Association of Accredited
Small Business Consultants

STARTING A SMALL BUSINESS

Many people fantasize about quitting their 9 to 5 job and going into business for themselves. Whether the dream is opening a bed and breakfast in the mountains or starting a tech company that becomes the next Google, the allure of owning and running a small business can be irresistible.

However, many that plunge into the realm of small business ownership without proper preparations find that unanticipated challenges, poor resource allocation, or an inaccurate reading of the marketplace makes success unrealistic. An idea itself is not enough to make a successful business and charging ahead at full speed without first having a plan in place is a potential recipe for failure.

Others may find the prospect of setting off on such an adventure intimidating enough to let a great opportunity fade away because of the fear of failure. Regulations, forms, employees, contracts, etc. that await the aspiring small business owner may seem intimidating and insurmountable.

Whether an individual is full of energy and ready to immediately test his or her new business idea or is more hesitant to implement the new idea, proper planning is a must before the new venture gets started. When seven out of ten new businesses in the U.S. will likely survive for only two years and half will likely survive for only five years, new business owners must do everything possible to put the odds of success in their favor. The following is a brief roadmap for those considering starting out on their own and describes the basics required to become a small business owner.

Since every business is unique and every state has its own requirements to operate a business, this brief report cannot answer every question or touch upon every detail of starting a small business. It will offer, nonetheless, a general guideline for what to expect on the journey from turning a great idea into a profitable venture.


IDEA
PLANNING
REALIZATION
SUCCESS

PERSONAL ASSESSMENT
DO I HAVE WHAT IT TAKES?

Going into business can seem irresistible on those days when the boss insists you show up early, stay late, takes credit for your work and ideas, and generally makes you work beneath your ability. Every disgruntled employee in this situation hopes to leave behind that world by starting his or her own small business.

However, many other things are left behind, as well. Steady paychecks, paid benefits, worry-free nights, and guilt-free vacations are things of the past. Owning a small business means embracing uncertainty, constantly worrying about what might go wrong, and feeling that every waking hour should be spent in the business.

Factors associated with successful small business owners can be divided into two categories:

1. Personal attributes

2. Skills and resources.

Personal Attributes

Risk Tolerance: Success is never guaranteed, and there is a chance that all of the start-up efforts will be for nothing. Someone with the aspiration to start a small business must understand that it could fail but should not let that fear deter an opportunity that might lead to a successful small business. On the other hand, it is also essential to not charge ahead so fast that resources are invested into an idea that proves unlikely to succeed. The balance between being courageous and realistic is a high-wire act that a new business owner must learn to navigate.

Motivation: Owning a business means being responsible for everything it encompasses – employees, customers, clients, investors, strategic plans, and resources. A small business owner must have the motivation to:

- Be in charge
- Be a self-starter
- Be willing to accept risk
- Oversee a project to completion regardless of the hours necessary

The difference between being moderately successful and extremely successful can be a result of motivation and the work ethic of the owner.

Passion: Starting a business and striving to make it successful takes passion - a lot of passion – and believing 100% in what you are doing. Although making a profit is certainly a driving force behind most businesses, loving a business and being passionate about it makes the hurdles encountered much easier to maneuver around. As Confucius said, "Choose a job you love, and you will never have to work a day in your life."

Tenacity: Any business will have its ups and downs, particularly a start-up business. The ability to persevere and not be discouraged, despite obstacles, can be indispensable when struggling with all the tasks that are encountered with a new business. Persistence and determination can be the difference between mere survival and success.

Independence: When someone becomes a small business owner, the "buck" stops at the owner's desk. A successful small business owner must have the confidence to make difficult decisions, negotiate important contracts, and handle rejection with confidence. The small business owner is free of anyone else's control meaning that all decisions rest with one person – the owner. When dealing with this reality, decisions are many times difficult and the owner must "go it alone."

Ethics: Customers, employees, vendors, or investors all want to be treated in an ethical manner. A small business owner must gain the trust of everyone and act ethically in all situations. Once trust is lost, it is very difficult to restore. An "unethical" dollar made today can be extremely costly in the future. Employees take their cue from the owner. If an owner wants employees to act ethically with the company and with outsiders (customers, clients, vendors, etc.), then the example must be set at the top.

Skills and Resources

Experience: Many times a small business owner has the technical knowledge or a love of a business, but lacks operational knowledge and experience to understand the necessities of running a profitable business. Although mowing lawns as a teenager, setting up a lemonade stand as youngster, selling Girl Scout cookies, or peddling candy for a high school club is good experience, this alone does not qualify as significant business experience. Although it is not a prerequisite that anyone starting a new business must have the exact same type of experience that will be required to run the new business, meaningful business experience is a key skill that can lead the new business to success. If someone does not have relevant, specialized experience, it can still be gained prior to starting a new business. The aspiring owner can work for a related business, take courses at a trade school or community college, join a professional organization in the same field, or find someone willing to be a mentor.

Specialized Skills/Certifications: Some businesses require not only experience but also specialized knowledge and training in addition to certifications and/or licenses. Obviously, without the proper credentials necessary for certain businesses, the new business will not be able to get started and attract customers and clients. Although only one certification might actually be necessary to start a business, related certifications can be highly beneficial. An example might be a CPA also having certifications in business valuations and fraud investigations or a bookkeeper being a QuickBooks ProAdvisor or Enrolled Agent.

Communication: The ability to communicate about the business – its products and services – is critical to achieve success. A successful business owner does not have to be a great speaker or completely at ease in front of a crowd, but must be able to effectively communicate to prospective customers, clients, lenders, and other stakeholders the benefits of the company's products or services, and how those products or services are different and better than the competition. An idea, a product, or a service may sound great in the owner's mind, but unless the company's story can be told in a way that is equally convincing to others, chances of success can be limited.

Financing: Starting a new business takes initial capital depending on the business and additional working capital until the business starts generating enough cash to sustain ongoing operations. Cash flow budgets and forecasts are a necessity before a new business opens its doors. Being undercapitalized is the demise of many small businesses. Conservative, not optimistic, projections should be made to anticipate cash needs for a slower than expected start or unanticipated expenses.

Support Network: Starting a business takes considerable time and monetary resources. In addition to the hours and capital that are required, a small business owner will spend much time away from his or her family. Even when together, the distractions of the business are never far away. Although it might not seem significant when planning a business venture to have the entire family involved, but the "buy-in" from everyone is crucial. Spouse and children should understand the new commitment, both in time and money, that will be involved and even what role each will play in the new business. Oftentimes, it takes the efforts of the entire family, children included, to get a new business launched. When all the pros and cons of business ownership are discussed with the family as a group, it is much easier to get everyone on board and ready to contribute whatever each can.


PLAN → ACTION

BUSINESS ASSESSMENT

IS THE IDEA A BUSINESS OPPORTUNITY?

A new business is usually started as the result of the owner's idea and his or her passion about the idea. Although this first step is important, this in itself is not enough. The best roadmap for a small business to be successful is to find an underserved market, discover the needs of the underserved market, and then determine how those needs can best be satisfied with the product or service the new business has to offer. Obviously, a new business owner is not going to be able to provide innovative products and services all the time, but there must be a differentiation in the products and services that the new business will offer to be highly successful.

- How is the product better?
- How will this business improve upon services being provided by other businesses?
- How is the owner's expertise better than that of a competitor?

Similar questions like these need to be asked – and answered honestly!

The business assessment is a two-step process consisting of market research and financial planning.

Market Research Strategies

The first step to discover if a business plan is viable is to gather market research. It is essential to know as much as possible about the marketplace before investing resources. Several different areas need to be researched including:

Industry: It is important to understand and discover what the environment is for the type of business one is interested in starting. Trends can change, regulations can be enacted, or global competition can transform a domestic marketplace. Trade associations, governmental departments, chambers of commerce, and the Internet are great sources of information.

Market: Once the industry research has been completed, local market research where the business will operate is the next step. This research should be conducted in as much detail as possible to determine the extent that the target market is being served or not being served. The market, of course, may be local, national, or global. The amount of research – how and where it is conducted – will depend on the target market.

Customers: Although anyone contemplating starting a new business should have a preliminary idea for the types of buyers and how they may potentially be reached, details and specifics of all potential buyers should surface during the industry and market research. Certainly,

numerous questions must be asked and answered with sufficient confidence, such as:

- Are there enough potential customers to sustain the business?
- What is the potential customer base?
- What is the competition?
- How loyal are customers to the competition?

Competition: Who is the competition? Are they direct competitors or indirect competitors? Competitors are not always direct competitors in the usual sense. A tea cafe might be an indirect competitor of a coffee shop. A CPA preparing monthly financial statements for a client might be an indirect competitor of a bookkeeper, but a direct competitor of another CPA doing the same type work. Rental cars might even be competition for short-term airline flights. Competition must be known so the business owner understands how to differentiate the company's products and services, and how to best market what it is trying to sell.

After the general research has been completed and it appears the new business idea is viable, the next step is to determine if the idea will work in the specific case – location, competition, product or service differentiation, potential target market, etc. During this preliminary stage, it is wise to communicate with potential customers and clients to get their unbiased opinion. This could be one-on-one conversations, surveys, or group meetings (also known as focus groups). The idea is to determine:

- Does the need exist?
- What do customers and clients want?
- Does the product or service meet the needs of the customer?
- Is the price acceptable?

The competition also needs to be researched and studied.

- How do potential competitors conduct their business?
- Visit potential competitors and view their operations (if possible).
- Review potential competitor websites.
- Talk to potential competitor's customers and clients (if possible).
- Read reviews about potential competitors.
- What seems to be working for potential competitors?
- What are known or perceived shortcomings of potential competitors?
- What market opportunities exist that potential competitors are not capitalizing on?
- Consider asking similar businesses, who are not likely to be potential competitors, for advice, as well as those who have exited the industry and may have specific knowledge of the area and customer base to share.

Financial Analysis

The second step in the business assessment process is to analyze the amount of start-up capital needed and how it will be obtained. This can be owner financed, lender financed, investors, or a combination. Although the amount of money needed may be intimidating, financing must be given maximum consideration, as it is one of the most critical areas when starting a new business. It cannot be stressed enough. Accurate financing information must be known – how much is needed (start-up costs and working capital needs) and where it will be obtained – before any attempt is made to actually start operations.

Categories to focus on include:

Facilities: Whether the business requires a retail, office, or warehouse location, the costs to rent or purchase must be determined. These will include up-front costs for deposits and finish-out work in addition to monthly lease or debt servicing thereafter. In addition to the actual facility costs, expenses for utilities, insurance, repairs, and taxes must also be considered.

Equipment: This expense list will consist of furniture, fixtures, office, and other equipment necessary to start the business. An additional list should also be prepared for those items not essential in getting the business started, but a priority after the business becomes cash flow positive. Some equipment items may be able to be leased, while others might have to be purchased outright. Special leasing or financing arrangements should always be investigated to help eliminate the cash drain when starting a new business.

Inventory, Materials, and Supplies: All businesses need a starting amount of inventory, materials, and supplies depending on the business. Payment terms should be discussed with suppliers to determine the amount of start-up cash needed for this category. While immediate payment will need to be made for some items, others might have deferred payment options.

Marketing Costs: Marketing is essential to any new business and can be a major cash outflow item. Simply opening a store, office, warehouse, or virtual business is not enough to attract customers or clients. Many times marketing is incorrectly viewed as an expense rather than as an essential operational investment. When a company does no active marketing or under funds the marketing efforts, customer demand and the possibility for growth can be negatively affected. Conversely, when marketing is adequately funded and effective, sales and demand rise creating a return on the marketing investment, which generates greater growth and higher profitability.

The industry, business size, target market, and location are some of the variables that must be considered when developing a marketing budget. Start-up companies and product launches will normally take more of a marketing investment than mature companies or established products will need to sustain projected growth. A good starting point in preparing a marketing budget is to research industry data and averages.

Other Operating Costs: There are many other operating costs when starting a business than those listed above. There can be professional fees, permits, licenses, insurance, utilities, phones, Internet service, dues, subscriptions, office supplies, wages, taxes, vehicle expense, contract labor, outsourcing expenses, interest, credit card processing fees, legal fees, meals, travel, entertainment, repairs, training, and other miscellaneous expenses. All costs must be considered when preparing budget and financial models. Costs that may seem insignificant by themselves can become substantial when added together with other costs.

Personal finances: Personal finances? Why are these discussed when reviewing finances for a new business? This is one area that many new business owners overlook when preparing cash requirements. If an owner is planning to live off the new business immediately – take a salary or draw (depending on the type of business organization) – then this amount of cash must be considered when estimating the financing needs of the business. It is difficult to cash flow most new businesses during the initial stage of operations much less cash flow the business plus cash flow the personal needs of the owner. All financial requirements must be considered.

Reserves: Unanticipated expenses are almost certain to materialize when starting a new business, or revenues will not be generated as fast as estimated. In expectation of either event, a new business must be prepared to have "emergency" funds available if and when these occurrences happen. A new business cannot afford to get a reputation as a "slow payer." Sufficient reserves must be established to pay vendors, employees, lease payments, etc. on time.


BUSINESS
ANALYSIS

INVESTORS
DO I NEED THEM?

Investors have one objective in mind when participating in the capitalization of a new business. They seek a return on their investment. With this universal profit objective, there are also a number of items that are commonly requested before any investment is made. Most investors, in addition to learning the details of the business idea, will want to review detailed pro forma financial statements (prepared in advance) so they understand:

- The cash needs of the business
- Where and how investments will be used
- When the company will reach a break-even point
- When the company is expected to be profitable
- What type of return on their investment can be expected
- When a return on their investment will be realized

Once the detailed financial analysis has been completed, it is time to determine the various sources of the required funding. There are basically two ways to finance a business – equity financing or debt financing.

- Equity financing is an investment from the owner or outside investors.
- Debt financing is when the business borrows money and creates a debt.

Within each category there are numerous options, each of which may be suitable in certain situations depending on the financial resources of the owner and the particular business, and how it is structured.

Equity Financing

Individual contributions: Ideally if a small business owner is in a position to fund the new business effort significantly through personal capital, then the individual retains complete control and direction of the future of the business. Many, of course, see this as a distinct advantage as opposed to sharing control with investors or detailed reporting required by most lenders. Perhaps, you have heard a version of the golden rule of business – he who has the gold makes the rules. Certainly, the more a business owner has to seek in outside funding, the less control he or she has over the business.

Owner equity financing can come from various sources. These can include personal savings, home equity, personal property, retirement plans, or insurance policies with cash value. The sources are many and varied.

Investor contributions: In addition to equity contributions from an owner, equity contributions can also come from outside investors. An owner must understand that to obtain outside investors, a percentage ownership of the business must be surrendered. The new business owner seeks needed capital, while an investor seeks a return on investment (ROI). The amount of ownership relinquished in exchange for investor financing depends on a number of factors such as the amount of the investment, expected financial performance of the company, equity contributed by the owner, industry, risk, and use of the investor proceeds. These must all be explored in detail along with other factors affecting ownership percentage and expected ROI.

Debt Financing

There are numerous sources of debt financing. All should be investigated when a new business needs start-up and working capital funding. Available financing will depend on the business structure, collateral available, personal credit history of the owner, and amount of equity being contributed by the owner.

Sources of debt financing might come from:

- Friends and family
- Commercial banks
- Receivables
- Vendors
- Leasing
- Credit cards
- Small Business Administration (SBA) or other government programs

The terms of debt financing, as with equity financing, will vary based on amounts to be borrowed, length of borrowing time, and other deemed risk factors from the lender's point of view.

THE BUSINESS PLAN

Whether a small business owner self finances the new venture, seeks potential investors, or tries to obtain debt financing, a solid business plan is needed. It is not enough to have a mental picture of the plan. It should be in writing and can serve several purposes. If the owner is trying to attract investors or obtain financing, a well-developed business plan is essential to show how the company will operate, evolve, and grow. Even if the business will be owner financed, a business plan can and should be a work in progress (updated as the company goes from one business stage to the next). A written business plan can serve as a double check to ensure the business idea is valid and workable, both in the short and long-term timeframes.

One of the main benefits of a business plan is that it gives the owner (or investors and lenders) a realistic, objective look at how the business will operate, combining the research and financial analysis. Once the business is operational, a well-written business plan can keep all aspects of the business on track and headed in the intended direction. It can be easy to make decisions early in a new business operation that run contrary to the initial vision, usually hoping to increase short-term revenue or reduce initial, start-up expenses. Sometimes these early decisions are correct operational decisions, while at other times they can have a negative effect that runs contrary to the original business idea and plan. Frequently, referring back to the business plan can keep decision makers focused on the intended goals.

A business plan needs to be informative with goals that are achievable, quantifiable, and realistic. It is a business communication tool and blueprint for the future. Although there is not a single template that should be used in writing a business plan, the most important element in the preparation is to make certain that important factors of the business are covered. It should be professional in appearance and contain the following:

1 **Cover Page**

2 **Executive Summary**
   a. Short overview of the business
   b. Objectives
   c. Mission statement

3 **Table of Contents**

4 **Business Profile**
   a. Description of the business (product and/or services offered)
   b. History and form of organization
   c. Organizational chart and individual manager resumes
   d. Board of Directors or Board of Advisors (short resumes)
   e. Core competencies
   f. Opportunities and challenges
   g. Marketing Plan
      i. Market research
      ii. Customers
      iii. Industry information
      iv. Pricing
      v. Sales forecast
      vi. Marketing strategy
      vii. Marketing budget
   h. Competitive Analysis
      i. Major competitors
      ii. Long-term industry forecast
   i. Operational plan
      i. Personnel
      ii. Location
      iii. Legal environment and licenses (if applicable)
      iv. Inventory and suppliers (if applicable)
      v. Credit policies
      vi. Professional assistance

5 **Financial Information**
   a. Projected income statements and balance sheets for three years by quarter
   b. Projected statement of cash flows for three years by quarter
   c. Start-up expenses (if new)
   d. Breakeven analysis
   e. List of capital assets (date to be acquired and cost)
   f. Loan applications (if applicable)
   g. Debt servicing schedule
   h. Insurance

6 **Growth Plan**

7 **Supporting Documents**
   a. Marketing materials
   b. Research studies
   c. Industry articles
   d. Loan applications
   e. Licenses and permits

TYPES OF BUSINESS ORGANIZATIONS

There are a number of different forms of business organizations and the type of structure will depend on a number of factors including tax, liability, complexity, control, and cost of formation considerations. Anyone seeking to start a business should consult with a professional advisor prior to the start of any organizational work or operations regarding the best type of business structure for the particular business. The usual types of business organizations are:

- Sole proprietorship
- General partnership
- Limited partnership
- C Corporation
- S Corporation
- Limited liability company (LLC)

There are advantages and disadvantages of each type of business organization and various liabilities attached to each (another reason why competent, professional advice is needed to determine the correct business structure for a new venture). A very, very brief description of each is:

Sole proprietorship – A sole proprietorship is a one-owner company and the simplest form of business ownership to create. The sole proprietor owns 100% of the company and has full control of the business.

General partnership – A general partnership is an association of two or more individuals who own the business together.

Limited partnership – A limited partnership is composed of at least one general partner and one or more limited partners.

C Corporation – A C Corporation is a separate legal entity and taxpaying entity (rather than just a tax reporting entity). It is established under state law and investors buy stock in the corporation.

S Corporation – An S Corporation has the same legal characteristics of a C Corporation except the S Corporation is a pass-through entity for federal income tax purposes. A pass-through entity means the corporation is a separate legal entity and tax reporting entity, but not a taxpaying entity. Profits and losses are "passed through" to the owners who report various items on their personal federal income tax returns.

Limited liability company (LLC) – A limited liability company (LLC) has many of the same characteristics as an S Corporation but without many of the restrictions imposed on the S corporation formation.

TAKING CARE OF THE BASICS

In addition to what has already been discussed, there are a number of other decisions that must be made prior to the launch of a new business.

A Prudent Start

Everyone starting a new business has big dreams. It can be tempting to begin operations in the biggest way possible. This certainly is the right course for many businesses, although for others this might be the wrong approach. There are benefits either way depending on the business and current economic environment.

One of the most important factors in starting a new business is to begin with a definite, well-conceived plan. This might mean starting on a small scale to preserve critical finances and keep the owner from being spread too thin at a time that can be stressful and chaotic. Starting slow can also keep mistakes from becoming catastrophic and allows for best practices to be determined before a full-scale, all out business launch. If the income generated is less than expected, then a slower start can allow for necessary "tweaks" to the business plan, so improvements and changes can be made going forward. If the decision made is to start small and slow, then ideally the business will be scalable and grow as planned. On the other hand, if the plan is to begin operations fast and big, then contingency plans should be made in case actual figures do not meet projected figures. If this is the case, then alternative actions can be taken that were already planned rather than making spur-of-the-moment decisions that might be detrimental to the long-term survival of the new business.

What's In a Name?

Naming a business is a critical consideration. It can either attract potential customers or drive them away – or have potential customers or clients not even give a second thought to the business. Brainstorming with friends, family, mentors, and business associates about a name is a good way to get initial thoughts and ideas. Ideas for potential names should be researched on the Internet to see what appears and to ensure that the name is not already being used, incorporated, or trademarked. A legal advisor assisting with the elements of a new business start-up can also help to check the legality of the name chosen.

A name is more than just a name. Think about how it can be branded, what taglines can be used, and what logos might be developed to distinguish the name, product, or service from the competition. A name talks multitudes about the business. It personifies the business, brings it to life, and makes it a unique entity. The name should capture the vitality of the new venture.

Check All the Boxes

The type of business, location, structure, and employees are just some of the many other issues that must be taken into consideration when deciding what additional tasks need be accomplished before a business should start operations. Some of these are:

- Obtain an Employer Identification Number (EIN) from the IRS
- Register a trade name (dba – doin business as)
- Obtain proper licenses and/or permits
- Apply for trademarks
- Obtain insurance (liability, casualty, business interruption, etc.)
- File state required reports
- Obtain tax advice from competent professional

FINDING THE RIGHT EMPLOYEES

Most small businesses at one time will need employees in addition to the owner; otherwise, the task of running the business becomes overwhelming. It is difficult for a business to grow without the owner having some assistance.

The business plan should project what positions will need to be filled (full-time, part-time, temporary, contract, or outsourced) and when it is anticipated that these needs will arise. Employee positions might be sales, IT, clerical, delivery, marketing, or production depending on the business. Since it takes time finding employees with the right "fit" for the company - skills, experience, philosophy, etc. - adequate time should be given for the recruiting process in advance of actual hiring so the best possible candidates can be interviewed and selected. It is better to spend time interviewing and seeking the ideal candidate than quickly hire someone only to find out later that the candidate was not well suited for the position or company.

A best practice in business is to write a job description for each position to be filled. Although time consuming to prepare, it allows the owner to think about the skills needed to adequately perform the duties of the job. It also lets a potential employee know what will be expected and the requirements of the position. A company's greatest assets can be its employees, so time spent recruiting and hiring the best match for a company cannot be overstated.

SUMMARY

Starting a small business is an excellent decision for many individuals – obviously, since there are close to 30 million small businesses in the U.S. alone.

Although this brief narrative gives an aspiring business owner important areas to think about, it is by no means meant to be a complete guide to starting a small business. Attorneys, Accredited Small Business Consultants, tax advisors, bookkeepers, insurance agents, and marketing professionals should be consulted. They all must work as a team and coordinate efforts in laying a strong foundation for the new venture.

Starting a new business is no small undertaking. There are many ingredients that go into making a new business a successful endeavor.

- The business starts with someone's idea... and dream!
- That person must have motivation... and passion!
- Information must be researched and gathered.
- A sound strategy must be developed.
- Marketing must be on target and effective.
- SUCCESS is then achieved!