IN INTERSTATE OR FOREIGN COMMERCE	54		.00
9. SALES TAX (if any) INCLUDED ON LINE 1 ON THE FRONT OF THE RETURN	55		.00
10. (a) (1) BAD DEBT LOSSES ON TAXABLE SALES	56		.00
(2) BAD DEBT LENDER LOSSES	62		.00
(b) COST OF TAX-PAID PURCHASES RESOLD PRIOR TO USE	57		.00
(c) RETURNED TAXABLE MERCHANDISE	58		.00
(d) CASH DISCOUNTS ON TAXABLE SALES	59		.00
(e) PARTIAL STATE TAX EXEMPTION - IF YOU ARE REPORTING ANY TRANSACTIONS THAT OCCURRED PRIOR TO 7-1-04, YOU MUST COMPLETE THE PARTIAL STATE TAX EXEMPTION WORKSHEET, PAGE 3 OF BOE-531-T, SCHEDULE T, BEFORE YOU CLAIM ANY OF THESE DEDUCTIONS.			
(1) AMOUNT SUBJECT TO THE MANUFACTURER'S EQUIPMENT EXEMPTION <i>[If you are completing Schedule T, enter the amount from Partial State Tax Exemption Worksheet, Column D, line 10(e)(1)] (discontinued 12-31-03)</i>	63		.00
(2) AMOUNT SUBJECT TO THE TELEPRODUCTION EQUIPMENT EXEMPTION <i>[If you are completing Schedule T, enter the amount from Partial State Tax Exemption Worksheet, Column D, line 10(e)(2)]</i>	64		.00
(3) AMOUNT SUBJECT TO FARM EQUIPMENT EXEMPTION <i>[If you are completing Schedule T, enter the amount from Partial State Tax Exemption Worksheet, Column D, line 10(e)(3)]</i>	65		.00
(4) AMOUNT SUBJECT TO THE DIESEL FUEL USED IN FARMING AND FOOD PROCESSING EXEMPTION <i>[If you are completing Schedule T, enter the amount from Partial State Tax Exemption Worksheet, Column D, line 10(e)(4)]</i>	66		.00
(5) AMOUNT SUBJECT TO THE TIMBER HARVESTING EQUIPMENT AND MACHINERY EXEMPTION <i>[If you are completing Schedule T, enter the amount from Partial State Tax Exemption Worksheet, Column D, line 10(e)(5)]</i>	67		.00
(6) AMOUNT SUBJECT TO THE RACEHORSE BREEDING STOCK EXEMPTION <i>[If you are completing Schedule T, enter the amount from Partial State Tax Exemption Worksheet, Column D, line 10(e)(6)]</i>	68		.00
TOTAL PARTIAL STATE TAX EXEMPTIONS - <i>If you are required to complete the Tax Adjustment and Partial State Tax Exemption Worksheet, enter the amount from page 3, Column D, box 60. If you are not required to complete the Worksheet, enter the sum of boxes 63 through 68.</i>	60		.00
STATE TAX EXEMPTION FACTOR - <i>Only for use if Partial State Tax Exemption Worksheet is NOT required.</i>			.8750
TOTAL ADJUSTED PARTIAL EXEMPTIONS - <i>If you completed BOE 531-T, Schedule T, enter the amount from page 1, Column D, box 61. If you did not complete Schedule T, multiply the amount in box 60 by the State Tax Exemption Factor shown above and enter the result in box 61.</i>	61		.00
(f) OTHER (<i>clearly explain</i>)	90		.00
11. TOTAL NONTAXABLE TRANSACTIONS <i>[Add lines 4 thru 10(d), box 61 and line 10(f), then enter here and on the front page line 11]</i>	11	\$.00

Sample Resale Certificate

BOE-230 (7-02)
GENERAL RESALE CERTIFICATE

STATE OF CALIFORNIA
 BOARD OF EQUALIZATION

California Resale Certificate

I HEREBY CERTIFY:

1. I hold valid seller's permit number: _____

2. I am engaged in the business of selling the following type of tangible personal property:

3. This certificate is for the purchase from _____ of the item(s) I have listed in paragraph 5 below. [Vendor's name]

4. I will resell the item(s) listed in paragraph 5, which I am purchasing under this resale certificate in the form of tangible personal property in the regular course of my business operations, and I will do so prior to making any use of the item(s) other than demonstration and display while holding the item(s) for sale in the regular course of my business. I understand that if I use the item(s) purchased under this certificate in any manner other than as just described, I will owe use tax based on each item's purchase price or as otherwise provided by law.

5. Description of property to be purchased for resale:

6. I have read and understand the following:

For Your Information: A person may be guilty of a misdemeanor under Revenue and Taxation Code section 6094.5 if the purchaser knows at the time of purchase that he or she will not resell the purchased item prior to any use (other than retention, demonstration, or display while holding it for resale) and he or she furnishes a resale certificate to avoid payment to the seller of an amount as tax. Additionally, a person misusing a resale certificate for personal gain or to evade the payment of tax is liable, for each purchase, for the tax that would have been due, plus a penalty of 10 percent of the tax or \$500, whichever is more.

 NAME OF PURCHASER

 SIGNATURE OF PURCHASER, PURCHASER'S EMPLOYEE OR AUTHORIZED REPRESENTATIVE

 PRINTED NAME OF PERSON SIGNING

 TITLE

 ADDRESS OF PURCHASER

 TELEPHONE NUMBER ()

 DATE

CLEAR **PRINT**

Establish a Business Bank Account

The selection of the bank with which you will do business should be undertaken with a great deal of consideration. Banks vary greatly in the services they offer, as well as in the charges for those services. You will want to think about such factors as interest rate paid on accounts, holding periods on deposited funds, locality, hours of operation, loan policies, merchant credit services, etc.

Basic Information to Think About

The following will give you some basic information to think about when you are deciding which bank to select:

- 1. Have you already established a personal relationship with your banker?** If you already know the key management and personnel at your bank, you will have a head start when you need special consideration.
- 2. What kinds of loan programs are available through the bank?** Does this bank make business loans or does it confine itself to personal financing? Is the bank a participating SBA guaranteed lender? Does it participate in any other programs aimed at helping small business owners. Either now or sometime in the future, you may need additional funds to operate or expand your business. It is easier to go to your own banker than to have to approach an unknown lender.

- 3. Does the bank have merchant credit card services?** You may find that your business will be more profitable if you can offer VISA and MasterCard or American Express services to your customers. We are now living in an age in which buyers of products and services do not carry cash and expect to pay with a credit card. The merchant now has the advantage of being able to instantly authorize the purchase and have funds deposited to the business account within 24-48 hours. The bank generally charges the merchant between 3 and 4 percent of the purchase amount for the service, but having the capability may significantly increase your sales.

Instant online credit card authorization has made selling over the Internet an important source of business income. If your bank offers online merchant accounts, you will need to be sure that your shopping cart system will work seamlessly with the bank's authorization and deposit system.



Warning! *If you are considering credit card services, do some careful planning before you commit your business to a program. You will get calls from lots of third-rate companies wanting to set you up with merchant services. Their salespeople are trained in the "fast sell". They thrive on signing up new small business owners. However, the costs to you can far outweigh the advantage gained by having the service. Ask for (and review in writing) all of the costs involved in setting up the service and the monthly charges for maintaining the service. Also determine the cost should you decide to discontinue services after a period of time.*

One company rented their "Brand-X" machine for \$10.00 per month. However, if you quit in six months, you would owe \$1750 for the machine. The irony -- the "Brand-X" machine cost only \$200 to \$300 to purchase from most reputable banks. Also, most banks will rent and update machines for a few dollars a month with no cost to you should you discontinue your merchant account. Watch for non-refundable application fees and other miscellaneous charge—as well as restrictions on types of purchases that you may accept (telephone orders, etc.)

- 4. What does the bank offer in the way of a business bank account?** Is there a holding period on your deposits? Can it be waived? What are the service charges? What is the policy regarding returned checks? Do they have overdraw protection? Is it an interest-bearing account? If so, do you have to maintain a minimum balance? What other kinds of accounts does the bank have that will allow you to divert temporary funds where they can earn more and still stay liquid?
- 5. Is the bank a federal depository bank?** If your business has employees and you are paying any of those employees over a certain amount, you will have to deposit funds in a separate depository account on a regular basis. It will be more convenient if you can do all of your banking in the same place.

6. **What additional services are available at the bank?** Do they have branches available in several locations? What hours are they open? Do they have 24-hour ATM services. Do they have safe deposit boxes. Do they have notary services? What other services does the bank have that might be required by your business?
7. **Does the bank provide electronic banking services?** With the advances in computer technology, many banks now offer remote banking through online services. You can quickly access account information, transfer money, pay bills and more – all with the convenience of your computer.

Note: *It would be wise for you to spend some time telephoning banks to gather information. It can also be helpful to talk to other business people and see which banks they use and whether or not they would recommend them for your needs. You can also check out banks on the Internet.*

Separate Business and Personal Finances

Many times, a new business owner will be tempted to run business finances through personal accounts. **Do not mix** the two by trying to use the same checking account for your home and business. It is imperative that you keep your personal and business finances separate.

The IRS does not look kindly on businesses that "co-mingle" personal and business monies. The fate of more than one small business owner has been determined based on this issue during an audit – and not in the business's favor.

Mixing business and personal finances will also cause you many problems with your accounting and tax computations. The accounting process becomes very complicated and creates a confusing paper trail when you use business funds for personal obligations and vice versa.

Business accounts are necessary for credibility when dealing with other businesses. Many of your vendors will not accept a check unless it is preprinted with your business name and address. It may also be difficult, if not impossible, to establish an open account with a supplier or wholesaler if you do not have a business bank account.

Open a Checking Account

The first account you will need is a checking account. The following are some pointers that should help you to make needed decisions:

1. **Your DBA is required.** If your business name is an assumed one, you cannot open a checking account under that name without first having filed a DBA as discussed in the previous chapter. The DBA is a means for giving the bank authority to deposit and cash checks under your fictitious name. It should be noted here, that banking policies at most financial institutions preclude offering interest-bearing checking accounts unless your name is part of the company name. If you have filed a DBA, be sure to take your receipt with you when you open your checking account. The bank will require a copy for their records.

- 2. Select a checkbook style.** When you open your checking account, you will be asked what style of checks you wish to order. You will have to decide between the book type and the wallet type. The smaller one is easier to carry, but the book type is the better choice. It will allow you to record more information about your checking transactions – information that can be invaluable during accounting procedures. There is a personal desk type checkbook that is smaller than the business size and still very adequate. You will have to ask about this particular style as it is not included under business checkbook selections.
- 3. How many checks should you order?** Be sure to think ahead as to your needs before deciding on the number of checks to order. Reordering of checks can be costly. Start with a minimum order. In most cases there will be some change that needs to be made before long. You may get a new telephone number or decide to add or subtract a name.

At the same time you order, you may request that your checks be numbered beginning at a number other than 101. Frequently, this request will be denied on new accounts. However, if you are successful, the use of higher-numbered checks may keep the recipients of your checks from being tipped off that you are a new business. If all else fails, you can discard the first book or two books of checks and start your business with a higher check number.

Note: *You do not have to order your checks from your bank. There are now many computer check-writing software programs that allow you to design, generate, and print your own checks. You can also order checks from office supply companies such as NEBS. The bank is the easiest source, but others may be less expensive or suit you better.*

Tech Tip

Computer Checks Can Save Time and Money

Many small businesses do their bookkeeping with a computer software program such as “*QuickBooks*.” These programs give you the option of printing your checks directly to computer check forms that are purchased from various office supply retailers. The accounting software also maintains the check register and copies of the checks you have written. If you regularly send checks to the same payee, the address will automatically be printed on the check in a position that will align with windowed envelopes, saving you the time required to address envelopes.

- 4. Arrange for overdrafts.** It is best if you always maintain a healthy checking account balance for your business. However, there may be times that you have to make an unexpected purchase or that you make an arithmetic error that will cause your account to be overdrawn. Providing coverage for these instances can save you time and embarrassment.

5. **Get an ATM card for your account.** This will allow you to deposit or withdraw funds during non-banking hours. It will also allow you to access your funds at remote locations.

Additional Accounts You May Wish to Consider

In addition to your checking account, you may also wish to consider other types of accounts such as savings, money market, CDs, etc. The interest rates are the lowest on regular savings accounts. They are usually higher on money market, C.D and other special accounts. Some have limits and withdrawals before specified dates may impose penalties. Some are more liquid and a limited number of checks can be drawn on the account without penalty as long as you maintain a minimum balance. The earnings are usually proportionate to the length of time for which your funds are committed.

In Conclusion

Keep in mind that all accounts need not be at the same financial institution. However, it only makes sense that the amount of business you do with any one bank will be directly proportional to the benefits you will derive from it. Be sure to look at the stability of the bank you are considering. You will want to feel secure that tomorrow morning when you wake up that your funds will still be available to you.

A good banking record, along with the establishment of rapport with management and personnel of your bank, may get you special concessions. For example, the hold on your deposits may be waived if the management so desires or notary services may be extended for free as a courtesy. If you already have a bank with which you have been satisfied, you may wish to deal where you already have the advantage of being known by them as a valued customer.

Banking is serious business. Selection of the right bank and the right kinds of services will be a definite asset to your business.



Worksheet: On the next page, you will find a filled-in example worksheet entitled "***Choosing a Bank***". It will help you to see how you can compare advantages and disadvantages of the financial institutions you are considering.

Choosing a Bank Worksheet

	Name of Potential Financial Institution		
	A. City Bank	B. Home National Bank	C.
1. Have you already established a Working relationship with a. the management? b. the personnel?	Manager: Manager: J. Smith L. Jones Personnel: great Tellers: friendly	(service-oriented)	
2. What kind of business bank accounts are available?	business checking + CDs, etc.	business checking + CDs, etc.	
3. Does this bank offer merchant credit card services?	no yes		
4. Does the bank participate in business loan programs?	real estate only.	preferred SBA lender	
5. Is the bank a federal depository bank?	yes	yes	
6. Is the bank a stable financial institution?	27 years old	22 years old	
7. How many branches does the bank have?	7	103	
8. Is the location of the bank convenient for your business?	yes	yes	
9. What are the bank's hours of operation? Are they open on Saturday?	9-3 Mon-Thurs 9-6 F; 10-1 Sat	9-3 Mon-Thurs 9-6 F; 10-3 Sat	
10. Will the bank place a holding period on your deposits?	3 days waived	except For 2 nd party	
11. What will it cost you to have a business checking account?	free w/\$500 min.	free w/\$750 min.	
12. What other services does the bank have? a. electronic banking? b. safe deposit? c. notary public? d. electronic transfer? e. other?	a. no b. yes (free) c. no d. yes e. ATM	a. yes b. yes c. yes d. yes e. ATM; seminars	
13. What is your overall feeling about the bank?	nice bank, but doesn't fill needs	seems to be stable and fills all needs	

Plan for Your Insurance

At some point during the formation of a business, the question of insurance needs will necessarily arise. In fact, if you are writing a business plan, insurance will be one of the topics you cover in the Organizational Plan and interpret into costs in your Financial Documents.

Today's world of rapidly-expanding technology goes hand-in-hand with a society steeped in lawsuits. The most innocent business owner can find himself/herself involved in legal actions against the business. In addition to liability, there are many other insurance considerations such as fire, flood, earthquake, theft, auto, workers' compensation, health insurance, etc. that need to be addressed during the period of ownership.

The above are all concerns during the lifetime of the owner. What happens if the owner dies? There may be a need for life insurance and a buy-sell agreement to safeguard your beneficiaries.

Shopping for an Insurance Company

Shopping for an insurance company is like shopping for a bank. Careful research will help you to determine what company can best serve your needs and provide you with affordable coverage.

Call your current insurance company and see what they have to offer in the way of business insurance. Check with several other independent agents that you know or that have been recommended by your business associates. Ask them to discuss your business with you and recommend an insurance package that will give you the best coverage for the least number of dollars.

If your insurance needs are unique because of your type of business, you can look through your trade journals. Many times, business insurance companies will advertise in those journals, especially if the type of insurance they are advertising is not available with major companies. For example, food industries have their own unique considerations. Coverage is very expensive and they must usually seek a specialized insurance company.

What are the Basic Kinds of Insurance?

As stated previously, there are many different kinds of insurance. In fact, there are so many kinds of insurance that most small business owners would go bankrupt if they were paying for the highest protection possible in all areas.

Most small businesses buy what is generally known as a Business Owner's Policy (BOP). The policy generally includes property, liability and criminal coverage and various specialty coverages needed by the business. The advantage of a Business Owner's Policy is that it usually costs less than if each of the types of coverage were purchased separately.

In the following pages, we will address some of the most basic types of insurance that should be considered. There are two general categories under which all business insurance falls. They are "Property & Liability Insurance" and "Life & Health Insurance".

Property and Liability Insurance

Property insurance covers buildings and their contents against losses due to such things as fire, theft, wind, earthquake, flood, etc. Some of those risks may be specifically excluded in your policy and may require the purchase of additional policies (earthquake, flood, ground water, etc.).

Liability protects a business when it is sued for injury or property damage to third parties. This type of coverage pays damages related to bodily injury, property damage and personal injury. These policies carry certain limits on the maximum that will be paid by an insurer for specific kinds of occurrences.

1. **General Liability:** Regular liability insurance pays for claims brought against your business because a customer or other person (the owner and employees are **not** covered) was injured on the business premises.

It is a good idea to have this kind of liability insurance in force when you open your business. It's not uncommon for a customer to fall and file a lawsuit that will be difficult for you to pay. Regular liability insurance also generally includes coverage for damage to property that you do not own or rent for your business (such as a water leak from your property that damages property in an adjoining business).

2. **Property Damage Liability:** This policy covers damage to property that you lease or rent and property that belongs to your customers.

3. **Fire Insurance:** Protects your premises, fixed assets and inventory against fire. Fire liability covers fire damage to property you are leasing or renting.
4. **Earthquake Insurance and Flood Insurance:** If you live in an area that has a likelihood of being damaged by an earthquake or some other serious act of nature, you may be wise to obtain special insurance coverage. The premiums are usually high, but well worth it if you are hit by a disaster.
5. **Theft:** Protects against burglary and robbery at your place of business.
6. **Fidelity Bonds:** Protect a company against employee dishonesty.
7. **Surety Bonds:** Provide monetary compensation in the event a contractor fails to perform specific acts or complete work within the agree-upon period of time.
8. **Boiler and Machinery Coverage:** Protects against breakdowns of equipment that is essential to the business (for example: computer and telephone systems, production equipment, etc).
9. **Product Liability:** Protects against claims filed by any using your product after it leaves your business. In most cases you will be liable even if your product has not been used correctly. The cost of product liability is generally in proportion to the volume of sales and the degree of hazard involved.
10. **Workers' Compensation:** Most states require that an employer provide insurance that cover all employees in case of disability or illness related to the workplace. You can call you insurance carrier to get workers' comp or contact the State Employment Department for information on state-operated insurance. Although this is insurance that will cover employees, it is paid in full by the employer. The amount charged for workers' comp varies according to the number of employees you have and also according the degree of risk involved. If you are in a high-risk industry, the premiums can be very high.

Workers' comp is one the most controversial issues today. Due to a high rate of fraud and the trend toward stress claims, many employers have literally been forced out of business because of their inability to pay increasing insurance costs. Many businesses have instituted safety-in-the-workplace programs and intervention programs to cut down on claims. There is also an emphasis being placed on fraud detection. To relieve stress-related claims legislation is pending that will place a percentage value that must be attributable to those claims.

11. **Business Interruption Insurance:** Coverage can generally be added to your regular policy that will pay you an amount approximately equal to what you would have earned in the event that you have to close your business while your premises are being rebuilt or repaired. You can also buy **overhead insurance** that will pay operating expenses during that time. There are also additional types of coverage that can be purchased to cover business operations under separate circumstances such as hospitalization.

- 12. Vehicle Insurance:** Most states require that you carry a certain amount of liability coverage if you are going to operate a vehicle. Your regular insurance carrier will probably be able to insure your business vehicle. If you use the vehicle for both personal and business purposes, you will need to see that a rider is attached that will cover the business use. If you have employees that will be driving your business vehicles, be sure you have coverage that will be in effect in case of an accident.
- 13. Umbrella Insurance:** A liability policy that protects the business against catastrophic losses. It provides for extra protection for accidents involving a number of people. It also extends liability limits on auto policies (usually in increments of \$1,000,000).

Life Insurance

One of the concerns of spouses and beneficiaries of a business owner is the question of what happens to that business if the owner dies. With the death of an owner comes responsibility for providing for the disposition of the business. You may need life insurance and some kind of a buy-sell agreement. If you die without having made necessary provisions, your beneficiaries may be forced to sell or dismantle the business to pay the estate taxes that might be due. If, instead, you have planned ahead and have an adequate life insurance policy, your beneficiaries can use the insurance proceeds to pay the estate taxes and allow the business to continue to operate. If they decide to sell the business, they will still be left with something to sell.

Life Insurance can be an especially important consideration for a partnership. In many community-property states, if a partner dies, his or her spouse now owns that share of the business and has the authority to make that partner's decisions. This can create a situation that may be extremely unsatisfactory to either the surviving partner or the spouse. That is why it is important to have a partnership agreement that spells out what happens if one partner dies. A life insurance policy can be included as part of the partnership agreement with a provision designating that the policy payoff be used by the surviving partner to buy the deceased partner's share of the business.

The purchase of individual permanent life insurance by business owners can fund a deferred compensation program on a non-tax qualified basis allowing owners to set aside money for retirement or pay a death benefit to the surviving spouse. Key Life insurance can also be purchased to cover key people whose death might affect the company's sales and profitability. A term policy would pay to help replace the loss of the person. A permanent key person life insurance policy would also accumulate cash value to help fund that person's retirement plan.

Health Insurance

Health insurance has long been the nemesis of the self-employed. The costs are often prohibitive and the coverage poor. Many group policies are available through trade associations and insurance companies specializing in small business, but most of the premiums are fairly high.

The best advice we can give is to tell you that you should explore every avenue and continue to get quotes on new coverage being made available. If you have the opportunity to keep purchasing health insurance from a previous company you worked for, that may be your best avenue.

Employee Benefits

This is another issue requiring some important decisions if you are a small business owner. Your employees certainly need health insurance and are probably entitled to expect it. However, the prohibitive costs of group health plans have made it almost impossible for the small business owner to provide it for employees even if they wish to do so. According to statistics, it now costs an average of more than \$4,000 per employee per year and the costs are rising due to a number of factors such as complexity of treatment, unnecessary care, stress claims and defensive medicine.

There is also much controversy about this area in the government sector. Regulatory legislation is pending that may require every business owner to provide health plans for all employees working over a certain number of hours.

In order to get away from paying employee benefits many companies, including major corporations, are hiring personnel through temporary agencies. There are both state and IRS rules that apply to non-employee (or contract) services. Be aware of the fact that these restrictions exist and be sure that you are properly classifying your workers. Classifying an employee as contract services when he or she is actually an employee carries some heavy tax penalties.

Other Considerations

Insurance coverage is a complicated subject and cannot be covered adequately in the space we have allotted here. We are not in the insurance business and therefore do not wish to have you consider this as advice in regard to the insurance you should purchase or from whom you should purchase it. The material covered in this chapter is for the purpose of acquainting you with some general information regarding types of insurance that you should consider. See your insurance professional to determine what is available and what would be best for your business and for you. It would also be wise to consult with your tax planner, especially in the area of life insurance.

After You Have Your Information

When you have received information from several insurance companies regarding coverage and costs, you will have some last decisions to make. You will have to look at your insurance needs in terms of immediate needs and long-term protection. Know what is required by the federal and state government, by your lender or the title holder of your vehicles, etc. Also decide what kinds of insurance you will have to have to protect your business. Divide your insurance needs down into those that are required, necessary and desirable. Decide what you can purchase now, what you will purchase when financing allows and what you will put on hold until a future time.



To Help You with Your Insurance Shopping

We have provided an insurance fact sheet on the next page that will help you when you are comparing insurance companies for coverage and costs. There is also an Insurance Update Form Worksheet for your use included in the blank forms in Appendix II at the back of the book (page 182).

Insurance Fact Sheet

I. Types of Business Insurance

A. Property and Liability

- General Liability
- Property Damage Liability
- Fire Insurance
- Earthquake / Flood Insurance
- Theft
- Fidelity Bonds
- Surety Bonds
- Boiler and Machinery Coverage
- Product Liability
- Workers' Compensation
- Business Interruption Insurance
- Vehicle Insurance
- Umbrella Insurance

B. Life and Health

- Life Insurance
- Disability Insurance
- Employee Benefits
- Group Insurance
- Retirement Programs
- Overhead Expense

II. Figure Out Your Insurance Priority Shopping List

- A. Immediate Protection that is:**
- 1. Required _____
 - 2. Necessary _____
 - 3. Desirable _____

- B. Long-Term Protection that is:**
- 1. Required _____
 - 2. Necessary _____
 - 3. Desirable _____

III. Key Points

- A. Insurance is a major factor to consider in forming a business.
- B. First year property and liability premiums will sometimes be higher than other years due to frequency of misstatement by the insured and high risk to the insurance company.
- C. Choosing your insurance agent/broker (consultant and buyer) is one of the most important decisions you can make.

IV. Five Steps to Prevent Your Business from Failing Due to an "Insurable" Cause

- A. Recognize risks you will be facing.
- B. Follow guidelines from covering them economically.
- C. Have a plan in mind.
- D. Get advice from experts.
- E. Insure your business now!

Use the Internet

With a computer, you have the opportunity to connect to and utilize the Internet for your business. The Internet is a vast collection of interconnected computers and networks. When you access the Internet, your computer uses a telephone or cable connection to travel across these vast networks allowing you to communicate with other users and to access millions of Web sites on what is known as the World Wide Web.

The Internet can be a powerful resource for your business. Some of the ways you can use it are to:

- ✓ *Communicate with current and potential customers as well as vendors*
- ✓ *Look for information, products, and services that you need*
- ✓ *Develop a Web site to distribute information and/or sell your products and services*

Connecting to the Internet

The first thing you will have to do before getting on the Internet is to establish a connection. In order to do that, you will need a modem, a phone line or cable connection, and an Internet service provider, or ISP. A modem is a computer device that transmits signals to and from your computer and facilitates communication with your Internet service provider. Computers today typically come with modems already installed.

Choosing an Internet Service Provider

An Internet service provider (ISP) is a company that provides access to the Internet. The most popular service providers charge a monthly fee. Examples of telephone Internet service providers are America Online (AOL), AT&T, SBC, EarthLink, and NetZero. The most popular cable service providers are Comcast, Cox Cable, Adelphia.

To make the connection possible, the ISP will give you a software program to install on your computer. The software enables the communication between your computer and modem and the Internet service provider's server.

High-Speed vs. Dial-Up Access – The speed with which you connect to the Internet and “travel” across the World Wide Web depends on the type of service you purchase.

- **Dial-Up Access** – Dial-up service occupies a telephone line. The monthly access fee is inexpensive (generally \$20 or less). If you are using a dial up service, you log in with a user name and password. The software then dials a provider access number in your local area, sending signals from your computer to your Internet service provider. When the connection is made, your ISP provides you access to the World Wide Web.

Note that accessing of Web sites and downloading and uploading of files can take a long time via dial-up connection because the transfer of information is much slower.

- **High-Speed Access** – High-speed access is a fast service, but is more costly (\$30 or more per month depending on the connection speed). These connections are provided by either your telephone company (DSL) or a cable company (cable modem). Both require high speed modems and your computer's ethernet card. The provider will supply the modem and technical support.

With high-speed access, your computer is constantly connected to the Internet. The service operates in the background and does not interfere with your regular telephone or television services. Access to Web sites is much faster and uploading or downloading of files happens very rapidly.

Setting Up Your E-mail Account

Now that you have an Internet service provider and are connected to the Internet, you can set up your e-mail. You can do that by using the e-mail tools provided by your Internet service provider. Alternatively, you can use the free services that are offered by various e-mail providers such as Hotmail, Yahoo, and Google. Logging on to your e-mail service will allow you to compose and send e-mails as well as retrieve any new and old messages.

To set up your e-mail, you will have to click the sign up as a new user option and provide the necessary personal information, create a user name and password, provide an answer to a security question that will be used in the event you forget your password, and agree to the “Terms of Service” as designated by the e-mail service provider. If the user name selected is being used by another user, you will be prompted to select another name. The user name you choose together with the e-mail provider's extension will then become your e-mail address (e.g., johnjones123@hotmail.com).

Communicating with Customers and Vendors

Now that you are connected to the Internet and have set up your e-mail, you will have the ability to send and receive e-mail communication and surf the World Wide Web.

Using e-mail to communicate with your customers and vendors has a significant advantage over traditional letters – it speeds across the information super highway and does not require paper, envelope, or postage. Email provides instant communication allowing for timely decision making. Using your e-mail, you will also be able to send documents and pictures in the form of a file attachment. Your e-mail can also be used as an Internet marketing tool because it is fast, easy to use, and inexpensive. It will allow you to deliver your message directly to your customers or prospective customers.

Be aware that you will also receive a lot of unwanted e-mail, commonly know as “spam.” You can minimize spam by using filters provided by your e-mail service provider.

Another communication method you can use is instant messaging, or IM. A component of many e-mail services, instant messenger runs in the background while you are online and alerts you when you have a message or someone wants to talk to you. Instant messenger also allows you to set up a temporary chat room if you want to talk to two or more people. It also allows you to pass files and move data quickly.

Searching for Information on the Internet

The Internet can be used to search for information of all types. This includes general information, specific subject matter, and information about a person or people.

Search Engines

The most commonly used resources for searching for information are search engines. A search engine is a company with specialized tools that will allow you to search the World Wide Web for information on any topic. Each search engine has its own Web address.

Tech Tip

Find Information Via Search Engines

The most popular search engines (in alphabetical order) are:

- **Alta Vista** www.altavista.com
- **Excite** www.excite.com
- **Go** www.go.com
- **Google** www.google.com
- **Lycos** www.lycos.com
- **MSN** www.msn.com
- **Yahoo** www.yahoo.com

Your search request will consist of keywords related to what you are looking for. Keywords are words or short phrases that you type into a search box that will enable the search engine to produce Web pages with the information you are looking for. Upon receipt of your search request, the search engine goes out and searches the World Wide Web for matches. It then returns the results to you on Web pages that it assembles with descriptive lists and direct links to Web addresses, where you can access the requested information

What is a Web Address? – *Much like the physical address for your office, each site on the Internet has a specific Web address called the Uniform Resource Locator (URL). The URL appears in the address box of your browser when you visit a Web site. A Web address looks like this: <http://www.business-plan.com>. The company's domain name is "business-plan.com." It identifies the specific address (or location) of the Web site on the World Wide Web.*



Note: Be specific when selecting keywords. You may also have to try several keywords or combinations of words before you find what you are looking for.

Industry Specific Web Sites

In addition to using search engines to find the information you are looking for, you can use specific industry Web sites or portals. With few exceptions, large corporations, industry associations, organizations, schools, newspapers, magazines, political groups, etc. have their own Web sites.

Many of the addresses can be accessed by putting the name of the company or group in the address section of your Web browser and selecting "Go." For instance, you can reach United Airline's Web site by inputting "United Airlines" in the address bar, which will either take you to the company's site or to direct links to the site.

Newsgroups (Forums)

You can also use newsgroups or forums. These are industry- or topic-related electronic bulletin boards where you can post a message, reply to a message, or read messages posted by others.

Newsgroups allow you to discuss or view discussions on any subject matter that you are interested in. For example, if you are interested in computers and would like to discuss the latest computer technology, you can go to a technology newsgroup. If you have a question about a particular topic, you simply post it on the board and other users will respond. Be aware that newsgroup responses do not take place in real time. When you post a message, you will have to return from time to time to the newsgroup to check for responses.

One of the most common places to find newsgroups is on Google. You can access the newsgroup site at <http://groups.google.com>. To access a newsgroup, click on one of the industries listed on that site and then find the group of your choice. Alternately, you can enter a keyword in the search box to bring up a list of related newsgroups.

Buying Products and Services Online for Your Business

The Internet is a virtual marketplace and an important channel for buying products and services.

Shopping Online

Instead of going to a store and walking down the aisle, you are in a virtual store where you shop and complete your purchase by using your credit card. Unlike a brick-and-mortar store, the Internet offers 24-hour access to millions of merchants and manufacturers and their products and services. You will also benefit from the convenience, selection and product information available from shopping online.

However, shopping online may present a problem. You will need to sort through the large volume of information and choices. Do not despair; you have help. Some Web sites offer online price comparison services.

Examples of online price comparison services include Pricegrabber.com, MySimon.com, Shopping.com, and Shopzilla.com. These Web sites allow you to research and compare products, enabling you to find the best products at the lowest prices. Using comparison-shopping services will help you to make better-informed shopping decisions.

- **Products** – Once you have found the merchant of your choice, you will have to search through their online catalog for the specific products you are looking for. As you find the products you wish to purchase, you add them to your online shopping cart. When you indicate that you have finished shopping, typically by hitting the “Check Out” button, your purchases are added up. You are then given some choices for shipping options and those costs are added to your total purchase.

The next step will be for you to provide the necessary information required by the merchant including shipping address, credit card number and expiration date, and any other information specified by the merchant. Once your credit card has been processed, you will be provided with a confirmation that you can print and save for your records. You may also receive an e-mail confirmation, as it is a common practice for many merchants.

- **Services** – Looking for travel deals, cell phone services, or business plan consulting? These are only three of a vast number of services that can be accessed via the Internet. Using the Internet, you can learn about the company, the services it offers, and in some cases view samples of its work. It is very important that you conduct due diligence on the company providing the service, especially if it is located in another city or state. This includes getting and verifying references and talking to past customers about their services and satisfaction levels. Be sure to do this prior to retaining the services of a company or individual online. This will prevent unnecessary harm to you down the road. You can use the Better Business Bureau Web site (<http://www.bbb.org>) to inquire about potential service providers.

Does Your Company Need a Web Site?

The Internet gives merchants the ability to reach large audiences of potential customers. However, some businesses may not find it cost-effective to maintain a Web site. For example, if you have a local business where all communication with potential and current customers needs takes place on a personal level, then you may not need a Web site. So, the first thing you will have to do is to decide whether or not you need a Web site.

How Will Your Business Use a Web Site?

You have decided that you do need a Web site for your business. Before you develop the site, you need to map out the goals that you want to accomplish. Web sites can be used for providing information and/or selling products and services:

- **Information Web Site** You can provide information aimed at educating consumers on a particular subject matter. The information can be provided in the form of content on the Web site, newsletters, articles written by industry experts, and links to other industry related Web sites. In addition to industry information, your Web site can provide information about your company. This will give you more exposure than a regular brochure.

You can also use the Web site to provide product specifications and technical information. For example, a dentist might use a Web site to list services and post pertinent articles and information that would prove helpful to current and prospective patients. In essence, the information would boost confidence in the practice and act as a selling tool for its services. Web site content can be updated instantly, making it easy to provide site visitors with the most current information.

- **Selling Web Site** A Web site enables you to showcase your products and services, thereby stimulating sales to current and prospective customers. To sell products on the Internet, you will have to develop a secure e-commerce Web site.

An e-commerce site contains Web pages with your products and a shopping cart feature. The shopping cart allows the online consumer to select the product and “buy now” by inputting shipping and credit card billing information at a secure (encrypted) Web page location. The credit card charge is authorized within seconds. The customer gets a printable receipt and the seller receives and fulfills the order. The best part is that the sale can take place at the customer’s convenience at any time—day or night.

To sell online, you will need a merchant account. A merchant account gives you the ability to accept credit card payments online. Merchant accounts can be set up through banking institutions or private companies. A merchant account has several fees associated with it. Fees will vary depending on the merchant account provider you choose. You may have to pay an application fee and setup costs. Some service providers waive these up front fees and costs. Once you are up and running, you will be responsible for a monthly service fee. Your company will also be charged a transaction fee that ranges from 2% to 3% (plus or minus) on each customer’s purchase. For example, if a customer buys a product for \$100, the merchant account provider will take \$2 to \$3, leaving you \$97 to \$98.

Developing Your Company's Web Site

Building a successful company Web site is a major effort requiring lots of time, talent, and dollars. You will have to choose a domain name, find a host, design your Web pages, and then figure out how to drive traffic to your site.

Choosing a Domain Name

Your first task will be to choose, research availability for, and register a domain name for your Web site. Your domain name is the descriptive name you choose for your site combined with one of the common extensions (.com, .net, .org, etc.).

Most companies use their company name or a name that is descriptive of their products or services. Dot-com is the most desirable extension for a private business, followed by dot-net. Dot-org signifies an organization. Other extensions are particular to schools, government agencies, etc.

When you have decided on the domain name you would like for your company's Web site, you will have to research the name availability and gain ownership of the name for a period of time by registering it with InterNIC for a modest fee.

There are several sites that you can use for this service. Among the most frequently used are <http://www.networksolutions.com> and <http://www.register.com>

Finding a Web Site Host

You will have to find a company that will host your site. A Web hosting company provides a service (hosting) that allows you to post the pages of your Web site to the Internet. Hosting companies (such as Verio) have the technology to keep your Web site up and running 24 hours a day. For their services, you will pay a hosting fee. Hosting fees are typically paid on a monthly basis or an annual basis. Fees will vary according to the size of your Web site and the specialty services that you require.

Designing Your Web Site

You will have to decide whether you will design and develop your own Web pages or use the services of a professional Web developer. If you decide to do it yourself, there are several software programs and applications that you can use (e.g., Microsoft Front Page and Netscape Composer have been two of the most popular applications). There are also service providers that offer to help you produce instant Web sites. Be aware that these opportunities will result in generic Web sites that do not provide for the customization necessary for a real working business Web site.

If you can afford it, the best answer is to hire a professional Web site developer to design your site and to act as webmaster to maintain it for you. Your job would be to work directly with the site developer to provide needed information and to see that the Web pages reflect the vision of your company that will best serve its current and potential customers.

Driving Traffic to Your Web Site

Just having a Web site will not generate traffic. You will have to develop strategies to drive visitors to your Web site. Be aware that you will be inundated with solicitations from companies claiming that they can get you millions of customers. Most of them do not produce results.

There are several valid ways to drive traffic to your Web site.

- **Search engine registration** – This accounts for a large volume of traffic driven on the Internet. Your site should be submitted periodically with all of the major search engines. In addition, you can pay for positioning of your Web site information on some search engines (e.g., Yahoo and Google), on a pay-per-click basis. Under this setup, you pay the search engine every time a customer clicks through to your Web site. Typically, your credit card is charged at the end of the month for the number of “click throughs.”

To generate substantial traffic to your site through search engines, make sure that it has a high ranking. We recommend that you work with an Internet consultant who will submit your Web site to search engines and use various techniques to improve your ranking. The consultant will work with you to place meta tags on the Web pages of your site. Meta tags are codes that provide a summary of the content on a Web page as well as keywords related to the page.

- **Link exchanges** – You can drive traffic to your site through links. This means you can establish an alliance with other Web sites that will place a link to your site on their own site. You may also carry a link to their Web site on your site. This is called a link exchange. In exchanging links with other Web sites, look for companies with whom you share something in common.
- **Affiliate programs** – You can also drive traffic by developing an affiliate program. Affiliate programs will also serve to increase sales. Affiliates promote your products and services on their Web site. From any sales that are generated from the affiliate’s site, you pay a commission agreed to with the affiliate. Having an affiliate program creates an additional sales force, one that you do not have to account for on your payroll.
- **Banner ads** – Online, you can place banner ads on other Web sites. You can measure the effectiveness of your banner ad by the number of clicks you get on your Web site from that ad. This is referred to as click-through ratio.
- **Marketing materials** – Listing your Web sites on all your marketing materials, such as brochures and business cards, is another way to drive traffic to your web site.

Summary

We hope this chapter has helped to introduce you to the benefits available through the use of the Internet for your business. The important thing is for you to decide what will or will not benefit your business. Choose well and the Internet can help you to reach your goals and enhance your profitability.

Determine Financing Needs For Your Business

When you are planning to start a new business (or expand your current operation), four very important questions arise relating to finance.

In order to make an intelligent decision on a timely basis, you will need to address all four of these questions. If you fail to do so, the lack of sufficient and ready capital can quickly lead to business failure.

- ✓ *Will you need to borrow money?*
- ✓ *If you need outside financing, how much do you need and when will you need it?*
- ✓ *What are the sources of funding available to meet your needs?*
- ✓ *How much will it cost?*

Will You Need to Borrow Money?

The first step is to ask yourself some questions that will help you to make the right decision – questions that will help you to realistically understand your financial needs and keep you from making costly errors that may ultimately bankrupt a potentially viable business.

To determine whether or not you will need outside financing, some of the questions you might ask yourself are:

1. **Have I written a business plan** so that I can make financial decisions based on achieving the desired goals for my business? If you haven't written one, do so.
2. **Would I be willing to risk my own money on my venture?** What are the risks? What are my own sources of available capital? If you are not willing to take a risk, don't expect someone else to.
3. **Do I really need additional financing** or do I just need to manage my present cash flow more effectively?
4. **What do I need the money for?** If I borrow, can I realistically project increased revenues? If so, when will those increased revenues justify the debt?

How Much Money Do You Need – and When Do You Need It?

If you have decided that you will need additional financing, you will then need to carefully assess your needs and determine not only the amount you need, but when you will need it. Many business owners overestimate or underestimate their capital requirements and/or do not time their financing to the best advantage. Either can lead to serious problems.

The first thing you need is a realistic *business plan* and one that you intend to follow as closely as possible. (Does this sound repetitious?) The only way to look at every aspect of your business is through the planning process. It will force you create an organizational plan and a marketing plan and quantify your concepts through the development of projected financial statements whose numbers can then be analyzed and used in the decision making process. Those projections give you an educated estimate of your financial needs and tell you when they will most likely occur. Your business plan will answer such questions as:

- What are my most critical needs?
- If I need the money for immediate operating capital, how much will I need to operate my business until it becomes self-sustaining?
- If I need the money to buy fixed assets for my business, has my research shown that I can reach the target market that will justify the purchase of those assets? If not now, when would be the optimum time to add those assets?
- If I need the money for marketing, what are the most effective ways to reach my target market? How much will it cost to advertise? Will the increased marketing be reflected in even higher increases in revenues? According to my industry trends, what are the best selling periods and when will I need financing in order to have the lead time to advertise for the best results?

What are the Sources Available to You?

I get calls almost every day asking for direction to sources of start-up capital. Sources of financing available to prospective and expanding businesses fall into two broad categories, which we will discuss in the remainder of the chapter:

- **Debt financing (dollars borrowed)**
- **Equity financing (ownership dollars injected into the business)**

Debt Financing

Debt financing is generally obtained from one of two sources. It can come either from a non-professional source such as a friend, relative, customer or colleague or from a traditional lending institution such as a bank, commercial finance company or, on special occasions, directly from the U.S. Small Business Administration (SBA).

1. **Friends or Relatives:** Borrowing from a friend or relative is generally the most readily available source, especially when the capital requirements are smaller. This is frequently the least costly in terms of dollars, but may become the most costly in terms of personal relations if your repayment schedule is not timely or your venture does not work out. This avenue should be approached with great caution!
2. **Angel Programs:** For smaller business owners, women and minorities, there has been a growing trend toward the development of "Angel" programs through business organizations and companies specializing in small business. Individuals and small companies that want to invest smaller amounts in promising businesses are linked with those companies and the two decide whether or not the loan will be made. This avenue is still relatively new, but holds even more promise for the future.

Tech Tip:

Search the Internet for Angel Investors

Several organizations exist that serve as an intermediary between Angel investors and business owners. Business owners can submit their business plans, which will then be matched and submitted to prospective investors with funding interests in specific plans. For a list of intermediary networks and lists of Angel investors, use the following key words in a search on the Internet: "[Angel Investors](#)"

3. **Traditional Lending Institutions:** Banks, savings and loans and commercial finance companies have long been the major sources of business financing, principally as short-term lenders offering demand loans, seasonal lines of credit and single-purpose loans for fixed assets.

You should be aware of the fact that almost all lending institutions are strict about collateral requirements and may reasonably require established businesses to provide one-third of the equity injection and start-ups up to 50% or more. Again, as a borrower, you will be required to have a business plan with adequate documentation demonstrating a projected operating cash flow that will enable you to repay (on time) the loan with interest.

- 4. SBA Guaranteed Loans:** The SBA guaranteed loan program is a secondary source of financing. This option comes into play after private lending options have been denied. The SBA offers a variety of loan programs to eligible small businesses that cannot borrow on reasonable terms from conventional lenders in the amount needed without governmental help. Most of the SBA's business loans are made by private lenders and then guaranteed by the Agency. Though it may not necessarily be easier to be approved for an SBA guaranteed loan, the guaranty will allow you to obtain a loan with a longer maturity at better repayment terms and interest rates, thereby reducing your monthly payments and the initial loan burden.

- a. 7(a) Guaranteed Loan Program:** This is the SBA's primary loan program. You can use a 7(a) loan to: expand or renovate facilities; purchase machinery, equipment, fixtures and leasehold improvements; finance receivables and augment working capital; refinance existing debt (with compelling reason); finance seasonal lines of credit; construct commercial buildings; and/or purchase land or buildings.

Loan amounts of \$100,000 or less receive an SBA guaranty as high as 80%. All other loans receive a 75% SBA guaranty. Currently, the maximum amount for a loan guaranty is \$1,500,000 (75% of \$2 million). The average size loan is \$175,000 with an eight-year maturity. The 7(a) loan program is available to businesses that operate for profit and qualify as small under SBA size standard criteria.

You submit a loan application to a lender for initial review. If the lender approves the loan subject to an SBA guaranty, a copy of the application and a credit analysis are forwarded by the lender to the nearest SBA office.

The SBA looks for good character, management expertise, financial resources to operate the business, a feasible business plan, adequate equity or investment in the business, sufficient collateral, and the ability to repay the loan on time from the projected operating cash flow.

After SBA approval, the lending institution closes the loan and disburses the funds; you make monthly loan payments directly to the lender. As with any loan, you are responsible for repaying the full amount of the loan.

Generally, liens will be taken on assets financed by SBA proceeds, and the personal guarantee of the principal owners and/or the CEO are required. The borrower must pledge sufficient assets, to the extent that they are reasonably available, to adequately secure the loan. However, in most cases, a loan will not be declined by SBA where insufficient collateral is the only unfavorable factor. The lender sets the rate of interest: loans under 7 years, maximum prime +2.25%; 7

years or more, maximum 2.75% over prime; under \$50,000, rates may be slightly higher. The length of time for repayment depends on the use of proceeds and the ability of the business to repay: usually five to ten years for working capital and up to 25 years for fixed assets.

- b. CAPLines:** Eligibility and interest rate rules are the same as for 7(a) guaranteed loans. It is for the financing of assets. The primary collateral will be the short-term assets financed by the loan. SBA will guarantee up to 75% of loans above \$150,000 (85% on loans of \$150,000 or less). There are five short-term working-capital loan programs for small businesses under CAPLines: (1) Seasonal Line, (2) Contract Line, (3) Builders Line (4) Standard Asset-Based Line, and (5) Small Asset-Based Line. The asset-based lines must revolve.
- c. International Trade Loan Program:** Applicants must establish either that the loan proceeds will significantly expand existing export markets or develop new ones, or that the applicant is adversely affected by import competition. SBA can guarantee 75% of an amount up to \$2,000,000 in combined working-capital and fixed-asset loans. The lender must take a first-lien position on items financed. Only collateral located in the United States and its territories and possessions is acceptable as collateral under this program. Additional collateral may be required including personal guaranties, subordinate liens or items that are not financed by the loan proceeds. The proceeds of the loan may not be used for debt repayment. Fees and interest rates are the same as for 7(a) loans.
- d. Export Working Capital Program (EWCP):** This program is for exporters seeking short-term working capital. The SBA will guarantee 90 percent of the principal and interest, up to \$1,500,000. When an EWCP loan is combined with an International Trade Loan, the SBA's exposure can go up to \$1.75 million. The EWCP uses a one-page application form and streamlined documentation, and turnaround is usually within 10 days. You may also apply for a letter of prequalification from the SBA. Businesses must have operated for the past 12 months, not necessarily in exporting, prior to filing an application. Interest rates are not regulated by the SBA and the lender is not limited to the rates specified for regular 7(a) loans.
- e. Defense Loan and Technical Assistance (DELTA) Program:** The DELTA Program is available to help defense-dependent small business concerns adversely affected by defense cuts to diversify into the commercial market. The program provides both financial and technical assistance. A joint effort of the SBA and the Department of Defense, DELTA offers about \$1 billion in gross lending authority. At least 25% of the business' revenues from the immediate preceding year must have come from defense related contracts and the borrower must show that he will create or retain one job per \$50,000 of SBA assistance. Loan amounts are up to \$2,000,000. The SBA processes, guarantees and services DELTA loans through the regulations, forms, and operating criteria of the 7(a) Program and the 504 Certified Development Company Program. Technical assistance is provided through SBDCs, SCORE, other federal agencies, and other technical and management assistance providers.



Streamlined Applications and Approvals

There are several options available to lenders that help streamline delivery of the SBA's loan guaranty.

- 1. LowDoc Loan Program:** LowDoc is one of the SBA's most popular programs. Once you have met your lender's requirements for credit, LowDoc offers a simple, one page SBA application form and rapid turnaround for loans of \$150,000 or less. SBA will guarantee up to 85% of the loan amount. The loans should be adequately secured. Business assets are usually pledged and personal guarantees of the principals are required. The applicant completes the front of a one-page SBA application; the lender completes the back. The lender requires additional information. The same interest rate rules apply as in the 7(a) program. To be eligible, business must have average annual sales for the past three years not exceeding \$5 million and must have fewer than 100 employees. Business start-ups are also eligible for the LowDoc Loan Program.
- 2. SBA Express:** This program makes capital available to businesses seeking loans of up to \$350,000 without requiring the lender to use the SBA process. Lenders use their existing documentation and procedures to make and service loans. The SBA guarantees up to 50 percent of a SBA Express loan. Your local SBA office can provide you with a list of SBA Express lenders.
- 3. Certified and Preferred Lenders Program:** The most active and expert SBA lenders qualify for the SBA's Certified and Preferred Lenders Program. Participants are delegated partial or full authority to approve loans, which results in faster service. Certified lenders are those that have been heavily involved in regular SBA loan-guaranty processing and have met certain other criteria. Preferred lenders are chosen from among the SBA's best lenders and enjoy full delegation of lending authority. A list of participants in the Certified and Preferred Lenders Program may be obtained from your local SBA office.
- 4. 7(M) Micro Loan Program:** The MicroLoan Program provides small loans up to \$35,000. Under this program, the SBA makes funds available to nonprofit intermediaries; these, in turn, make the loans. The average loan size is \$10,500. Completed applications usually are processed by an intermediary in less than one week. This is a pilot program available at a limited number of locations.

Micro loans may be used to finance machinery, equipment, fixtures and leasehold improvements. They may also be used to finance receivables and for working capital. They may not be used to pay existing debt. Depending on the earnings of your business, you may take up to six years to repay a microloan. Rates are pegged at no more than 4 percent over the prime rate. There is no guaranty fee. Each nonprofit lending organization will have its own collateral requirements, but must take as collateral any assets purchased with the microloan. Generally the personal guaranties of the business owners are also required.

- 5. 504 Certified Development Company:** CDCs are nonprofit corporations set up to contribute to the economic development of their communities or regions. They

work with the SBA and private-sector lenders to provide financing to small businesses. The program is designed to enable small businesses to create and retain jobs; the CDC's portfolio must create or retain one job for every \$50,000 of debenture proceeds provided by the SBA. They provide small businesses with 10 or 20-year financing for the acquisition of land and buildings, machinery and equipment or for constructing, modernizing, renovating or converting existing facilities. To be eligible, the business must operate for profit. Tangible net worth must not exceed \$7 million and average net income must not exceed \$2.5 million for the past two years.

The maximum loan amount is generally \$1,500,000. The amount may go up to \$2 million if the project meets public policy goals (i.e., business district revitalization, expansion of export, expansion of minority business). Collateral may include a mortgage on the land and the building being financed. Personal guarantees of principals are required. SBA will take business assets as collateral. Interest is set at second TD rate based on the current market rate for 5- and 10-year U.S. Treasury Bonds and is generally below market rate.

Tech Tip:

Interest Rates Applicable to SBA Guaranteed Loans:

Note: Interest rates are negotiated between the borrower and the lender but are subject to SBA maximums, which are pegged to the Prime Rate. Interest rates may be fixed or variable. Fixed rate loans of \$50,000 or more must not exceed Prime Plus 2.25 percent if the maturity is less than 7 years, and Prime Plus 2.75 percent if the maturity is 7 years or more.

Loans between \$25,000 and \$50,000: Maximum rates must not exceed Prime Plus 3.25 percent if the maturity is less than 7 years, and Prime Plus 3.75 percent if the maturity is 7 years or more.

Loans of \$25,000 or less: Maximum interest rate must not exceed Prime Plus 4.25 percent if the maturity is less than 7 years, and Prime Plus 4.75 percent, if the maturity is 7 years or more.

- For current Prime rates, visit <http://www.bankrate.com>
- For more information on SBA programs, visit <http://www.sba.gov/financing>

Equity Financing

If your company has a high percentage of debt to equity (what you owe compared to what you own), you will find it difficult to get debt financing and you will probably need to seek equity investment for additional funds. What this means simply is that you will trade a certain percentage of your company for a specific amount of money to be injected into the company.

Where does equity financing come from?

As with debt capital, this type of capital can come from friends and relatives, from SBA licensed investment companies, or from professional investors known as a "*venture capitalists*."

1. **Friends and Relatives:** Again, be reminded that mixing your friends or relatives and your business may not be a good idea.
2. **SBA licensed investment companies:** The SBA also licenses Small Business Investment Companies (SBICs). They make venture/risk investments by supplying equity capital and extending unsecured loans to small enterprises that meet their criteria.

The SBIC Program provides an alternative to bank financing, filling the gap between the availability of venture capital and the needs of small businesses that are either starting or growing. They use their own funds plus funds obtained at favorable rates with SBA guaranties and/or by selling their preferred stock to the SBA. SBICs are for-profit firms whose incentive is to share in the success of a small business. The Program provides funding to all types of manufacturing and service industries.

Tech Tip:

For more information on Small Business Investment Companies visit the following web site:

<http://www.sbaonline.sba.gov/INV/overview.html>

3. **Professional Investors/Venture Capitalists:** The venture capitalist is a risk taker, usually specializing in related industries and preferring three to five year old companies that have shown high growth potential and will offer higher-than-average profits to their shareholders. These investments are often arranged through venture capital firms that act as "matchmakers."

As risk takers, venture capitalists focus on and have a right to participate in the management of the business. If the company does not perform, they may become active in the decision making process. The most frequent question we get asked is, "*What is the standard amount of equity you have to trade for financing?*" The trade of equity for capital is based on supply and demand. In other words, the deal is made according to who has the best bargaining power.

Venture capitalists also require the inclusion of an *exit strategy* in the company's business plan. The exit strategy lays out the future goals for the company and minimizes risk to the investor by providing a way out if there is a strong indicator that the business will fail to reach its profitability goals.

Which Type of Financing Costs the Most?

The cost of financing is usually related to the degree of risk involved. If the risk is high, so is the cost.

1. **The least expensive money to use is your own.** The cost to you is whatever you would have made on your money by investing it in other sources (savings, money market accounts, bonds, retirement plans, real estate, etc.).

Note: At this point, we should mention credit cards. Many new business owners borrow heavily on their credit cards only to find themselves up to their ears in debt. Credit cards can be one of the most expensive sources of cash and have paved the road to bankruptcy court more than once. Don't get caught in this trap!

2. **Friends and relatives:** The next lowest in cost generally comes from friends and relatives who may charge you a lower interest rate. But don't forget that it may cost you in other ways.
3. **Banks & other traditional lenders:** The third on the cost ladder is probably the traditional lender (banks, SBA, etc.) This lender will want to know what the capital will be used for and will require that it be used for those specific needs. If the risk is too high, most conventional lenders cannot approve your loan because it would be a poor financial decision for the bank's investors. One default out of ten will undermine their whole program.
4. **Outside lenders and venture capitalists:** Traditionally, the most expensive is the outside lender who charges a high interest rate because of the risk involved and the venture capitalist who requires a percentage of your business.

Calculating the Cost

Before you get a loan, take time to understand the terms under which the loan will be made. What is the interest rate? How long do you have to repay the loan? When will payments begin and how much will they be? What are you putting up as collateral? If you have venture capital injected into the business, what will be the overall price to you of the equity and control that you will forfeit?

Any source of financing can and should be calculated as to cost before the financing is finalized. Again back to your business plan. Determine when the financing is needed, plug cash injection, repayment figures, and resulting income projections into your cash flow statement and checkout the result.

Will the financing make you more profitable and enable you to repay the lender or distribute profits to the venture capitalist?

In Summary

Securing financing for your company must be planned well in advance. The more immediate your need, the less likely you are to get the best terms. Don't ask your banker to give you a loan yesterday...and don't expect a venture capitalist to jump on the bandwagon because you suddenly need their money. Planning ahead for cash flow is one of the best means for determining if and when you will need a lender or investor. It will also help you to determine how much you need.

When you plan for financing, remember that you will not only have to show that your industry has good potential for profit. You will also have to present a strong case for the ability to manage your company through the period of debt. Getting financing is serious business for both you and for the lender/investor.



Take time to plan carefully for your financial needs and your company will prosper and grow accordingly.

Set Up Your Bookkeeping

It is not the purpose of this chapter to give you a course in small business accounting. However, we will attempt in the next few pages to acquaint you with the basic records that you will need to keep. For a more comprehensive guide, we have a book entitled "Keeping the Books: Basic Recordkeeping and Accounting for the Small Business" (Dearborn Trade). You can also take classes through most community colleges and the IRS gives small business tax classes at various locations on a regular basis. We also urge an alliance with a reputable tax professional to help you work with your accounting.

The Importance of Good Recordkeeping

Recordkeeping has two main functions:

1. To provide you with tax information that can be easily retrieved and verified. Poor recordkeeping can cause you a multitude of problems and may result in audits, penalties and even the termination of your business.
2. To provide you with information that you can use to analyze your business. Accurate financial statements will help you to see trends and implement changes during the life of your business.

The keeping of accurate records is imperative if your business is to succeed. To be the most effective, you should set up a system that is as simple as possible and yet complete enough to give you any information that will be helpful in your business. If you have an accurate set of records, it will be possible for you to tell at a glance what is happening with your business -- which areas are productive and cost-effective and which will require change.

Tech Tip

Use Accounting Software

If you have a computer (as most people now do), you will be able to effectively utilize it to do your small business accounting.

However, the use of accounting software is only beneficial if: (1) you first have a good working knowledge of recordkeeping principles and (2) You have developed reasonable skills when it comes to the operation of your computer. Even the most simple accounting software will require that you can make decisions and adapt the setup to your own particular accounting needs.

QuickBooks Pro (not Quicken), by Intuit, is one of the software programs that does a good job of tracking business finances. There are also some other well-known accounting packages, such as One-Write Plus, MYOB (Mind Your Own Business), and Peach Tree. Most of these packages are very reasonably-priced—many for around \$200 depending on how many modules are attached.

Once you set it up for your business and develop a chart of accounts, you can use it for all of your bookkeeping. The program will allow you to do as much or as little as you wish. For instance, you can choose whether or not to generate invoices and/or write checks from within the software. At any time, you can generate reports (P&L, Balance Sheet, Customer accounts, etc.) for the time period of your choosing. This will enable you to look at your business at any time and to utilize the reports as analysis tools upon which you can make decisions and implement changes. At the end of the year, if you have kept your bookkeeping up-to-date, it will also enable you to generate, at a click of your mouse, an annual profit and loss statement and balance sheet to take to your tax accountant.

Note: It would be wise to have the accounting professional that will handle your annual income tax returns help you to do the initial setup of your software. The professional can recommend the software he or she believes will work best for you and get you started by helping you setup your business, develop a chart of accounts, and learn how to handle issues (such as sales tax) that may require more advanced understanding of the software.

Should You Hire an Accounting Professional?

If you will involve yourself in your bookkeeping as much as possible, you will be doubly aware of what is going on in your business. If you are very small, we suggest that you set up a hands-on system and maintain most of your own general records throughout the year. If you are computer-literate (or brave enough to tackle the project), get one of the accounting software packages we mentioned previously.

Because there are very few business owners who are knowledgeable about all the fine points and changes in tax laws, it is best to delegate some jobs to an accounting professional. He or she can help you to initially develop a chart of accounts and set up your books using coordinating software for easy transfer of information. Your tax professional can also maintain difficult records such as payroll and depreciation. You will also want that same specialist to maximize your tax benefits by preparing your tax return at the end of the year.

Even if you feel more comfortable having an accounting professional do all of your bookkeeping, you will still be wise to educate yourself about the basics. Ask your accountant to prepare a balance sheet and a profit and loss statement (P&L) at the close of every month and be sure that you will be able to read and understand them. The information on these two financial statements is essential to the effective running of your business.

When Do You Begin?

If you are reading this book, you are thinking about going into business or you have already begun your business. So now is the time to begin keeping records. All of the expenses that you incur in startup will be valid costs of doing business. Conversely, any revenues that you generate must also be accounted for.

You can start by keeping a journal of your daily activities: where you go, who you see, what you spend. Keep track of business classes, mileage, supplies purchased, telephone calls, professional materials – everything that might relate to your business.

What Records Do You Need to Keep?

Your accounting must be tailored to your individual needs. Because no two businesses have exactly the same concerns, it is best that you do not buy a ready-made set of books. Familiarize yourself with the information that you will need and set up your records accordingly. As a business owner, you will be required to keep track of all of your income and expenses.

Again, simplicity is the key to small business accounting. There are many different types of general accounting records. Their purpose is to record each transaction that takes place in your business. The general records are then used to develop monthly and yearly financial statements to be used for tax reporting and financial analysis. You should set up only those general records that you will need to document the information for your particular business. For instance, a car wash that does only cash business would not need "accounts receivable" records. Fewer records are easier to read and they will require less bookkeeping time.

General Records

Every business will required certain records to keep track of its daily transactions. These records are used to generate your monthly profit and loss statements and balance sheets. You should set up a bookkeeping schedule and keep your records current.

Note: *To acquaint you with the most common general records, we will define each one, provide you with a filled-in example at the back of the chapter, and give you a blank form in Appendix B for you to copy and use for your own business.*

1. **Revenue & Expense Journal.** This is the main general record used by a business. It's used to record individual transactions for which income is received and checks written by your business. The transactions are recorded as revenues (monies for sales and interest earned) and expenses (checks written to pay for products and services received by you). At the end of the month, the columns in the revenue & expense journal are totaled. The totals are then transferred to that month's profit & loss statement. The new month begins with all revenue and expense categories at zero. See page 117 for an example of a Revenue and Expense Journal.
2. **Petty Cash Record.** Petty cash refers to all of the purchases made with cash or personal checks when it is not convenient to pay with a business check. These transactions are recorded in a separate journal and paid by periodically writing a business check (made out to "Petty Cash") that is recorded as an expense in the Revenue & Expense Journal and as a deposit in the petty cash record. Petty cash transactions require careful recording. See page 118 for an example of a Petty Cash Record
3. **Inventory Records.** These are records that keep track of all products purchased or manufactured for resale. The IRS requires a beginning and ending inventory for each taxable year. Inventory control is a major factor contributing toward business success – or business failure. Internal use of these records will greatly enhance your profits. See pages 119 and 120.
4. **Fixed Assets Log.** This is a list of all assets (tangible and intangible) that will have to be capitalized (or depreciated over a specified number of years). They are items purchased for use in your business (not resale), usually at a cost of \$100 or more and not debited to an expense account. They are depreciated over a period determined by tax regulations. Examples might be as follows: buildings, vehicles, office equipment, production equipment, office furniture. Land does not depreciate. Depreciation can be difficult to calculate because of the many IRS regulations that must be applied. It is best to let your tax preparer figure out your depreciation at the end of the year. See page 119 for an example.
5. **Accounts Payable.** This is a record of debts owed by your company for goods purchased or services rendered to you in the pursuit of your business. You will need an efficient system for keeping track of what you owe and when it should be paid to get the best terms. If you are going to have a good credit record, the payment of these invoices must be timely. If you do not accumulate unpaid invoices, you may be able to dispense with this record. See page 122 for an Account Payable Record example.
6. **Accounts Receivable.** This record is used to keep track of debts owed to you by your customers as a result of the sale of products or the rendering of services. Each client with an open account should have a separate page with account information. Statements of balances due are sent to your account holders at the close of each month. If you do not have open accounts, you will also be able to dispense with this record. See page 123.
7. **Mileage, Entertainment and Travel Records.** These are the records used to keep track of auto and transportation expenses, meals and entertainment of clients, and travel out of your local area. Due to past abuse in these areas, the IRS requires careful documentation as proof that deductions claimed are in fact business-related expenses. We strongly suggest that you organize a travel log, trip records, and entertainment records so they can be carried with you. It is much easier to keep track of them at the time they occur

than to try to remember them and find receipts after the fact. In addition, keep all of your receipts. You can read more about "Travel and Entertainment" in IRS Publication #334, *Tax Guide for Small Business*. There are also separate IRS publications containing more detailed information. See pages 122 to 125.

8. **Payroll Records.** The IRS has strict regulations regarding withholding and payroll taxes and their reporting. Payroll records are not easy to keep, even with a payroll software program. Leave these records to a trained tax expert. You will be informed what checks to write and these will be recorded in the Revenue & Expense Journal. The accounting professional will do all the tax reporting for you.
9. **Business Checkbook.** Your checkbook is not only the means to pay your bills. It also serves as a record of who was paid, how much was paid, and what was purchased. Deposits are recorded and a balance of cash available is always at your fingertips. It is best to use a desk-size checkbook with plenty of space for recording information. Always reconcile your checkbook with your monthly bank statement and record any service charges, check purchases and interest earned. Your checkbook information will be transferred to your revenue and expense journal when you do your bookkeeping.
10. **Customer Records (or Databases).** These records are kept as a means of helping a business deal more effectively with its customers. The type you keep is purely subjective. The basic idea is that you keep the information that will enable you to sell more of your products or services to the customer, give the customer better service, and have the information you need regarding your transactions with them at your disposal. The database can be as simple or as complicated as you choose. A simple example of hand-generated customer files is a set of 3 x 5 cards, one for each customer, with specialized information such as name, address, telephone number, services rendered, products sold, and any other information that will help you to better serve the customer. Customer records are especially effective in service industries or in small businesses dealing in specialty retail sales.

Tech Tip

Use Database Software:

Generate Customized Information and Lists

It is a common practice to set up database files using software such as Microsoft Access, or any of a variety of applications offered today. Database software will allow you to customize fields of information that can be accessed at the click of a mouse, generating targeted mailing lists, sales information, demographics, etc. You can also print mailing labels and customized letters.

With the search functions, you can narrow any list down to only those customers who meet the requirements of your current focus. It is important again to remember as you set up your database files and customize your fields, that the output will only be as good as the input.

Financial Statements

Financial statements are developed from the general records discussed on the preceding two pages. These statements are used to provide information for preparing tax returns. Even more importantly, the use of these financial statements can help you see the financial condition of your business and identify its relative strengths and weaknesses. The business owner who takes the time to understand and evaluate his or her operation through financial statements will be far ahead of the entrepreneur who is concerned only with the product or service.

We will now introduce you to the two principal financial statements of any business: the Balance Sheet and the Profit & Loss Statement.

1. Balance Sheet

The balance sheet is a financial statement that shows the condition of your business as of a fixed date. It is most effectively done at the end of every accounting period. The closing balances from your general records will supply you with the information. *Note: If you are using accounting software, a balance sheet can be easily generated at the close of the accounting period.*

The balance sheet can be likened to a still photograph. It is the picture of your firm's financial condition at a given moment and will show whether your financial position is strong or weak. Examination of this statement will allow you to analyze your business and implement timely modifications.

A balance sheet lists a business's assets, liabilities and net worth (or capital). The assets are everything your business owns that has monetary value (cash, inventory, fixed assets, etc.). Liabilities are the debts owed by the business to any of its creditors. The net worth (or owner's equity) represents the cumulative profits and losses of the company plus or minus any equity deposits or withdrawals. The relationship between assets, liabilities and net worth can be seen in the following well-known accounting formula:

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$

If a business possesses more assets than it owes to its creditors (liabilities), then its net worth will be positive. If the business owes more than it possesses, its net worth will be a negative.



Example: See filled-in example balance sheet on page 127.

2. Profit & Loss Statement (P&L or Income Statement)

This financial statement shows your business financial activity over a specific period of time. Unlike the balance sheet, a P&L statement can be likened to a moving picture. It shows where your money came from and where it was spent over a specific period of time. You will be able to pick out weaknesses in your operation and plan ways to run your business more effectively, thereby increasing your profits.

A P&L statement should be prepared at the close of each month. The totals from your revenue and expense journal are transferred to the corresponding columns of the P&L statement. At the end of December (or your tax year) you will have a clear picture of your revenues and expenses for the 12-month period. *Note: Accounting software is set up to automatically generate monthly and annual profit & loss statements for your business.*

Comparison of the profit & loss statements from several years will reveal such trends in your business as high revenue periods, effective advertising times, increases or decreases in profit margins, and a host of other valuable information. Do not underestimate the value of this important tool. Just as the balance sheet has an accepted format, a profit and loss statement must contain certain categories in a particular order.



Example: A filled-in example of this financial statement can be found at the end of the chapter on page 128

Keeping the Books on Schedule

There is a specific order for keeping your books. It **should** be done in a timely manner if the records are to be effective. Since the two goals of accounting are the retrieval of tax information and the analysis of information for internal planning, your schedule will have to provide for these goals. The tasks are listed according to frequency: daily, weekly, monthly, and end of the year. Schedules for filing tax information are not included. They can be found in IRS Publication #334, *Tax Guide for Small Business*.

Free IRS Publications

The Internal Revenue Service provides many free publications that will be helpful to you as a small business owner. Information on ordering all publications may be obtained by calling the IRS toll free at 1-800-TAX-FORM (1-800-829-3276). It is a good idea to start your tax publication file by asking for Publication #334, *Tax Guide for Small Business*. This publication provides a comprehensive overview on most tax topics. Other publications deal in more specific information relating to individual topics such as: business use of your car, legal structure, depreciation, etc. If you subscribe to an online service, the IRS offers the ability to download electronic print files of current tax forms, instructions, and taxpayer information publications by going to the IRS Web site at: www.ustreas.gov or www.irs.gov

Tech Tip

Access IRS Information by Computer and Modem

The IRS offers the ability to download and print out electronic print files of current tax forms, instructions, and taxpayer information publications (TIPs) in three different file formats. Internal Revenue Information Services (IRIS) is housed within FedWorld, known also as the Electronic Marketplace of U.S. Government information, a broadly accessible electronic bulletin board system. FedWorld offers direct dial-up access, as well as Internet connectivity, and provides “gateway” access to more than 140 different Government bulletin boards.

IRIS at FedWorld can be reached by:

1. Modem (dial-up) The Internal Revenue Information Services bulletin board at 703-321-8020
2. Telnet - iris.irs.ustreas.gov
3. World Wide Web – www.irs.gov or www.ustreas.gov

General Recordkeeping Schedule

(Post for your convenience)

This Recordkeeping Schedule will help you to organize your bookkeeping chores. Copy it and keep it with your records. It will serve as a basic guide for a person who has no bookkeeping experience.

Daily

- Go through mail and sort according to action needed.
- Pay any invoices necessary to meet discount deadlines.
- Record current day's invoices in Accounts Receivable.*
- Unpack and shelve incoming inventory (product business).
- Record inventory information (product business).

***Accounting software users.** *Invoices generated from within your accounting software will be automatically posted to the proper accounts.*

Weekly

- Prepare income deposit and make deposit in bank.
- Enter deposit in checkbook and Revenue & Expense Journal.*
- Enter sales information in Inventory Record (product business).
- Enter week's checking transactions in Revenue & Expense Journal.
- Record petty cash purchases in Petty Cash Record. File receipts.*
- Pay invoices due. Be aware of discount dates. File invoices.
- Record purchase of any depreciable purchases in your Fixed Assets Log.*

***Accounting software users.** *Enter deposits, checks written, and petty cash expenditures for the week.*

Monthly

- Balance checkbook and reconcile with bank statement.*
- Enter interest earned and bank charges in Revenue & Expense Journal and checkbook.
- Total and balance all Revenue & Expense Journal columns.*
- Check Accounts Receivable and send out statements to open accounts.
- Prepare monthly Profit & Loss Statement and Balance Sheet.*

***Accounting software users.** *Perform bank reconciliation. P&L and Balance Sheets can be generated automatically using your software.*

End of the Year

- Pay all invoices, sales taxes and other expenses that you wish to use as deductions for the current year.
- Transfer 12th month totals from the Revenue & Expense Journal to the Profit & Loss.*
- Prepare annual P&L. Total horizontal columns to get yearly totals for each category.*
- Prepare an end-of-the-year Balance Sheet.*
- Prepare a Cash Flow Statement (budget) for the coming year using the P&L as an aid.
- Set up new records for the coming year.

***Accounting software users.** *Annual P&L and Balance Sheets can be generated by the software. User selects date parameters for all reports (i.e., This Fiscal Year, This Month, Last Fiscal Year, etc.). Accounting is continuous and does not need to be set up.*

Ace Sporting Goods Revenue & Expense Journal

July 2007, page 2

CHECK NO.	DATE	TRANSACTION	REVENUE	EXPENSE	SALES	SALES TAX	SERVICES	INV. PURCH	ADVERT	FREIGHT	OFF SUPP	MISC
		Balance forward----	1,826 00	835 00	1,218 00	98 00	510 00	295 00	245 00	150 00	83 50	61 50
234	7/13	J. J. Advertising		450 00					450 00			
235	7/13	T & E Products		380 00				380 00				
236	7/16	Regal Stationers		92 50							92 50	
***	7/17	Deposit:	1,232 00									
		1. Sales (taxable)			400 00	32 00						
		2. Sales (out of state)			165 00	O.S.						
		3. Sales (resale)			370 00	Resale						
		4. Services					265 00					
O.K. BANK	7/19	Bank charges		23 40								(bank chg) 23 40
237	7/19	Petty Cash deposit		100 00								(p/cash) 100 00
TOTALS			3,058 00	1,880 90	2,153 00	130 00	775 00	675 00	695 00	150 00	176 00	184 90

Ace Sporting Goods Petty Cash Record

PETTY CASH - 2007		Page 6				
DATE	PAID TO WHOM	EXPENSE ACCOUNT DEBITED	DEPOSIT	AMOUNT OF EXPENSE	BALANCE	
	BALANCE FORWARD				10 00	
July 19	** Deposit (Ck, 237)		100 00		110 00	
20	ACE Hardware	Maintenance		12 36	97 64	
23	Regal Stationers	Office Supplies		20 00	77 64	
23	U.S. Postmaster	Postage		19 80	57 84	
31	The Steak House	Meals		63 75	(5 91)	
Aug 1	** Deposit (Ck, 267)		100 00		94 09	

Toward the end of the year, you can let the Petty Cash account run a minus balance. On December 31st, a check is written for the balance and the account is zeroed out.

The amount of cash spent during the year will be exactly equal to the amount deposited into the Petty Cash Account from your checking account.

- NOTE:**
1. Save all receipts for cash purchases.
 2. Exchange receipt for cash from petty cash drawer.
 3. Use receipts to record expenses on petty cash form.
 4. File receipts. You may need them for verification.
 5. Be sure to record petty cash deposits.

Ace Sporting Goods Inventory Record

Non-Identifiable Stock

DEPARTMENT/CATEGORY: <u>Ski Hats / Headwear</u>						
PRODUCTION OR PURCHASE DATE	INVENTORY PURCHASED OR MANUFACTURED		NUMBER OF UNITS	UNIT COST	VALUE ON DATE OF INVENTORY (Unit Cost X Units on Hand)	
	Stock #	Description			Value	Date
2/05/05	07-43	<i>Knitted Headbands</i>	5,000	2 50	0	1/07
3/25/05	19-12	<i>Face Masks</i>	3,000	5 12	450.80	1/07
9/14/05	19-10	<i>Hat/Mask Combo</i>	1,200	7 00	3,514.00	1/07
4/18/06	19-09	<i>Hats, Multi-Colored</i>	10,500	4 00	5,440.00	1/07
8/31/06	19-07	<i>Gortex (w/bill)</i>	10,000	8 41	50,460.00	1/07
BEGIN 2007						
2/01/07	19-12	<i>Face Masks</i>	2,500	4 80		
2/28/07	19-09	<i>Hats, Multi-Colored</i>	10,300	4 00		

- NOTE:**
1. This record is used for inventory of like items that are manufactured or purchased in bulk. It is a good idea to divide your records by department, category, or by manufacturer.
 2. Inventory of these items is done by a physical count or by computer records. A physical inventory is required at the close of your tax year.
 3. Inventory is valued according to rules that apply for **FIFO** or **LIFO** (*first in first out* or *last in first out*). The selected method must be used consistently. In order to understand and apply rules for inventory evaluation, refer to IRS Publication 334, *Tax Guide for Small Business*.

Ace Sporting Goods Inventory Record Identifiable Stock

WHOLESALER: <u>Anderson Custom Designs</u>						Page <u>1</u>
PURCH DATE	INVENTORY PURCHASED		PURCH. PRICE	DATE SOLD	SALE PRICE	NAME OF BUYER (Optional)
	Stock #	Description				
1/16/07	Blue M	Golf Design	16 00	2/24/07	32 00	J. Pearce
1/23/07	Red S	Tennis T-Shirts	12 00			
	Red M	Baseball T-Shirt	12 00			
	Blue L	Soccer T-Shirt	12 00	2/07/07	24 00	S. Wong
2/16/07	Wt. L	Golf T-Shirt	14 00	3/01/07	26 00	K. Lee
3/16/07	Wt. M	Soccer T-Shirt	14 00			
3/16/07	Gr. L	Tennis T-Shirt	14 00			
	Gr. M	Basketball T-Shirt	14 00			

- NOTE:**
1. Use this record for keeping track of identifiable goods purchased for resale. If your inventory is very large, it may be necessary to use some sort of **Point-of-Sale** inventory system.
 2. Each page should deal with either: (1) purchases in one category, or (2) goods purchased from one wholesaler.
 3. Use the name of the wholesaler or the category of the purchase as the heading.

Ace Sporting Goods Fixed Assets Log

COMPANY NAME: <u>Ace Sporting Goods</u>									
ASSET PURCHASED	DATE PLACED IN SERVICE	COST OF ASSET	% USED FOR BUSINESS	RECOVERY PERIOD	METHOD OF DEPRECIATION	DEPRECIATION PREVIOUSLY ALLOWED	DATE SOLD	SALE PRICE	
<i>2001 Dodge Van</i>	<i>1/08/02</i>	<i>18,700 00</i>	<i>80%</i>	<i>5 yr.</i>	<i>200% DB</i>	<i>15,469 00</i>	<i>9/12/06</i>	<i>8,500</i>	<i>00</i>
<i>IBM Computer</i>	<i>7/15/03</i>	<i>6,450 00</i>	<i>100%</i>	<i>5 yr.</i>	<i>200% DB</i>	<i>3,620 00</i>			
<i>Ricoh Copier</i>	<i>12/29/03</i>	<i>3,000 00</i>	<i>100%</i>	<i>5 yr.</i>	<i>S/L-DB</i>	<i>1,469 00</i>			
<i>Climbing Simulator</i>	<i>6/17/06</i>	<i>4,500 00</i>	<i>100%</i>	<i>15 yr.</i>	<i>150% DB</i>	<i>—</i>			
<i>2007 Dodge Van</i>	<i>8/05/06</i>	<i>28,000 00</i>	<i>80%</i>	<i>5 yr.</i>	<i>200% DB</i>	<i>—</i>			
<i>Tennis ProString</i>	<i>3/15/07</i>	<i>1,500 00</i>	<i>100%</i>	<i>7 yr.</i>	<i>200% DB</i>	<i>—</i>			

NOTE: See IRS Publication 334, *Tax Guide for Small Business*, for more detailed information on depreciation. Also see Publications 534, 544, and 551.

Ace Sporting Goods Mileage Log

NAME: Ace Sporting Goods (John Kelley)

DATED: From July 1 To July 31, 2007

DATE	CITY OF DESTINATION	NAME OR OTHER DESIGNATION	BUSINESS PURPOSE	NO. OF MILES
7-01	San Diego, CA	Convention Center	California Sports Expo	187 mi.
7-03	Cypress, CA	The Print Co.	p/u brochures	13 mi.
7-04	Long Beach, CA	Wm. Long High	Deliver Uniforms	53 mi.
7-07	Jullerton, CA	Bank of America	Loan Meeting	17 mi.
7-17	Los Angeles, CA	Moore Corp.	Negotiate inventory purchase	96 mi.
7-23	Los Angeles, CA	IDT	Consultation	113 mi.
TOTAL MILES THIS SHEET				479

- NOTE:**
1. A mileage record is required by the IRS to claim a mileage deduction. It is also used to determine the percentage of business use of a car.
 2. Keep your mileage log in your vehicle and record your mileage as it Occurs. It is very difficult to recall after the fact.

Ace Sporting Goods Entertainment Expense Record

NAME: John Kelley

DATED: From 7-01-07 To 7-31-07

DATE	PLACE OF ENTERTAINMENT	BUSINESS PURPOSE	NAME OF PERSON ENTERTAINED	AMOUNT SPENT	
7-01	<i>The 410 Club</i>	<i>Sell Uniform Line</i>	<i>William Long</i>	46	32
7-07	<i>Seafood Chef</i>	<i>Consult w/attorney</i>	<i>Thomas Moore</i>	23	50
7-18	<i>The Cannon Club</i>	<i>Staff Dinner</i>	<i>Company Employees</i>	384	00

NOTE: For more information on Meals and Entertainment, please refer to IRS Publication 463, *Travel, Entertainment and Gift Expenses*.

Ace Sporting Goods Travel Record

TRIP TO: Dallas, Texas

Business Purpose: Sports Technology Expo
(show exhibitor)

Dated From: 7-11-07 To: 7-16-07

No. Days Spent on Business : 6

DATE	LOCATION	EXPENSE PAID TO	MEALS				HOTEL	TAXIS, ETC.	AUTOMOBILE			MISC EXP
			Breakfast	Lunch	Dinner	Misc.			Gas	Parking	Tolls	
7-11	Phoenix, AZ	Mobil Gas				6 40			21 00			
7-11	Phoenix, AZ	Greentree Inn		12 50								
7-11	Chola, NM	Exxon						23 50				
7-11	Las Cruces, NM	Holiday Inn			27 00		49 00					
7-12	Las Cruces, NM	Exxon						19 00				
7-12	Taft, TX	Molly's Cafe		16 25								
7-12	Dallas TX	Holiday Inn			18 75		54 00					
7-13	Dallas, TX	Expo Center							8 00			
7-13	Dallas, TX	Harvey's Eatery		21 00								
7-13	Dallas, TX	Holiday Inn			24 50		54 00					
7-14	Dallas, TX	Holiday Inn	9 50									
7-14	Dallas, TX	Expo Center		14 00					8 00			(Fax) 9 00
7-14	Dallas, TX	Holiday Inn			16 20		54 00					
7-15	Pokie, TX	Texaco						21 00				
7-15	Pokie, TX	Denny's		18 50								
7-15	Chola, NM	Holiday Inn			27 00		48 00					
7-16	Chola, NM	Holiday Inn	12 75									
7-16	Flagstaff, AZ	Texaco						22 00				
		TOTALS →	22 25	82 25	113 45	6 40	259 00		106 50	16 00		9 00

Attach all receipts for Meals, Hotel, Fares, Auto, Entertainment, etc. Details of your expenses can be noted on the receipts. File your travel record and your receipts in the same envelope. Label the envelope as to trip made. File all travel records together. When expenses are allocated, be sure not to double expense anything. (Ex: Gas cannot be used if you elect to use mileage as the basis for deducting your car expenses.)

Ace Sporting Goods Balance Sheet

Business Name: <i>Ace Sporting Goods</i>		Date: <i>September 30, 2007</i>	
ASSETS		LIABILITIES	
Current Assets		Current Liabilities	
Cash	\$ 8,742	Accounts Payable	\$ 2,893
Petty Cash	\$ 167	Notes Payable	\$ 0
Accounts Receivable	\$ 5,400	Interest Payable	\$ 1,842
Inventory	\$ 101,800	Taxes Payable	
Short-Term Investments	\$ 0	Federal Income Tax	\$ 5,200
Prepaid Expenses	\$ 1,967	Self-Employment Tax	\$ 1,025
Long-Term Investments	\$ 0	State Income Tax	\$ 800
Fixed Assets		Sales Tax Accrual	\$ 2,130
Land (valued at cost)	\$ 185,000	Property Tax	\$ 0
Buildings	\$ 143,000	Payroll Accrual	\$ 4,700
1. Cost	171,600	Long-Term Liabilities	
2. Less Acc. Depr.	28,600	Notes Payable	\$ 196,700
Improvements	\$ 0	TOTAL LIABILITIES	\$ 215,290
1. Cost	_____	NET WORTH (EQUITY)	
2. Less Acc. Depr.	_____	Proprietorship	\$ _____
Equipment	\$ 5,760	or	
1. Cost	7,200	Partnership	
2. Less Acc. Depr.	1,440	John Smith, 60% Equity	\$ 153,077
Furniture	\$ 2,150	Mary Blake, 40% Equity	\$ 102,051
1. Cost	2,150	or	
2. Less Acc. Depr.	0	Corporation	
Autos/Vehicles	\$ 16,432	Capital Stock	\$ _____
1. Cost	19,700	Surplus Paid In	\$ _____
2. Less Acc. Depr.	3,268	Retained Earnings	\$ _____
Other Assets		TOTAL NET WORTH	\$ 255,128
1.	\$ _____	Assets - Liabilities = Net Worth	
2.	\$ _____	and	
TOTAL ASSETS	\$ 470,418	Liabilities + Equity = Total Assets	

Ace Sporting Goods Profit & Loss Statement

Beginning: January 1, 2007

Ending: December 31, 2007

INCOME		
1. Sales Revenues		\$ 500,000
2. Cost of Goods Sold (c-d)		312,000
a. Beginning Inventory (1/01)	147,000	
b. Purchases	320,000	
c. C.O.G. Avail. Sale (a+b)	467,000	
d. Less Ending Inventory (12/31)	155,000	
3. Gross Profit on Sales (1-2)		\$ 188,000
EXPENSES		
1. Variable (Selling) (a thru h)		67,390
a. Advertising/Marketing	14,000	
b. Event Planning	9,000	
c. Freight	2,000	
d. Sales Salaries/Commissions	33,000	
e. Travels	3,000	
f. Vehicle	1,650	
g. Misc. Variable (Selling) Expense	390	
h. Depreciation (Prod/Serv Assets)	4,350	
2. Fixed (Administrative) (a thru h)		51,610
a. Financial Administration	1,000	
b. Insurance	3,800	
c. Licenses & Permits	2,710	
d. Office Salaries	14,000	
e. Rent Expense	22,500	
f. Utilities	3,000	
g. Misc. Fixed (Administrative) Expense	0	
h. Depreciation (Office Equipment)	4,600	
Total Operating Expenses (1+2)		119,000
Net Income from Operations (GP-Exp)		\$ 69,000
Other Income (Interest Income)		5,000
Other Expense (Interest Expense)		7,000
Net Profit (Loss) Before Taxes		\$ 67,000
Taxes		
a. Federal	21,000	
b. Statel	4,500	
c. Local	500	
		26,000
NET PROFIT (LOSS) AFTER TAXES		\$ 41,000

Control Your Cash Flow

It is a fact that a third or more of today's businesses fail due to a lack of cash flow. What is cash flow? How do you plan ahead to ensure your chances of success? The purpose of this chapter will be to introduce you to the concept of “cash flow” and to show you how careful planning can help you avoid business disaster.

What Is a Cash Flow Statement?

The Pro Forma Cash Flow Statement is the financial document that **projects** what your Business Plan means in terms of dollars. A cash flow statement is the same as a budget. It is a pro forma (or projected) statement used for internal planning and estimates how much money will flow into and out of a business during a designated period of time, usually the coming tax year. Your profit at the end of the year will depend on the proper balance between cash inflow and outflow.

The Cash Flow Statement identifies when cash is expected to be received and when it must be spent to pay bills and debts. It also allows the manager to identify where the necessary cash will come from.

This statement deals only with **actual cash transactions** and not with depreciation and amortization of goodwill or other non-cash expense items. Expenses are paid from cash on hand, sale of assets, revenues from sales and services, interest earned on investments, money borrowed from a lender and influx of capital in exchange for equity in the company. If your business will require \$100,000 to pay its expenses and \$50,000 to support the owners, you will need at least an equal amount of money flowing into the business just to maintain the status quo. Anything less will eventually lead to an inability to pay your creditors or yourself.

Webster's New World Dictionary defines cash flow as "the pattern of receipts and expenditures of a company, government, etc., resulting in the availability or nonavailability of cash." The availability or nonavailability of cash when it is needed for expenditures gets to the very heart of the matter. By careful planning, you must try to project not only **how much** cash will have to flow into and out of your business, but also **when** it will need to flow in and out. A business may be able to plan for gross receipts that will cover its needs. However, if those sales do not take place in time to pay the expenses, your venture will soon be history unless you plan ahead for other sources of cash to tide the business over until the revenues are realized. The publishing industry is a good example of a business that has heavy cash demands as many as six to nine months before it realizes any revenues as a result of those expenditures. If a publisher cannot pay the printer, there will be no books for sale. The printer will not produce the finished product on a promise that he or she will be paid nine months later at the completion of sales and receipt of invoice payments. To keep the business going, the publisher must plan ahead for sources of cash to tide the business over until the revenues are received.

Pre-Planning Worksheets

Because the cash flow statement deals with cash inflow and cash outflow, the first step in planning can be best accomplished by preparing two worksheets.

- 1. Cash to be Paid Out:** Cash flowing out of your business. (See pages 132-133)
This worksheet documents the cash flowing out of your business. It identifies categories of expenses and obligations and the projected amount of cash needed in each category. You may wish to approach this task by compiling several individual budgets (inventory purchases, direct expenses, administrative expenses, owner draws, etc.)

These expenditures are not always easy to estimate. If yours is a new business, it will be necessary for you to do lots of market research. If you are an existing business, you will combine information from past financial statements with trends in your particular industry.
- 2. Sources of Cash:** Cash flowing into your business. (See pages 134-135)
Use this worksheet to document the cash flowing into your business. It will help you to estimate how much cash will be available from what sources. To complete this worksheet, you will have to look at cash on hand, projected revenues, assets that can be liquidated, possible lenders or investors and owner equity to be contributed. This worksheet will force you to take a look at any existing possibilities for increasing available cash.



Example Worksheets

On pages 132 through 136, you will see examples of the two worksheets along with accompanying information explaining each of the categories used. The worksheets are filled in for our fictitious company, **Ace Sporting Goods**, to help you understand the process.

Please note: *The Cash to be Paid Out Worksheet shows a need for \$131,000. It was necessary in projecting Sources of Cash to account for \$131,000 without the projected sales because payment is not expected to be received until November and December (too late for cash needs January through October). Next year, those revenues will be reflected in cash on hand or other salable assets.*

When you do your own worksheets:

- Try to be as realistic as possible. **Do not understate revenues and/or overstate expenses**, a deadly error frequently made during the planning process.
- Be sure to figure all of your estimates on both worksheets for the same time period (i.e., annually, quarterly, or monthly).

Cash to Be Paid Out Worksheet

Explanation of Categories

1. Start-up Costs

These are the costs incurred by you to get your business underway. They are generally one-time expenses and are capitalized for tax purposes.

2. Inventory Purchases

Cash to be spent during the period on items intended for resale. If you purchase manufactured products, this includes the cash outlay for those purchases. If you are the manufacturer, include labor and materials on units to be produced.

3. Variable Expenses (Selling or Direct Expenses)

These are the costs of all expenses that will relate directly to your product or service (other than manufacturing costs or purchase price of inventory.)

4. Fixed Expenses (Administrative or Indirect Expenses)

Include all expected costs of office overhead. If certain bills must be paid ahead, include total cash outlay even if covered period extends into the next year.

5. Assets (Long-Term Purchases)

These are the capital assets that will be depreciated over a period of years (land, buildings, vehicles, equipment). Determine how you intend to pay for them and include all cash to be paid out in the current period. **Note:** Land is the only asset that does not depreciate and will be listed at cost.

6. Liabilities

What are the payments you expect to have to make to retire any debts or loans? Do you have any Accounts Payable as you begin the new year? You need to determine the amount of cash outlay that needs to be paid in the current year. If you have a car loan for \$20,000 and you pay \$500 per month for 12 months, you will have a cash outlay of \$6,000 for the coming year.

7. Owner Equity

This item is frequently overlooked in planning cash flow. If you, as the business owner, will need a draw of \$2,000 per month to live on, you must plan for \$24,000 cash flowing out of your business. Failure to plan for it will result in a cash flow shortage and may cause your business to fail.

Note: Be sure to use the same time period throughout your worksheet.

* Variable & Fixed Expense Categories Must Be Determined By You *

Every business has expenses that are specific to its industry. You will have to customize your variable and fixed expense categories to match your business. We have suggested some in our examples to get you started. You will type in your own headings in the working spreadsheets. As you begin to operate your business, you will be better able to determine what your true expenditures are. You can change later if you find that your current categories do not meet your needs.

Ace Sporting Goods
Cash to Be Paid Out Worksheet
(Cash Flowing Out of the Business)

Time Period Covered: January 1 thru December 31, 2007

1. START-UP COSTS:		\$ 1,450
Business License	30	
Corporation Filing	500	
Legal Fees	920	
Other start-up costs:		
a.	_____	
b.	_____	
c.	_____	
2. INVENTORY PURCHASES		32,000
Cash out for goods intended for resale		
3. SELLING EXPENSES (VARIABLE/DIRECT)		
Advertising/Marketing	6,000	
Event Planning	2,500	
Freight	0	
Sales Salaries/Commissions	14,000	
Travel	2,000	
Vehicle	1,550	
Miscellaneous Variable Expense	300	
TOTAL SELLING EXPENSES		27,150
4. FIXED EXPENSES (ADMINISTRATIVE/INDIRECT)		
Financial Administration	1,800	
Insurance	900	
Licenses/Permits	100	
Office Salaries	16,300	
Rent Expenses	8,600	
Utilities	2,400	
Miscellaneous Fixed Expense	400	
TOTAL OPERATING EXPENSES		30,500
5. ASSETS (LONG-TERM PURCHASES)		6,000
Cash to be paid out in current period		
6. LIABILITIES		9,900
Cash outlay for retiring debts, loans, and/or accounts payable		
7. OWNER EQUITY		24,000
Cash to be withdrawn by owner		
TOTAL CASH TO BE PAID OUT		\$ 131,000

Sources of Cash Worksheet

Explanation of Categories

1. Cash on Hand

Money that you have on hand. Be sure to include cash in the bank, petty cash and moneys not yet deposited.

2. Sales (Revenues)

This includes projected revenues from the sale of your product and/or service. If payment is not expected during the time period covered by this worksheet, do not include that portion of your sales. Think about the projected timing of sales. If receipts will be delayed beyond the time when a large amount of cash is needed, make a notation to that effect and take it into consideration when determining the need for temporary financing. Include deposits you require on expected sales or services. To figure collections on Accounts Receivable, you will have to project the percentage of invoices that will be lost to bad debts and subtract it from your Accounts Receivable total.

3. Miscellaneous Income

Do you, or will you have, any moneys out on loan or deposited in accounts that will yield interest income during the period in question?

4. Sale of Long-Term Assets

If you are expecting to sell any of your fixed assets such as land, buildings, vehicles, machinery, equipment, etc., be sure to include only the cash you will receive during the current period.

Important: At this point in your worksheet, add up all sources of cash. If you do not have an amount equal to your projected needs, you will have to plan sources of cash covered under numbers 5 and 6.

5. Liabilities

This figure represents the amount you will be able to borrow from lending institutions such as banks, finance companies, the SBA, etc. Be reasonable about what you think you can borrow. If you have no collateral, have no business plan, or if you have a poor financial history, you will find it difficult, if not impossible, to find a lender. This source of cash requires **preplanning**.

6. Equity

Sources of equity come from owner investments, contributed capital, sale of stock, or venture capital. Do you anticipate the availability of personal funds? Does your business have the potential for growth that might interest a venture capitalist? Be sure to be realistic in this area. You cannot sell stock (or equity) to a nonexistent investor.

Ace Sporting Goods Sources of Cash Worksheet (Cash Flowing Into the Business)

Time Period Covered: January 1, 2007 to December 31, 2007

1. CASH ON HAND	\$	<u>20,000</u>
2. SALES (REVENUES)		
Product Sales Income*		<u>90,000</u>
<i>* Most of the sales revenue will not be received until Nov. or Dec.</i>		
Service Income		<u>22,000</u>
Deposits on Sales or Services		<u>0</u>
Collections on Accounts Receivable		<u>3,000</u>
3. MISCELLANEOUS INCOME		
Interest Income		<u>1,000</u>
Payments to be Received on Loans		<u>0</u>
4. SALE OF LONG-TERM ASSETS		
		<u>0</u>
5. LIABILITIES		
Loan Funds (Banks, Lending Inst., SBA, etc.)		<u>40,000</u>
6. EQUITY		
Owner Investments (Sole Prop. or Partnership)		<u>10,000</u>
Contributed Capital (Corporation)		<u> </u>
Sale of Stock (Corporation)		<u> </u>
Venture Capital		<u>35,000</u>
A. Without product sales =		\$ 131,000
TOTAL CASH AVAILABLE		<u> </u>
B. With product sales =		\$ 221,000

Using the Worksheets to Build the Cash Flow Statement

Now that you have completed the two worksheets, you are ready to use that information. You have estimated **how much** cash will be needed for the year and you now know what sources are available.

In the next phase of cash flow planning you will break the time period of one year into monthly segments and predict **when** the cash will be needed to make the financial year flow smoothly. To make the job easier, you can follow these steps:

1. Figure the cost of goods and the variable and fixed expenses in monthly increments. Most will vary. When do you plan to purchase the most inventory? What months will require the most advertising? Are you expecting a rent or insurance premium increase? When will commissions be due on expected sales?
2. Project sales on a monthly basis based on payment of invoices, demand for your particular product or service and on how readily you can fill that demand. There will be no cash flowing in for orders that have not been filled and invoices that are not paid. If you are in a service business and you have no employees other than yourself, remember that income ceases when you are on vacation.
3. Determine your depreciable assets needs. When will you need them? How much will the payments be and when will they begin?
4. Fill in as much of the cash flow statement as you can using these projections and any others that you can comfortably determine. Then proceed according to the directions and complete the rest.

How to Fill In the Forms

To clarify the process of filling in a cash flow statement, pages 138 and 139 have been devoted to walking you through January and part of February for Ace Sporting Goods.



Pages 140 and 141 contain the directions for completing a Pro Forma Cash Flow Statement and an example form. There is also a blank form located in the Appendix for you to use to make your own projection

Remember

The Pro Forma Cash Flow Statement is one of the most useful financial tools available to the small business owner. It is also the first financial projection to be examined by a lender or investor because it shows how you plan to make it through the year, repaying your loan plus interest and at the same time maintaining the necessary cash flow to operate the business for maximum profitability.

Tech Tip

Save Your Valuable Time: Use Pre-formatted and Pre-formulated Spreadsheets

Planning your cash flow takes time in two ways: First you will have to spend the time to research all of your information and form your organizational and marketing concepts. Once you have your ideas, you will then have to interpret everything you want to do into numbers so that you will be able to analyze the projected results.

Building your cash flow statement (budget) is a long and tedious process, especially if you are trying to do it with a pencil and a piece of paper. There are about 350+ numbers to fill in and calculate. The job becomes compounded if you make a change and have to recalculate your numbers.

Computer Spreadsheets will solve your problems.

Software applications such as Excel and Lotus enable the user to build and formulate spreadsheets that will automatically perform complex calculations in an instant. Every computer user should learn to use one of these programs. Unless you are adept at using these applications, you will find yourself in over your head and bogged down in formatting and formulation.

Even more pertinent, in this instance, is the availability to access spreadsheets that have already been developed specifically for use in making cash flow projections.

For Example: Our **Automate Your Business Plan software** generates an integrated (linked) spreadsheet workbook. The spreadsheets are pre-formatted and pre-formulated. The Cash Flow Statement (and other financial statements) are set up to instantly perform calculations at any time that you input a number. They will also be customized to your own chart of accounts.

What-if Scenarios

The best part about using pre-formatted and pre-formulated computer spreadsheets is that you can try out different scenarios for your business. Add a product or service, buy a piece of equipment, or cut back on an expense. Input the new numbers and you will instantly be able to see what the probable financial effect will be on your business.

Ace Sporting Goods

Cash Flow for January and February 2007

January Projections

1. Ace Sporting Goods projects a beginning cash balance of \$20,000.
2. Cash Receipts: The store has not opened, so there will be no sales. However, income of \$4,000 is projected on receivables from a previous location.
3. Interest on the \$20,000 will amount to about \$100 at current rate.
4. There are no long-term assets to sell. Enter a zero.
5. Adding 1,2,3 and 4 the Total Cash Available will be \$24,100.
6. Cash Payments: Inventory payment will not be due until February. However, there will be graphic design costs of \$5,000 for local team uniforms.
7. Variable (Selling) Expenses: Estimated at \$1,140
8. Fixed (Administrative): Estimated at \$1215
9. Interest Expense: No outstanding debts or loans. Enter zero.
10. Taxes: No profit for previous quarter. No estimated taxes would be due.
11. Payments on Long-Term Assets: Ace Sporting Goods plans to purchase office equipment to be paid in full at the time of purchase. Enter \$1139
12. Loan Repayments: No loans have been received. Enter zero.
13. Owner Draws: Owner will need \$2,000 for living expenses.
14. Total Cash Paid Out: Add 6 through 13. Total \$10,494
15. Cash Balance: Subtract Cash Paid Out from Total Cash Available (\$13,606)
16. Loans to be Received: Being aware of the \$30,000 inventory costs payable in February, a loan of \$40,000 is anticipated to increase Cash Available. (This requires advance planning!)
17. Equity Deposit: Owner plans to add \$5,000 from personal account.
18. Ending Cash Balance: Adding 15, 16, and 17 the sum is \$58,606.

February Projections

1. Beginning Cash Balance: January's Ending Cash Balance is transferred to February's Beginning Balance. Enter \$58,606.
2. Cash Receipts: Coaching clinic income of \$1,000 plus \$1,000 to be collected from opening sales at the end of the month. \$2,000.
3. Interest Income: Projected at about \$120.
4. Sale of Long-Term Assets: None. Enter zero.
5. Total Cash Available: Add 1,2,3 and 4. The result is \$60,726.
6. Cash Payments: \$30,000 due for store inventory. \$400 due for graphic design.
7. Continue as in January. Don't forget to include payments on the loan that was received in January.

Ace Sporting Goods
Partial Cash Flow Statement

	Jan	Feb
BEGINNING CASH BALANCE	20,000	58,606
CASH RECEIPTS		
A. Sales/Revenues	4,000	2,000
B. Receivables	0	0
C. Interest Income	100	120
D. Sale of Long-Term Assets	0	0
TOTAL CASH AVAILABLE	24,100	60,726
CASH PAYMENTS		
A. Cost of goods to be sold		
1. Purchases	0	30,000
2. Material	0	0
3. Labor	5,000	400
Total Cost of Goods	5,000	30,400
B. Variable Expenses (Selling)		
1. Advertising	300	
2. Freight	120	
3. Fulfillment of Orders	0	
4. Packaging Costs	270	
5. Sales/Salaries	0	
6. Travel	285	
7. Miscellaneous Selling Expense	165	
Total Variable Expenses	1,140	
C. Fixed Expenses (Administrative)		
1. Financial Admin	80	
2. Insurance	125	
3. License/Permits	200	
4. Office Salaries	500	
5. Rent Expenses	110	
6. Utilities	200	
7. Miscellaneous Administrative Expense	0	
Total Fixed Expenses	1,215	
D. Interest Expense	0	
E. Federal Income Tax	0	
F. Other Uses	0	
G. Long-Term Asset Payments	1,139	
H. Loan Payments	0	
I. Owner Draws	2,000	
TOTAL CASH PAID OUT	10,494	
CASH BALANCE/DEFICIENCY	13,606	
LOANS TO BE RECEIVED	40,000	
EQUITY DEPOSITS	5,000	
ENDING CASH BALANCE	58,606	

↓

CONTINUE

as in

JANUARY

↓

Directions for Completing a Cash Flow Statement

This page contains instructions for completing the cash flow statement on the next page.
A blank form for your own projections can be found in the Appendix.

VERTICAL COLUMNS are divided into twelve months and preceded by a "Total Column".

HORIZONTAL POSITIONS on the statement contain all sources of cash and cash to be paid out. The figures are retrieved from the two previous worksheets and from individual budgets.

Figures are projected for each month, reflecting the flow of cash in and out of your business for a one-year period. Begin with the first month of your business cycle and proceed as follows:

1. Project the Beginning Cash Balance. Enter under "January."
2. Project the Cash Receipts for January. Apportion your total year's revenues throughout the 12 months. Try to weight revenues as closely as you can to a realistic selling cycle for your industry.
3. Add Beginning Cash Balance and Cash Receipts to determine Total Cash Available.
4. Project cash payments to be made for cost of goods to be sold (inventory that you will purchase or manufacture). Apportion your total inventory budget throughout the year, being sure you are providing for levels of inventory that will fulfill your needs for sales projected.
5. Customize your Variable and Fixed Expense categories to match your business.
6. Project Variable, Fixed and Interest Expenses for January. Fill out any that you can for all 12 months.
7. Project cash to be paid out on Taxes, Long-Term Assets, Loan Repayments and Owner Draws.
8. Calculate Total Cash Paid Out (Total of Cost of Goods to Be Sold, Variable, Fixed, Interest, Taxes, Long-Term Asset payments, Loan Repayments and Owner Draws).
9. Subtract Total Cash Paid Out from Total Cash Available. The result is entered under "Cash Balance/Deficiency." Be sure to bracket this figure if the result is a negative to avoid errors.
10. Look at Ending Cash Balance in each of the months and project Loans to be Received and Equity Deposits to be made. Add to Cash Balance/Deficiency to arrive at Ending Cash Balance for each month.
11. Ending Cash Balance for January is carried forward and becomes February's Beginning Cash Balance. (Throughout the spreadsheet each month's ending balance is the next month's beginning balance.)
12. Go to February and input any numbers that are still needed to complete that month. The process is repeated until December is completed.

To Complete the "Total" Column:

1. The Beginning Cash Balance for January is entered in the first space of the "Total" column.
2. The monthly figures for each category (except Beginning Cash Balance, Total Cash Available, Cash Balance/Deficiency, and Ending Cash Balance) are added horizontally and the result entered in the corresponding Total category.
3. The Total column is then computed in the same manner as each of the individual months. If you have been accurate, your computations, the December Ending Cash Balance will be exactly the same as the Total Ending Cash Balance.



NOTE: *If your business is new, you will have to base your projections solely on market research and industry trends. If you have an established business, you will also use your financial statements from previous years. This process may seem complicated, but as you work with, I think that it will begin to make perfect sense and will be a straightforward and reasonable task to accomplish.*

Pro Forma Cash Flow Statement

Ace Sporting Goods

	Jan	Feb	Mar	Apr	May	Jun	6-MONTH TOTALS	Jul	Aug	Sep	Oct	Nov	Dec	12-MONTH TOTALS
BEGINNING CASH BALANCE														
CASH RECEIPTS														
A. Sales/Revenues (Cash Sales)														
B. Receivables to be Collected														
C. Interest Income														
D. Sale of Long-Term Assets														
TOTAL CASH AVAILABLE														
CASH PAYMENTS														
A. Cost of goods to be sold														
1. Purchases														
2. Material														
3. Labor														
Total Cost of Goods														
B. Variable (Selling)														
1. Advertising														
2. Event Planning														
3. Freight														
4. Sales Salaries														
5. Travel														
6. Vehicle														
7. Misc. Selling Expense														
Total Variable Expenses														
C. Fixed Expenses														
1. Financial Administration														
2. Insurance														
3. License and Permits														
4. Office Salaries														
5. Rent Expenses														
6. Utilities														
7. Misc. Administrative Expense														
Total Fixed Expenses														
D. Interest Expense														
E. Federal Income Tax														
F. Other Uses														
G. Long-Term Asset Payments														
H. Loan Payments														
I. Owner Draws														
TOTAL CASH PAID OUT														
CASH BALANCE/DEFICIENCY														
LOANS TO BE RECEIVED														
EQUITY DEPOSITS														
ENDING CASH BALANCE														

This is the full extension of the previous form (partial cash flow statement). There is a blank form in the appendix for your use.

Market Your Business

Now it is time to think about how you will market your products and/or services to your customers. Many companies with wonderful products and services have failed because they were unable to reach and sell to their target markets.

In this chapter, you will learn how to set the goals and objectives for your marketing strategy. You will then learn how to develop a marketing plan for your start-up company that will help you reach those goals. Your marketing plan should have the following components:

- ✓ *Overview and Goals of Your Marketing Strategy*
- ✓ *Market Analysis*
(Target Market, Competition, Market Trends, Research)
- ✓ *Packaging and Pricing*
- ✓ *Sales Strategy (Online and Offline)*
- ✓ *Advertising (Traditional and Web)*
- ✓ *Publicity*
- ✓ *Customer Service*



Note: *If your new business is larger and more complex, you may need a more detailed marketing plan. See our book “Anatomy of a Business Plan” for more marketing information.*

I. Overview and Goals of Your Marketing Strategy

Your marketing strategy is the comprehensive approach your company will take to achieve its goals and objectives.

Definition of a Marketing Strategy

An effective marketing strategy integrates the activities involved in marketing, sales, advertising, public relations, and networking. Each of these components of your overall marketing strategy serves a unique purpose, offers specific benefits, and complements every other component. All components must work together to enhance your company image, reinforce your brand strength, and ensure that your company is distinct from your competitors.

The traditional (offline) and new media (online) components of your marketing strategy should all fit together. These components include promotion of your range of services and products, determination of your prices or rate structure, creation of advertising and public relations plans, promotional campaigns, and multi-media endeavors. It is important to think through your strategy and gather information about your market and your competition *before* you set your price structure or book ad space. Trial-and-error marketing plans are too expensive.

Note: U.S. Small Business Administration (SBA) District Offices and local Small Business Development Centers (SBDCs) offer workshops on marketing, publications and reference materials at little or no cost to you. Both have consultants that are readily available to help you. Self-help business books are also available in abundance on every aspect of your marketing plan.

Goals of Your Marketing Strategy

What do you hope to accomplish through your marketing strategy? Market research, advertising campaigns, sales incentives, public relations efforts, and networking plans should all move your business in the direction of achieving your marketing goals. The best marketing plans are results-oriented; they define specific, realistic, measurable goals within time parameters. All sales, advertising, and public relations efforts are designed to work together to achieve these goals.

Goals of your marketing strategy, for example, could include creating a strong brand, building a strong customer base, and increasing product/service sales. Each goal should be explained in terms of what it means to your company? To illustrate, let's examine three examples of goals:

- **Create a strong brand.** What is the current level of brand awareness for your company/product/service? Are you starting from scratch or building on a familiar name? What are the characteristics of this brand that you want to reinforce in the minds of consumers? What level of brand awareness do you hope to achieve?
- **Build a strong customer base.** Who are your best customers? What customers are most likely to spend money, and return? What is the profile (demographics, psychographics) of your ideal customer? How can you reach this market, online and offline? What particular characteristics of your company/product/service are most likely to inspire loyalty in your ideal customers?

- **Increase product/service sales.** How can you predict the future demand for your product/service? What new level of sales growth can your business handle? What quantities of your product can you produce/distribute? What level of service can you support through existing or additional staff?

Basic Marketing Questions

Five fundamental questions should be answered in order to identify your marketing goals: Who, what, where, when, and how? Specifically:

- **Who** are your customers? Who are your competitors?
- **What** are you selling? What quantities of your products will you sell and at what price?
- **Where** is your target market located? Where can you reach your target market?
- **When** are your customers most likely to buy? When are your busy seasons?
- **How** will you reach your customers (stores, offices, web site, catalogs)?

Marketing Musts

Four activities will help you organize your marketing efforts in the most effective direction to achieve your goals. (See worksheets are at the end of this chapter.)

1. **Sell selectively.** This will help you define your market niche. What will *you* offer that is distinctly different (better, less expensive, faster, higher quality, etc.) from *your competitors*? Why should anyone buy from you? What market share can you seek?
 2. **Know your niche.** What type of individuals and/or businesses do you plan to serve? Start by answering in general terms (professionals, service companies, manufacturing, retail, etc.), then try to be very specific. Spell out demographics first—age, sex, income, etc. Then you can move on to psychographics, or lifestyle considerations. When you clearly define the population you hope to sell to, you'll have a better view of what products and services they require. Where do they spend their free time? What activities are they involved in? How do they spend their disposable income?
 3. **Create your pitch.** Define what “your product/service attributes” mean so that your product or service comes *alive* for your prospective clients. Make it *so* important that they will no longer want to live or work without it. Appeal to their individual needs.
 4. **Price for profits.** The goal of your business is to make a profit. Many start-up businesses fail to make a profit as early as projected because they didn't price properly. Know what your competition charges, and determine if you should be less than, equal to or higher priced. Be sure for product pricing that you have covered your materials, labor and overhead costs. Service, like consulting, can be difficult to pinpoint. Some services will fall into an *hourly* rate structure; others are better-suited to a *service fee*. Pricing decisions will have to take into account what your market will bear.
-

II. Market Analysis

The Market Analysis section of your Marketing Plan contains information about your target market, competitors, and marketing trends. Market research methods and results are also delineated in this section.

Identify Target Markets

Who are you selling to? Who are your ideal customers? Your target market should be defined in terms of demographics, psychographics, and special characteristics of niche markets, if applicable. For research information about your target market, we have developed a special web page at www.business-plan.com/aybp/resources.html. You will be guided through a full listing of marketing research sites with *hot links* to each of the resources.

Demographics refers to the statistical data of a population, including average age, income, and education. Government census data is a common source of demographic information.

Psychographics uses demographics to determine the attitudes and tastes of a particular segment of a population. Psychographics examines lifestyles: where people spend their vacations, where they shop, how they spend their disposable income, what sports they participate in or watch, which clubs/organizations they join, and more.

Niche markets are a small segment of the population that shares common characteristics, interests, spending habits, etc. Successful niche marketing focuses on a small segment of a total market. Examples of niche markets include SOHOs (small office/home office), Generation X or Y, cultural niches, hip hop, to name a few. (The website www.nichemarkets.com offers a longer list.)

Research Your Competition

Who is competing with you? After you have identified your target market, it is important to discern what other companies are after the same market. What are their strengths and weaknesses relative to your business?

If you are not certain who your competitors are, use several search engines to see what company names are presented when you seek your own products and services online. Check trade associations, and manufacturing company listings, and other directories available in your library reference section if you want to do an offline search.

In researching your competitors, check out the general health of the business, their approach to marketing, and their financial information. In addition, specifically investigate the following:

- **Check out their websites**
- **Investigate the prices of their products and services**
- **Determine who their advertisers are**

Assess Market Trends

Your marketing plan should reflect your observations and insight about trends in your industry and in your target market. Information about the general direction of the marketplace can help you target *what people want*. Futurist Faith Popcorn identified sixteen market trends in her book, *Clicking* (HarperCollins, 1996) that are still accurate today. She coined the phrase “cocooning” to describe the phenomenon of staying-at-home to relax and unwind. Dramatic increases in the sales of home theatre equipment, rentals of VHS/DVD movies, and take-out food are a testimonial to the longevity of this trend. What market trends will have an impact on your business, influencing the demand for your products and services? Are you on-trend?

Industry trends influence almost every business within its segment. These are major trends such as the increase in service businesses in the U.S., the decline of manufacturing, and the precarious position of Internet pure-plays, to name a few.

Target market trends, like the events categorized by Faith Popcorn and other marketing gurus, have an impact on the direction of a smaller segment of the population or business community. Trends can be influenced by demographics, such as the aging of our population and huge number of baby-boomers reaching age 50 every minute, or by cultural and social influences outside the realm of demographics. Examples of market trends that evolve from demographic shifts include the increase in the number of assisted-living facilities, and the growth of innovative products and services designed for a more “youthful” retired population.

Conduct Market Research

Market research can prevent your company from making erroneous decisions that result in expensive design mistakes in new products, marketing campaigns, and more. Market research has traditionally been conducted through techniques such as questionnaires, polls, surveys, and focus groups. Today your business can take advantage of both online and offline market research techniques.

Methods of Research

Questionnaires can be administered by paper or by online surveys. In either case, questionnaires are more likely to be answered if there is an incentive for the consumer to respond (a *reward*, that is).

Focus Groups offer more insight regarding customer preferences and thought processes than questionnaires. In focus groups, small groups of consumers are brought together under the direction of a moderator. Their observations, responses, reactions, and comments are recorded. Focus groups can also be conducted online using an Internet chat room.

Surveys – Telephone surveys are the terror of many quiet dinners, and have become increasingly unpopular (and unreliable). Online surveys, on the other hand, meet with surprising success if presented positively. Websites can include several questions (un-intrusive, simple, quick to answer) in their format to elicit comments and suggestions from website visitors, particularly shoppers.

Database analysis

What kinds of information will you want to collect and store to help you make better executive decisions about your business? If you store information in a database for later analysis, it can help you identify trends within your company in sales, marketing, production, and finance. The sales and marketing data will be particularly useful for managing your marketing plan.

III. Contents of Your Marketing Strategy

In this part of your marketing plan, the contents shift to more detailed planning. You will describe your sales strategy, for example, and also elaborate on the materials you will produce and the campaigns you will organize. When you define your advertising strategy, you will need to identify how you will spend your money on each medium and in what markets.

Method of Sales and Distribution

How will your company reach your customers? Are your sales primarily handled by bricks (physical stores), clicks (website), catalogs (direct mail), or hybrid (multiple channels)? Do you have plans to expand your methods of sales/distribution as sales increase?

Packaging

If you provide a product, your *packaging* will be a crucial early consideration. If you are not a trained or talented designer, seek assistance for this. Packaging has a huge impact on the consumer's decision to buy.

If you provide a service, the “package” is you. Your company *image* should be defined before you begin any other marketing efforts. The image of a professional such as a lawyer or accountant, for example, involves building a private practice that will be distinctly different from an advertising agency seeking clients in the fashion industry. Keep your message consistent and simple for your market. All of your online and offline marketing efforts, sales pitch, public relations activities, advertising, and promotional campaigns should be supportive of one another and of your image.

Pricing

How much flexibility is there in your pricing strategy? What is your price floor (the lowest price you can charge and still cover your costs) and what is your price ceiling (the highest price the market will bear)? Your marketing plan must address your pricing policy and how prices can be adjusted if necessary to increase demand or cover unanticipated revenue shortfalls.

- **Price strategy**

You may find that the range between your price floor (cost of delivering your product or service) and your price ceiling (what the market will bear) offers considerable

leeway. Somewhere in this range is the right price point for your product or service. How do you find out what that point is? Through focus groups and surveys you can determine what the average customer is willing to pay.

- **Competitive position**

Should your prices be greater than, less than, or equal to your competitors? Do you need to adjust your prices when your competitors make a change? If you are claiming to offer the highest quality and most personalized service, you may be able to justify charging more than your competitors. If you are appealing to a more “elite” clientele than your competitors, you will also be able to establish your pricing independently. If you hope to beat your competitors on price by going lower, you’ll have to be sensitive to your price floor—what you can truly afford to discount and still be a profitable business? If you want to remain equal to your competitors you’ll have to be extremely sensitive to any “value-added” offerings and special promotions they are offering.

Sales Strategies

This section of your marketing plan outlines your use of online and offline sales materials to reach your target market. Traditional (offline) sales involve the creation of printed materials to accompany your sales efforts. New media (online) sales involve refinement of your Web strategy in order to present your products and services in the best possible manner.

- **Direct Sales**

If you are a start-up company, you may find yourself working as both CEO and chief salesperson (not to mention, head of office maintenance...). Your marketing plan should identify how you plan to contact prospects, what materials you will send out or deliver, and what follow-up will occur. Your direct sales approach should combine both offline (personal) contact with prospective customers, and online sales through your Web site.

Offline sales require materials that can be sent to prospective customers and brought with a salesperson (or you) to presentations. Do you have to design new sales materials? What is required? Will you have to create a new logo and graphics for your material? Consider the traditional list of printed materials: brochures, pamphlets, flyers, stationery, business cards, catalog, promotional flyers, etc. Identify the specific materials that you will need to design and print for use in your sales campaign.

Online sales require a Web site that doubles as a marketing tool. In addition to the technological considerations of Web site design, special attention must be directed to engaging the site visitor and providing incentives to buy. Web sites that contain creative features that attract new visitors and encourage them to return to the site are called “sticky,” which refers to the ability of a site to bring visitors back for additional shopping. Your online “pitch” must be just as engaging and irresistible as your in-person sales appeal.

- **Direct Mail**

The cost of direct mail campaigns has been estimated to be about \$1 to \$2 per item. As postage and paper costs escalate, direct mail becomes a less attractive sales

option. Even with the best mailing list, be prepared for a low rate of return. Direct mail coupled with incentive offerings can be slightly more effective.

- **E-Mail Marketing**

Compared to direct mail, e-mail marketing is a bargain at \$.01 to \$.25 per item. According to experts it is outpacing direct mail for good reasons. E-mail correspondence is more likely to be read than direct mail. It offers opportunities to send personalized offers, based on your understanding of your customers' preferences.

- **Affiliate Marketing**

Affiliate marketing engages the services of a virtually limitless sales force through some type of commission structure for sales, leads, or website visits. Affiliates are only paid for the actual sales, and their commission is a small percentage of the total sale. One of the most popular affiliate programs is run by Amazon.com (www.amazon.com). Affiliate programs can offer a creative strategy for service-based businesses to sell related products on their website without having to develop the products themselves.

- **Reciprocal Marketing**

Arrangements in which one company offers customers a discount for another company's goods, either in their store or on their website, are examples of reciprocal marketing. Creative opportunities within local communities or online communities can make this a beneficial and inexpensive alternative to promote your company. Chambers of Commerce often extend these offers within their own circle of member businesses. Online opportunities can cross these geographic boundaries to offer virtually limitless possibilities among complementary companies.

- **Viral Marketing**

Viral marketing occurs when a company offers something that people find so intriguing that they spread the word on their own. In order to be effective, your company offering must be simple, entertaining, or engaging in some way. It also must include your company's insignia or the whole point is missed. Viral marketing by word-of-mouth has been highly effective, but viral marketing by the Web has even greater impact. Word can spread more quickly, and to greater numbers of people, by e-mail and forwarded web links than by telephone calls. And when people see an e-mail from someone they know, they are most likely to read it.

Advertising Strategies

Advertising is the most potentially expensive investment of your marketing strategy. Because of the high costs involved, the efforts should be researched thoroughly before you begin. This is not an area for amateurs. If you hire no other consultants, and you know you need to advertise your business, hire someone with advertising expertise. The standards today are very high, even in the smallest local papers.

Online advertising is a relatively new field and uses different guidelines than print. Graphics, photos, layouts, text, and design have to be completely professional for a positive impact in both the online and offline advertising options.

If you can pinpoint your target market in the finest detail, you can specify precisely where your ad campaign should be located. Size, timing, duration, frequency all come into play. Don't try this by trial and error. Get guidance from an expert.

Traditional Advertising

Traditional media includes television, radio, print, and extreme advertising. Your investment in market research truly pays off when you begin to determine how to allocate your advertising budget. Only the venues that have an impact on your target market are worth your investment. What television shows do they watch? What radio programs do they listen to? What do they read for business and for entertainment? Where are they traveling and by what method of transportation? With accurate market research to guide you, you can avoid costly advertising mistakes.

- **Television (network and cable).** Network television advertising remains the most costly advertising investment. Within this top tier, the highest price for commercial time is still the Super Bowl. Network prime time follows in rank-order, followed by non-prime time network buys. Network television advertising still has the power to create brands in a way that few other advertising alternatives can.

Cable advertising, which is predicted to assume an increasing share of the total television advertising dollars, works at several levels. National cable advertising can be as costly as network television programming, but local cable television offers rates that may be affordable for even very small businesses.

- **Radio.** Radio advertising offers small businesses an opportunity to reach a national or local audience with a rate schedule far below television advertising. Radio advertisements can reach your target market during business hours as well as personal time, during commute time, and mid-day programming.
- **Print.** Market research should provide you with information about the newspapers, magazines, periodicals, and professional or trade journals that are of interest to your target market. Print ads are most effective when they have a single focal point, a distinctive picture, and an explicit headline message of nine words or less.
- **Extreme Advertising.** Extreme advertising includes billboards, bus wraps, blimp, and any other form of oversize outdoor ads. Extreme advertising is most effective when the message is straightforward and simple, without complex graphics and extended narratives.

Web Advertising/New Media

Your online advertising dollars should be invested with the same care and precision as your investment in traditional media. Web advertising options include banner ads, PDA advertising, advertising on portals, and interactive television. Market research again serves as the foundation from which to build your campaign, directing your strategy to include the online options that are most visible to your target market. What Web sites do they visit? Where do they shop online? What portals do they use?

- **Banner ads.** Banner ads have been widely criticized, but they are still a popular form of online advertising. New standards for online ads, which include a more advertiser-friendly format that closely resembles a traditional print ad and a new form of sidebar, have breathed new life into banner ads. Even critics agree that banner ads offer a method of headlining a brand name over and over again, building brand awareness, even if the “click through” rate is lower than five percent.
- **PDA Advertising.** Personal Digital Assistant (PDA) advertising meets the unique space and size requirements of specific wireless devices. PDA advertising is most effective when it is specifically designed for these devices rather than personal computers. The best use of this form of advertising is to reach consumers on-the-go for things like travel arrangements, comparison pricing, auction bidding, hotel and entertainment plans, and stock activities.
- **Portals.** *Portals* guarantee a tremendous number of viewers at an extremely high cost. Advertising on a portal is beyond the scope of most small businesses, but placement in a marketplace on a portal may be a way to build online traffic. Amazon.com’s zShops, Shopping@Yahoo.com, iMall, and other similar locations offer the opportunity for broader exposure without the high price tag of a portal ad. Advertising on portals requires an understanding of consumer behavior in your target market to achieve the best results.

Long-term Sponsorships

Sponsorships can be designed to meet the marketing goals of any company. Long-term sponsorships offer the benefit of helping to strengthen brand awareness in niche markets. In both the online and offline areas, long-term sponsorships help to build strong relationships with a business or organization and its direct market, offering opportunities to co-brand multiple events, functions, advertisements, and more, providing high visibility for the advertiser. Co-branding can be set up as an exclusive arrangement or as a joint sponsorship among several complementary companies.

Public Relations

The primary difference between advertising and public relations is that you always pay for advertising space, while press coverage from your public relations efforts is “free” (aside from the fact that you may have paid to orchestrate the event that subsequently became newsworthy). Activities that demonstrate your strengths and the terrific qualities of your business in a newsworthy way can be of more value in the long run than the most expensive advertising campaign. Public relations campaigns strive to build credibility in the marketplace through routes that are more discreet than direct advertising.

- **Building an Online Presence**

Your web site offers a vehicle for public relations that companies without an online presence can’t imitate. Community groups or clubs, chat groups, and message boards offer incentives for people to return to your Web site more frequently. *Community groups* can be established on your Web site to allow individuals with common interests access to shared information. What community group and club

activities can be included on your Web site? *Chat groups* facilitate dynamic interaction among visitors to your Web site. Chat groups can be set up by topic according to a regular schedule for maximum effectiveness. *Message boards* encourage a running dialogue of questions and answers, and allow visitors to your Web site to exchange information or to request information from a subject expert on your site.

- **Events (Online and Offline)**

Can you create an event that will attract people to your Web site or to your physical store or office location? Grand openings, anniversary celebrations, celebrity visits, and other creative events serve a dual purpose. If they are done well, they will reinforce your relationship with existing customers and attract new business. If they are significant and newsworthy events, you may be fortunate enough to receive press coverage.

- **Publicizing Your Efforts**

Seek opportunities for press coverage of your work and your accomplishments whenever you can. The impact of public relations is cumulative. You won't see immediate results in most cases, so consistency is critical.

- **Press Releases**

A simple press release, preferably one-page, accompanied by a photo, can gain more visibility for you than an advertisement if the newspapers pick it up. *Press releases* should be interesting, *newsworthy*, concise, and sent to the right person. Watch the newspapers carefully to determine who the correct contact for your press release is. The Business Editor generally receives huge numbers of releases. If a specific reporter tends to cover stories about your industry or interests, try addressing the release to that individual instead. The media brings you into the broader public view than your advertising can. It is your way to reach larger numbers in less time.

Send your press releases to:

1. **Weekly newspapers** – reporters are always looking for great new stories.
2. **Daily newspapers** – usually want only a local twist, so stay close to home, unless it's a national story.
3. **Wire Services** – seek up-to-the-second news items, so move quickly if you have a hot item to report.
4. **Magazines** – offer a chance to look like an expert, but you will need longer lead time. Plan ahead.
5. **Radio** – attracts the attention of the mobile and the sedentary. A guest spot can boost you into a whole new spectrum.
6. **Television** – the most important medium to be prepared for. Take the time to learn how to present yourself on television. With television, you need to be concise and controlled, speaking in sound bites to be sure your point gets across the way you want it to and isn't edited out.

Press kits can also be helpful. Prepare your own or hire a marketing consultant to help you out. Your press kit should build your credibility as an expert in your field or profession. Include:

1. **Biography** (short and directed to events that are significant today)
2. **Photo** (headshot, 8x10 or 5x7 black and white)
3. **Brochure**
4. **Copies of articles** that have quoted or featured you

Networking

Networking can mean the difference between isolation and involvement for any business owner. For home-based businesses networking takes on a particularly significant role. It replaces the water-cooler and coffee-pot contact that occurs daily in every corporate office. Networking is by definition a supportive system of sharing information and services among individuals and groups having a common interest. Networking will keep you in contact with the outside world, help you avoid isolation and stagnation, and build your business contacts for current and future plans.

Networking is a two-way street, an *exchange* of information. Real networking requires that you do *more* than reach out to give and receive business cards. *Give* a little information, and *get* a sincere grasp of what one another's skills are. Then you've *really* reached out.

You will need to become involved in several levels of networks to provide contacts for you within:

- the business community at large
- your peer group of professionals
- your local community
- the community at-large.

Involvement in some organization at each of these levels of networks will provide public relations opportunities that will not develop from within your own home. Your degree of involvement in any organization should reflect its importance to your business success. The best use of your time, however, will be to find and focus on a few organizations that offer both business and personal satisfaction. Determine how you can volunteer your time in a way that also provides you with an opportunity to showcase your skills. Your talents will be most visible to the group if you share them and help the association accomplish its goals. In a position of leadership in any type of organization you will give the most time but will also gain the best contacts. You will get to know the most people. You will have the most opportunity for media exposure.

IV. Customer Service

Consumer expectations of high quality service must be met if you want to keep your customers. Consumers expect to be able to contact a customer representative with questions,

concerns, problems, complaints, and returns. Business customers expect the same. Your business will need to identify your plans to meet these needs.

- **Description of Customer Service Activities**

Will you offer 24/7 access to customer service representatives? Can your customers reach you by phone, fax, or e-mail at any time? As your business grows, you will probably need to consider the addition of the services of a call center, which offers uninterrupted service for your customers. How will you deal with customer contact in the meantime?

- **Expected Outcomes of Achieving Excellence**

It's an old marketing maxim that it is far less expensive to retain existing customers than to add new ones, so your business gains an immediate benefit from building a loyal customer base.

V. Assessment of Marketing Effectiveness

Once your marketing plan is implemented, you will need to assess your results. You will need to continuously monitor the effectiveness of each online and offline campaign.

- Are your Web site promotions reaching your target market?
- What online advertising methods are the most effective in driving traffic to your Web site?
- What is the cross-over from online promotions to offline sales, and from offline promotions to online sales?
- Should certain radio, print, or television advertisements be strengthened?
- Should any be abbreviated or eliminated?

Assessment of the effectiveness of your marketing plan provides the information you need to direct your future efforts and to make the wisest investment of your marketing dollars.



To Help You

The remaining pages in this chapter are as follows:

- **Marketing Worksheets** that will make it easier to develop your own marketing plan. (pages 156-62, figures 17.1 thru 17.5)
- **The Marketing Plan Outline** to provide you with an overview of the components and to help you with the formatting of your own marketing plan. (pages 163-64)

Components of a Successful Multi-Media Marketing Strategy

Marketing - Traditional (Offline)	+	New Media (Online)
<p>Identify target market(s).</p> <ul style="list-style-type: none"> - Demographics - Psychographics - Niche market specifics <p>Research/assess competition. Assess industry trends. Conduct market research.</p> <ul style="list-style-type: none"> - questionnaires - focus groups - surveys <p>Create packaging/image. Determine pricing strategy. Create branding/image strategy.</p> <ul style="list-style-type: none"> - logo - slogan - pitch <p>Develop customer database assessment. Identify co-marketing opportunities. Design reciprocal marketing strategies. Evaluate effectiveness of all components of the marketing plan.</p>	<p>Identify online target market(s).</p> <ul style="list-style-type: none"> - Online demographics - Online psychographics - Online niche market specifics <p>Research /assess competitors' websites. Assess online industry trends. Conduct market research.</p> <ul style="list-style-type: none"> - e-mail questionnaires - online focus groups (structured chats) - online (website) surveys <p>Mirror branding/image online.</p> <p>Design online customer database assessment. Merge online/offline database analysis. Identify online co-marketing opportunities. Identify links to/from other websites. Evaluate effectiveness of online marketing.</p>	

Sales – Traditional (Offline)	+	New Media (Online)
<p>Refine the sales pitch.</p> <p>Design and print all sales materials.</p> <ul style="list-style-type: none"> - Brochures - Pamphlets, folders - Stationery, business cards, etc. - Catalog - Promotional flyers, other <p>Create direct mail campaign. Instigate viral marketing.</p>	<p>Determine the online sales pitch.</p> <p>Design/implement the website.</p> <ul style="list-style-type: none"> - Introduce the company - Define products/services - Identify additional content needs <p>Register with search engines. Create an e-mail marketing campaign. Create affiliate programs. Create viral marketing opportunities online.</p>	

Figure 17.1 – page 1

Sales Incentive/Promotions (Offline)	+	New Media (Online)
<p>Create in-store campaigns and mailers:</p> <ul style="list-style-type: none"> - cash back coupons - discounts/coupons - special introductory offers - free samples <p>Design sweepstakes and contests.</p> <p>Identify give-aways.</p> <p>Identify trade show opportunities.</p> <ul style="list-style-type: none"> - determine level of involvement (exhibitor vs. attendee) 		<p>Create campaigns on the website and via e-mail for:</p> <ul style="list-style-type: none"> - cash back coupons - discounts/coupons - special offers (ex: free shipping) <p>Design online sweepstakes or points programs</p> <ul style="list-style-type: none"> - example: points for frequent web shoppers) <p>Identify give-aways (e.g., as a thank you for completing a website survey).</p>

Advertising – Traditional (Offline)	+	New Media (Online)
<p>Determine if an advertising agency should be hired.</p> <p>Determine placement, frequency, and prices for each of the following options.</p> <ul style="list-style-type: none"> - Television (network, cable) - Radio (national, local) - Print (newspapers, magazines, trade journals, bulletins, yellow pages, newsletters, etc.) - Extreme advertising (billboards, buses, blimps, etc.) - Other (event signage, t-shirts, point-of-purchase signs, etc.) <p>Identify opportunities for sponsorship (of events, programs, materials, etc.).</p>		<p>Determine if an advertising network should be hired.</p> <p>Determine placement, frequency, and prices for each of the following options.</p> <ul style="list-style-type: none"> - Banner ads (vertical, rectangle, click thru) - Portal advertising - Vortal (vertical portal) advertising - Online newsletters, newspapers - Interactive television - Direct TV - Links to/from - Advertorials on other websites <p>Identify opportunities for online sponsorships (of Web events, of portions of a website, of online newsletters).</p>

Figure 17.1 – page 2

Components of a Successful Multi-Media Marketing Strategy

Public Relations – Traditional (Offline) + New Media (Online)

<p>Determine if a public relations agency should be hired.</p> <p>Conduct scheduled events for public/niche:</p> <ul style="list-style-type: none"> - workshops - open house - seminars - celebrations <p>Arrange for:</p> <ul style="list-style-type: none"> - participation in other events (special lectures, speeches, workshops) - guest appearances (radio, television, guest columnist) - interviews (print) <p>Identify community and charitable events for personal and financial contributions.</p>	<p>Determine if the public relations function should be outsourced.</p> <p>Arrange for online events:</p> <ul style="list-style-type: none"> - special guest expert chats - regularly scheduled chat groups - community-building activities - message boards - website simulcast of offline events <p>Arrange for guest appearances on other websites:</p> <ul style="list-style-type: none"> - chat groups - message board (ask the expert) - interviews (in online newsletters, magazines)
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Networking – Traditional (Offline) + New Media (Online)

<p>Identify groups, associations, organizations and conferences:</p> <ul style="list-style-type: none"> - your local community - trade associations - business organizations - professional groups <p>Determine level of involvement in each:</p> <ul style="list-style-type: none"> - join - seek a leadership position - attend meetings/events only 	<p>Identify online networking opportunities to participate in:</p> <ul style="list-style-type: none"> - chat rooms - message boards - professional association websites - other <p>Establish regular e-mail contact with:</p> <ul style="list-style-type: none"> - current clients - prospective clients - business and professional associates
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Figure 17.1 – page 3

Components of a Successful Multi-Media Marketing Strategy

Marketing Musts

1. SELL SELECTIVELY

Describe your products and/or services.

What trends today have an impact on your products and services?

How can you apply information about these trends to your own marketing strategy?

Figure 17.2
“Sell Selectively” Worksheet

Marketing Musts

2. Know Your Niche

Describe your customers in detail. In addition to demographic data, consider psychographic issues:

- *hobbies*
- *disposable income*
- *leisure activities*
- *memberships*
- *vacations*
- *family status*
- *other lifestyle information*

What additional information should you obtain about your customers?

How does this information have an impact on your marketing strategy?

- *Marketing*
- *Sales*
- *Advertising*
- *Public Relations*
- *Networking*

Figure 17.3
“Know Your Niche” Worksheet

Marketing Musts

3. Create Your Pitch

Define precisely the attributes of your products and services.

- Product/Service A:

- Product/Service B:

- Product/Service C:

How can you make your products and services come alive for your prospective customers/clients?

For one of your products or services, write a brief pitch that grabs attention. Focus on the needs of your customers and the product/service benefits.

Figure 17.4

“Create Your Pitch” Worksheet

Marketing Musts

4. Set Prices for Profits

*How does your present pricing structure compare to your competitors?
(Equal to, More than, or Less than)*

Have you covered all of your expenses to produce this product or provide this service, considering:

- *Materials*
- *Labor*
- *Overhead expenses*
- *Shipping costs*
- *Handling costs*
- *Storage*

For services you provide, what are the advantages and disadvantages of the following pricing structures:

- *Hourly billing rates*
- *Project by project estimates*
- *Monthly retainer structure*

What is your price floor? Ceiling?

Marketing Plan Outline

I. Overview and Goals of Marketing Strategy

A. Overview of Marketing Strategy

B. Goals of Marketing Strategy

1. Creating a Strong Brand
2. Building a Strong Customer Base
3. Increasing Product/Service Sales

II. Market Analysis

A. Target Market(s)

1. Demographics
2. Psychographics
3. Niche market specifics

B. Competition

1. Description of Major Competitors
2. Assessment of Their Strengths/Weaknesses

C. Market Trends

1. Industry Trends
2. Target Market Trends

D. Market Research

1. Methods of Research
2. Database Analysis
3. Summary of Results

III. Marketing Strategy

A. General Description

1. Allocation of marketing efforts (% budget dedicated to online v. offline)
2. Expected return on investment from most significant components

B. Method of Sales and Distribution

1. Stores, offices, kiosks
2. Catalogs, direct mail
3. Website

C. Packaging

1. Quality Considerations
2. Packaging

D. Pricing

1. Price strategy
2. Competitive position

E. Branding

F. Database Marketing (Personalization)

G. Sales Strategies

1. Direct Sales
2. Direct Mail
3. Email Marketing
4. Affiliate Marketing
5. Reciprocal Marketing
6. Viral Marketing

H. Sales Incentives/Promotions

1. Free Samples
2. Cash Back Coupons
3. Sweepstakes
4. Online Promotions
5. Add-ons
6. Rebates
7. Other

I. Advertising Strategies

1. Traditional Advertising (TV, Radio, Print, Extreme)
2. Web Advertising/New Media (Banner Ads, PDA Advertising, Portals/Vortals, Interactive Television)
3. Long-term Sponsorships

J. Public Relations

1. Building an Online Presence (Communities, Chats, Message Boards)
2. Events (online and offline)
3. Press releases (print, radio, television, online)
4. Interviews (online newsletters and websites, print, radio, television, chat rooms, online events)

K. Networking (*memberships and leadership positions*)

IV. Customer Service

A. Description of Customer Service Activities

B. Expected Outcomes of Achieving Excellence

V. Implementation of Marketing Strategy

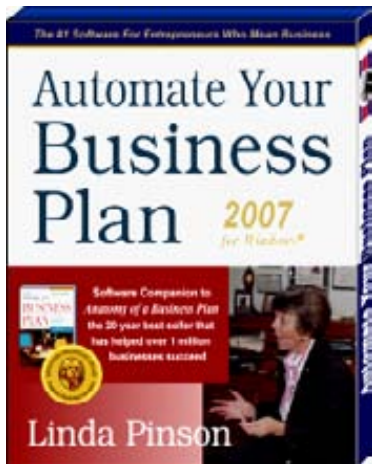
A. In-House Responsibilities

B. Out-Sourced Functions

1. Advertising, Public Relations, Marketing Firms
2. Advertising Networks
3. Other

VI. Assessment of Marketing Effectiveness *

***Note:** *Assessment is for existing businesses and is added after periodic evaluations.*



CHAPTER
18

Write a Business Plan: The Key to Your Success

The purpose of this chapter is to convince you that you need to write a business plan and to give you some basic information about business planning. We will also provide you with a basic outline listing the components of a well-written plan. If you decide to go ahead with the project (We hope you will!), there is a very comprehensive, step-by-step guide that will take you through the entire process. It is entitled *Anatomy of a Business Plan* (Linda Pinson, Out of Your Mind...and Into the Marketplace, Tustin, CA, 7th edition). If you are computer-oriented, we have also developed an IBM or compatible software version of the book, complete with word processing and pre-formatted and pre-formulated spreadsheets. It is entitled *AUTOMATE YOUR BUSINESS PLAN 2007 for Windows*[®]. You can also take classes through most colleges, small business development centers or from the U.S. Small Business Administration (SBA).

Lack of adequate planning is one of the principal reasons that most businesses fail. When the concept of business planning is considered, three critical facts always seem to emerge:

1. All lenders and investors require a business plan.
2. All businesses would operate more profitably with a business plan.
3. Most business owners do not know how to write a winning business plan.

I have been teaching business workshops to entrepreneurs for more than twenty years now and have found that no task seems to cause more consternation and dread than that of facing the ominous task of preparing a business plan. In fact, most new business owners will forge ahead without one being sure that a good idea, enthusiasm, and the desire to achieve their goals will be enough to ensure business success.

Unfortunately, there is a major flaw in this type of thinking. Many business owners are not proficient in all phases of their particular industries and, therefore, do not have enough knowledge to make the best decisions and see what changes will have to be implemented in the future. Business planning is the most effective way to overcome this deficiency and enable you to organize the making of business decisions into a logical process. Most business owners would love it if they could spend all of their time practicing their skills and, at the same time, avoid anything that resembles paperwork.

You will soon learn that about 20% of your time as a business owner will be spent directly working with your product or service. The other 80% of the time you will be kept busy doing all of the managerial and miscellaneous chores that need to be done to keep your business functioning.

Why Should You Write a Business Plan?

There are two main purposes for writing a business plan. What are they and why are they important enough to make you decide to write one?

- 1. To serve as a guide during the lifetime of your business.** This is the most important reason for writing a business plan. Writing a business plan will force you to consider everything that will come into play to make a success out of your business. It will also provide you with a means to periodically analyze what is happening in your business and give you a solid basis upon which to make decisions and implement changes. In short, it is the blueprint of your business and will serve to keep you on the right track. If you will spend the time to plan ahead, many pitfalls will be avoided and needless frustrations will be eliminated.
- 2. To fulfill the requirement for securing lenders and investors.** If you are planning to seek loan funds or venture capital, you will be required to submit solid documentation in the form of a business plan.

The days are gone when your local banker would extend a loan because you are a good trustworthy person with an entrepreneurial idea that sounds great. The world is more complex, the economy is tight and the banker has to have complete documentation that will justify your loan. Remember, a banker is the caretaker of his clients' money. If your business plan is realistic and has complete financial documentation that indicates that you will be able to repay your loan plus interest, there is a basis on which to lend you the funds you need to operate or expand your business. This also applies to venture capitalists who invest in your business in return for a share of the business.

Your business plan will provide potential lenders and investors with detailed information on all aspects of the company's past and current operations and future projections. It will detail how the desired investment or loan will further the company's goals. Every lender and investor wants to know how the loan will improve the worth of your company. Your business plan will detail how the money will be used and how it will enhance the company's profitability.

Revising Your Business Plan

Writing a business plan does not mean that you can never vary from that plan. In fact, if your plan is going to be effective either to the business or to a potential lender, it will be necessary for you to update it on a regular basis.

Changes are constantly taking place in your industry, in technology and with your customers. You, as the owner, must be aware of everything that is happening in relation to your business in particular and your industry in general. You must be prepared to take the necessary steps to stay ahead of your competition. Every quarter, you will want to look at what has happened in your business, make decisions about what you can do better and revise your plan to reflect the changes you want to implement.

A Winning Business Plan Format

One of the things that I also noticed regarding business planning was that most business planning workshops focused heavily on why you should hire a professional planner (usually their company). Since getting into the software business, we have also been confronted with a lot of hype claiming that you can install your business planning software and create a business plan in a few hours.

The fact is that writing a business plan requires many days and possibly months depending on the complexity of your business. But, you can write it yourself – and if you do, you will know your business better before you finish. There is a lot of research to be done. Even if you hire a professional planner, you will be required to supply the information and statistics that will go into your business plan. This phase will be about 80% of the job. The other 20% is a matter of knowing how to put the information together into a readable plan.

Much of the confusion seems to stem from the fact that most business owners do not know what elements to include or how to organize their information in a logical sequence.

As one student so aptly put it, "If God had boxes of arms, legs, heads and other parts, and no instructions for putting a human being together, we might be pretty funny looking and not very functional. I think a business plan is the same."

He was right! In order to be effective, a business plan must not only have all of the necessary parts, but must be put together in a functional pattern. When you write your business plan, you will want to cover specific subjects in a particular order. You will also need to maintain 100% continuity between all sections of the plan. Whatever you document in the text sections must be reflected in the financial documents.

Anatomy of a Business Plan Outline

To help make your task easier, we have included a condensed outline (based on the book, *Anatomy of a Business Plan*, and the software, AUTOMATE YOUR BUSINESS PLAN) for you to follow when you write your business plan. Your plan should include all of the elements listed on [pages 169-70](#).

TECH TIP

Business Planning Software: Using Technology to Streamline the Process

There is no quick fix when it comes to writing a business plan. However, utilizing the proper tools can make your job easier and save you valuable time. Combining the research capabilities of the Internet and the use of a good business planning software package can help you to create a credible and defensible business plan for your new company.



Unfortunately, in today's world full of over-hyped products, much of the software purchased does not live up to everything promised on the outside of the package. I have seen one popular package that indicates on its box front that you can just fill in the numbers and write a business plan in a few hours. This should be your clue to run—not walk—to the nearest exit.

What Should You Look For in Business Planning Software?

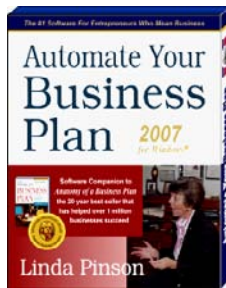
Remember that your business plan only as good as the information that you are able to input into the program. It's the old "Garbage In—Garbage Out" adage. Keeping the desired result in mind, look software that will enable you to completely customize your business plan to your particular business. This means staying away from templates that create canned plans.

Good software will guide you step-by-step through your business plan, giving you instructions and examples for each piece of your plan, but it will not generate the text for you by having you fill in the blanks. Especially important is your financial plan. Be sure that all of your spreadsheets can be completely customized to your chart of accounts. Generic financial statements will not help you run your business.



We Have a Preference — Of Course!

AUTOMATE YOUR BUSINESS PLAN for Windows is the companion software to our award-winning book, *Anatomy of a Business Plan*. It will walk you through the entire business planning process with instructions, examples, and templates. The Chart of Accounts Wizard will quickly customize all of your spreadsheets to your specific chart of accounts. You will then work in the Integrated (Linked) Spreadsheet Workbook where all of the spreadsheets are pre-formatted and pre-formulated. Information and numbers that you input (or change) will automatically be reflected on all related spreadsheets. As a bonus to users, there is an International Research Web Page (available only to our users) that will guide you through your research and *hot link* you via the Internet directly to the marketing and financial information you will need to write your business plan. The software also includes an Amortizing program that will calculate principal and interest payments on your loans. For more information: www.business-plan.com



Business Plan Outline

adapted from: *Anatomy of a Business Plan*, 7th Edition
and

Automate Your Business Plan 2007

Out of Your Mind...and Into the Marketplace, Tustin, CA

THE COVER SHEET

(The title page of your plan)

The cover sheet should contain the name, address and telephone number of the business and the names, addresses and telephone numbers of all owners or corporate officers. It should also tell who prepared the business plan and when the plan was prepared or revised. To help you keep track of copies out to lenders, mark each cover sheet with a copy number. You may also opt to include a confidentiality statement.

THE EXECUTIVE SUMMARY

(The summary of your plan)

The Executive Summary summarizes your plan and states your objectives. If you are seeking loan funds or investment capital, it will list your capital needs, how you intend to use the money, benefit of the loan or investment funds to the business and how you intend to repay the loan plus interest to the lender—or generate profits to the investor. Investors will be specifically interested in your exit strategy.

While you are writing your plan, many previous ideas will change and new ideas will develop. Therefore, Executive Summary is most effectively formulated after writing your plan. This statement should be concise, but should effectively address the key points of interest to the reader.

TABLE OF CONTENTS

(Listing of contents of your plan with page numbers)

Having a table of contents will help the reader to move smoothly from one section of the plan to another when verifying information.

For example: If a lender is reading financial information regarding advertising on a pro forma cash flow statement, he can use the table of contents to locate the advertising section for specifics on where you will be advertising and how the advertising dollars will be spent. The table of contents will also refer to the page in the supporting documents section that will contain advertising rate sheets backing up the advertising plan.

PART I: THE ORGANIZATIONAL PLAN

(The first main section of your business plan)

This section contains information on how your business is put together administratively. It will include such things as a summary description of your business, a list of products and services you will sell, description of your intellectual property, choice of legal structure, management and personnel information, accounting and legal provisions, insurance considerations, and security measures planned for. It will also address your location if it is not tied to your marketing.

PART II: THE MARKETING PLAN

(The second main section of your business plan)

Your marketing plan is based on the overview and goals you establish for your business. The plan defines all of the components of your marketing strategy, addressing the details of your market analysis, sales, advertising, and public relations campaigns. The marketing plan should integrate traditional (offline) programs with new media (online) strategies. The marketing plan is completed by addressing customer service, implementation of your marketing strategy, and plans for assessing your marketing effectiveness.

PART III: FINANCIAL DOCUMENTS

(The third major section of your business plan)

Your financial documents translate the information in the first two sections of your plan into financial figures that can be used to analyze your business and make decisions for higher profitability.

You will have pro forma (projected) financial statements, actual (historical) statements, and a financial statement analysis. Include a pro forma cash flow statement, 3-year income projection, break-even analysis, quarterly budget analysis, profit & loss statement, balance sheet, and a financial statement analysis ratio summary. If you are going to a lender or investor, you will also need a summary of financial needs and loan fund dispersal statement (sources and uses of funds) and business financial history.

PART IV: SUPPORTING DOCUMENTS

(Documents referred to and used to back up statements made in the three main sections of your business plan)

This section will include: owner/manager resumes, personal financial statements, articles of incorporation, partnership agreements, legal contracts, lease agreements, proprietary papers (such as copyrights, trademarks, and patents), letters of reference, demographics, and any other documents which are pertinent to the support of the plan.

U.S. and International Resources for Business Research

How Can You Find the Information You Need?



One of the main questions asked by business plan writers is, "*How do I find the information I need to make marketing and financial projections?*"

In this chapter, you will be provided with both online and offline resources that assist you with your marketing and financial research efforts.

Resources in this chapter have been organized in the following sections:

- ✓ **Internet Research [Links](#)**
- ✓ **Library Resources**
- ✓ **Publications and Periodicals**
- ✓ **Books**
- ✓ **U.S. Government Departments**
- ✓ **U.S. Small Business Administration**

Internet Resources

Consumer Information

U.S. Demographic Information

<http://www.census.gov>

European Demographics Statistics

<http://europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat>

Foreign Government Data Sources

<http://www.lib.umich.edu/>

Industry Standard Ratios (Risk Management Association)

<http://www.rmaorg.com>

International demography and population studies

<http://demography.anu.edu.au/VirtualLibrary/>

<http://vlib.org/>

Lifestyle, Environment, and Other Statistics--Japan

<http://www.jinjapan.org/stat/index.html>

Values and Lifestyles (VALS)

<http://www.sric-bi.com/VALS/>

Company Information

European Business Directory

<http://www.europages.com/>

Industrial Classifications

<http://www.census.gov/>

International Company Listing

<http://www.trade.gov/>

U.S. Industry & Trade Outlook®

<http://www.ntis.gov/products/bestsellers/industry-trade.asp?loc=4-2-0>

U.S. Small Business Administration

<http://www.sbaonline.sba.gov/>

Yahoo Industry List of Businesses

http://dir.yahoo.com/Business_and_Economy/Directories/Companies/

Competitive Analysis

Accounting and Finance Resource

<http://www.brint.com/Business.htm#Accounting>

Business Sites

<http://www.techweb.com>

Competitive Intelligence

http://www.cio.com/CIO/arch_0695_cicolumn.html

Fortune Magazine

<http://www.fortune.com>

Hoover's Online

<http://www.hoovers.com>

International Competitive Analysis

<http://www.trade.gov/>

<http://www.brint.com/International.htm>

U.S. Securities and Exchange Commission

<http://www.sec.gov>

Wall Street Journal

<http://online.wsj.com/public/us>

Country Information

Asia

<http://www.asia-inc.com>

CIA World Factbook

<http://www.cia.gov/cia/publications/factbook/index.html>

City Sites

<http://officialcitysites.org/country.php3>

Culture

<http://ecai.org>

Demography and Population Studies

<http://demography.anu.edu.au/VirtualLibrary>

Europe

<http://europa.eu.int/eurodicautom/Controller>

Foreign Government Information

<http://dir.yahoo.com/Government/countries>

Import and Export

<http://www.census.gov/foreign-trade/www/>

Middle East

<http://arabia.com>

STAT-USA

<http://www.stat-usa.gov>

World Trade Search

<http://world-trade-search.com>

Economic Environment

Documents Center

<http://www.lib.umich.edu/>

Economic indicators from the U.S. Census Bureau

<http://www.census.gov/econ/www/>

Economic Growth Research

<http://econ.worldbank.org/programs/macroeconomics/>

Entrepreneur Resources

Center for Family Business

<http://web.cba.neu.edu/fambiz/>

EntreWorld

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

The Entrepreneurial Edge

<http://peerspectives.org>

U.S. Small Business Administration

<http://www.sbaonline.sba.gov/>

Yahoo Business Information

http://dir.yahoo.com/Business_and_Economy/

Legal Environment

Advertising Law

<http://www.arentfox.com/quickGuide/businessLines/advert/advertisingLaw/advertisinglaw.html>

European Union Business Law

<http://europa.eu.int/eur-lex/en/index.html>

International Law Dictionary & Directory

<http://august1.com/pubs/dict/index.shtml>

International Legal Resources

<http://www.wcl.american.edu>

<http://www.spfo.unibo.it/Welcome.html>

<http://www.lawschool.cornell.edu>

<http://www.law.indiana.edu>

<http://willy.law.pace.edu>

Intellectual Property Law

<http://www.patents.com>

Law Library of Congress

<http://lcweb.loc.gov>

Meta-Index for U.S. Legal Research

<http://gsulaw.gsu.edu/metaindex>

North American Free Trade Agreement

<http://www.nafta-sec-alena.org/DefaultSite/index.html>

Santa Barbara County Law Library

<http://www.countylawlibrary.org>

United States Patent and Trademark Office

<http://www.uspto.gov>

Legislative and Regulatory Environments

Food and Drug Administration

<http://www.fda.gov>

Federal Trade Commission

<http://www.ftc.gov>

Federal Communications Commission

<http://www.fcc.gov>

Thomas Legislative Information on the Internet

<http://thomas.loc.gov>

Library Resources

The resources listed below can be found in the business section of your local library. The librarian in the business section of your library can help you with locating the materials you need. For your convenience, the resources below have been arranged in alphabetical order.

Almanac of Business and Industrial Financial Ratios (Prentice-Hall): Provides ratios and industry norms in actual dollar figures derived from IRS data. Each industry includes performance indicators such as total assets, cost of operations, wages, and profit margins.

American Manufacturers Directory (American Business Information): Lists American manufacturers with 25 or more employees.

Bacon's Newspaper/Magazine Directory (Bacon's Information): Lists media as source of publicity information.

Catalog of Catalogs (Woodbine House): Contains descriptions and contact information for more than 14,000 catalogs, indexed by subject and company name.

City and County Data Book (U.S. Dept. of Commerce): This book (updated every three years) contains statistical information on population, education, employment, income, housing, and retail sales.

Directory of Directories (Gale Research Inc): Describes over 9,000 buyer's guides and directories.

Discovering Small Business (Gale Research Inc.): CD-ROM detailing 300 specific types of ventures with sample business plans, information on financial programs, licensing, and current journal articles.

Dun and Bradstreet Directories (Dun and Bradstreet): Lists companies alphabetically, geographically, and by product classification.

Encyclopedia of Associations: National Organizations of the U.S. (Gale Research Inc.): CD provides instant access to information on 23,000 national organizations in the U.S.

Encyclopedia of Business Information Sources (Gale Research Inc.): Lists handbooks, periodicals, directories, trade associations, and more for over 1200 specific industries and business subjects. Start here to search for information on your particular business.

Financial Studies of the Small Business (Financial Research Associates): Organized by industry, studies contain financial ratios and indicators for small and micro businesses.

Incubators for Small Business (U.S. Small Business Administration): Lists over 170 state government offices and incubators that offer financial and technical aid to new small businesses.

Industry Norms & Key Business Ratios (Dun & Bradstreet): Provides balance sheet figures for companies in over 800 different lines of business as defined by SIC number.

Lifestyle Market Analyst (Standard Rate & Data Service): Breaks down population geographically and demographically. Includes extensive lifestyle information on the interests, hobbies, and activities popular in each geographic and demographic market.

National Trade and Professional Associations of the U.S. (Columbia Books, Inc.): Trade and Professional Associations are indexed by association, geographic region, subject, and budget.

RMA Annual Statement Studies (Risk Management Association): Industry norms and ratios are compiled from income statements and balance sheets. For each SIC code three sets of statistics are given with each set representing a specific size range of companies based upon sales.

Small Business Sourcebook (Gale Research Inc.): a good starting place for finding consultants, educational institutions, governmental agencies offering assistance, as well as specific information sources for over 140 types of businesses.

Sourcebook for Franchise Opportunities (Dow-Jones Irwin): Provides annual directory information for U.S. franchises, and data for investment requirements, royalty and advertising fees, services furnished by the franchiser, projected growth rates, and locations where franchises are licensed to operate.

Statistical Abstract of the U.S. (U.S. Dept. of Commerce): updated annually, provides demographic, economic, and social information.

Thomas Register of Manufacturing: Directory of most manufacturing firms, includes company profile and contact information.

Publications and Periodicals

Business Week, McGraw-Hill, Inc., 1221 Avenue of the Americas, New York, NY 10020.

Entrepreneur Magazine, 2392 Morse Avenue, Irvine, CA 92714.

Dinerio Financiero, <http://www.diariofinanciero.cl>

Fast Company, P.O. Box 52760, Boulder, CO 80328.

Hispanic Business Magazine, 425 Pine Avenue, Santa Barbara, CA 93117-3709

Inc., 38 Commercial Wharf, Boston, MA 02110.

LaOpinion, 700 S. Flower St., Suite #3000, Los Angeles, CA 90017

Nation's Business, 1615 H. Street N.W., Washington, DC 20062-2000.

Small Business Forum: Journal of the Association of Small Business Development Centers, University of Wisconsin SBDC, 432 North Wake Street, Madison, WI 53706.

Small Business Success, Pacific Bell Directory, 101 Spear Street, Rm. 429, San Francisco, CA 94105 (800) 237-4769 in CA - or - (800) 848-8000.

Books

Avdvani, Asheesh. *Investors in Your Backyard: How to Raise Business Capital From the People You Know*. Berkeley, CA: Nolo Press, 2006

Bangs, David. *Non Profits Made Easy*. Irvine, CA: Entrepreneur Media, Inc., 2006.

Clifford, Denis and Ralph Warner. *Form a Partnership*. Berkeley, CA: Nolo Press, 2006.

Coveney, Patrick. *Business Angels: Securing Start-Up Finances*. New York: John Wiley and Sons, 1998.

Elias, Stephen R. *Trademark: Legal Care for Your Business & Product Name*. Berkeley, CA: Nolo Press 2005

Godin, Seth. *Bootstrapper's Bible*. Chicago: Dearborn, 1998.

Gompers, Paul and Lerner, Josh. *The Venture Capital Cycle*. 2006.

Hupalo, Peter I. *Thinking Like An Entrepreneur*. W. St. Paul, MN: HCM Publishing, 1999.

Levinson, Jay Conrad. *Guerrilla Marketing With Technology*. Addison Wesle. 1997.

Lipman, Frederick. *Financing Your Business with Venture Capital*. Prima Publishing, 1998.

Metrick, Andres, *Venture Capital and the Finance of Innovation*. 2006.

Norman, Jan. *What No One Ever Tells You About Marketing Your Own Business*. 2004.

Ogilvy, David. *Ogilvy on Advertising*. New York, NY: Random House.

Pakroo, Peri H., *Starting & Building a Nonprofit: A Practical Guide*. Nolo Press, 2007.

Pinson, Linda. *18 Pasos para Desarrollar tu Negocio*. Tustin, CA: Out of Your Mind...and Into the Marketplace, 2008.

Pinson, Linda. *Anatomia de un Plan de Negocio*. Tustin, CA: Out of Your Mind...and Into the Marketplace, 1998.

Pinson, Linda. *Anatomy of a Business Plan*. Tustin, CA: Out of Your Mind...and Into the Marketplace, 2007.

Pinson, Linda. *Keeping the Books*. Chicago: Kaplan Publishing, 2007.

Pinson, Linda and Jerry Jinnett. *Steps to Small Business Start-up*. New York: Kaplan, 2006.

Scott, David Meerman. *The New Rules of Marketing and PR: How to Use News Releases, Blogs, Podcasting, Viral Marketing and Online Media to Reach Buyers Directly*. 2007.

Steingold, Fred. *The Complete Guide to Buying a Business*. Berkeley, CA: Nolo, 2005.

Steingold, Fred. *Negotiate the Best Lease for Your Business*. Berkeley, CA: Nolo, 2005.

Tiernan, Bernadette. *E-Tailing*. Chicago: Dearborn Trade, 1999.

Tiernan, Bernadette. *The Hybrid Company*. Chicago: Dearborn Trade, 2001.

Wheeler, Alina. *Designing Brand Identity*. 2006.

U.S. Government Departments

Federal agencies are an excellent resource for researching your industry. In addition to the federal agencies provided below, it is recommended that you also gather information from governmental agencies on your state and local level. By going to the agency's web site, you can review and obtain available information.

Consumer Products Safety Commission

<http://www.cpsc.gov>

Department of Commerce

<http://www.commerce.gov>

Department of Commerce

U.S. Census Bureau

<http://www.census.gov>

Department of Commerce

Bureau of Economic Analysis

<http://www.bea.gov>

Department of Commerce

International Trade Administration

<http://www.ita.doc.gov>

Department of Energy

<http://www.energy.gov>

**Department of Labor
Occupational Safety and Health Administration**
<http://www.osha.gov>

**Department of Labor
Bureau of Labor Statistics**
<http://www.stats.bls.gov>

**Department of Labor
Employment and Training Administration**
<http://www.doleta.gov>

Department of State
<http://www.state.gov>

Department of Transportation
<http://www.dot.gov>

Department of the Treasury
<http://www.ustreas.gov>

Environmental Protection Agency
<http://www.epa.gov>

Federal Trade Commission
<http://www.ftc.gov>

Internal Revenue Service
<http://www.irs.gov>

**Internal Revenue Service
Information Help Desk**
<http://www.irs.gov>

**Internal Revenue Service
Forms and Publications**
<http://www.irs.gov/formspubs/index.html>

Library of Congress
Copyright Office
(202) 707-2100
<http://www.copyright.gov>

Patent and Trademark Office
U.S. Department of Commerce
Public Information Office
(703) 557-4357
<http://www.uspto.gov/main/trademarks.htm>
<http://www.uspto.gov/main/patents.htm>

U.S. International Trade Commission
<http://www.usitc.gov/>

U.S. Small Business Administration

The Small Business Administration is a federal agency, but it is singled out because of its importance to small businesses in America. The SBA offers an extensive selection of information on most business management topics from how to start a business to exporting your products. The SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. The SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contact assistance. These organizations are available to you through the SBA:

Service Corp of Retired Executives (SCORE): a national organization sponsored by SBA of volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.

Small Business Development Centers (SBDCs): sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.

Small Business Institutes (SBIs): organized through SBA on more than 500 college campuses around the nation. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services:

1. Call the SBA Small Business Answer Desk at 1 (800) 827-5722.
2. SBA has a home page on the Internet's World Wide Web, which provides an interactive guide to SBA programs. (<http://www.sba.gov>)
3. The SBA address is as follows:

U.S. Small Business Administration
1441 L Street NW
Washington, DC 20005

Blank Forms and Worksheets

The blank forms and worksheets on the following pages have been provided for you to copy and use for your own business.

Note: The financial worksheet forms that contain "Variable Expenses" and "Fixed Expenses" have spaces for you to fill in your own categories. They should be customized to your particular business. This will require you to decide on category headings when you begin the financial section of your business plan and follow through with the same headings throughout all financial statements.

The categories are developed by looking at your different accounts in your ledger or by using the categories from your revenue and expense journal. Those expenses that are frequent and sizable will have a heading of their own (i.e., advertising, rent, salaries, etc.). Those expenses that are very small and infrequent will be included under the heading "miscellaneous" in either the variable or fixed expenses sections of each of your financial statements.

Insurance Update Form

Company	Contact Person	Coverage	Cost Per Year
			\$
			\$
			\$
			\$
			\$
			\$
1. TOTAL ANNUAL INSURANCE COST			\$
2. AVERAGE MONTHLY INSURANCE COST			\$

Notes:

- 1.
- 2.

Location Analysis Worksheet

Address: _____

Name, address, phone number of realtor/contact person: _____

Square footage/cost: _____

History of location: _____

Location in relation to your target market: _____

Traffic patterns for customers: _____

Traffic patterns for suppliers: _____

Availability of parking (include diagram): _____

Crime rate for the area: _____

Quality of public services (e.g., police, fire protection): _____

Notes on walking tour of the area: _____

Neighboring shops and local business climate: _____

Zoning regulations: _____

Adequacy of utilities (information from utility company representatives): _____

Availability of raw materials/supplies: _____

Availability of labor force: _____

Labor rate of pay for the area: _____

Housing availability for employees: _____

Tax rates (state, county, income, payroll, special assessments): _____

Evaluation of site in relation to competition: _____

Competition Evaluation Worksheet

1. **COMPETITOR:** _____

2. **LOCATION:** _____

3. **PRODUCTS OR SERVICES OFFERED:** _____

4. **METHODS OF DISTRIBUTION:** _____

5. **IMAGE:** _____

a. Packaging: _____

b. Promotional materials: _____

c. Methods of advertising: _____

d. Quality of product or service: _____

6. **PRICING STRUCTURE:** _____

7. **BUSINESS HISTORY & CURRENT PERFORMANCE:** _____

8. **MARKET SHARE (number, types, and location of customers):** _____

9. **STRENGTHS:** _____

10. **WEAKNESSES:** _____

Note: A competition evaluation worksheet should be made for each competitor. You should keep these records and update them throughout the life of your business.

Revenue & Expense Journal

Month: _____ 20____, page ____

_____ Customize headings to match the business _____

CHECK NO.	DATE	TRANSACTION	REVENUE	EXPENSE													MISC	
		<i>Balance forward---</i>																
		TOTALS																

Mileage Log

NAME: _____

DATED: From _____ To _____

DATE	CITY OF DESTINATION	NAME OR OTHER DESIGNATION	BUSINESS PURPOSE	NO. OF MILES
			TOTAL MILES THIS SHEET	

Balance Sheet

Business Name: _____		Date: _____, _____	
ASSETS		LIABILITIES	
Current Assets		Current Liabilities	
Cash	\$ _____	Accounts Payable	\$ _____
Petty Cash	\$ _____	Notes Payable	\$ _____
Accounts Receivable	\$ _____	Interest Payable	\$ _____
Inventory	\$ _____	Taxes Payable	
Short-Term Investments	\$ _____	Federal Income Tax	\$ _____
Prepaid Expenses	\$ _____	Self-Employment Tax	\$ _____
Long-Term Investments	\$ _____	State Income Tax	\$ _____
Fixed Assets		Sales Tax Accrual	\$ _____
Land (valued at cost)	\$ _____	Property Tax	\$ _____
Buildings	\$ _____	Payroll Accrual	\$ _____
1. Cost	_____	Long-Term Liabilities	
2. Less Acc. Depr.	_____	Notes Payable	\$ _____
Improvements	\$ _____	TOTAL LIABILITIES	\$ _____
1. Cost	_____	NET WORTH (EQUITY)	
2. Less Acc. Depr.	_____	Proprietorship	\$ _____
Equipment	\$ _____	or	
1. Cost	_____	Partnership	
2. Less Acc. Depr.	_____	name _____, ___% Equity	\$ _____
Furniture	\$ _____	name _____, ___% Equity	\$ _____
1. Cost	_____	or	
2. Less Acc. Depr.	_____	Corporation	
Autos/Vehicles	\$ _____	Capital Stock	\$ _____
1. Cost	_____	Surplus Paid In	\$ _____
2. Less Acc. Depr.	_____	Retained Earnings	\$ _____
Other Assets		TOTAL NET WORTH	\$ _____
1.	\$ _____	<i>Assets - Liabilities = Net Worth</i>	
2.	\$ _____	<i>and</i>	
TOTAL ASSETS	\$ _____	<i>Liabilities + Equity = Total Assets</i>	

Profit & Loss (Income) Statement

Business Name: _____

Beginning: _____, _____

Ending: _____, _____

INCOME		
1. Sales Revenues		\$
2. Cost of Goods Sold (c-d)		
a. Beginning Inventory (1/01)		
b. Purchases		
c. C.O.G. Avail. Sale (a+b)		
d. Less Ending Inventory (12/31)		
3. Gross Profit on Sales (1-2)		\$
EXPENSES		
1. Variable (Selling) (a thru h)		
a.		
b.		
c.		
d.		
e.		
f.		
g. Misc. Variable (Selling) Expense		
h. Depreciation (Prod/Serv Assets)		
2. Fixed (Administrative) (a thru h)		
a.		
b.		
c.		
d.		
e.		
f.		
g. Misc. Fixed (Administrative) Expense		
h. Depreciation (Office Equipment)		
Total Operating Expenses (1+2)		
Net Income from Operations (GP-Exp)		\$
Other Income (Interest Income)		
Other Expense (Interest Expense)		
Net Profit (Loss) Before Taxes		\$
Taxes		
a. Federal		
b. State		
c. Local		
NET PROFIT (LOSS) AFTER TAXES		\$

Cash to Be Paid Out Worksheet

Business Name: _____

Time Period: _____ to _____

1. Start-Up Costs:		\$ _____
Business License	_____	
Corporation Filing	_____	
Legal Fees	_____	
Other start-up costs:	_____	
a.	_____	
b.	_____	
c.	_____	
d.	_____	
2. Inventory Purchases		_____
Cash out for goods intended for resale		
2. Variable Expenses (Selling)		
a.	_____	
b.	_____	
c.	_____	
d.	_____	
e.	_____	
Miscellaneous Variable Expense	_____	
Total Selling Expenses		_____
4. Fixed Expenses (Administrative)		
a.	_____	
b.	_____	
c.	_____	
d.	_____	
e.	_____	
f.	_____	
Miscellaneous Fixed Expense	_____	
Total Operating Expenses		_____
5. Assets (Long-Term Purchases)		
Cash to be paid out in current period		_____
6. Liabilities		
Cash outlay for retiring debts, loans, and/or accounts payable		_____
7. Owner Equity		
Cash to be withdrawn by owner		_____
Total Cash to Be Paid Out		\$ _____

Sources of Cash Worksheet

Business Name: _____

Time Period Covered: _____ to _____

1. Cash on Hand	\$	_____
2. Sales (Revenues)		
Sales		_____
Service Income		_____
Deposits on Sales or Services		_____
Collections on Accounts Receivable		_____
3. Miscellaneous Income		
Interest Income		_____
Payments to be Received on Loans		_____
4. Sale of Long-Term Assets		_____
5. Liabilities		
Loan Funds (Banks, Lending Inst., SBA, etc.)		_____
6. Equity		
Owner Investments (Sole Prop. or Partnership)		_____
Contributed Capital (Corporation)		_____
Venture Capital		_____
Total Cash Available	<i>A. Without sales =</i>	\$ _____
	<i>B. With sales =</i>	\$ _____

Pro Forma Cash Flow Statement

Business Name _____

Year: _____

	Jan	Feb	Mar	Apr	May	Jun	6-MONTH TOTALS	Jul	Aug	Sep	Oct	Nov	Dec	12-MONTH TOTALS
BEGINNING CASH BALANCE														
CASH RECEIPTS														
A. Sales/Revenues														
B. Receivables														
C. Interest Income														
D. Sale of Long-Term Assets														
TOTAL CASH AVAILABLE														
CASH PAYMENTS														
A. Cost of goods to be sold														
1. Purchases														
2. Material														
3. Labor														
Total Cost of Goods														
B. Variable (Selling) Expenses														
1.														
2.														
3.														
4.														
5.														
6.														
7. Misc. Variable Expense														
Total Variable Expenses														
C. Fixed Expenses														
1.														
2.														
3.														
4.														
5.														
6.														
7. Misc. Fixed Expense														
Total Fixed Expenses														
D. Interest Expense														
E. Federal Income Tax														
F. Other Uses														
G. Long-Term Asset Payments														
H. Loan Payments														
I. Owner Draws														
TOTAL CASH PAID OUT														
CASH BALANCE/DEFICIENCY														
LOANS TO BE RECEIVED														
EQUITY DEPOSITS														
ENDING CASH BALANCE														

Glossary

The following glossary will define business and financial terms with which you may not be familiar. Use of these terms will help you to communicate in language that will be understood by business associates with whom you may be dealing.

A

Account A separate record showing the increases and decreases in each asset, liability, owner's equity, revenue and expense item. Also a contract, arrangement, written or unwritten, to purchase and take delivery with payment to be made later as arranged.

Account balance The difference between the debit and the credit sides of an account.

Accounting professional A person who is skilled at keeping business records. Generally, a highly trained professional rather than one who keeps books. An accountant can set up the books needed for a business to operate and help the owner understand them.

Accounts payable A record of what you owe to your creditors for goods or services received.

Accounts receivable A record of what is owed to your business as a result of extending credit to a customer who purchases your products or services. All of the credit accounts taken together are your "accounts receivable."

Accrual basis A method of keeping accounts that shows expenses incurred and income earned for a given fiscal period, even though such expenses and income have not been actually paid or received in cash.

Actuary A professional expert in pension and life insurance matters, particularly trained in mathematical, statistical, and accounting methods and procedures, and in insurance probabilities.

Administrative expense Expenses chargeable to the managerial, general administrative, and policy phases of a business in contrast to sales, manufacturing, or cost of goods expense.

Advertising The practice of bringing to the public's notice the good qualities of something in order to induce the public to buy or invest in it.

Agent A person who is authorized to act for or represent another person in dealing with a third party.

Amortization To liquidate on an installment basis: the process of gradually paying off a liability over a period of time.

Analysis Breaking an idea or problem down into its parts: a thorough examination of the parts.

Appraisal Evaluation of a specific piece of personal or real property. The value placed on the property evaluated.

Appreciation The increase in the value of an asset in excess of its depreciable cost due to economic and other conditions.

Arrears Amounts past due and unpaid.

Asset Anything of worth (having cash value) that is owned by your business (i.e. cash on hand, inventory, land, buildings, vehicles and equipment). Accounts receivable, notes receivable and prepaid purchases are also assets.

Articles of Incorporation A legal document filed with the state which sets forth the purposes and regulations for a corporation. Each state has different regulations.

Audit An examination of accounting documents and supporting evidence for the purpose of reaching an informed opinion concerning their propriety.

B

Bad debts Money owed to you, but that you cannot collect.

Balance The amount of money remaining in an account.

Balance Sheet An itemized statement which lists the total assets and the total liabilities of a given business to portray its net worth at a given moment in time.

Bank Statement A monthly statement of account that a bank renders to each of its depositors.

Benchmarking Rating of your company's products, services, and practices against those of the front-runners in the industry.

Bill of lading A document issued by a railroad or other carrier. It acknowledges the receipt of specified goods for transportation to a certain place, sets forth the contract between the shipper and the carrier, and provides for proper delivery of the goods.

Bill of sale Formal legal document that conveys title to or interest in specific property from the seller to the buyer.

Board of directors Those individuals elected by the stockholders of a corporation to manage the business.

Bookkeeping The process of recording business transactions into the accounting records.

Brand A design, mark, symbol, or other device that distinguishes one line or type of goods from those of a competitor.

Brand name A term, symbol, design, or combination thereof, that identifies and differentiates a seller's product or service.

Break-even analysis A method used to determine the point at which the business will neither make a profit nor incur a loss. That point is expressed in either the total dollars of revenue exactly offset by total expenses or in total units of production, the cost of which exactly equals the income derived by their sale.

Bottom line A business's net profit or loss after taxes for a specific accounting period.

Budget A plan expressed in financial terms. The business is then evaluated by measuring its performance in terms of these goals. The budget contains projections for cash inflow and outflow.

Business venture Taking financial risks in a commercial enterprise.

C

Capital Money available to invest or the total of accumulated assets available for production. See "Owner's Equity."

Capital equipment The equipment that you use to manufacture a product, provide a service, or use to sell, store, and deliver merchandise. Such equipment will not be sold in the normal course of business, but will be used and worn out or consumed in the course of business.

Capital expenditures An expenditure for a purchase of an item of property, plant or equipment that has a useful life of more than one year. (Fixed assets)

Capital gains (and losses) The difference between purchase price and selling price in the sale of assets.

Cash Money in hand or readily available.

Cash discount A deduction that is given for prompt payment of a bill.

Cash flow The actual movement of cash within a business; cash inflow and cash outflow.

Cash receipts The money received by a business from customers.

Certified Public Accountant (CPA) An accountant who has met prescribed requirements designed to ensure competence on the part of the public practitioner in accounting as directed by the state.

Chamber of commerce An organization of business people designed to advance the interests of its members. There are three levels: national, state, and local.

Collateral Something of value given or held as a pledge that a debt or obligation will be fulfilled.

Contract An agreement regarding mutual responsibilities between two or more parties.

Controllable expenses Those expenses which can be controlled or restrained by the business person. Variable expenses.

Corporation A voluntary organization of persons, either actual individuals or legal entities, legally bound together to form a business enterprise; an artificial legal entity created by government grant and treated by law as an individual.

Co-signers Joint signers of a loan agreement, pledging to meet the obligations in case of default.

Cost of goods sold The cost of inventory sold during an accounting period. It is equal to the beginning inventory for the period plus the cost of purchases made during the period minus the ending inventory for the period.

Credit Another word for debt. Credit is given to customers when they are allowed to make a purchase with the promise to pay later. A bank gives credit when it lends money.

Creditor A company or individual to whom a business owes money.

Credit line The maximum amount of credit or money a financial institution or trade firm will extend to a customer.

Current assets Cash plus any assets that will be converted into cash within one year plus any assets that you plan to use up within one year.

Current liabilities Debts that must be paid within one year.

Current ratio A dependable indication of liquidity computed by dividing current assets by current liabilities. A ratio of 2.0 is acceptable for most businesses.

D

Debt That which is owed.

Debt capital The part of the investment capital which must be borrowed.

Debt measures The indication of the amount of other people's money that is being used to generate profits for a business. The more indebtedness, the greater the risk of failure.

Debt ratio The key financial ratio used by creditors in determining how indebted a business is and how able it is to service the debts. The debt ratio is calculated by dividing total liabilities by total assets. The higher the ratio, the more risk of failure. The acceptable ratio is dependent upon the policies of your creditors and bankers.

Default Failure to pay a debt or meet an obligation.

Deficit The excess of a business' liabilities over its assets; a negative net worth.

Depreciable base of an asset The cost of an asset used in the computation of yearly depreciation expense.

Depreciation A decrease in value through age, wear or deterioration. Depreciation is a normal expense of doing business which must be taken into account. There are laws and regulations governing the manner and time periods that may be used for depreciation.

Desktop publishing Commonly used term for computer-generated printed materials such as newsletters and brochures.

Differentiated marketing Selecting and developing a number of offerings to meet the needs of a number of specific market segments.

Direct expenses Those expenses that relate directly to your product or service.

Direct mail Marketing goods or services directly to the consumer through the mail.

Direct selling The process whereby the producer of a product or service sells to the user, ultimate consumer, or retailer without intervening middlemen.

Discount A deduction from the stated or list price of a product or service.

Distribution channel All of the individuals and organizations involved in the process of moving products from producer to consumer.

Distributor Middleman. A wholesaler, agent, or company distributing goods to dealers or companies.

Downsize Term currently used to indicate employee reassignment, layoffs, and restructuring in order to make a business more competitive, efficient, and/or cost-effective.

E

Entrepreneur An innovator of business enterprise who recognizes opportunities to introduce a new product, a new process, or an improved organization, and who raises the necessary money, assembles the factors for production, and organizes an operation to exploit the opportunity.

Equipment Physical property of a more or less permanent nature ordinarily useful in carrying on operations, other than land, buildings, or improvements to either of them. Examples are machinery, tools, vehicles, furniture, and furnishings.

Equity The monetary value of a property or business which exceeds claims and/or liens against it by others. An equity investment in a business carries with it a share of ownership of the business, a stake in the profits, and a say in how it is managed.

Equity capital Money furnished by owners of the business.

Exchange The process where two or more parties give something of value to one another to satisfy needs and wants.

Expenses The costs of producing revenue through the sale of goods or services.

F

Facsimile machine (fax) A machine capable of transmitting written input via telephone lines.

Financial statements Periodic reports that summarize the financial affairs of a business.

Fixed assets Items purchased for use in a business which are depreciable over a fixed period of time determined by the expected useful life of the purchase. Usually includes land, buildings, vehicles and equipment not intended for resale. Land is not depreciable, but is a fixed asset.

Fixed expenses Costs which generally don't vary from one period to the next. Generally, these expenses are not affected by the volume of business.

Franchise A business that requires three elements: franchise fee, common trade name, and continuous relationship with the parent company.

Fundraising Events staged to raise revenue.

G

Gross Overall total revenues before deductions.

Gross profit on sales The difference between net sales and the cost of goods sold.

Gross profit margin An indicator of the percentage of each sales dollar remaining after a business has paid for its goods. It is computed by dividing the gross profit by the sales.

Guarantee A pledge by a third party to repay a loan in the event that the borrower cannot.

H

Home page The "table of contents" to a Web site, detailing what pages are on a particular site. The first page one sees when accessing a Web site.

Horizontal analysis A percentage analysis of the increases and decreases on the items on comparative financial statements. A horizontal financial statement analysis involves comparison of data for the current period with the same data of a company for previous periods. Percentage of increase or decrease is listed.

I

Income Statement A financial document that shows how much money (revenue) came in and how much money (expense) was paid out.

Interest The cost of borrowing money. The price charged or paid for the use of money or credit.

Internet The vast collection of interconnected networks that provide electronic mail and access to the World Wide Web.

Inventory The stock of goods that a business has on hand for sale to its customers.

Invest To lay out money for any purpose from which a profit is expected.

Investment measures Ratios used to measure an owner's earnings for his or her investment in the company. See "Return on investment (ROI)."

Invoice A bill for the sale of goods or services sent by the seller to the purchaser.

L

Lead The name and address of a possible customer.

Lease A long term rental agreement.

Liabilities The amounts owed by a business to its creditors. The debts of a business.

Liability insurance Risk protection for actions for which a business is liable.

License Formal permission to conduct business.

Lifestyle A pattern of living that comprises an individual's activities, interests, and opinions.

Limited partnership A legal partnership where some owners are allowed to assume responsibility only up to the amount invested.

Liquidate To settle a debt or to convert to cash.

Liquidity The ability of a company to meet its financial obligations. A liquidity analysis focuses on the balance sheet relationships for current assets and current liabilities.

Loan Money or other assets let out temporarily, usually for a specified amount of interest.

Loan agreement A document that states what a business can and cannot do as long as it owes money to the lender.

Long-term liabilities Liabilities that will not be due for more than a year in the future.

M

Management The art of conducting and supervising a business.

Market A set of potential or real buyers or a place where there is a demand for products or services. Actual or potential buyers of a product or service.

Marketing All the promotional activities involved in the buying and selling of a product or service.

Market demand Total volume purchased in a specific geographic area by a specific customer group in a specified time period under a specified marketing program.

Market forecast An anticipated demand that results from a planned marketing expenditure.

Market niche A well-defined group of customers that are interested in what you have to offer.

Market positioning Finding a market niche that emphasizes the strengths of a product or service in relation to the weaknesses of the competition

Market share A company's percentage share of total sales within a given market.

Market targeting Choosing a marketing strategy in terms of competitive strengths and marketplace realities.

Market mix The set of product, place, promotion, price, and packaging variables that a marketing manager controls and orchestrates to bring a product or service into the marketplace.

Market research The systematic design, collection, analysis, and reporting of data regarding a specific marketing situation.

Mass marketing Selecting and developing a single offering for an entire market.

Merchandise Goods bought and sold in a business. "Merchandise" or stock is a part of inventory.

Micro business An owner-operated business with few employees and less than \$250,000 in annual sales.

Middleman A person or company that performs functions or renders services involved in the purchase and/or sale of goods in their flow from producer to consumer.

Multilevel sales Also known as network marketing. Rather than hiring sales staff, multilevel sales companies sell their products through thousands of independent distributors. Multilevel sales companies offer distributors commissions on both retail sales and the sales of their "down line" (the network of other distributors they sponsor).

N

Need A state of perceived deprivation

Net What is left after deducting all expenses from the gross.

Net income The amount by which revenue is greater than expenses. On an income statement this is usually expressed as both a pre-tax and after-tax figure.

Net loss The amount by which expenses are greater than revenue. On an income statement this figure is usually listed as both a pre-tax and after-tax figure.

Net profit margin The measure of a business's success with respect to earnings on sales. It is derived by dividing the net profit by sales. A higher margin means the firm is more profitable.

Net Worth The owner's equity in a given business represented by the excess of the total assets over the total amounts owing to outside creditors (total liabilities) at a given moment in time. The net worth of an individual is determined by deducting the amount of all personal liabilities from the total of all personal assets.

Niche A well-defined group of customers for whom what you have to offer is particularly suitable.

Nonrecurring One time, not repeating. "Non-recurring" expenses are those involved in starting a business which only have to be paid once and will not occur again.

Note A written promise with terms for payment of a debt.

O

Operating expenses Normal expenses incurred in the running of a business.

Operating profit margin The ratio representing the pure operations profits, ignoring interest and taxes. It is derived by dividing the income from operations by the sales. The higher the percentage of operating profit margin the better.

Organizational market A marketplace made up of producers, trade industries, governments, institutions.

Other expenses Expenses that are not directly connected with the operation of a business. The most common is interest income.

Other income Income that is earned from non-operating sources. The most common is interest income.

Outsourcing Term used in business to identify the process of subcontracting work to outside vendors.

Overhead A general term for costs of materials and services not directly adding to or readily identifiable with the product or service being sold.

Owners' equity The financial interest of the owner of a business. The total of all owner equity is equal to the business's assets minus its liabilities. The owners' equity represents total investments in the business plus or minus profits or losses the business has accrued to date.

P

Partnership A legal business relationship of two or more people who share responsibilities, resources, profits, and liabilities.

Payable Ready to be paid. One of the standard accounts kept by a bookkeeper is "accounts payable." This is a list of those bills which are current and due to be paid.

Personal financial history A summary of personal financial information about the owner of a business. The personal financial history is often required by a potential lender or investor.

Prepaid expenses Expense items that are paid for prior to their use. Some examples are insurance, rent, prepaid inventory purchases, etc.

Price The exchange value of a product or service from the perspective of both the buyer and seller.

Price ceiling The highest amount a customer will pay for a product or service based on perceived value.

Price floor The lowest amount a business owner can charge for a product or service and still meet all expenses plus acceptable profit.

Principal The amount shown on the face of a note or a bond. Unpaid principal is the amount remaining at any given time.

Pro forma A projection or estimate of what may result in the future from actions in the present. A pro forma financial statement is one that shows how the actual operations of the business will turn out if certain assumptions are achieved.

Product Anything capable of satisfying needs, including tangible items, services, and ideas.

Product life cycle (PLC) The stages of development and decline through which a successful product typically moves.

Product line A group of products related to each other by marketing, technical, or end-use considerations.

Product mix All of the products in a seller's total product line.

Profit Financial gain; returns over expenditures. The sum remaining after deducting costs.

Profit and Loss Statement A list of the total amount of sales (revenues) and total costs (expenses). The difference between revenues and expenses is your profit or loss. Income statement.

Profit Margin The difference between your selling price and all of your costs.

Promotion The communication of information by a seller to influence the attitudes and behavior of potential buyers.

Promotional pricing Temporarily pricing a product or service below list price or below cost in order to attract customers.

Psychographics The system of explaining market behavior in terms of attitudes and lifestyles.

Publicity Any nonpaid, news-oriented presentation of a product, service, or business entity in a mass media format.

Q

Quarterly budget analysis Method used to measure actual income and expenditures against projections for the current quarter of the financial year and for the total quarters completed. The difference is expressed as the amount and percentage over or under budget.

Questionnaire A data-gathering form used to collect information by a personal interview, with a telephone survey, or through the mail.

Quick ratio A test of liquidity subtracting inventory from current assets and dividing the result by current liabilities. A quick ratio of 1.0 or greater is usually recommended.

R

Ratio analysis An analysis involving the comparison of two individual items on financial statements. One item is divided by the other and the relationship is expressed as a ratio.

Receivable Ready for payment. When you sell on credit, you keep an "accounts receivable" as a record of what is owed to you and who owes it. In accounting, a "receivable" is an asset.

Retail business A business that sells goods and services directly to individual consumers.

Retained earnings Earnings of a corporation that are kept in the business and not paid out in dividends. This amount represents the accumulated, undistributed profits of the corporation.

Return on investment (ROI) The rate of profit an investment will earn. The ROI is equal to the annual net income divided by total assets. The higher the ROI, the better.

Revenue The income that results from the sale of products or services or from the use of investments or property.

S

Sales Representative An independent salesperson who directs efforts to selling your products or services to others, but is not an employee of your company. Sales reps often represent more than one product line from more than one company and generally work on commission.

Sample A limited portion of the whole of a group.

Security Collateral that is promised to a lender as protection in case the borrower defaults on a loan.

Service Business A business that provides services rather than products to its customers.

Share One of the equal parts into which ownership of a corporation is divided. A "share" represents a part ownership in a corporation.

Short-term notes Loans that come due in one year or less.

Sole proprietorship A legal structure of a business having one person as the owner.

Stock An ownership share in a corporation. Another definition would be accumulated merchandise.

Stockholders' equity The stockholders' shares of stock in a corporation plus any retained earnings.

Suppliers Individuals or businesses that provide resources needed by a company in order to produce goods and services.

Survey A research method in which people are asked questions.

SWOT Analysis "SWOT" stands for Strengths, Weaknesses, Opportunities, and Threats. A SWOT analysis is an in-depth examination of key factors that are internal (strengths and weaknesses) and external (opportunities and threats) to a business.

T

Takeover The acquisition of one company by another.

Tangible personal property Machinery, equipment, furniture and fixtures not attached to the land.

Target Market Specific individuals, distinguished by socio-economic, demographic, and/or interest characteristics, who are the most likely potential customers for the goods and services of a business.

Target marketing Selecting and developing a number of offerings to meet the needs of a number of specific market segments.

Telemarketing Marketing goods or services directly to the consumer via the telephone.

Terms of Sale The conditions concerning payment for a purchase.

Three-year projection A pro forma (projected) income statement showing anticipated revenues and expenses for a business.

Trade Credit Permission to buy from suppliers on open account.

U

Undifferentiated marketing Marketing by selecting and developing one offering for an entire market.

Unearned income Revenue that has been received, but not yet earned.

V

Variable costs Expenses that vary in relationship to the volume of activity of a business.

Venture capital Money invested in enterprises that do not have access to traditional sources of capital.

Vertical analysis A percentage analysis used to show the relationship of the components in a single financial statement. In vertical analysis of an income statement each item on the statement is expressed as a percentage of net sales.

Volume An amount or quantity of business; the "volume" of a business is the total it sells over a period of time.

W

Wholesale Selling for resale.

Wholesale business A business that sells its products to other wholesalers, retailers, or volume customers at a discount.

Working capital Current assets minus current liabilities. This is a basic measure of a company's ability to pay its current obligations.

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- Research your target market and plan your advertising strategy
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- Learn the basics of business planning

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Linda Pinson is a nationally recognized author, educator, consultant, and business expert, specializing in financial management. She is the author of nine entrepreneurial books, many of which have been translated into other languages including Spanish, Chinese, and Italian. Linda is also the developer and publisher of the popular *Automate Your Business Plan* software, companion to her best selling book, *Anatomy of a Business Plan*, now in its 21st year and used by over one million business owners.



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