START-UP BASICS

An Overview to Starting Your Own Business

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INTRODUCTION

This manual is a publication of the Kennesaw State University Small Business Development Center. Business consulting, information and publications are available through the SBDC network offices listed at the end of this publication.

The SBDC program is designed to provide quality business and economic development assistance to businesses and prospective businesses in order to promote growth, expansion, innovation, increased productivity and improved management. These objectives are accomplished by providing one-on-one consulting and business training programs, assisting clients with exporting and procurement, supporting minority business development, conducting applied economic research and fostering rural development.

This material is designed as a step-by-step introduction to the issues every new business must face. Our primary goal is to present a “way of thinking” that will help you plan, start and successfully operate your business. Short cuts are not recommended.

Business consultants are available for individual conferences, but your advanced preparation is required. If you decide to pursue your idea, completion of a detailed business plan is the next step. The preliminary work covered in this manual will put you well on your way toward an effective business plan.

Thank you and good luck.
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Step 1: Is My Business Idea Feasible?

Ask Yourself Some Tough Questions...

Do you have what it takes to start your own business? Many people feel that they only lack the money to start or only need help with the legal and tax issues, but these are just a few of the considerations entrepreneurs need to address. The following are a few of the questions every new entrepreneur should consider. When answering these questions, think of an example.

- Do I have confidence and optimism about my ability to overcome obstacles?
- Do I accept responsibility for my actions?
- Do I like being in charge?
- Am I able to function in an environment of uncertainty?
- Am I able to motivate and inspire people?
- Am I an effective salesperson?
- Am I a fair negotiator?
- Do I understand my own limitations and know when I need to ask for help?
- Am I easily discouraged?
- Am I willing to devote whatever time and energy it takes to be successful?
- Is the risk of my financial assets worth the expected rewards?
- Do I have a history of success at things to which I am committed?
- Do I have a strong support group of family and friends?
Researching Your Market

Many businesses will require some outside research to estimate the demand for products/services. This is especially true if you do not have extensive experience in your new venture. Start by listing the questions you need to research. Listed below are some ideas for where to find answers to your questions. Be creative and determined.

Secondary Data:

- Internet
- Public libraries (see a reference librarian for sources that will best fit your needs).
  - Prospecting lists/directories.
  - Market studies, industry information.
  - Computer assisted periodical searches.
  - Competitor, supplier information.
  - Economic forecasts.
- Trade associations – trade journals and trade shows.
- SBDC, SCORE, colleges and universities.

Primary Data:

- Your experience, people you know in the industry.
- Survey prospects to determine what they want.
- Observe and interview similar businesses (especially outside your trade area).
- Suppliers, vendors and bankers.
- Employ students or interns to conduct surveys.
Break-Even Analysis

Break-even (B/E) analysis is a simple, but very effective financial feasibility test. B/E is used to determine the amount of sales necessary to pay all fixed costs (and have zero profit). Follow these steps:

1. **Determine Gross Profit Percent.** Gross profit equals sales minus cost of goods sold. Gross profit percent equals gross profit dollars divided by sales. Note: Cost of Goods Sold (CGS) is a variable expense, including materials and labor necessary to make an item ready for sale. If a business (like consulting) has no CGS, then gross profit percent is 100 percent.

2. **List and Total all Fixed Expenses.** Expenses which do not rise or fall with sales volume – rent insurance, utilities, etc.

3. **Break Even Sales is Fixed Expenses divided by Gross Profit Percent.** (See example below.)

<table>
<thead>
<tr>
<th>Per Unit Sales Price:</th>
<th>$10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Expenses:</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>$2,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>$1,000</td>
</tr>
<tr>
<td>Salary</td>
<td>$3,000</td>
</tr>
<tr>
<td>Other</td>
<td>$4,000</td>
</tr>
<tr>
<td><strong>Total CGS</strong></td>
<td>$4</td>
</tr>
<tr>
<td><strong>Total Fixed Expense</strong></td>
<td>$10,000</td>
</tr>
<tr>
<td><strong>Gross Profit %</strong></td>
<td>60% (6/10)</td>
</tr>
</tbody>
</table>

\[
\text{B/E} = \frac{\text{Fixed Expenses}}{\text{Gross Profit \%}}
\]

\[
\text{B/E} = \frac{10,000}{.6}
\]

\[
\text{B/E} = $16,667
\]
STEP 2: OPERATING LEGALLY

An Overview

BEFORE you start...

- Select the legal form for the business (sole proprietorship, corporation, partnership or limited liability company).
- Apply for federal and state employer tax identification numbers if needed.
- Obtain the proper licenses that apply to your business.
- Apply for workers’ compensation and other insurance through private insurance carriers. (Workers’ compensation is required in Georgia for three or more employees regardless of the number of hours worked by each employee.)
- Register a trade name if applicable.
- Apply for any trade name registration, fictitious name registration, trademarks, copyrights or patents necessary to protect your assets.
- Engage and consult qualified advisors in law and taxes as needed.
- Complete any other steps necessary for the legal formation of your particular business.

AFTER you start...

- Make estimated income tax payments and file tax returns for both state and federal taxes.
- If you have employees, comply with all state and federal requirements for withholding and payment of payroll taxes.
- Comply with all Georgia sales and use tax regulations if applicable.
- Determine your obligation to pay local property taxes.
- As your business grows, periodically check requirements that may apply to larger businesses. (The Americans With Disabilities Act and the Family Medical Leave Act are examples.)

- Note: For more details, see the next section, “Information Sources for Small Businesses.”
Information Sources for Business

This information is not all-inclusive and should not be considered a substitute for assistance from qualified legal and accounting professionals. Since these requirements are subject to change, prospective business people should contact the appropriate local, state and federal departments for the latest information.

Legal Form

Determine the legal form of business best for your situation:

- Sole Proprietorship
- Partnership
- Corporation ("C" or "S")
- Limited Liability Company (LLC)

Your decision is based on issues of liability exposure, taxes, the number of owners involved and future expansion plans. It is advisable to consult an attorney, CPA or financial consultant for help in deciding which legal form of business best suits your situation. The legal form you choose will affect many of the steps that follow.

Sole Proprietorship: This type of business is easiest to form; an individual starts the business in his or her own name. Personal and business activities are not distinguished.

Partnerships: A partnership is a relationship between two or more people who join to carry on a trade or business. Each person contributes money, property, labor or skill and expects to share in the profits and losses of the business. A formal, written partnership agreement is strongly recommended, but not required.
**Corporations:** You must contact the Georgia Secretary of State, Corporations Division at 404-656-2817 to register your business as a corporation.

**Basic Steps:**
- Reserve the corporate name.
- You will receive written notice and have 90 days to complete the incorporation.
- File the articles of incorporation.
- Complete the transmittal form.
- Send articles, transmittal and check to the Secretary of State’s office.
- Publish intent to incorporate in the county’s official paper; call for current fee.
- Hold organizational meeting.
  - Adopt by-laws.
  - Elect directors.
  - Elect officers.
  - Issue stock.

There are a number of “corporate kits” containing pre-printed by-laws, minutes to shareholders meetings, blank stock certificates, etc., that are available at office supply stores. It is the duty of the corporation’s secretary to maintain the corporate record book of minutes of meetings, corporate resolutions and other business decisions of the board of directors. Corporations are also subject to annual registration with the Secretary of State which costs a small fee and is required by April 1 each year.

There are many “do-it-yourself” incorporation guides, and it is possible to incorporate without an attorney; however, the SBDC recommends seeking legal counsel when incorporating.

To form an “S” Corporation, you must file IRS form 2553 within 75 days of incorporation.

**Limited Liability Company (LLC):** This is a legal form of business which combines elements of a “C” corporation and a partnership. This is a complicated form of business to establish, and we recommend you seek assistance from a lawyer.
**Employer Identification Number**


You need an EIN if your business meets any one of the following criteria:

- The business is a corporation, partnership or LLC.
- You have employees.
- You have a Keogh Plan.
- You file one of these tax returns: excise; fiduciary; or alcohol, tobacco and firearms.

A sole proprietor with no employees and none of the other items listed above does not need an EIN; the business owner’s social security number is that business’s tax number.

**Business Tax Certificate in Lieu of “Business License”**

You must obtain a tax certificate in the county where the business is located. (Note: If your business is within the city limits, check with the city government. Some cities issue business licenses.) It may also be necessary to apply for a certificate of occupancy from the local zoning department. Only one tax certificate for a county/city is required to legally operate your business throughout the state of Georgia. Fees vary by community.

Home-based businesses usually require business licenses. Check for restrictions on home-based businesses relating to signage, noise, visits by customers, etc.

Additional state licenses are required for certain businesses like grocery stores, restaurants, schools, establishments serving alcoholic beverages, hotels, nursing homes, motor transport companies, child care centers and more. Check with your county business license office or the Licensing Boards Division, Georgia Secretary of State, 478-207-1300, or [www.sos.state.ga.us](http://www.sos.state.ga.us).

**Income Taxes**

All businesses are required to pay federal and state income taxes. Each business must file income tax returns with both agencies. In addition, businesses may be required to make estimated payments on a quarterly basis. The specific requirements will vary depending on the legal form of the business.

*Sole Proprietorship:* Revenue and expense from business activities are reported on the Schedule C and included with the Form 1040 individual tax return.

*Partnerships:* An information return on Form 1065 is required. Since partnerships are not taxable entities, the business’s income is reported on the partners’ individual returns and taxed at their individual rates.
**Corporations:** Because corporations are a separate legal entity, they must file a separate return. “C” corporations use Form 1120 or 1120-A. “S” corporations use Form 1120-S. The “S” corporation does not pay taxes; income of the corporation is reported on the individual returns of the shareholders in proportion to their ownership share and taxed at their individual rates. Consult a qualified tax advisor to determine the best status.

**Employment Taxes**

Businesses with employees must withhold state and federal employee taxes and pay employer taxes. Both must be deposited (usually monthly or quarterly) in any federal reserve bank using pre-printed coupons bearing the employer name and EIN. Quarterly 941 returns must also be filed (either by mail or electronically) listing deposits made in that quarter and indicating any additional amount due.

All employers must withhold Social Security and Medicare taxes (the current amount is 7.65 percent of gross pay) and pay a matching amount. This total of 15.3 percent plus the amount of federal taxes withheld (based on the exemptions claimed on the employee’s W-4 form) are deposited and then reported on the Form 941 Employer’s Quarterly Federal Tax Return. These percentages can change over time, and therefore, should be checked against the current year tax calendar.

Federal Unemployment Tax (FUTA) is the responsibility of the employer and is not withheld from employees. It is reported on Form 940 Employer’s Annual Federal Unemployment Tax Return.

For federal payroll tax requirements, see Circular E, Employers’ Tax Guide.

For information on withholding and depositing state income taxes, contact the Georgia Department of Revenue, Income Tax Division, 404-417-2311 (Withholding Department), taxpayer.services@dor.ga.gov. For information on State Unemployment Tax (SUTA) requirements, contact the Georgia Department of Labor at 404-232-3990, www.dol.state.ga.us.

An approximate of total employer tax cost is 11.15 percent of gross payroll, which includes the 7/65 percent Social Security, the 2.7 percent SUTA and 0.008 percent FUTA.

Wages and withholding must be reported on Form W-2. Businesses who utilize independent contractors earning over $600 a year must report the earnings on Form 1099. Review rules for independent contractor status to be sure qualifications are met. There are severe penalties for non-compliance. Contact your tax advisor or the IRS at 1-800-829-4933.
Self Employment Tax

Sole proprietorships are not subject to withholding, but they may be required to make deposits of estimated federal and state taxes based on the profits of the business. Federal tax deposits must include self employment tax. This is the Social Security and Medicare tax. The amount of self employment tax is currently 15/3 percent of business profit (the same as the total of the employee and employer’s FICA contributions).

Sales Tax

Businesses that sell or rent tangible items must comply with Georgia sales and use tax regulations. For information on collecting, reporting and remitting sales tax, contact the Georgia Department of Revenue, Taxpayer Services Division at 404-417-2400, or www.etax.dor.ga.gov/inctax.

Apply for a State of Georgia sales tax identification number (if needed) by contacting the Sales and Use Tax Unit, general information at 404-417-6601. The Department of Revenue has personnel in regional offices that can help answer your questions. A list of these offices and contact information can be found at www.etax.dor.ga.gov/regionaloffices/index.html.

Property Taxes

Businesses operating in Georgia are subject to an ad valorem property tax on the real property, equipment and inventory owned by the taxpayer on January 1, of each year. Local county or city officials determine the value of property and the millage rate used to determine the tax due. The actual amount of tax a business must pay will vary widely. Property taxes are a significant planning consideration for businesses with large investments in inventory, property or equipment. Contact your county and/or city tax commissioner for details.

Workers’ Compensation

Businesses with three or more employees (regardless of the number of hours worked by each employee) are required to carry workers’ compensation insurance to provide protection for those injured on the job. The rates vary depending on the type of business and its risk level. This coverage is strongly recommended for businesses with any number of employees because of the liability exposure involved. For information, contact the State Board of Workers’ Compensation, 404-656-2048, http://sbwc.georgia.gov, or a qualified insurance agent.

Trademarks

After you begin using a product name, process name, company name, etc., you may wish to register it. Having legal proof that you were the first to use a name is the best way to protect it from use by others and may help in resolving disputes. If you intend to claim the right to a name or slogan, print a small “TM” near the name every time it appears in public. When registration of the trademark is final, include a ®. Contact the Secretary of State, Trademark Section at 404-656-2861. If the name will be used nationally, contact your attorney to assist with national registration.
Patents

You should contact the U.S. Department of Commerce, Patent and Trademark Office, at 800-786-9199, or www.uspto.gov, for information on registration and protection.

Business Trade Name

A trade name or fictitious name is defined as any name used in the course of business that does not include the full legal name of all the owners of the business. Georgia law requires that every person, corporation or partnership conducting business under a trade name that does not disclose the ownership of the business file a trade name registration statement with the office of the clerk of superior court within the county in which the business is licensed. Notice of this filing must be published once a week for two weeks in the legal publication of the county in which the trade name is registered. Contact an attorney regarding compliance in other states.

State and Federal Securities Laws

When a newly formed corporation issues shares of stock, it must comply with state and federal securities laws. Failure to comply could result in lawsuits from disgruntled investors or criminal prosecution. Under the Georgia Securities Act, it is unlawful to offer for sale any security (stocks, limited partnership interests, bonds, etc.) unless that security is subject to an effective registration or the transaction is determined to be exempt from registration requirements. Generally, offerings to a small number of shareholders (less than 15) that are not publicly advertised are exempt, but it is strongly recommended that any business selling shares of stock or securities consult an attorney to ensure compliance with securities laws.

“Going public” is the common term for selling a company’s stock to a wide range of other parties. This process requires extensive (and expensive) legal assistance, registration with federal and state agencies and a tremendous amount of disclosure. Only a very small percentage of companies reach the size and financial conditions to consider this arrangement as a viable alternative.
Buying of Selling a Business

Businesses or individuals are advised to seek the services of an attorney when purchasing or selling a business. After the parties agree on the selling price, a number of legal issues must be addressed including, but not limited to: clear title to the business and notification of creditors.

Internal Revenue Service

The IRS is a good source of information for new business owners. Contact the Help Line at 1-800-829-4933, for businesses, the Publications Line at 1-800-TAX-FORM (829-3676), or their website at www.irs.gov/formspubs/index.html.

Useful IRS publications include:

- 334 Tax Guide for Small Business
- 505 Tax Withholding and Estimated Tax
- 509 Tax Calendars for Current Year
- 533 Self Employment Tax
- 538 Accounting Periods and Methods
- 583 Starting a Business and Keeping Records
- 587 Business Use of Your Home
- 946 How to Depreciate Property
STEP 3: BUILDING YOUR TEAM

Every entrepreneur should identify what tasks need to be done and who will do them. Almost every new business will use outside professionals for the complex areas of law, accounting, taxes and insurance. How much you use these professionals will depend on your expertise, the operating risks in your kind of business and your goals for the business.

How Do I Select the Right Professionals?

- Ask friends and business associates for referrals.
- Interview several candidates – Remember, you are the customer:
  - Do they have expertise relevant to you?
  - Are your personalities compatible?
  - Is the person you interview the one you will deal with?
  - What is the fee structure?
- Evaluate larger firms vs. sole practitioners – Larger firms have more resources but may lack personal service, and you may get assigned to a “junior.”
- **Accountants:** Decide what accounting services you will need. Pay for what you cannot do yourself.
  - Financial statement preparation (try to do basic bookkeeping in-house).
  - Income taxes, payroll taxes (also consider a payroll service).
  - Business advice, financial analysis (what good are financial statements if you don’t understand them? Good accountants tell you more than how much tax you owe.).
- **Lawyers:** determine legal issues to be faced. Outline your goals for the business.
  - Product/service liability potential.
  - Users of contracts.
  - Intend to grow rapidly. Sell the business. Go public.
- **Insurance:** Identify risks and get adequate coverage.
  - Compare price only on identical coverage.
  - Utilize agents who offer advice as well as policies.
  - **Beware,** your personal auto and homeowners’ policies usually exclude coverage for business activities.

Qualified professionals are a good investment – they should make or save you money in the long term. It is possible to buy more service than you need, but it is far more common for new start-ups to foolishly scrimp on these important team members.
**STEP 4: FINANCING YOUR BUSINESS**

How Much Money Do You Need to Start This Business?

Total Cash Required is Equal to:

- Investment in fixed assets (i.e., land, buildings, machinery, etc.),
- *plus*
- Start-up expenses (including operating losses incurred before reaching break-even),
- *plus*
- Investment in inventory,
- *plus*
- Investment in accounts receivable (working capital).

Businesses that need large amounts of capital usually share one or more of the following characteristics:

- Large fixed asset requirements (construction, manufacturing, etc.).
- Early financial losses (products with heavy research and marketing costs).
- Extensive inventory levels (retail stores, wholesalers).
- High accounts receivable (business-to-business services, wholesalers).
- Limited ability to utilize accounts payable (business-to-business services).

Some businesses, like consulting and various part-time or home-based ventures, may not require additional capital to start. It is important for all businesses to estimate capital needs to ensure there is enough cash available to start and stay in business.

To help analyze your cash needs, complete the following “Steps in Financial Projections.”
Steps in Financial Projections

1. **Estimate fixed asset requirements for start-up, including:**
   - Land, buildings, leasehold improvements.
   - Equipment and vehicles.
   - Deposits on leases and utilities.

2. **Estimate and itemize start-up expenses:**
   One-time expenses such as installation of utilities, initial marketing materials and legal fees for incorporation.

3. **Estimate and itemize fixed expenses by month for at least one year:**
   These usually include such things as rent, insurance, utilities, salaries, marketing, legal/accounting fees, loan payments, etc. Determine all categories which apply to your business.

4. **Estimate sales by month for one year:**
   If you have multiple product lines, estimate sales for each line individually. If you sell on credit, realize the delayed impact on cash flow.

5. **Calculate gross profit percentage for each product line:**
   Sales price – cost of goods sold = gross profit $.
   Gross profit $ ÷ sales price = gross profit %.

6. **Determine the amount of inventory required for your type of business:**
   For start-ups, initial inventory in $ amount; after start-up, express in number of days, sales or turnover.

7. **Determine how fast you must pay your vendors:**
   What percent of total accounts payable will be paid in the month incurred and what percent of total accounts payable will be paid in 30 days, 60 days, etc.

*Note: After completing the above, you may wish to seek the assistance of your accountant or an SBDC Network consultant in developing projected financial statements.*
Where Do I Get the Money?

Money to start a business comes from two basic sources: equity or debt. Equity is an investment in the business by you or by a partner (or stockholder). Debt can come from private sources (family) or from formal ones (banks). The most common sources of financing include:

- Personal resources
- Family and friends
- Banks, including SBA loans
- Creative sources and “bootstrapping”
- Private investors or “angels”
- Venture capital firms

The type of financing available to you will depend on:

- The amount you need and how it will be used
- Your personal financial condition
- Your collateral
- Your ability to manage a business
- Your determination, presentation skills and ability to negotiate

The SBA does not have any grant programs to start a business. Beware of the common myth that there is a lot of “free government grant money” for start-ups.

Most businesses don’t start with bank loans or venture capital. Most actually start with a combination of personal resources, “bootstrapping,” and help from family and friends. Only a small number of start-ups begin with a bank loan, and even less start with venture capital.

If you have little cash or personal assets and bad personal credit, bank loans are not an immediate option. Your first step may be to recruit an equity partner (“angel”) or a cosigner. Creative and determined entrepreneurs routinely start businesses without bank loans.

Bank loans (and SBA guaranteed loans) generally require the following:

- A written business plan or loan proposal
- Investment of your own money (usually 10 to 30 percent of the loan amount)
- Enough assets to collateralize the loan (usually 1 to 2 times the loan)
- Good character and personal credit
- Personal guarantee (your personal assets will be at risk)

Bootstrapping limits your dependence on banks and other forms of financing. Examples:

- Negotiating extended terms with vendors
- Negotiating advance payments from customers
- Working from home until the business is established
- Keeping inventories at a minimum
- Leasing equipment (usually from the manufacturer)
STEP 5: PULLING IT ALL TOGETHER

Why Write a Business Plan?

⏯ To evaluate the feasibility of your business idea in an objective, critical and unemotional way.

 Marketing -- research and estimation of demand.
 Management -- your capabilities and your “team.”
 Financial -- research costs and forecast sales.

⏯ To provide an operating plan to assist you in managing the business and improve your probability of success.

 Identify opportunities and avoid costly mistakes.
 Develop production, administrative and marketing plans.
 Set budgeting guidelines.

⏯ To communicate your idea to others and provide the basis for your financing proposal.

 Forecast profitability.
 Analyze and forecast cash flow.
 Determine the amount and type of financing needed.

Who will use the plan? If you don’t need to raise capital, your plan is internal and less formal. If you need capital from outside sources, the plan also serves as a “selling document” with added emphasis on professional presentation. For either purpose, a good plan is critical.

Do I really need a business plan? Yes, all businesses need a business plan. If you are investing large amounts of your time and financial resources, you need a plan. All new businesses benefit from the kind of analysis a business plan requires.
Business Plan Outline

Cover Sheet: Business Name, Address, Phone Number, Principals

Statement of Purpose/Executive Summary

Table of Contents

Section One: The Business
   A. Description of the business.
   B. Product(s)/service(s).
   C. Market analysis and marketing plan.
   D. Location.
   E. Competition.
   F. Management and operations.
   G. Personnel.
   H. Application and effect of loan or investment.

Section Two: Financial Data
   A. Sources and applications of funding.
   B. Capital equipment list.
   C. Break even analysis.
   D. Projected income statements.
   E. Projected cash flow statements.
   F. Projected balance sheets.
   G. Assumptions to financial projections.
   H. Historical financials (for existing business).

Section Three: Supporting Documents
You will need to include personal resumes, letters of reference, personal financial statements, copies of leases, diagrams of facilities, letters of intent, purchase orders, contracts, marketing brochures or anything relevant to the plan. Also include copies of your past three years of tax returns.

   Go to www.coles.kennesaw.edu/sbde for other valuable resources.