



Uniquely

DYNAMIC ENTERPRISES

Guide

To Successful Business Development:
Management and Planning Series

This is a complete guide of everything you need to know and consider before starting your own business.

Welcome

On behalf of UDE, affectionately known as, Uniquely Dynamic Enterprises, I want to welcome you to the first day of the rest of your life. You have taken a courageous step forward into the world of entrepreneurship, and I want to reassure you that our company will be with you along the way. Our motto is "Success is a Work in Progress." What does this mean to you? It means that in order to see the dream, the idea, and the fantasy of your own business turn into reality; you must be prepared to work hard, and give it all you have.

UDE is a full service business consulting and marketing firm. We tailor our line of work to each of our client's individual needs. No one business is the same, and with that realization, comes our dedication.

In this packet you will find everything you need to open your business. Included in this packet are explanation of business components, questioners, worksheets, and financial capital forms. I ask that if, and only if, you are serious about turning your idea into a reality that you take the time to fully complete the enclosed plan of action. We will walk you through each step.

It is most important to know what services UDE will provide you with. Upon successful completion of all forms, we here at UDE will render the following services:

- Prepare a business plan
- Instruct you on choosing the correct legal structure
- Assist you with all patents, trademarks, and copyrights
- Instruct you on financing your business
- Conduct Grant Research and Development
- Prepare and submit all forms, permits, and licenses
- Provide consult on legal matters
- Inform you on tax documents and laws
- Accounting Services and Tax preparation
- Inform you of Employee and Insurance benefits
- Devise and execute a Marketing plan of action.
- Among a host of other services.

Again, welcome to the first day of the rest of your life, may you be successful, prosper, and be diligent.

Business Terms and Information:

Business Plan:

There are several steps in the start up process, but the most important besides financial capital, is your Business Plan. The business plan is your blue print for the business. You need to know who you are catering to, what products you will offers, why should someone buy your product and most importantly how will you finance your operation.

Legal Structure:

Which one is right for you?

Sole Proprietorship

Sole proprietorships are easy to set up and easy to disband. Profits are taxed at the owner's individual federal tax rate, with the amount reported on Schedule C or Schedule CZ. To establish a sole proprietorship, you typically need to file a *fictitious name certificate* at a local or state governmental office if you're doing business under a name different than your own. Sole Proprietorships are not advisable if you plan to do any significant business, because you face unlimited liability for the business's debts.

Partnership

Partnerships can be formed as easily as sole proprietorships. These unincorporated businesses allow two or more people to share liability and provide capital. Business income is reported on partners' individual tax returns. Limited partnerships must file an organizational form certificate with the Secretary of State. There are Limited Liability Partnerships; however, they can only be formed by accountants and lawyers.

Limited Liability Company

Limited liability companies, or LLCs as they are known, are a hybrid form of business that combines elements of partnerships and corporations. An LLC can choose to have either passed through taxation so that the members, not the LLC, are taxed on business income or be taxed as a separate entity like a regular corporation. On the federal level, LLCs with only one member are considered to be sole proprietors unless they elect to be classified as a corporation by filing IRS Form 8832. LLCs with more than one member file a partnership return on IRS Form 1065 unless they elect to be classified as a corporation. LLCs must file with their Secretary of State and formulate an Articles of Organization and the members must enter into an operating agreement.

Corporation

Corporations are separate legal entities that must be formed under a state corporation law. The corporation has shareholders who own stock in the company, a board of directors who have responsibility for overall management of the company, and officers who run its day-to-day affairs.

The two types of corporations are the C-Corporation and the S-Corporation. With a C-Corporation, the corporation rather than individuals pays taxes and assumes liabilities.

An S-Corporation allows up to 75 shareholders to share income and expenses and to report them on their individual income tax returns.

A Corporation is a legal entity, created by statute (i.e., the state) with all the rights, privileges and responsibilities of a natural person; possessing the attributes of limited liability, centralized management, continuity of life and free transferability of interest.

A For-Profit Corporation is a corporation created for the purpose of conducting business in the widest sense of the term.

A Nonprofit or not for profit corporation is a corporation normally thought of as one created for religious, charitable, educational or eleemosynary purposes. However, the terms nonprofit or not for profit, as a type of corporation, do not preclude these entities from engaging in a profit making situation. In fact a nonprofit corporation is not necessarily a charitable corporation or one that is tax exempt. They are corporations that may not distribute their income to a member, director or officer other than as provided by law.

A Foreign Corporation is a corporation incorporated by any jurisdiction other than the United States of America to transact business.

PATENTS, TRADEMARKS, AND COPYRIGHTS:

Patents

Original machines, technical processes or methods, manufactured items and chemical compositions may be patented. "Utility patents," for new inventions or functional improvements of existing inventions, remain in effect for 20 years; "design patents" are effective for 14 years. The key elements of patent applications are "claims," which describe all essential features that distinguish the new invention.

In the U.S., once the inventor discloses the invention publicly, he has a year to file for a patent. Inventors should apply to the U.S. Patent and Trademark Office (PTO) for a patent or a provisional patent (only available in some cases) as soon as possible. For current information on fees, check the PTO's website. Because of the complexities in filing patent applications, the PTO recommends getting specialized legal help, although you can apply online. The PTO's website includes searchable databases for patents and trademarks. The site also includes listings of patent attorneys.

Copyrights

Original writing, musical works, artistic designs and other works of expression are protected under federal copyright law, which gives the author exclusive rights to use the works. Although an author's copyright is automatic when a work is created, it's often a good idea to use a copyright notice because it informs the public and competitors that the work is protected. For a copyright notice, place the word "copyright" or the symbol ©, " the year of first publication and the name of the owner of the copyright. A copyright can be registered through the U.S. Copyright Office at the Library of Congress. An owner of U.S. works must have registered a copyright before filing an infringement lawsuit in court. Copyrights last 70 years after the author's death. The most volatile sector of copyright law today involves Internet material. As with any material, it's important to get permission to use photos, graphics, songs and recent articles posted on websites. The Digital Millennium Copyright Act is designed to safeguard copyrights for music, software, journalism and stories on the Internet.

Trademarks

These are words, symbols, names, Internet domain names, packaging and labeling that distinguish one business's product from another's. Although registration provides greater protection, trademarks that aren't registered still legally protect owners.

Trademarks may be registered through the U.S. Patent and Trademark Office or, for more limited state protection, contact your State's Secretary of State. A trademark submitted to the PTO is placed on either the Principal Register, which offers full protection indefinitely, or the Supplemental Register. In both cases, declarations must be filed at the end of the sixth year after the date of registration and at the end of each successive 10-year period. For current fees, check the PTO's website.

CAPITAL:

Growing businesses often can't rely only on internal cash flow to fund expansion, but it's often hard to find financing. Before going to relatives or friends, put together a financial plan. Write down the specifics of how much you'll need, how you'll use the cash, when you'll pay it off, what you'll do if something doesn't go according to plan and whether you are willing to give up a stake in the business in return for capital.

The Basics

A startup or early-stage company has little chance of getting a significant bank loan. SBA startup loans, for example, are typically limited to \$10,000 because lenders aren't willing to put their money on the line unless a business has a proven track record. Where will the money come from? Here are a few ideas:

- **Savings-** If you aren't confident enough to put your savings on the line, no one else will likely invest in your venture either. That means cashing in your stocks, selling the boat and even taking a loan from your retirement account, if necessary.

- **Credit Cards-** While financial advisers wince at the idea of using plastic to fund your business, the truth is that many small companies charge their way through the first year or two of operation. If you use this option, get a card or several cards with low interest rates and read all the terms and conditions carefully. Watch due dates and make every payment on time.
- **Store Credit-** Many retailers make it easy to furnish your office with no money down, and no interest or payments for a year. Make that store's gimmick work for you, but prepare for the day when the bill comes due.

The Next Steps

After you've tapped the "easy" money, try these sources of capital.

- **Home Equity-** Putting your home on the line may sound risky, but it is often the easiest way to get tens of thousands of dollars. There's minimal paperwork and, often there is plenty of equity available. A home equity loan makes more sense in light of an SBA loan requirement that if the borrower has 20% equity in his or her home, it must be used as collateral for an SBA loan. So in many cases, the entrepreneur's home would be pledged anyway to get the SBA loan, which requires more paperwork and often higher fees.
- **Investors-** There are no listings and few databases for private investors. To find them, look for groups that work with investors, or "angel investors." Talk with friends and business associates, industry insiders in your specific field and "true believers" in what you are doing.
- **Credit Unions-** Some large credit unions are starting to do SBA lending. For the best success with a credit union, go to one where you have a personal account. If you aren't already a credit union member, find one to join by using the online credit union locator at www.joinacu.org. Membership in credit unions has become more open in recent years, although many workplace credit unions still restrict membership to employees.

SBA Lending

Raising capital has become more expensive for entrepreneurs since Congress changed the funding structure for U.S. Small Business Administration loans in 2004. Today, borrowers and lenders shoulder the entire cost of the program through increased fees. The federal government subsidy was eliminated in late 2004.

»7(a) Business Loans (up to \$2 million)

This is the SBA's primary loan program. The maximum loan amount is \$2 million, with a maximum loan guarantee of \$1.5 million. The maximum guarantee is 85% for loans of \$150,000 or less; 75% for loans over \$150,000. (A \$2 million loan would have a loan guarantee of \$1.5 million or 75%.)

Fees are 2% of the guaranteed portion for loan amounts of \$150,000 or less, 3% for loans from \$150,000 to \$700,000, and 3.5% for loans over \$700,000. For loans over \$1 million, an additional 0.25% guaranty fee will be charged for the portion greater than \$1 million. An ongoing servicing fee of 0.55% applies to the guaranteed portion of the loan for loans approved on or after Oct. 1, 2006. Interest rates are negotiated with the lender, but are subject to SBA maximums, which are pegged to the Prime Rate.

Loan proceeds can be used for fixed assets, working capital, inventory, seasonal line of credit or, for compelling reasons, for debt repayment. Real estate may be financed for up to 25 years and working capital loans for seven years (with terms of 10 years in a select few cases). The maximum repayment for fixed assets other than real estate is the economic life of the asset, but in no cases longer than 25 years.

»SBA Express (up to \$350,000)

Lenders use their own forms and processes to approve loans in amounts up to \$350,000, providing minimal paperwork to the SBA to obtain a maximum guarantee of 50%. Loan term varies. Interest rates are tied to the Prime Rate, but are negotiated with the lender. For loans of \$50,000 or less, lenders may charge up to 6.5% over Prime; for loans more than \$50,000, the maximum rate is 4.5% above Prime.

»Community Express (up to \$250,000)

This pilot program is available in geographic areas serving primarily low- to moderate-income entrepreneurs. Revolving lines of credit up to seven years are allowed. The maximum guarantee is 85% for loans of \$150,000 or less; 75% for loans over \$150,000. Collateral may not be required for loans up to \$25,000. The program also includes technical and management assistance.

»504 Loan Program

This program uses fixed, long-term financing to finance fixed assets for for-profit businesses with less than \$7.5 million in net worth and less than \$2.5 million in after-tax profits. The money can be used for assets such as land, buildings, long-term machinery and equipment. Funds cannot be used for working capital or inventory. Typically a bank will loan 50% of the project's cost, a Certified Development Company provides SBA-guaranteed funds for 40% of the total cost up to \$4 million for small manufacturers (SBA limit is \$2 million for non-manufacturers that meet public policy goals and \$1.5 million for non-manufacturers that meet job creation or community development goals) and the remaining 10% comes from the owner's down payment. Repayment is over 20 years for real estate, 10 years for equipment. Interest rates are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues.

FORMS, PERMITS, AND LICENSES

These will be filed for you by UDE based on all information you provide as it pertains to your business needs.

CHILD LABOR LAWS

The law applies to workers under 18. They cannot work in hazardous occupations such as firefighting, excavation, electrical work, roofing, mining, operating heavy machinery or moving vehicles, or around explosives or dangerous equipment. There are additional occupations banned for children ages 14 and 15. Minors cannot work during school hours without an exemption.

- **Minors under age 16-** Outside of school hours, minors 14 and 15 are allowed to work 15 hours a week when school is in session; three hours a day between 7 a.m. and 7 p.m. on school days if school is scheduled the next day; eight hours a day between 7 a.m. and 7 p.m. on days when there isn't school the next day. During the summer and holidays, minors ages 14 and 15 may work 40 hours a week, eight hours a day, between 7 a.m. and 9 p.m.
- **Minors age 16 and older-** Children ages 16 and 17 may work 30 hours a week when school is in session; eight hours a day between 6:30 a.m. and 11 p.m. if school is scheduled the next day. When school is not scheduled the next day, minors ages 16 and 17 may work until their shift is done. There are no restrictions on hours during school vacations.

WORKERS COMPENSATION

State law requires employers that are not in the construction industry and have four or more employees, either full-time or part-time, to have workers' compensation coverage for their employees. In the construction industry, workers' compensation coverage is required when there are one or more full-time or part-time employees. Unless exempt, corporate officers are included in the definition of "employee."

For employers engaged in the construction industry, up to three corporate officers or three members of a limited liability company (LLC) who own at least 10% of the corporation or company may exempt themselves from carrying workers' compensation coverage.

Agricultural employers who have more than five regular employees and/or 12 or more seasonal workers (employed for at least 30 days) are required to have coverage.

NEW HIRE REPORTING

According to some state laws employers are required to provide information on all newly hired and rehired full-time and part-time employees within 20 days. This mandate is to comply with the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which seeks to expedite collection of child support from parents who change jobs frequently and to locate "deadbeat" parents.

Minimum Wage

State minimum wage applies to all employees covered by the federal minimum wage law. Please review your state's mandated minimum wage rate.

Tax Laws & Accounting:

UDE employs an accounting firm; all accounting will be done through their firm for the first 3 years of operation.

FEDERAL MANDATES

Federal Corporate Income Tax

Due: March 15 (if the business's fiscal year corresponds to the calendar year)

C-Corporations pay income tax using federal form 1120 or 1120A. A limited liability company classified as a corporation for federal tax purposes must file a federal corporate income tax form.

An S-Corporation generally is not liable for federal income tax, but it must file a federal form 1120S annually and pay tax on certain investment income and capital gains. Returns are due by the 15th day of the third month after the close of the corporation's fiscal year.

Federal Employment Tax (Income, Medicare and Social Security)

Due: Monthly or semiweekly (in most cases)

Businesses that have employees must withhold federal income tax, Medicare tax and Social Security tax from employees' wages. In most cases you pay the tax monthly or semiweekly, either by the Electronic Federal Tax Payment System (required if deposits total more than \$200,000 annually) or by using form 8109, Federal Tax Deposit Coupons. Report the tax on form 941, Employer's Quarterly Federal Tax Return.

Small employers that have an employment tax liability of \$1,000 or less for the year may now pay annually on Jan. 31. File form 944, Employer's Annual Federal Tax Return.

Federal Unemployment Tax

Due: January 31, April 30, July 31, October 31

Some states are required to report wages and pay taxes to the Federal Unemployment Compensation program if they paid \$1,500 in wages within a calendar quarter or have employed one or more people for any portion of a day in 20 different weeks during the calendar year. If a business's FUTA tax liability for a quarter is \$500 or less, the tax may be held over to the next quarter and added to that quarter's tax liability. Pay the tax either by the Electronic Federal Tax Payment System or by using form 8109, Federal Tax Deposit Coupons. Report the tax annually on federal form 940 or 940-PR (Spanish).

STATE MANDATES

UDE's Accounting Firm will disclose correct dates and guidelines as required by each state on corporate income tax, unemployment tax, sales and use tax, discretionary surtax, use tax on out-of-state purchases, and tangible personal property tax.

HEALTH BENEFITS

Health Savings Accounts

One health insurance option for small businesses is the health savings account, or HSA. The idea of the program is to combine a high-deductible health insurance policy with an account to save for qualified medical expenses, including doctor visits, emergency room charges, prescription drugs and other health-related costs.

The program was created as part of the 2003 Medicare Prescription Drug Improvement and Modernization Act.

Benefits for small businesses and their employees include:

- **Reduced premiums.** Because HSAs require a minimum policy deductible of \$1,100 for self-only coverage and \$2,200 for family coverage, premiums may be lower than a plan with a \$250 or \$500 deductible.
- **Individuals** (or their employers) can make annual contributions to an HSA of up to the amount of the policy deductible, with a maximum of \$2,850 for an individual or \$5,650 per family (adjusted for inflation each year). Employee deductions reduce taxable income; employer contributions are not included in the employee's taxable income.
- **Tax savings.** HSA contributions and any earnings in federally qualified programs grow tax-deferred and can roll over from year to year. The amount deposited can be deducted from gross income on the employee's tax return. The employee does not have to itemize to take the HSA deduction. Distributions are not taxable as long as they're for qualified medical expenses. Non-qualified distributions incur a 10% penalty. After age 65, withdrawals can be for any reason, but they are taxable.
- **Portability.** HSAs belong to the employee, so as jobs change, the account moves with the employee.

Insurance Benefits

Liability

Liability coverage protects a business from loss as a result of injuries, deaths or property damage caused by a business's operations, employees or products.

"Premises and operations" coverage pays when a business is legally responsible for an injury claim, if, for example, someone slips and falls on company property.

"Products and completed operations" coverage, commonly called product liability, helps pay for monetary losses that result from injury or damage caused by a company's product.

Property

Property insurance protects the value of physical assets.

“Replacement cost” coverage pays to replace or rebuild buildings and other property, as long as the property is insured for its replacement value.

Business Interruption

When a business must close because of an insured property loss, a business interruption policy, called “business income insurance,” pays ongoing expenses such as rent, utilities and some or all payroll expenses.

“Extra expense insurance,” another type of business interruption coverage, reimburses for special expenses that help a business minimize losses by getting up and running. For example, if a business can restart operations in a week, rather than a month, by paying a surcharge to ship replacement equipment by air express, the extra expense insurance would cover the air express charge.

Remember that most business interruptions occur in the first 30 days after a disaster, so it is important to get a policy that kicks in within a few days of the event.

OTHER INSURANCE

Workers’ Compensation

State law requires employers that are not in the construction industry and have four or more employees, either full-time or part-time, to have workers’ compensation coverage for their employees. In the construction industry, workers’ compensation coverage is required when there is one or more full-time or part-time employee. Corporate officers are included in the definition of “employee.” Agricultural employers who have more than five regular employees and/or 12 or more other workers for seasonal agricultural labor lasting 30 days or more must have coverage.

Directors’ and Officers’ Liability

When employees, shareholders, government agencies and others allege that the company has suffered financial losses due to company mismanagement, the response is often to sue the directors and officers. This coverage protects both the company and individual executives.

Key Man

When one or two individuals are vital to a business’ success, it’s important to have key-man insurance — which of course can be for a woman. The insurance protects the business in case of the death of the essential individual. The company buys and pays for a key-man policy — similar to a life insurance policy — on a specific individual and the death benefit goes to the company rather than the individual’s family.

UNIQUELY DYNAMIC ENTERPRISES' GUIDE TO PROPER BUSINESS DEVELOPMENT

Management and Planning Series

Owning a business is the dream of many Americans ... starting that business converts your dream into reality. But there is a gap between your dream and reality that can only be filled with careful planning. As a business owner, you will need a plan to avoid pitfalls, to achieve your goals and to build a profitable business.

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business is determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates few ideas result in successful business ventures, even when introduced by well-established firms. Many entrepreneurs strike out on a business venture convinced of its merits, but they fail to evaluate its potential. This checklist should help you evaluate a business idea. It is designed to screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

The *Checklist for Going into Business* is a guide to help you prepare a comprehensive business plan and determine if your idea is feasible, to identify questions and problems you will face in converting your idea into reality and to prepare for starting your business.

Operating a successful small business will depend on

- a practical plan with a solid foundation;
- dedication and willingness to sacrifice to reach your goal;
- technical skills; and
- basic knowledge of management, finance, record keeping and market analysis.

As a new owner, you will need to master these skills and techniques if your business is to be successful.

IDENTIFY YOUR REASONS

DYNAMIC ENTERPRISES

As a first and often overlooked step, ask yourself why you want to own your own business. Check the reasons that apply to you.

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

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

You should realize your personal limitations and seek appropriate assistance where necessary (i.e., marketing, legal, financial). Few people have expertise in doing a feasibility study. A feasibility study involves gathering, analyzing and evaluating information by answering: "Should I go into business?" Answering this question involves a preliminary assessment of both personal and project considerations. Financial statistics are available from most businesses, trade and industry associations, private companies, banks, universities, public libraries and government agencies.

A SELF-ANALYSIS

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

Personal Characteristics

1. Are you a leader? _____
2. Do you like to make your own decisions? _____
3. Do others turn to you for help in making decisions? _____
4. Do you enjoy competition? _____
5. Do you have will power and self discipline? _____
6. Do you plan ahead and get things done on time? _____
7. Do you like people? _____
8. Do you get along well with others? _____
9. Are your personality characteristics such that you can adapt to and enjoy small business ownership/management? _____
10. Do you take advice from others? _____
11. Do you adapt to changing conditions? _____

Personal Conditions

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

1. Are you aware that running your own business may require working 12-16 hours a day six days a week and maybe even Sundays and holidays? _____
2. Do you have the physical stamina to handle the workload and schedule? _____
3. Do you have the emotional strength to withstand the strain? _____
4. Are you prepared if needed to temporarily lower your standard of living until your business is firmly established? _____
5. Is your family prepared to go along with the strains they too must bear? _____
6. Are you prepared to lose your savings? _____

PERSONAL SKILLS AND EXPERIENCE

Certain skills and experience are critical to the success of a business. Since it is unlikely that you possess all the skills and experience needed you'll need to hire personnel to supply those you lack.

There are some basic and special skills you will need for your particular business.

By answering the following questions you can identify the skills you possess and those you lack (your strengths and weaknesses).

1. Do you know why you are considering this business opportunity? _____
2. Do you know what basic skills you will need in order to have a successful business? _____
2. Do you possess those skills? _____
3. When hiring personnel will you be able to determine if the applicants' skills meet the requirements for the positions you are filling? _____
4. Have you ever worked in a managerial or supervisory capacity? _____
5. Have you ever worked in a business similar to the one you want to start? _____
6. Have you had any business training in school? _____
7. If you discover you don't have the basic skills needed for your business will you are willing to delay your plans until you've acquired the necessary skills? _____
8. Will this business opportunity effectively meet your career aspirations? _____
9. Can you perform the feasibility study or have the time and money to do so? _____

FINDING A NICHE

Small businesses range in size from a manufacturer with many employees and millions of dollars in equipment to the lone window washer with a bucket and a sponge. Obviously the knowledge and skills required for these two extremes are far apart but for success they have one thing in common: each has found a business niche and is filling it.

The most critical problems you will face in your early planning will be to find your niche and determine the feasibility of your idea. Get into the right business at the right time is very good advice but following that advice may be difficult. Many entrepreneurs plunge into a business venture so blinded by the dream that they fail to thoroughly evaluate its potential.

Before you invest time effort and money the following exercise will help you separate sound ideas from those bearing a high potential for failure.

IS YOUR IDEA FEASIBLE?

1. Identify and briefly describe the business you plan to start.
2. Identify the products or services you plan to sell.
3. Describe who will use your products or services.
4. Describe why someone would buy your products or services.
5. Describe what kind of location you are going to need.
6. List product/ service suppliers.
7. List your major competitors (those who provide a similar product or service.)
8. List the labor and staff you require to provide your product/ service.
9. Does your product or service satisfy an unfilled need? _____
10. Will your product or service serve an existing market in which demand exceeds supply? _____
11. Will your product or service be competitive based on its quality, selection, price or location? _____

Answering yes to any of these questions means you are on the right track; a negative answer means the road ahead could be rough.

MARKET ANALYSIS

For a small business to be successful the owner must know the market. To learn the market you must analyze it a process that takes time and effort. You don't have to be a trained statistician to analyze the marketplace nor does the analysis have to be costly. Analyzing the market is a way to gather facts about potential customers and to determine the demand for your product or service. The more information you gather the greater your chances of capturing a segment of the market. Know the market before investing your time and money in any business venture.

These questions will help you collect the information necessary to analyze your market and determine if your product or service will sell.

1. Do you know who your customers will be? _____
2. Do you understand their needs and desires? _____
3. Do you know where they live? _____
4. Will you be offering the kind of products or services that they will buy? _____
5. Will your prices be competitive in quality and value? _____
6. Will your promotional program be effective? _____
7. Do you understand how your business compares with your competitors? _____
8. Will your business be conveniently located for the people you plan to serve? _____
9. Will there be adequate parking facilities for the people you plan to serve? _____

This brief exercise will give you a good idea of the kind of market planning you need to do. An answer of no indicates a weakness in your plan so do your research until you can answer each question with a yes.

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must answer one of the following questions with a "yes".

1. Does the product/service/business serve an under-served need? _____
2. Does the product/service/business serve an existing market in which demand exceeds supply? _____
3. Can the product/service/business compete with existing competition because of an "advantageous situation" i.e., better price, location, etc.? _____

Major Flaws

A "yes" response to these questions indicates the idea has little chance for success.

1. Are there any causes (i.e., restrictions, monopolies or shortages) that make required factors of production unavailable (i.e., unreasonable cost, scarce skills, energy, equipment, technology, material, process, or personnel)?
2. Are capital requirements for entry or continuing operations excessive?
3. Are there any extraordinary circumstances that would make financing hard to obtain (i.e... bankruptcy or bad credit)?
4. Are there potential detrimental environmental effects?
5. Are there factors that prevent effective marketing?

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

1. How much income do you desire?
 2. Are you prepared to earn less in the first 1-3 years?
 3. What minimum amount of income do you require?
 4. What financial investment is required for your business?
 5. How much could you earn by investing this money?
 6. How much could you earn by working for someone else?
 7. Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with only the prospects or more substantial profit/income in future years?
 8. What is the average return on investment for a business of your type?
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PLANNING YOUR START-UP

So far this checklist has helped you identify questions and problems you will face converting your idea into reality and determining if your idea is feasible. Through self-analysis you have learned of your personal qualifications and deficiencies and through market analysis you have learned if there is a demand for your product or service.

The following questions are grouped according to function. They are designed to help you prepare for "Opening Day."

Name and Legal Structure

1. Have you chosen a name for your business? _____
2. Have you chosen to operate as sole proprietorship, partnership or corporation? _____

Your Business and the Law

A person in business is not expected to be a lawyer but each business owner should have a basic knowledge of laws affecting the business. Here are some of the legal matters you should be acquainted with:

1. Do you know which licenses and permits you may need to operate your business? _____
2. Do you know the business laws you will have to obey? _____
3. Do you have a lawyer who can advise you and help you with legal papers? _____
4. Are you aware of the following:
 - Occupational Safety and Health Administration (OSHA) requirements? _____
 - Regulations covering hazardous material? _____
 - Local ordinances covering signs snow removal etc.? _____
 - Federal Tax Code provisions pertaining to small business? _____
 - Federal regulations on withholding taxes and Social Security? _____
 - State Workmen's Compensation laws? _____

Protecting Your Business

It is becoming increasingly important that attention be given to security and insurance protection for your business. There are several areas that should be covered. Have you examined the following categories of risk protection?

- Fire _____
- Theft _____
- Robbery _____
- Vandalism _____
- Accident liability _____

Discuss the types of coverage you will need and make a careful comparison of the rates and coverage with several insurance agents before making a final decision.

Business Premises and Location

- 1. Have you found a suitable building in a location convenient for your customers? _____
- 2. Can the building be modified for your needs at a reasonable cost? _____
- 3. Have you considered renting or leasing with an option to buy? _____
- 4. Will you have a lawyer check the zoning regulations and lease? _____

Merchandise

- 1. Have you decided what items you will sell or produce or what service(s) you will provide? _____
- 2. Have you made a merchandise plan based upon estimated sales to determine the amount of inventory you will need to control purchases? _____
- 3. Have you found reliable suppliers who will assist you in the start-up? _____
- 4. Have you compared the prices quality and credit terms of suppliers? _____

Business Records

- 1. Are you prepared to maintain complete records of sales income and expenses accounts payable and receivables? _____
- 2. Have you determined how to handle payroll records tax reports and payments? _____
- 3. Do you know what financial reports should be prepared and how to prepare them? _____

WHAT YOU NEED TO KNOW?

Preliminary Income Statement

You need to know the business income and expenses. Show profit/loss and derive operating ratios on income statements.

- 1. What is the normal markup in this line of business, i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of sales?
- 2. What is the average cost of goods sold percentage of sales?
- 3. What is the average inventory turnover, i.e., the number of times the average inventory is sold each year?
- 4. What is the average gross profit as a percentage of sales?
- 5. What are the average expenses as a percentage of sales?
- 6. What are the average expenses net profits as a percent of sales?
- 7. Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.
- 8. From an objective, practical standpoint, is this level of sales, expenses and profit attainable?

Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales.

Customer Base

1. Define the geographical areas from which you can realistically expect to draw customers.
2. What is the makeup of population in these areas, average family size, age distribution and per capita income?
3. What do you know about the population growth trend in these areas?
4. What is the consumer's attitude, shopping/spending patterns of business?
5. Is the price of your product or service important to your target market?
6. Can you appeal to the entire market?
7. If you appeal to only a portion of the market, is that segment enough to be profitable?

Competition

1. Who are your major competitors and their strengths/weaknesses?
2. Are you familiar with factors concerning your competitors' price structure, product lines (quality, breadth, and width), location, source of supply, promotional activities and image from a consumer's viewpoint?
3. Do you know of any new competitors or competitor's plan for expansion?
4. Have any firms of your type gone out of business lately? If so, why?
5. Do you know the sales and market share and profit levels of each competitor?
6. Do you know whether the sales and market share and profits of each competitor are increasing, decreasing or stable?
7. Can you compete with your competition?

Sales

1. Determine the total sales volume in your market area.
2. How accurate is your forecast of total sales? Is it based on concrete data?
3. Is the estimated sales figure "normal" for your market area?
4. Is the sale per square foot for your competitors above the normal average?
5. Are there conditions or trends that could change your forecast of total sales?
6. Do you plan to mark down products occasionally to eliminate inventories?
7. If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (profit margin may be too low)
8. How do you plan to advertise/promote your product/service?
9. Forecast the total market share you can realistically expect--as a dollar amount and as a percentage of your market.
10. Can you create enough competitive advantages to achieve the market share in your forecast of the previous question?
11. Is your sales forecast greater than the sales amount needed to guarantee your minimum income?
12. Are you optimistic/pessimistic in your forecast of sales?
13. Are you willing to hire an expert to refine the sales forecast if needed?

Supply

1. Can you make an itemized inventory list of operating supplies needed?
2. Do you know the quantity, quality, price ranges, technical specifications and name/location of potential sources of supply?
3. Do you know delivery schedule, credit terms and sales of each supplier?
4. Do you know the risk of shortage for any critical materials or merchandise?
5. Do you know if the price allows you to achieve an adequate markup?
6. Do you know which supplies have an advantage relative to transportation costs?

Expenses

1. Do you know your necessary expenses rent, wages, insurance, utilities, advertising and interest, etc.?
2. Do you know which expenses are direct, indirect or fixed?
3. Do you know how much overhead will be?
4. Do you know how much selling expenses will be?

Miscellaneous

1. Are you aware of the major risks associated with your product/business/service?
2. Can you minimize these major risks or are they beyond your control?
3. Can these risks bankrupt you?

FINANCES

A large number of small businesses fail each year. There are a number of reasons for these failures but one of the main reasons is insufficient funds. Too many entrepreneurs try to start and operate a business without sufficient capital (money). To avoid this dilemma you can review your situation by analyzing these three questions:

1. How much money do you have?
2. How much money will you need to start your business?
3. How much money will you need to stay in business?

Use the following chart to answer the first question:

CHART 1
PERSONAL FINANCIAL STATEMENT
 Month, Year

ASSETS

Cash on hand	_____
Savings account	_____
Stocks, bonds, securities	_____
Accounts/notes receivable	_____
Real estate	_____
Life insurance (cash value)	_____
Automobile/other vehicles	_____
Other liquid assets	_____

TOTAL ASSETS

LIABILITIES

Accounts payable	_____
Notes payable	_____
Contracts payable	_____
Taxes	_____
Real estate loans	_____
Other liabilities	_____

TOTAL LIABILITIES

NET WORTH (Assets minus Liabilities)



Chart 2 will help you answer the second question: How much money will you need to start your business? The chart is for a retail business; items will vary for service construction and manufacturing firms.

The answer to the third question (How much money will you need to stay in business?) must be divided into two parts: immediate costs and future costs.

CHART 2 - START-UP COST ESTIMATES

Decorating, remodeling	_____
Fixtures, equipment	_____
Installing fixtures, equipment	_____
Services, supplies	_____
Beginning inventory cost	_____
Legal, professional fees	_____
Licenses, permits	_____
Telephone utility deposits	_____
Insurance	_____
Signs	_____
Advertising for opening	_____
Unanticipated expenses	_____
TOTAL START-UP COSTS	_____

From the moment the door to your new business opens a certain amount of income will undoubtedly come in. However this income should not be projected in your operating expenses. You will need enough money available to cover costs for at least the first three months of operation. Chart 3 will help you project your operating expenses on a monthly basis.

CHART 3 - EXPENSES FOR ONE MONTH

Your living costs	_____
Employee wages	_____
Rent	_____
Advertising	_____
Supplies	_____
Utilities	_____
Insurance	_____
Taxes	_____
Maintenance	_____
Delivery/transportation	_____
Miscellaneous	_____
TOTAL EXPENSES	_____

Now multiply the total of Chart 3 by three. This is the amount of cash you will need to cover operating expenses for three months. Deposit this amount in a savings account before opening your business. Use it only for those purposes listed in the above chart because this money will ensure that you will be able to continue in business during the crucial early stages.

By adding the total start-up costs (Chart 2) to the total expenses for three months (three times the total cost on Chart 3) you can learn what the estimated costs will be to start and operate your business for three months. By subtracting the totals of Charts 2 and 3 from the cash available (Chart 1) you can determine the amount of additional financing you may need if any. Now you will need to estimate your operating expenses for the first year after start-up. Use the Income Projection Statement (Appendix A) for this estimate.

The first step in determining your annual expenses is to estimate your sales volume month by month. Be sure to consider seasonal trends that may affect your business. Information on seasonal sales patterns and typical operating ratios can be secured from your trade associations.

NOTE: The relationships among amounts of capital that you invest levels of sales each of the cost categories the number of times that you will sell your inventory (turnover) and many other items form financial ratios. These ratios provide you with extremely valuable checkpoints before it's too late to make adjustments. In the reference section of your local library are publications such as The Almanac of Business and Industrial Financial Ratios to compare your performance with that of other similar businesses. For thorough explanations of these ratios and how to use them, follow up on the sources of help and information mentioned at the end of this publication.)

Next determine the cost of sales. The cost of sales is expressed in dollars. Fill out each month's column in dollars total them in the annual total column and then divide each item into the total net sales to produce the annual percentages. Examples of operating ratios include cost of sales to sales and rent to sales.

AFTER START-UP

The primary source of revenue in your business will be from sales but your sales will vary from month to month because of seasonal patterns and other factors. It is important to determine if your monthly sales will produce enough income to pay each month's bills.

An estimated cash flow projection (Chart 4) will show if the monthly cash balance is going to be subject to such factors as

- ! Failure to recognize seasonal trends;
- ! Excessive cash taken from the business for living expenses;
- ! Too rapid expansion; and
- ! Slow collection of accounts if credit is extended to customers.

Use the following chart to build a worksheet to help you with this problem. In this example all sales are made for cash.

CHART 4 - ESTIMATED CASH FLOW FORECAST

	Jan.	Feb.	Mar.	Apr.	May	June
Cash in bank (1st of month)						
Petty cash (1st of month)						
Anticipated cash sales						
Total receipts						
Total cash & receipts						
Disbursements for month						
Cash balance (end of month)						

	July	Aug.	Sept.	Oct.	Nov.	Dec.
Cash in bank (1st of month)						
Petty cash (1st of month)						
Anticipated cash sales						
Total receipts						
Total cash & receipts						
Disbursements for month						
Cash balance (end of month)						

CONCLUSION

Beyond a doubt preparing an adequate business plan is the most important step in starting a new business. A comprehensive business plan will be your guide to managing a successful business. The business plan is paramount to your success. It must contain all the pertinent information about your business; it must be well written factual and organized in a logical sequence.

Moreover it should not contain any statements that cannot be supported.

If you have carefully answered all the questions on this checklist and completed all the worksheets you have seriously thought about your goal. But . . . there may be some things you may feel you need to know more about.

Owning and running a business is a continuous learning process. Research your idea and do as much as you can yourself but don't hesitate to seek help from people who can tell you what you need to know.

APPENDIX A: INCOME PROJECTION STATEMENT

	Industry %	Jan.	Feb.	Mar.	Apr.	May	June	Annual Total	Annual %
Total net sales (revenues)									
Cost of sales									
Gross profit									
Gross profit margin									
Controllable Expenses									
- Salaries/wages									
- Payroll expenses									
- Legal/accounting									
- Advertising									
- Automobile									
- Office supplies									
- Dues/subscriptions									
- Utilities									
- Miscellaneous									
Total Controllable Expenses									
Fixed Expenses									
- Rent									
- Depreciation									
- Utilities									
- Insurance									
- Licenses/permits									
- Loan payments									
- Miscellaneous									
Total fixed expenses									
Total expenses									
Net profit (loss) before taxes									
Taxes									
Net profit (loss) after taxes									

The income projection (profit and loss) statement is valuable as both a planning tool and a key management tool to help control business operations. It enables the owner-manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

As monthly projects are developed and entered into the income projection statement, they can serve as definite goals for controlling the business operation. As actual operating results become known each month, they should be recorded for comparison with the monthly projections. A completed income statement allows the owner-manager to compare actual figures with monthly projections and to take steps to correct any problems.

INFORMATION RESOURCES

Industry Percentage

In the industry percentage column, enter the percentages of total sales (revenues) that are standard for your industry which are derived by dividing cost/expense items by total net sales x 100%.

These percentages can be obtained from various sources, such as trade associations, accountants or banks. The reference librarian in your nearest public library can refer you to documents that contain the percentage figures, for example, Robert Morris Associates' Annual Statement Studies (1 Liberty Place, Philadelphia PA 19103)

Industry figures serve as a useful benchmark against which to compare cost and expense estimates that you develop for your firm. Compare the figures in the industry column to those in the annual percentage column

Total Net Sales (Revenues)

Determine the total number of units or products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projection to review your pricing practices.

- What returns, allowances and markdowns can be expected?
- Exclude any revenue that is not strictly related to the business.

Cost of Sales

The key to calculating your cost of sales is that you do not overlook any costs that you have incurred. Calculate cost of sales for all products and services used to determine total net sales.

Where inventory is involved, do not overlook transportation costs. Also include any direct labor.

Gross Profit

Subtract the total cost of sales from the total net sales to obtain gross profit.

Gross Profit Margin.

The gross profit margin is expressed as a percentage of total sales (revenues) it is calculated by dividing gross profits by total net sales

Controllable Expenses

- Salary expenses -- Base pay plus overtime.
- Payroll expenses -- Include paid vacations, sick leave, health insurance unemployment insurance and social security taxes.
- Outside services -- Include costs of subcontracts, overflow work and special or one-time services.
- Supplies -- Services and items purchase for use in the business.
- Repairs and maintenance -- Regular maintenance and repair, including periodic large expenditures such as painting.
- Advertising -- Include desired sales volume and classified directory advertising expenses.
- Car, delivery and travel -- Include charges if personal car is used in business, including parking, tolls, buying trips, etc.
- Accounting and legal -- Outside professional services.

Fixed Expenses

- Rent -- List only real estate used in the business
- Depreciation -- Amortization of capital assets.
- Utilities -- Water, heat, light, etc.
- Insurance -- Fire or liability on property or products. Include workers' compensation.
- Loan repayments -- Interest on outstanding loans.
- Miscellaneous -- Unspecified; small expenditures without separate accounts.

Net Profit (loss)

- Subtract total expenses from gross profit. (before taxes) Taxes
- Include inventory and sales taxes, excise tax, real estate tax, etc.

Net Profit (loss)

- Subtract taxes from net profit (before taxes) and (after taxes)

Annual Total

- For each of the sales and expense items in your income projection statement, add all the monthly figures across the table and put the results in the annual total column.

Annual Percentage

- Calculate the percentage by dividing annual total by total net sales x 100%
- Compare this figure to the industry percentage in the first column

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