

Starting A Business

Drew Tonsmeire
Kennesaw State University
Small Business Development Center

Small Business Innovations



Reasons for Business Failure

Wrong
Location

Heavy
Competition

Fraud

Management
Turnover

Failure

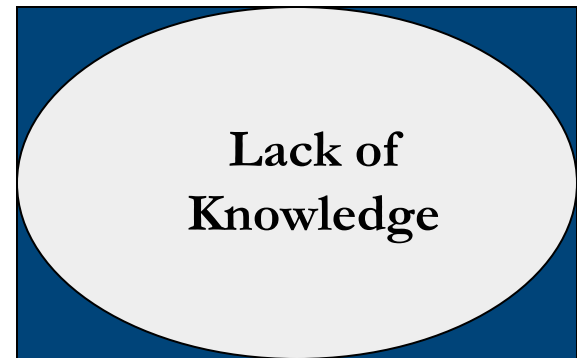
Tax or
Regulatory
Issues

Under-
Capitalized

Incorrect
Pricing

Uncontrolled
Growth

Failure Summary



Steps to Starting a Business

- Step 1: Is My Business Idea Feasible?
- Step 2: Financing Your Business
- Step 3: Operating Legally
- Step 4: Building Your Team
- Step 5: Pulling It All Together

Step 1: Is My Idea Feasible?

**Personal
Considerations**

**Market
Conditions**

**Financial
Resources**

Tough Questions:

- 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 an effective salesperson?

More Tough Questions:

- Am I a fearless negotiator?
- Am I willing to risk most or all of my financial assets?
- Does this business match my lifestyle?
- Does my family support this decision and the risks involved?

Research Your Market

- To estimate demand
- List *specific* questions to research
- Get to know your new best friends: the local or university librarian and the Internet



Primary Data

- Review personal experiences, contacts in the industry.
- Survey prospects.
- Observe and interview owners of similar businesses.
- Contact suppliers, vendors or bankers.
- Employ students or interns to conduct surveys.

Secondary Data

- Public and University Libraries
 - Prospecting lists/Directories
 - Market studies & industry information
 - Computer assisted periodical searches
 - Competitor or supplier information
 - Economic forecasts

Competitive Analysis

- Direct Competitors
- Indirect Competitors
- Compare
 - Pricing Strategy
 - Image
 - Location
 - Potential Market Share



**“If you don’t have a competitive advantage, don’t compete!”
Jack Welch, GE**

Sales Forecast

- Market Potential x Average Purchase Intention x Charge per Unit
- Average Daily Sales
- Close Rate



Break-Even Analysis

Per Unit Sales Price	\$10
Cost of Goods Sold:	\$3
Materials	<u>\$1</u>
- Labor	\$4
- Total Cost of Goods Sold	
Gross Profit (SP – COGS)	\$6
Gross Profit Percentage = $\$6/\$10 = 60\%$	

Break-Even Sales

Fixed Expenses

Rent	\$2,000
Utilities	\$1,000
Salaries	\$3,000
Other	<u>\$4,000</u>
Total Fixed Expenses	\$10,000

$$\text{Break Even} = \frac{\text{fixed expenses}}{\text{gross profit \%}} = \frac{\$10,000}{0.6} = \$16,667$$

Break-Even – Service Business

Per Hour Sales Price	\$40
Cost of Sales:	
Materials	\$1
Labor	<u>\$14</u>
Total Cost of Sales	\$15
Gross Profit	\$25

$$\text{Gross Profit Percentage} = \$25 / \$40 = 62.5\%$$

Break-Even – Service Business

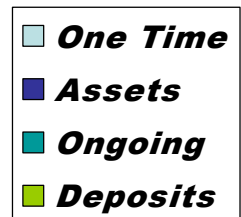
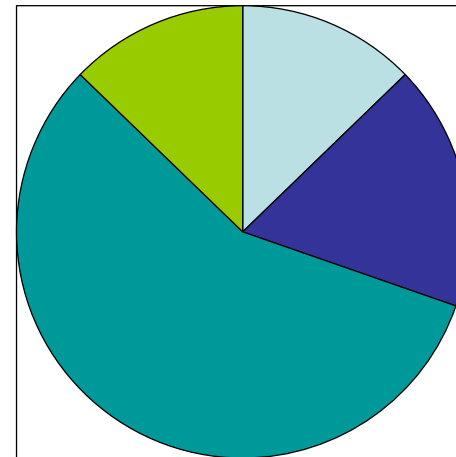
Fixed Expenses

Rent	\$500
Utilities	\$300
Salary	\$3,000
Other	<u>\$1,000</u>
Total Fixed Expenses	\$4,800

$$\text{Break-Even} = \text{FExp} / \text{GP}\% = \$4,800 / .625 = \mathbf{\$7,680}$$

Financial Forecast

- One-Time Expenses
- Asset Purchases
- Deposits
- Ongoing or Operating Expenses



Financial Projections

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Sales						
- CGS						
Gross Profit						
Rent						
Advertising						
Wages						
Insurance						
Total Expenses						
Net Profit						

Financial Summary

Cash Required

Equipment	\$70,000
Start-Up Expenses	\$10,000
Inventory	\$10,000
Losses before Break/Even	<u>\$30,000</u>
Total Cash Required	\$120,000

Financial Summary

Sources –

Your Savings	\$24,000
Bank Loan	<u>\$96,000</u>
Total Sources	\$120,000

Sources of Capital

- Personal Resources
- Family & Friends
- Suppliers & Vendors
- Banks & Financial Institutions
- Venture Capitalists
- Angel Investors



The Myth About Grants

The SBA does NOT have grant programs to start a business!



Beware of the myth that there is a lot of “government grant money” for start-up businesses.

Step 3: Operating Legally

Before you open your doors...

- Select your legal form of business:
 - Sole Proprietor
 - Partnership
 - C-Corporation
 - S-Corporation
 - Limited Liability Company (LLC)

Sole Proprietors

- Easiest to form
- Defined as a business with ONE owner
- No legal distinction between the business & the owner. *Business = Owner*
- Income taxes as part of a business owner's 1040 Form
- MAXIMUM exposure to owner for liabilities.

Partnership

- Can be formed by 2 or more people
- Liability of partners limited to extent of investment
- Dissolved upon death or departure of partner
- Written partnership agreement recommended
- *All partners liable for each partner's actions – with or without consent.*

Corporation

- Separate legal entity
- Single or multiple owner business
- Limited liability provided to investors
- Fringe benefit tax deductibility
- Capital raised through sale of stock
- “C-Corp” or “S-Corp”
- Register at www.sos.state.ga.us



S-Corporation

- File Form #2553 with the IRS
- Limited to no more than **100** shareholders
- All shareholders must have U.S. Legal residence
- Income flows to stockholders

Limited Liability Company (LLC)

- Single or multiple owners called “members”
- Members Agreement required
- Liability protection of a corporation
- Flow-through tax treatment, like a partnership
- Recognized in most states
- Recognized in GA since 1994
- Register at www.sos.state.ga.us

Organizational Statistics

Year	Corporation	Pro. Corp.	LLC
2008	21,520	802	55,048
2007	26,103	957	56,323
2006	27,626	883	52,601
2005	28,501	810	42,375
2004	28,697	916	34,857
2003	28,196	1087	28,196
2002	29,622	1004	22,125
2001	28,518	987	16,257
2000	29,594	973	14,061

New Entity Formations

Source: Georgia Secretary
of State Website

More Legal Issues

- Apply for Federal & State ID Numbers
 - <https://services.georgia.gov/dor/olbr/taxregistrationgateway>
- Obtain Proper Licenses
 - Occupational Tax Certificate (locally issued)
 - Permits for Food, Alcohol or Professionals
 - Professional Boards (Secretary of State)

Step 4: Building a Team

- What tasks need to be done?
- Who will do which tasks?

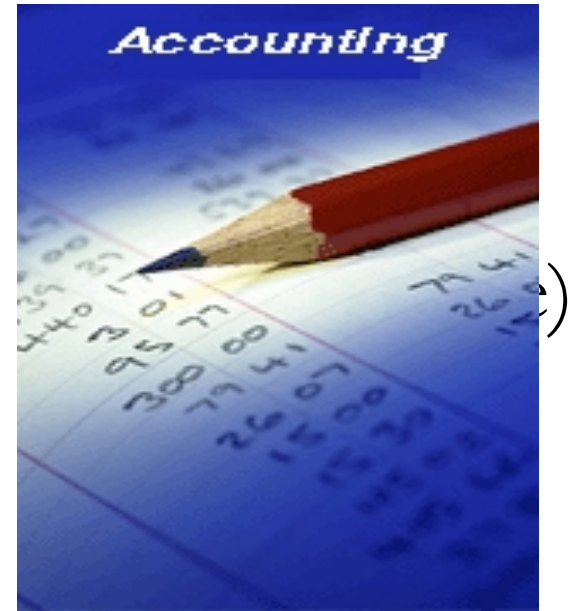
How to Select Your Team

- When looking for the *right* professionals: lawyers, accountants, etc. – ask friends and business associates for referrals
- Network, network, network
- Interview candidates
- Compare and evaluate larger firms vs. sole practitioners

Accountants

- Financial statements (basic in-house)
- Income taxes, payroll taxes, (year-end & start-up tax planning, consider a payroll
- Business advice
- Financial analysis
- Public offerings

bookkeeping



Attorneys

- Product/service liability issues
- Trademarks, copyrights, and patents
- Contract and lease reviews
- Co-owner and investor agreements
- Selling your business
- Public offering



Insurance Professionals

- Help in deciding what coverage is needed
- Compare prices on identical coverage
 - Property & Casualty
 - General Liability
 - Fiduciary Bond
 - Business Interruption
 - Vehicle Insurance
 - Employer Liability
 - Key Person

Step 5: Pulling It Together

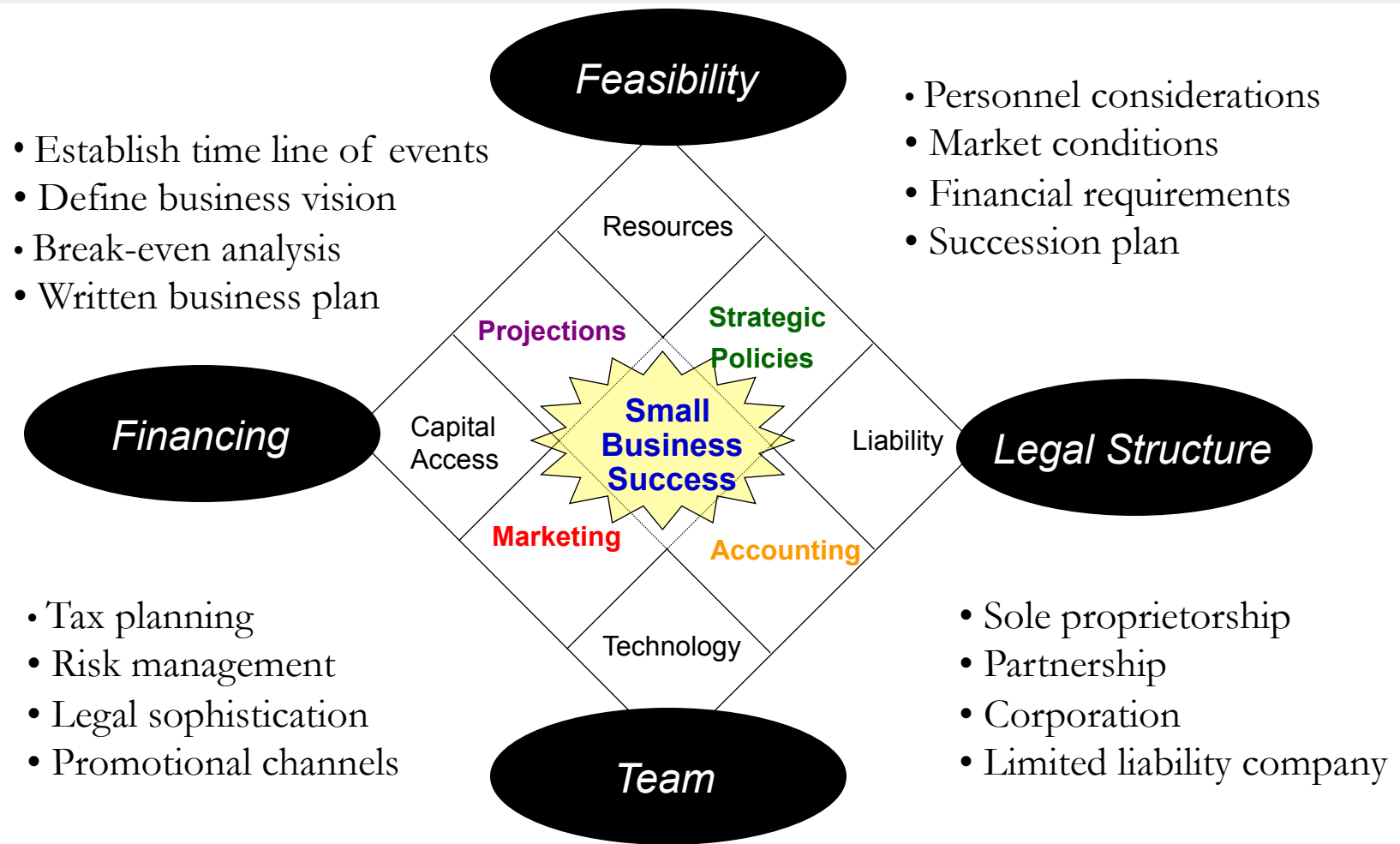
- A Business Plan
- Why write a business plan?
 - Because a business plan organizes and documents most aspects of your business.

Business Plan

- Executive Summary
- Business Overview
 - Type (Retail, Service, e-Biz)
 - Products & Services
 - Location
- Marketing
 - Target Market
 - Promotional Strategy
 - Competitive Advantage
- Operations
- Financials
- Supporting Documents



Management's View from the Top



My Pleasure...

Drew Tonsmeire

Area Director

The University of Georgia
Small Business Development Center

At Kennesaw State University

470/578-6450

www.georgiasbdc.org