

Starting a Business

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Business Success

“The mechanics of running a business are really not very complicated when you get down to essentials. You have to make some stuff and sell it to somebody for more than it cost you. That’s about all there is to it, except for a few million details.”

-- John L. McCaffrey, taken from
Effective Small Business Management

Reasons for Business Failure

Wrong
Location

Heavy
Competition

Fraud

Management
Turnover

FAILURE

Under-
Capitalized

Incorrect
Pricing

Uncontrolled
Growth

Tax or
Regulatory
Issues

Failure Summary

Lack of
Capital

Lack of
Knowledge

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?

Entrepreneur Characteristics

- Good Health
- Need for Control
- Positive Mental Attitude
- Self Confidence
- Sense of Urgency
- Conceptual Thinking
- Low Need for Status
- Realistic and Objective
- Emotionally Stable

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

Secondary Data

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

Secondary Data Continued

- Trade associations, trade journals & industry-specific trade shows
- Service Corp of Retired Executives (SCORE)
- Local colleges and universities
- The Small Business Development Centers
 - www.georgiasbdc.org

Primary Data

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

Competitive Analysis

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

Industry Outlook

- SIC/NAICS Codes – www.census.gov
- Articles
- Trends & Statistics
- Risk Management Association (RMA)

Sales Forecast

- Market Potential \times Average Purchase Intention \times 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

$$\text{Gross Profit Percentage} = \$6/\$10 = 60\%$$

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
Salaries	\$3,000
Other	<u>\$1,000</u>
Total Fixed Expenses	\$4,800

$$\text{Break Even} = F_{\text{exp}} / \text{GP}\% = \$4,800 / 0.625 = \mathbf{\$7,680}$$

Step 2: Financing

- Financial Projections
 - Estimate fixed asset requirements
 - Estimate & itemize start-up expenses and deposits
 - Estimate & itemize fixed expenses by month
 - Estimate sales by month

Financial Projections

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Sales						
-- COGS						
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 shareholders.

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

New Entity Formations

Year	Corporation	Pro. Corp.	LLC
2015	7,634	234	39,252
2014	16,164	549	72,848
2013	16,130	591	68,763
2012	18,365	675	73,910
2011	19,855	714	67,299
2010	20,543	718	60,426
2009	21,543	718	60,426
2008	25,300	819	59,038
2000	29,594	973	14,061

Source: Georgia Secretary of State Website

More Legal Issues

- Apply for Federal & State ID Numbers
 - EIN number (federal)
 - Georgia Income Tax Number
 - Georgia Sales and Use Tax Number
 - Georgia Department of Labor Number
- Obtain Proper Licenses
 - Occupational Tax Certificate (locally issued)
 - Permits for Food, Alcohol or Professionals
 - Professional Boards (Secretary of State)

More...

- Apply for Worker's Compensation & other insurance.
- Apply for Trade Name Registration, trademarks, copyrights or patents.
- Consult with qualified advisors: Lawyer, CPA.

Sequential Order

- 1) File legal entity (in Georgia preferred)
- 2) Apply for Federal EIN
- 3) Apply for Georgia tax numbers
- 4) Apply for local Occupational Tax Certificate
- 5) Open Business Checking Account

After Opening Your Doors

- Make estimated income tax payments & file tax returns for both state & federal taxes.
- Comply with state & federal requirements for withholding & payment of payroll taxes.
- Periodically check for new requirements:
 - Example: Americans with Disabilities Act

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.

Invite the right people on the bus!

“If we get the right people on the bus, the right people in the right seats, and the wrong people off the bus, then we figure out how to take it someplace great.”

-- *Good to Great* by Jim Collins

Accountants

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

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

Technology Consultants

- Computer
- Network (LAN or wireless)
- Website
- E-Mail

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.
 - “Plan Your work, Work your Plan”.
 - Allows a “bigger picture” view of your business.

Business Plan

- Executive Summary
- Business Overview
 - Type (retail, service, e-biz, etc.)
 - Products & Services
 - Location
- Marketing
 - Target Market
 - Promotional Strategy
 - Competitive Advantage
- Operations
- Financials
- Supporting Documents

Management's View from the Top



Management's View from the Top

Projections

Resources

Strategic
Policies

Capital Access

Small Business
Success

Liability

Marketing

Technology

Accounting

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My Pleasure...

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