Starting a Small Business

Starting and managing a business takes motivation, desire and talent. It also takes research and planning. Like a chess game, success in small business starts with decisive and correct opening moves, although initial mistakes are not fatal. It takes skill, discipline and hard work to regain the advantage.

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

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

Getting Started

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

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

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

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

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

- Is your idea practical, and will it fill a need?
- What is your competition?
- What is your business's advantage over existing firms?
- Can you deliver a better quality service?
- Can you create a demand for your business?

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

- What business are you interested in starting?
- What services or products will you sell?
- Where will you be located?
- What skills and experience do you bring to the business?
- What will be your legal structure? (see overview as follows)
- What will you name your business?
- What equipment or supplies will you need?
- How will your company's business records be maintained?
- What insurance coverage will be needed?
- What financing will you need?
- What are your resources?
- How will you compensate yourself?

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

Types of Business Organizations

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

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

The advantages and disadvantages of a sole proprietorship, partnership or corporation structure follow:

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

Advantages:

- Easiest to get started.
- Freedom of action.
- Maximum authored.
- Tax advantages in very small firms,
- Social Security advantages to owner.
- Unlimited liability of owner.

Disadvantages

- Illness or death endangers or ends business.
- Growth limited to personal ambition.
- Family or personal affairs easily mixed with business.

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

A partnership agreement should include the following:

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

Advantages

- Two or more heads better than one.
- Additional sources of capital.
- Better credit rating than corporations of similar size.

Disadvantages

- Death, withdrawal; or bankruptcy of one partner.
- Difficulty in dissolving partnership.
- Debt of one partner becomes the debt of all partners.
- Growth inhibited by size of partnership.
- No clear line of authority.

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

Small, closely-held corporations can operate more informally but keeping minutes of company meetings cannot be eliminated entirely. Officers of a corporation can be held liable to stockholders for improper actions. Liability is generally limited to stock ownership, except when fraud is involved. You may incorporate as a "C" or "S" corporation. The "S" corporation is limited to thirty-five (35) shareholders and may be taxed at the individual tax rates.

Advantages

- Limited liability for stockholders..
- Continuity.
- Transfer of shares.
- Easier to raise capital.
- Change in ownership need not effect management.

Disadvantages

- Heavier taxes with "C" corporations.
- Management control limited by charter.
- Less freedom of activity'
- Legal formality.
- Expensive to start.

Business Plan Outline

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

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

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

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

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

Concluding Statement. Summarize your business goals and objectives and express your commitment to the success of your business.

Once you have completed your business plan, review it with a friend or business associate or a SCORE counselor. When you feel comfortable with the content and structure, make an appointment to review and discuss it with your lender. The business plan is a flexible document that should change as your business grows.