



Exploring Entrepreneurship

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INTRODUCTION

Across our country, citizens are reaching out to grasp their piece of the American dream — the opportunity to be their own boss. A chance to achieve financial independence and personal satisfaction lures more and more Americans each year to invest in and operate their own small business.

The potential business owners of the future come from all walks of life and have backgrounds as diversified as their faces. No one should feel unqualified. Some are farmers and some live in rural communities working in industrial jobs. Still others dwell in large cities or suburbs pursuing various careers. However, all candidates have three things in common: independence, initiative and ideas.

This workbook is designed to help transform good ideas into fulfilling realities. It deals with small businesses, including starting home-based ventures (located in your home or on your property), buying an existing business and purchasing a franchise.

Anyone considering founding a business should be aware that definite risks exist when beginning any new enterprise. Time spent evaluating and planning a new business scheme can minimize misfortune and maximize the likelihood of success. The first step in the process is to conduct a personal evaluation.

Section II of this workbook will help answer the following types of questions: Do I have the initiative to start and successfully manage a small business? Do I like being my own boss, or do I prefer that someone else take the lead? Also, it will help you consider your need for security and your willingness to take risks to gain self-sufficiency.

Section III presents tools for decision making that will help you work through all the other workbook sections and, at the same time, increase your decision-making skills.

Workbook sections IV, V, VI and VII will assist you in making a thorough assessment of the feasibility of your business ideas and understanding the financial and legal ramifications of any new business endeavor. It is vital that you complete these evaluations before committing time and resources to a new business venture.

If, after completing the evaluation process, you feel satisfied that your business has a good chance of success, Section VIII will aid you in the actual operation, management and record keeping required. Other kinds of business opportunities, such as franchises or buying an existing business, are explored in Section IX. Finally, the Appendices located at the end of the manual list other sources of useful information that are available to help answer any questions you may have.

We hope that this workbook will give you a hand in overcoming obstacles and in diminishing hazards as you launch your new enterprise. With all the risks in mind, though, consider that millions of Americans have taken the chance and are finding that being one's own boss can be both gratifying and financially rewarding. If self-employment is for you, then perhaps this workbook will give you the practical guidance needed to ensure your business success.

ENTREPRENEURSHIP: IS IT FOR YOU?

More than 600,000 businesses are created each year by people who desire to gain personal and financial independence. Millions more dream of starting a small or home-based business.

You may wonder what it is that attracts people to entrepreneurship. Actually, people start businesses for a variety of reasons.

Some of these reasons are:

- | | |
|-----------------------------------|--|
| To be independent | Many people have a strong desire to be their own boss. Owning their own business and being independent offers the greatest personal satisfaction and happiness. This appears to be especially true when the business or service is the outgrowth of a hobby, creative genius, learned skill or family tradition. |
| To make more money | Some people believe that working for a wage or a salary limits their earning ability. Many people desire to make “extra” money to supplement salaries. Often the money earned is designated for children’s college education, retirement or special family activities. |
| To find employment | For some people, jobs are not available that will pay the kind of money needed or wanted, so they create their own. |
| For personal satisfaction | Some people think that the only way to do what you really love is to have your own business. |
| To balance work and family | Families with small children believe they can operate a business from home with fewer work/family conflicts and can minimize babysitting arrangements and costs. |

(Activity)

Why are you interested in starting a business? List the reasons that are most important to you.

WHAT DO WE KNOW ABOUT ENTREPRENEURS?

There are some personality traits that are common among persons who start their own businesses. These traits were developed through life experiences of the entrepreneur. If you have not already developed these traits, you can do it now.

Entrepreneurs are:

- | | |
|--------------------------|--|
| RISK TAKERS | Entrepreneurs see risk taking as an adventure. They believe in themselves and their ability to succeed. |
| LIFETIME LEARNERS | They realize learning involves mistakes that are necessary for improvement. They gain new skills through hands-on experiences. |
| INDEPENDENT | They want to be free to choose their own actions in their personal lives and in business. |
| RESPONSIBLE | They are accountable for their own decisions, actions and obligations. |
| IMPATIENT | They prefer quick actions and results. They have high energy levels and become restless when delayed. |
| EFFICIENT | They tend to make the most of every waking moment because of the many demands of operating their own businesses. |

RESOURCEFUL	They are creative problem solvers and deal well with the unexpected. They find ways to deal with problems for which they have no previous experience or guide.
DETERMINED	They do not give up easily when faced with problems. They search for ways to solve the problem, often finding creative answers.
GOAL-ORIENTED	They decide what they want, develop a plan and make the plan work.
SELF-CONFIDENT	They believe in their abilities to succeed. They exhibit a positive mental attitude in trying situations.
LEADERS	They have strong direction and decision-making skills.
CREATIVE	They are alert to and seeking new and better ways to do things.
PERSEVERANT	They follow through when the going gets tough. They do not leave jobs half-done.
OBJECTIVE	They have the ability to accurately weigh and assess risks associated with decisions and are realistic about their own abilities.
PROACTIVE	They anticipate developments and to make things happen rather than always reacting to situations as they arise.
COMMUNICATORS	They have developed their oral and written communication skills.

FACTS ABOUT ENTREPRENEURS

- “ About 40 percent of entrepreneurs have a high school degree or less.
- “ About 50 percent of entrepreneurs have parents who own a business.
- “ Thirty-five percent of entrepreneurs are under the age of 30.
- “ Entrepreneurs generally believe they can control their own future.
- “ Job experience acts as an incubator for those who are getting ready to start their own business.

- “ More than 50 percent of entrepreneurs start businesses in the areas in which they already have job experience.
- “ Personal savings are the most important source of funds to the beginning entrepreneur.
- “ Most people start businesses where they are already living and working.
- “ Successful entrepreneurs tend to seek advice from outside professionals.
- “ Success does not mean the same to all entrepreneurs.
- “ Entrepreneurs are influenced early in their lives by people like themselves who are already successful in business (role models).
- “ Some 87 percent of new jobs are created by small business.
- “ Due to the baby boom generation, there are more persons with credentials and fewer challenging jobs in today’s job market.

Source: National Federation of Independent Business

A PERSONAL ASSESSMENT

For each of the following questions, check the statement that most nearly describes you.

Are you a self-starter?

- “ I do things on my own. Nobody has to tell me to get going.
- “ If someone gets me started, I keep going all right.
- “ Easy does it. I do not put myself out until I have to.

How do you feel about other people?

- “ I like people. I can get along with just about anyone.
- “ I have plenty of friends. I do not need anyone else.
- “ Most people irritate me.

Can you lead others?

- “ I can get most people to go along when I start something.
- “ I can give orders if someone tells me what we should do.
- “ I let someone else get things moving, then I go along if I feel like it.

Can you take responsibility?

- " I like to take charge of things and see them through.
- " I will take over if I have to, but I would rather let someone else be in charge.
- " There is always some eager beaver around wanting to show how smart he or she is. I say let him or her.

How good an organizer are you?

- " I like to have a plan before I start. I'm usually the one to get things lined up when the group wants to do something.
- " I do all right unless things get too confused. Then I quit.
- " You get all set and then something comes along and presents too many problems. So I just take things as they come.

How good a worker are you?

- " I can keep going as long as I need to. I do not mind working hard for something I want.
- " I will work hard for awhile, but when I have had enough, that is it.
- " I cannot see that hard work get you anywhere.

Can you make decisions comfortably?

- " I can make up my mind in a hurry if I have to. It usually turns out OK, too.
- " I can make up my mind if I have plenty of time. If I have to make decisions quickly, I think later that it should have been decided another way.
- " I do not like to be the one who has to decide things.

Can people trust what you say?

- " You bet they can. I do not say things I do not mean.
- " I try to be on the level most of the time, but sometimes I say what is easiest.
- " Why bother if the other fellow does not know the difference?

Can you stick with it?

- " If I make up my mind to do something, I do not let anything stop me.
- " I usually finish what I start — if it goes well.
- " If things do not go right from the start, I quit. Why beat your brains out?

How good is your health?

- " I never run down.
- " I have enough energy for most things I want to do.
- " I run out of energy sooner than most of my friends.

Now count the checks you have made. How many checks are there beside the first answer to each question? ___ The second answer? ___ The third answer? ___

If most of your checks are beside the first answer, you probably have what it takes to run a business. If not, you are likely to have more trouble than you can handle by yourself. You might want to find a partner who is strong on the points in which you are weak. If many checks are beside the third answer, not even a good business partner will be able to shore you up.

Source: "Checklist for Going into Business," Small Marketers Aids #71 (Washington, D.C.; Small Business Administration, 1977 Revision, pp. 4-5

YOUR FAMILY AND THE BUSINESS

Before starting your own business, you must have the full support of your family. The business, especially if it operates from your home, will impact the family lifestyle. Space used by family members may now have to be used for the business. Time for family activities may now be replaced by business activities. Last-minute changes may need to be made because you have to fit into a customer's schedule.

Although family members support the idea of you going into business for yourself, they may not want to be involved themselves. It will be important to communicate to the family upfront what your expectations are for them as related to the business. Will there be a change in lifestyle because of less money for family activities? Do you expect them to use their skills or time to assist with the business? Are there younger children that require closer supervision?

There may also be some positive outcomes for family members who work together in a business. Indications are that the family business can strengthen family ties and that the divorce rate in families with a home-based business may be lower. Family members involved in a business may also improve communication and understanding of each other. Family members can also learn skills that will prepare them for other employment.

YOUR PERSONAL COMMITMENT

A successful business owner must be self-motivated. Managing your own business may provide the opportunity for more flexible work hours, but it also requires more discipline. You must be able to establish a schedule and stick to it. When you are on your own, it is easier to delay the start of your business day, give in to small distractions, or to let home activities interfere with what needs to be done for the business. You will need to develop and maintain a professional attitude if the business is to succeed.

At the same time, you will want to work toward maintaining a balance between work and family. It may be easier for you to schedule your business activities around the family needs. It will be your responsibility to establish and keep the delicate balance between the two.

THE PROS AND CONS OF YOUR OWN BUSINESS

You will need to sit down with pencil and paper to decide what the pros and cons of starting your own business are. Here is the beginning of some possible pros and cons. You will want probably want to leave some of these items off and will surely want to add additional ones.

PROS

Being my own boss
Working at something I love
Don't have to pay for child care
Sense of accomplishment
Flexible work schedule

CONS

May upset the family schedule
Money may be tight at the beginning
May have to buy special equipment
Interruptions from family members
Friends calling or dropping by

Activity:

What strengths, talents or skills do I have that will help me be a successful entrepreneur?

What strengths, talents or skills do I need to develop to be a successful entrepreneur?

What steps will I need to take to improve my strengths, talents and skills?

Having your own business can be a rewarding experience. However, it requires careful planning and much discussion with your family. Look at the benefits, but don't overlook the sacrifices you may need to make. If the benefits outnumber the disadvantages, you may be ready to start your own business.

DECISION MAKING

Many research studies show that the success or failure of a business operation lies with a crucial management skill — decision making. It may be an oversimplification to say that good decisions help a business grow and bad decisions lead to its failure. But the fact remains that right decisions are important in business, and the responsibility for making decisions rests squarely on the owner's shoulders. Therefore, a good business manager needs to develop a systematic approach to decision making to make the best possible choices based on available information. By developing decision-making skills, you can exercise control over the future of your business venture and reduce the possibility of chance outcomes.

Since we each have our own personal style of decision making, no choice is ever completely objective. If we look carefully at our own decision making style and process, we will be able to improve the method and make better decisions.

WHAT IS YOUR PERSONAL DECISION-MAKING STYLE?

To improve our decision-making skills, we must first become aware of our usual methods of making choices. There are no right or wrong answers to the questions that follow; they are simply tools to use in learning more about the ways you usually make decisions.

As we examine our decision-making process, we may learn that the best strategy is the one we have been using all along. We may learn that we need to make small changes in our methods of making choices. In either event, we can learn to ensure that our decisions lead to actions consistent with our objectives and our beliefs about the future. We can increase our self-knowledge by considering these questions carefully.

Is my style of decision making intuitive? Intuitive decision making involves seat-of-the-pants and gut-feeling responses to problems and situations. On the other hand, systematic decision making involves looking for options and examining the advantages and disadvantages of each.

Can I tolerate uncertainty about the consequences of my decisions? Needing considerable information and assurance about outcomes before acting generally indicates a low level of tolerance for uncertainty.

Do I learn from past decisions? Learning from past experiences will reduce the chances of repeating the same types of mistakes.

Do I delegate to others or seek external information when making decisions?

Are my decisions influenced by stressful conditions? Most of us become distinctly poorer decision makers when we are under stress.

Are my decisions influenced by my own needs and desires rather than by other people?

Do I understand why I do what I do? Do I have a clear picture of the goals that I want to reach?

You may find that your answers to these questions vary according to the type of decision you have to make. The old adage “know thyself” is good advice, but it is not always easy to follow. Considering the previous questions should give you a clearer picture of your decision making style. It is up to you to decide whether or not you need or want to improve the process.

THE DECISION-MAKING PROCESS

Decision making is a continuous process that is central to the successful management of any business. It is a process of selecting one action from two or more alternative actions. All decisions will involve some risk and uncertainty because we cannot know everything the future holds.

Since we cannot know or control everything, we must base our decisions on those things that we can reasonably expect to know and to control. While we cannot always guarantee successful outcomes, experience proves that well-thought-out decisions are more likely to yield success than are choices made haphazardly. Flipping a coin is no substitute for studying and planning. Developing and using good decision-making skills can help your to identify and plan coping strategies to deal with risk and uncertainty.

One important decision-making skill is learning to place each decision into the right perspective. When you have decisions in the right perspective, you can then determine how much time and effort to devote to each decision. When determining the importance of the decision to the business, ask yourself these questions.

Will additional time and effort:

- “ Increase my possibility of producing added income?
- “ Improve my ability to balance choices?
- “ Reduce my feelings of risk or doubt?

The decision-making process involves five basic steps. These same steps will be followed whether we are evaluating personal characteristics or how to set up a record keeping system. As we discuss the steps in the decision-making process, work through a decision you need to make.

Steps for Decision Making

Identify the problem

Many decisions are made by default because people do not realize that a decision needs to be made. Recognizing the need for the decision involves identifying and defining the problem.

What is the decision you need to make?

THE DECISION

Identify alternatives and choices to be considered

When facing a decision, you usually have more than one option to consider. Alternatives are not always evident. You sometimes need to search for them. At times it can be helpful to do some brainstorming to find additional alternatives.

What are some possible alternatives or choices available to you?

LIST THE ALTERNATIVES

Alternative 1:

Alternative 2:

Alternative 3:

Alternative 4:

Alternative 5:

Gather and analyze facts related to each of the alternatives

As you gather facts and analyze them, consider the possible consequences or costs of each alternative. Weigh the pluses and minuses for each alternative. Be certain to separate facts from the value you place on something. Recognize that sometimes your values are more important than the facts. For example, if you value honesty over getting money any way you

can, alternatives to finance the business may be limited. As you gather and analyze the facts, also think about your available resources.

What are the pluses and minuses of each of the alternatives you have listed?

ALTERNATIVE 1

PLUSES	MINUSES
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>

ALTERNATIVE 2

PLUSES	MINUSES
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>

ALTERNATIVE 3

PLUSES	MINUSES
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>

ALTERNATIVE 4

PLUSES

MINUSES

ALTERNATIVE 5

PLUSES

MINUSES

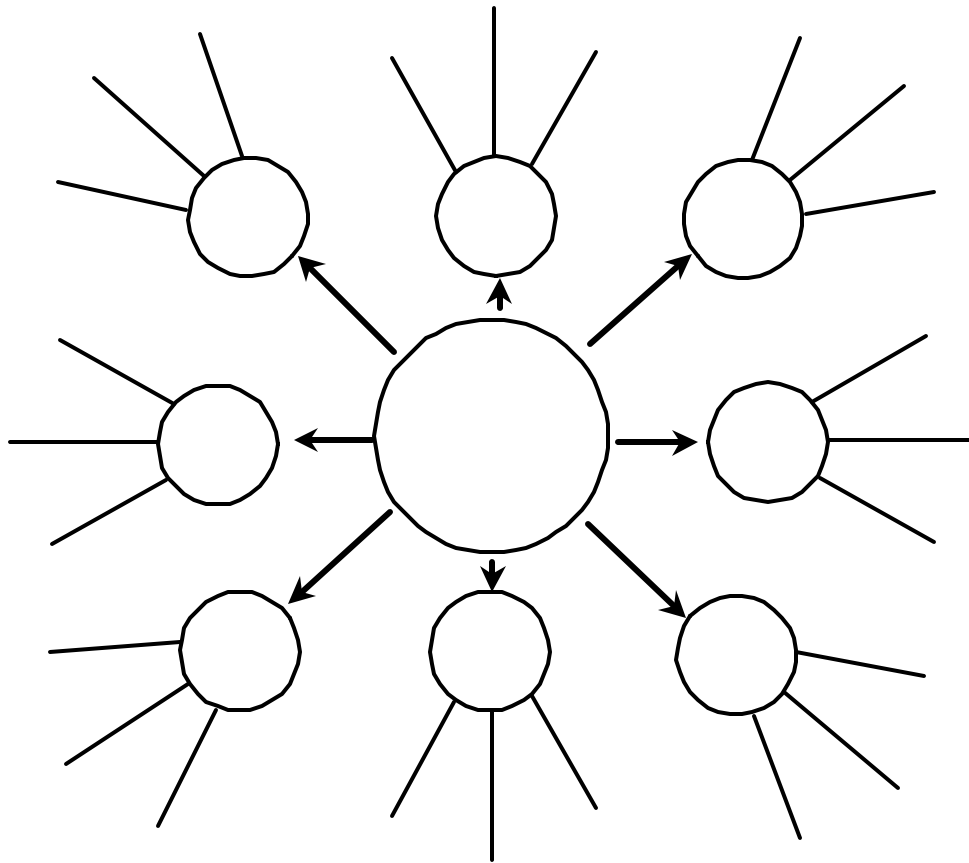
Select an alternative

Recognize that the alternative you select will be the best decision you can make at the time, based on the facts you have and your less-than-perfect knowledge of the future.

Write down the alternative you have selected.

THE SELECTED ALTERNATIVE

You are now ready to put the decision into action. With most decisions, this will require more decisions. These additional decisions are sometimes referred to as satellite decisions. The following diagram may help you to identify decisions that will need to be made as the result of your central decisions.



Some further steps you can take before making your final selection are :

- “ Talk to people who have experience in making the same type of decision. Choose people whose opinions you respect and be frank and honest with them about the choices you are facing.
- “ Get professional advice if the decision involves a situation in which a lawyer, an accountant, a banker or some other professional may be of help.
- “ Share your thoughts with family and friends. They may come up with considerations that you have not thought about.

Write the alternative you selected into the center circle. Now list other decisions that will need to be made.

As you put the decision into action, learn to accept the consequences of the decision. Learn from your successes and failures. Each time you use the decision-making process, your skills will improve. You will find yourself deciding small matters

promptly, making choices with confidence, identifying realistic alternatives and putting the decisions into action.

SETTING PERSONAL AND BUSINESS GOALS

Goals give direction to your life or business. If you do not know where you are going, it is difficult to know the best way to get there or to know if you have finally arrived. For decision making to be most effective, your goals need to be in place early.

Since going into business for yourself will affect not only you but also other family members, it is important that you identify major personal/family and business goals. Setting the dates by which you want to reach the goals and identifying any costs attached to reaching the goals will increase the ease and probability of reaching them.

The goals you set will not be of equal importance to you or to the success of the business. You will need to rank them in order of importance. This will be true for business and personal/family goals. As the goals are ranked, you may discover there are conflicts between business and personal/family goals. There may also be conflicts among goals for members of the family.

RANK	PERSONAL/FAMILY GOALS
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

RANK

BUSINESS GOALS

When the lists of business and personal/family goals are complete, hold a family discussion to resolve potential conflicts. Open, honest discussions among family members can reduce the conflict over the use of resources to meet business and personal/family goals. Final decisions may require compromise.

To help resolve conflicts that may arise, examine each goal by asking these questions:

- " Is this a goal that must or ought to be reached?
- " Does the goal contribute to what you want as a business, an individual or a family?
- " Will the goal help you to get what you really want?
- " Is it a goal that could be delayed?
- " Is the goal important to the well-being of the family or the success of the business?
- " Is the goal so important it should be reached even though it would prevent reaching other goals?
- " Will short-term goals delay or defeat reaching long-term goals?
- " Can the goal be reached with the resources you have?
- " Is it a realistic goal?

If you are serious about achieving your goals, you will want to work on only two or three goals at a time. You will need to develop a plan for reaching your two or three goals. A successful plan for reaching a goal will include four basic parts:

- “ Your plan should include a specific, measurable statement of the goal.
- “ Establish when you want to reach your goal.
- “ List what resources you will need.
- “ Write down the specific steps you will need to take to reach the goal.

TOP THREE BUSINESS GOALS	TARGET DATE	COST	NEEDED RESOURCES

TOP THREE PERSONAL/FAMILY GOALS	TARGET DATE	COST	NEEDED RESOURCES

From the lists of business and personal/family goals, determine the five most important goals you want to reach.

TOP FIVE COMBINED GOALS	TARGET DATE	COST	NEEDED RESOURCES

To achieve your goals you must start now. Your plan will require commitment and discipline. You must be willing to delay things that would be nice to have now for the things you really want.

TIME MANAGEMENT

“The essence of time management is to set priorities and then to organize and execute around them...” Stephen R. Covey, **Principle-Centered Leadership**

“...manage time to accomplish what you want.” L.R. Bittel, **Right On Time**

As you move into a business of your own and become your own boss, time management may become a problem. It often becomes difficult to separate personal time from work time. To use your time most effectively, establish priorities for personal, family, and business time. Knowing your priorities for each will help you to avoid neglect in any area.

Successful time management requires setting goals, establishing priorities and doing the most important things for reaching those goals. Remember to strive to find a balance between family/personal and business goals.

SETTING TIME PRIORITIES

Personal/Family Priorities

<i>Priority</i>	<i>Time of Day</i>	<i>Length of Time</i>

Business Priorities

<i>Priority</i>	<i>Time of Day</i>	<i>Length of Time</i>

As you list your various responsibilities, you will probably find yourself running out of time. Go back over the list and decide if everything is really necessary. As you look at each priority, ask yourself:

- “ Is this priority necessary? Can it be eliminated?
- “ Can this be delegated to someone else?
- “ Can the time spent on the activity be reduced?
- “ Can I afford to hire someone to do this?

Another technique for using your time effectively is to look at the year as a whole. Write down when important family events and business events occur. Note when the peak times in the business are likely to occur. This calendar will help you to look at your year and the obligations you have. The calendar can help you to avoid and/or resolve potential conflicts between family/personal and the business.

Some of the things you will want to list on the calendar are family birthdays, reunions, anniversaries, vacations, graduations, etc. For the business, you will want to project months of peak production and sales, records and reports, inventories, etc.

January	February	March
April	May	June
July	August	September
October	November	December

Once you have looked at your activities for a year, then begin looking at your priorities that are more immediate. An effective way of doing this is to look at what needs to be done for the current month, then the current week. Finally, decide what it is you need to do tomorrow. A “to do” list may help you when you are prioritizing what needs to be done.

The following chart can be used to prioritize your daily activities. Using Alan Lakein's A, B, C method of prioritizing jobs, assign the A to the most important activities, B to the next important and C to the least important. Next establish the importance of the activities within the A, B and C groups (A1, A2, A3, etc.)

P r i o r i t y	<h1>TO DO LIST</h1> <h1>N</h1>	D e l e g a t e d	S t a r t e d	C o m p l e t e d
	Leave this space blank to add any interruptions to your list.			

In the early days of your business, you may find it helpful to keep a time log of how you use your time. This will help you identify time wasters and areas where you may need to find more efficient ways of completing an activity or task. Keep the time log for three to five days to get a good overview of how your personal and business time is used. Include visits from others, telephone calls, etc. List everything that happens during your day.

Personal/Business Time Log

<i>Activity</i>	<i>Start Time</i>	<i>End Time</i>	<i>Total Time</i>	<i>Importance</i>

Identify the “time wasters” on your time log. Time wasters are the activities or events that do not contribute to progress toward goals. Planned coffee or rest breaks, for example, are necessary to maintain alertness and efficiency. Frequent or extended breaks become “time wasters.”

Examples of potential time wasters are:

- | | |
|--|--|
| <ul style="list-style-type: none"> Lack of planning Lack of priorities Over-commitment Management by crisis Haste Paper work Reading nonessential materials | <ul style="list-style-type: none"> Routine and trivial tasks Non-business visitors Telephone calls Meetings Indecision Lack of delegation Procrastination |
|--|--|

There are several strategies you can use for organizing your time to the best advantage. These include:

Keeping a calendar Prepare a “week at a glance” or “month at a glance” calendar. Include personal and business obligations.

Identifying your prime time Each of us has a time when we work best. Find what that time is and use it to your advantage. Prime time should not be used for routine tasks. Use this prime time to complete activities requiring concentration or tasks you dread or dislike.

Blocking time	Set aside periods of time free from interruptions to complete tasks. Blocks of time can also be used to complete similar types of activities.
Reducing interruptions	Let your children, neighbors and friends know your work hours. Buy a telephone answering machine to take incoming calls. Set a time for making outgoing calls. Develop your own personal technique for limiting interruptions.
Planning travel time	As you prepare your list of daily or weekly activities, plan the travel you will need to do. Group activities involving travel in blocks of time. This will reduce not only interruptions to your work schedule but the possibility of forgetting errands you must complete.
Learning to say NO	You may have been volunteer of the year before you started your business. Now, with added responsibility, you will need to develop techniques for knowing when to refuse a request and how to do it tactfully.
Organizing your workplace	An organized workplace provides a friendlier atmosphere for your activities, plus it reduces time wasted looking for lost papers or supplies.
Handling paperwork	Whenever possible, handle each piece or paper only once. Read it and take the necessary action. Learn to throw things away.
Avoiding procrastination	Procrastination is one of the biggest time wasters. You know other people who procrastinate. Do you?

The following questions will help you to decide if you tend to procrastinate.

Do you:

- “ Put things off to the last possible minute?
- “ Live by the motto, “better late than never”?
- “ Say you work better under pressure?
- “ Avoid doing new tasks?
- “ Delay the start of big jobs?

- “ Do the enjoyable, but delay the unpleasant jobs?
- “ Say you haven’t the time now but will do it later?
- “ Do the easy or trivial and postpone the difficult or important?
- “ Avoid jobs where you risk failure?
- “ Get trapped by over-indulging yourself in such activities as socializing, sleeping, playing golf, daydreaming or watching soap operas?
- “ Do jobs yourself that could be delegated?
- “ Find yourself overdoing a good thing?

Answering “yes” to any of preceding questions indicates some characteristics of a procrastinator.

Some strategies you can use for overcoming procrastination are:

- “ Admit you are wasting time. “I waste time on....”
- “ Cut off escape routes.
- “ Set priorities. Use reminders to keep yourself going.
- “ Set up a progress monitoring system with a friend, spouse or co-worker.
- “ Break up the bigger job into smaller tasks.
- “ Block out time free from interruption and/or distraction to do the job.
- “ Don’t duck the unpleasant.
- “ Procrastinate positively by sitting in a chair and doing absolutely nothing. Getting started will be an appealing alternative.
- “ Strive for excellence, not perfection.
- “ Break the procrastination habit. Develop the habit of “do it now.”

Handling Crisis

There will be times when the best laid plans cannot be implemented because of a crisis. At those times try these suggestions.

- “ Stop and clarify your goals and priorities.

- “ Identify your available resources.
- “ Delegate whatever can be delegated.
- “ Set priorities and stick to them.
- “ Work on A-1 priorities.
- “ Try to forestall or reduce interruptions.
- “ Delegate to others.

If you have others working with you, you will need to decide which tasks you must do and which ones should be done by others. Bittel states, “ An essential aspect of delegation, is that, while responsibility and authority can be delegated, accountability for proper accomplishment of the task cannot.”

The following are some rules for effective delegation.

- “ Accept risk as natural. Allow mistakes. Learn from them.
- “ Train, develop and trust others.
- “ Do nothing you can delegate; divorce yourself from detail.
- “ Always delegate authority commensurate with responsibility.
- “ Ensure clear, complete, definite instructions. Ask the person you are assigning the task to restate the instructions to ensure understanding.
- “ Laugh at yourself. Then give full credit when it is due. Develop your own replacement.
- “ Lower standards to what is “acceptable,” not your own level of performance. Avoid perfectionism.
- “ Recognize that practice leads to success, which leads to comfort. Recognize that not everyone needs to “know all the details” when they are delegated a task.
- “ Establish plans, schedules with details, progress reports, monitoring of deadlines.
- “ Relax. Emphasize goal accomplishment methods and procedures. Measure results, not activity. Avoid controlling behavior.
- “ Always check progress in time to take corrective action.

Tips for the Business Person Working at Home

If you are operating your business out of your home, you may find it difficult to get started on business activities or to stay on schedule. Here are some tips that may help you to begin each day and to keep on schedule.

- “ Get dressed for work.
- “ Maintain an organized office/workroom.
- “ Be alert to time wasters.
- “ Tell family and friends about your business hours. Request personal calls be held until after your work hours.
- “ Mentally, take yourself to work. When you are at work, concentrate on work.
- “ Choose a work schedule and stick to it.
- “ Don't do household or outdoor chores on work time. Enlist the entire family in sharing chores.

EVALUATING BUSINESS IDEAS

Evaluating a business idea involves two basic questions: “Will the idea work?” and “how well will it work? Answering these simple questions can involve literally hundreds of other questions and hours of effort. This section and the next one outline a method for you to answer them.

Part of the answer depends on your own skills and abilities. These can range from personality traits (the ability to get along well with people, self-discipline, reliability, initiative, etc.) to business skills and abilities (education, related job experience, etc.). The information and exercises in Section I will help you think through these factors. This information will also help you evaluate the demands your business will place on your family, your family life and your own lifestyle.

Almost any product or service will appeal to someone. Your concern is if enough of your product or service can be sold. How much is "enough" depends on your business goals and objectives.

Decide what you want from your business. Then, perform a feasibility study to determine if your idea has the potential to give you what you want.

Feasibility Analysis

There are five major parts in a feasibility study:

- **Supply** — How will you acquire or produce your product or service?
- **Demand** — What is the market for your product or service?
- **Location** — Where will the business operate?
- **Operation and Management** — How will you run the business?
- **Basic Economics** — What will it cost to start the business? To run it after opening? Will sales cover costs? Will cash be available when needed to pay obligations?

This section looks at supply, demand and location. Section IV outlines a method of evaluating economic feasibility. Operation and management are discussed in Section VI. Checklists of questions for each of these parts are included in all three sections. The

questions are neither exhaustive nor mutually exclusive and must be adapted to your specific situation.

While you must answer some of the questions yourself, others may require library research. Still others might be asked of the owners of similar businesses. The amount of time and money you spend on a feasibility study should increase with the size of the proposed operation.

The analysis should be a do-it-yourself project since it is an excellent way to increase your understanding of your proposed business. Write down the information. This forces your thinking to be more specific and realistic, gives information for future reference and provides plans to share with friends, family, employees and potential investors. The business plan outline in the appendix can be used to organize your writing.

Be conservative and realistic in all your estimates. If the idea doesn't work on paper, it probably won't work in practice. It is much easier and cheaper to change plans on paper than to change an existing business operation.

Supply

The exchange of a good or a service for money (or something of value) is the foundation of every business. Examining the good or service you will offer in the marketplace is a good place to start your feasibility study.

Your business may be based on producing the item yourself. Or, you may plan to buy items from someone else for resale with or without making changes to add value. On the other hand, your business may be based on providing a service, not physical items.

The supply section of your feasibility study is a description of what you will offer and how you will produce or obtain it with as much detail as possible. It will include:

- “ A description of the good or service including sizes, colors, options and other appropriate details.
- “ A description of exactly how you will create or obtain it.
- “ Details of the suppliers you will use.
- “ New or unique characteristics of your good or service or the production methods you will use.

Basic questions about the supply of your product or service that you should answer include:

- “ What production methods or techniques exist? Do they differ by size of operation?

- “ Which method or methods are best suited to the business you are considering?
- “ What changes are taking place in production practices? What can you do to accommodate these changes? Could current machinery and facilities be adapted or will changes be needed?
- “ Is production of the item generally on the increase in the community, region or nation? If so, where and in what size operation?
- “ What major inputs are needed (fuel, feed, seed, labor, raw materials, component parts, etc.)?
- “ What will each input cost? Will they be significantly more or less costly to you than to your major competitors?
- “ Are production technologies being developed that could enhance your competitive position or put your business or your area at a competitive advantage or disadvantage? What can you do in the face of these changes?
- “ What is your expected production (yield per acre, units per hour or other appropriate measure)? How does this compare with your competition?
- “ What range of production can you expect? (Estimate output under both adverse and optimum conditions of management, weather and other appropriate conditions.)
- “ Will your product or service complement or compete with other businesses in the community?
- “ Will your business compete with other businesses for inputs, labor or other resources?
- “ Is labor available locally, or will you bid up the price for labor?
- “ What skills and abilities are needed? Will expensive training or retraining be needed?
- “ Have there been previous failures in this kind of business either locally or elsewhere? Why? How will you avoid these reasons for failure?
- “ What use can be made of by-products? What wastes will be generated? How will you dispose of waste products?

“ If the business is a franchise or group effort, what is the organization's track record? What experience in processing, manufacturing or in working with this particular product does the group have? What assistance is available through the franchiser or group?

Check to see if you can honestly answer "yes" to the following questions? Investigate the questions for which you cannot answer "yes."

	Yes	No
Can I make a list of the operating and inventory supplies that I will need?	_____	_____
Do I know the desired quantity, quality and technical specifications of every item?	_____	_____
Do I know the name and location of each potential supply source?	_____	_____
Do I know the price ranges available for each item from each supplier?	_____	_____
Do I know about the delivery schedules for each supplier?	_____	_____
Do I know the sales terms of each supplier?	_____	_____
Do I know the credit terms of each supplier?	_____	_____
Do I know the financial condition of each supplier?	_____	_____
Is there a risk of shortage for any critical materials or merchandise?	_____	_____
Am I aware of which suppliers have an advantage relative to transportation costs?	_____	_____
Will the available prices allow me to achieve an adequate markup?	_____	_____
Am I satisfied that I will use the best production techniques or service methods available for my business?	_____	_____
Do I have a definite plan to keep up with changes in techniques or methods?	_____	_____
Have I written a complete description of my production plans?	_____	_____

When you are satisfied that you have answered to the best of your ability all these questions regarding the supply side of your business, move on to the next section and consider the demand for your product or service.

Demand

Remember, the basis of any business is the exchange of a good or service for a customer's money. Carefully examine your business idea from the customer's point of view. Why should the customer buy this product or service? How much is it worth to him or her? What will it do for the buyer? The key to success is offering what people want to buy, not what you want to sell.

Many businesses appeal to a particular group of customers identified by age, lifestyle, sex, geographic location and so on. Success comes from identifying these customers, learning as much as possible about them and directly targeting them. Listed below are questions that you should investigate in determining the demand for your product or service.

- “ What is the intended or potential market area?
- “ Who is the intended target customer and how many live in the market area?
- “ Is this a new product or service for which the market will have to be developed or a known item for which demand already exists? If it is a new item, how much and what type of promotion will be necessary to "create" or "stimulate" demand?
- “ If it is an existing product or service, is the market saturated? Does demand appear to be increasing or decreasing?
- “ Who is your competition (both businesses with similar products and businesses with other products which can meet the same need)? What advantages do you have over the competition? Why will people buy your product and not theirs? What share of the total market can you realistically expect to capture?
- “ What is the market structure for your product or service? Are there a large number of small, fairly competitive firms, a limited number of large firms, or is the market mixed? What reaction will existing firms have to a new firm or to a new, competitive product or service?
- “ What are the present trends in consumption and price for your product or service and for similar ones? Does demand vary seasonally?

- “ What changes are occurring in the marketplace? Do prices fluctuate during a marketing season or year? Do price variations favorably coincide with your proposed production/marketing seasons?
- “ Can you obtain monthly price and consumption data for the product or service over the past three years? What do these data mean for your future success?
- “ Can you differentiate the market and target a particular group of customers or become the product or sales leader in a limited area? Do you have an advantage in meeting demand with respect to time, place or form? What will the transportation to supply your target market cost?
- “ How will you introduce your product or service to the market (lower prices, advertising and promotion, coupons, etc.)? How long will it likely take to build up to the desired sales volume?
- “ Will you sell your own product or service or sell through other outlets? What payment, delivery, service and price arrangements can you make with these outlets?
- “ Can you fit into an existing marketing/distribution system or will you attempt to set up a new system? Will your system have a sufficiently broad product line to interest buyers? Will you use your own label or the buyer's brand?
- “ Do stores now handle the product you plan to produce? Have any of these stores expressed interest in your product or service? How much of your production will they handle?
- “ In how many possible ways can your product or service reach the consumer? What constraints are there on each path (quality, standards, supplier requirements, packaging restrictions, etc.)?
- “ Is there a consumer preference for local products or services that could give you an advantage over imported ones? Can you replace an imported product or service with your own at a cost advantage for the purchaser?
- “ To what extent is your market affected by foreign competition? What are the trends in imports? What are the export policies of competing nations?
- “ Do friends, relatives, church and club members react **EXCITEDLY** when you explain the nature of your business?

- “ Have you put up a "trial balloon" by offering small quantities of your product for sale at stores, malls, etc.? How did people react? What did you learn?

Answer the following questions to summarize what you know about your potential customers. More investigation may be needed if you cannot answer all.

- “ From what geographical areas can I realistically expect to draw customers?
- “ What is the population of these areas?
- “ What do I know about the population growth trend in these areas?
- “ What is the average family size?
- “ What is the age distribution?
- “ What is the per capita income?
- “ What are the consumers' attitudes toward businesses like mine?
- “ What about shopping and spending patterns relative to this business?
- “ Is the price of my product/service especially important to my target market?
- “ Can I appeal to the entire market?
- “ If I can appeal to part of the market, is it large enough to meet my goals?
- “ How will I advertise or otherwise communicate with my potential customers?

The Competition

Answering these questions will help you learn more about your competitors.

- “ Who are my major competitors? (List the five located closest to your market or the major competing products or services).

“ What are the major strengths of each?

“ What are the major weaknesses of each?

“ Am I familiar with the following factors concerning my competitors?

“ Price structure?

“ Product lines (quality, breadth, width)?

“ Promotional activities?

“ Sources of supply?

“ Image from a consumer's viewpoint?

“ Do I know of any new competitors?

“ Do I know of any competitor's plans for expansion?

“ Have any firms like mine gone out of business lately?

“ What are the sales volume and market share of each competitor?

“ Are the sales and market shares of each competitor increasing, decreasing or stable?

“ What are the profit levels of each competitor?

“ How will I compete successfully with these businesses?

Summarize this section by writing the marketing section of your business plan.

Location

The location of your business is a major factor if your customers will visit your business. Examples of organizations where location is extremely important include a tourism business or a retail store. Accessibility, parking, your surroundings and similar concerns must be carefully evaluated.

If you make an item that is shipped to your customers or provide a service in your customers' homes or other location, a different set of location concerns become important.

Determining the primary market outlet will help you examine location in your feasibility study.

Manufacturing or Processing

If your business involves making an item to ship to your customers, consider the following points.

- “ What size plant is needed to provide an adequate supply for the anticipated demand while remaining efficient?
- “ What would be an ideal location? Should the plant be located near the customer, near the source of supply or are the customer and the supplier near each other?
- “ What utilities will be needed? Are they available at your desired location? At what rate?
- “ What waste disposal and pollution control measures are necessary? What will they cost?
- “ What transportation facilities will be needed (truck, rail, water or air)? Are they available?
- “ Does the state or the federal government regulate the transportation of the inputs and/or the finished product?
- “ Is the neighborhood of the possible site declining, stable or growing? Are there proposed changes which will affect the site (planned highway access, barge terminal closures, etc.)?

Marketing or Sales Outlet

If your customers will come to your business, also consider the following questions.

- “ Where are your customers in relation to the site? Can people get to it easily from parking spaces, highways or their homes? How will you direct them to it?
- “ Have you found a good building or property?
- “ Has a lawyer checked the lease and zoning?
- “ Can you fix the property the way you want it without spending too much money?
- “ Is there room for expansion?
- “ What equipment and supplies are needed? How much will they cost? Is second-hand equipment available? Can you save money by leasing?
- “ How much or how many of each item will you buy before opening the store?

- “ Have you made plans for protecting your business against theft, including burglary, shoplifting and employee stealing?
- “ Have you talked with your insurance agent about the kinds of insurance you will need? Have you compared rates and coverages with other agencies?

Home Based Businesses

If your business will be based at home, other questions need to be asked.

- “ Will customers come to your home? If so, is parking adequate? Will they disrupt your home life? Will they disrupt the neighborhood? Will security be a problem?
- “ Do you have enough space? Can you set up a separate area to reduce conflicts with home life?
- “ Have you considered a separate business telephone and a separate business entrance?
- “ Will local zoning allow you to establish a business in your home? Can you put a sign on your property?
- “ Are there special safety considerations because of toxic substances, flammable materials, high temperatures or other reasons? Will noise, smell, fumes or other factors bother your family and/or neighbors?
- “ Have you looked into the IRS requirements for deducting home based business expenses? Can you meet them?

Buying an Established Business

If you are buying an established business, be sure to review Section IX (Exploring Other Opportunities). Carefully consider the following questions.

- “ Are you sure you know the real reason the owner wants to sell the business?
- “ Have you compared the cost of buying this business with the cost of starting a new business on your own?

- “ Can you work in the business before you buy it? What do customers like about it? For instance, is there a special line of merchandise, a key employee or an exciting atmosphere about the store? Can you maintain the elements that attract customers? What will you change if you do buy it? Why?
- “ Is the stock up-to-date and in good condition? Does it fit with your plans for the business? What liabilities for the current owner's actions or products will you incur?
- “ Will the owner of the property transfer the lease to you? Is the property in good repair and suitable for your plans? Is the neighborhood declining? Are there local government plans on the horizon that will affect the property or the neighborhood?
- “ Have you talked with other business people in the area to see what they think of the business? Have you talked with other people in the industry to see what they think of the business?
- “ Have you talked with your lawyer about it? Has your accountant checked the books and records?
- “ Has the current owner agreed not to establish a competitive business in the locality? Will the current owner help with the transition and/or be available as a consultant if needed? Under what conditions?

Now, summarize the results of your work by writing a summary of your proposed business location.

ECONOMIC FEASIBILITY

There are many reasons to start your own business other than making money. You may want to be your own boss, you may want to turn a hobby into an endeavor that supports you and your family or you may want to have a lifestyle to pass on to your children. But unless you are a philanthropist or have income from other sources, your business must earn enough money to at least cover its expenses or break even.

This section will help you figure out if your idea will earn enough money to cover its expenses and be profitable. We will also look at two closely related topics: setting prices for the products sold by your business and obtaining financing for your business.

Economic Analysis

After coming up with a business idea, the next step is to perform an economic analysis or “**feasibility study**.” A feasibility study can help you determine whether your business can earn enough in revenues to cover its expenses. A complete feasibility study will answer the following questions:

- “ What are the startup costs for your business? You must identify everything you will need to start your business and estimate the cost of each input.
- “ What will it cost to run your business once you begin operations? Estimate your ongoing production, marketing and overhead costs.
- “ How much will you charge for your product or service? How much do your competitors charge for a comparable product or service? How sensitive are your customers to price? These may be the most important questions you will be required to answer in your business. If your price is too low, you will not be able to generate enough income to cover your expenses. If your price is higher than your competitors’ prices, your customers must be willing to make a purchasing decision based on something besides price (quality, appearance, packaging, etc.). However, if your price is too high, potential customers will not purchase your product regardless of its quality, appearance or packaging.

- “ Have you developed monthly cash flow and income statement projections for the first three to four years of business operation? This type of projection is necessary to estimate revenues, cash costs, borrowing needs and profit potential.
- “ If you do not have the capital necessary to finance your business, have you considered all possible credit sources?
- “ Have you thought about the size of your business operation? The size of your business will depend on many factors.
 - ~ The potential demand for your product.
 - ~ The amount of startup capital financing you can secure.
 - ~ The difference in equipment costs incurred for various levels of production.
 - ~ The amount of risk with which you are comfortable.
 - ~ The different levels of marketing costs associated with various levels of production.
 - ~ The savings that may result from purchasing large volumes of inputs.
- “ What size business will you start with? The majority of businesses start with a relatively small operation and then expand as the demand for their product or service expands. This approach can significantly reduce the amount of risk to which you are exposed. However, other businesses start with excess capacity to allow for later growth. You must decide which strategy best fits your business and personal situations.
- “ Will the business provide an adequate return for its owners? Could you earn a greater return with less risk with another type of investment? You should also consider the non-monetary benefits (such as being your own boss) from starting your own business.
- “ How long will it take before your business becomes profitable and before the desired level of returns are achieved? Can you obtain the financial resources necessary to support business expenses and your personal living requirements during this time period?
- “ Have you performed an analysis of your market? Have you tested the market by offering trial quantities of your product or service at the proposed prices to determine potential demand? Have you defined your geographic market area? Have you defined your targeted customers?

- “ Have you been realistic and conservative in your projections? Many starting entrepreneurs often make the fatal mistake of overestimating revenues (especially starting revenues) and underestimating the expenses of the business. Be sure to construct several different projections, including a worst-case scenario.

The exercises and worksheets in the next section are designed to help you answer these questions.

BASIC FINANCIAL ANALYSIS WORKSHEETS

These worksheets are designed to help you examine the financial aspects of your business and project your revenues and expenses.

Worksheet 1 helps you determine the personal living expenses that must be covered by the business, while Worksheet 2 estimates the necessary startup costs for your business. Worksheet 3 looks at the revenues and production and marketing costs associated with the operation of the business. These worksheets are used to complete Worksheets 4, 5, 6 and 7. Rough estimates may be used initially, with a fine tuning of your analysis using actual price quotes and/or negotiated prices coming later.

The questions on Worksheet 3 are numbered Q1 through Q35. These numbers are the keys to completing the latter worksheets. For example, the line for Owner's Draw on Worksheet 4, the Pro Forma Monthly Cash Flow Statement, has Q6 next to it. The number from Question 6 (Q6) on Worksheet 3 is written here.

Some items are added together, subtracted, multiplied or divided. These operations are performed on the referenced numbers with the result written in the space provided. For example, the line for Cost of Goods Sold on Worksheet 5 has $(Q1/12) \times Q2$ next to it. Divide the number from Question 1 on Worksheet 3 by 12 and then multiply that quotient by Question 2 on Worksheet 3. Write the result in the space provided on Worksheet 5. (The appendix includes an example which may help you understand how to use these forms.)

You should not feel constrained to use these forms exactly as they appear here. If you need to add additional lines to completely describe the financial structure of your business, then add these lines. Likewise, if a line that appears on these worksheets is not relevant to your business, then either delete the line or enter a zero in the space provided.

Above all, make your estimates realistic and conservative. If the results you see are not satisfactory to your goals, then look for ways to change your business plan. However, changing numbers just to increase projected returns or to go ahead with the business in the hopes that

things will somehow work out are mistakes. Unfortunately, rarely do “things somehow work out.” If the idea is not feasible or profitable on paper, it probably will not work in practice.

Worksheet 1

Owner's Monthly Living Expenses

Complete this list of expenses based on an average month. Add or subtract items to fit your own lifestyle and financial obligations.

ITEM	COST
Rent or mortgage	\$
Car payment	\$
Other loan payments	\$
Life insurance premiums	\$
Health insurance premiums	\$
Utility bills	\$
Telephone bill	\$
Home repairs and maintenance	\$
Groceries	\$
Food away from home (eating out)	\$
Car repairs, gas and parking	\$
Travel	\$
Medical and dental care	\$
Educational expenses	\$
Clothing	\$
Newspapers and magazines	\$
Child care	\$
Savings	\$
Spending money and allowances	\$
Entertainment	\$
Cable TV	\$
Other expenses	\$
Total Personal Expenses	\$
Less income from other sources	\$
Personal expenses to be covered by the business (Q4)	\$

Worksheet 2

Business Start Up Costs

This worksheet should include the expenses you will incur when opening your business. This list is a sample; add or subtract items to fit your situation. Use the totals when completing Worksheet 3.

ITEM	COST
Initial inventory (Q3)	\$
Rent deposit or mortgage downpayment (Q6)	\$
Furniture and fixtures	
Desks and chairs	\$
Filing cabinets	\$
Light fixtures	\$
Counters, shelves	\$
Total furniture and fixtures (Q7)	\$
Tools and production equipment (Q9)	\$
Supplies	
Stationary	\$
Business forms	\$
Cash register	\$
Pens, pencils	\$
Total supplies (Q12)	\$
Utility deposits (Q16)	\$
Telephone deposits (Q18)	\$
Advertising and promotion	
Business cards	\$
Ads, posters, etc.	\$
Business logo design	\$
Exterior signs	\$
Total advertising and promotion (Q20)	\$

Site and building preparation	
Remodeling	\$ _____
Decorating	\$ _____
Repairs	\$ _____
Total site and building preparation (Q22)	\$ _____
Organization costs	
Accounting fees	\$ _____
Legal fees	\$ _____
Total organization fees (Q24)	\$ _____
Licenses and permits (Q26)	\$ _____

In addition, some business advisors recommend that enough cash for three months living expenses (Worksheet 1) and operating costs (Worksheet 4) be set aside and not used for any other purpose.

Worksheet 3

Revenue and Expense Estimates

Answer these questions with realistic, conservative estimates. Use the best information available and remember that you should change your estimates as you get actual price quotes, negotiate contracts and gain experience.

1. Estimate the number of units you will sell in the first year.		Q1
2. What is the average sales price per unit?	\$	Q2
3. Estimate your sales in dollars for the first year (Q1 x Q2).	\$	Q3
4. Estimate your cost of merchandise or materials as a ration or proportion of sales (for example, cost of materials (\$50) / total sales (\$100) = 0.5).	\$	Q4
5. Estimate the cost of the inventory needed to start the business. (Worksheet 2)	\$	Q5
6. Enter the level of monthly personal expenses to be covered by the business. (Worksheet 1)	\$	Q6
7. Estimate the monthly rent or mortgage payment for your business.	\$	Q7
8. Estimate the rent deposit or mortgage down payment required. (Worksheet 2)	\$	Q8
9. Estimate the total cost of the furniture and fixtures you will need to buy. (Worksheet 2)	\$	Q9
10. What is the average useful life (in months) of these furnishings and fixtures?		Q10
11. Estimate the cost of the tools and equipment you will need to purchase.	\$	Q11
12. What is the average useful life (in months) of these tools and equipment?		Q12
13. Estimate the total level of monthly wages you will pay to your employees.	\$	Q13
14. Estimate the level of payroll taxes you must pay as a percentage of total wages.	\$	Q14
15. What is the total cost of supplies and materials that you will need to start your business? (Worksheet 2)	\$	Q15
16. Estimate the average monthly cost of supplies and materials that you will need to operate.	\$	Q16
17. Estimate the percentage of sales that will be made on credit (for example, credit sales (\$25) / total sales (\$100) equals 0.25 or 25%). Enter zero if you will not make credit sales.	\$	Q17
18. Estimate your monthly utility bill.	\$	Q18
19. What are the required utility deposits? (Worksheet 2)	\$	Q19

20. Estimate your monthly telephone bill.	\$	Q20
21. What is your required telephone deposit? (Worksheet 2)	\$	Q21
22. Estimate your monthly insurance costs.	\$	Q22
23. Estimate the advertising and promotion costs incurred in the startup of your business. (Worksheet 2)	\$	Q23
24. Estimate your monthly advertising costs after the initial opening of your business.	\$	Q24
25. Estimate the expenses incurred in getting your business location ready for opening. (Worksheet 2).	\$	Q25
26. Estimate the monthly costs required for maintenance and upkeep after opening.	\$	Q26
27. Estimate attorney and accounting fees to start the business.	\$	Q27
28. Estimate the average monthly attorney and accounting fees after the business opens.	\$	Q28
29. Estimate the costs of business licenses and permits.	\$	Q29
30. Estimate your monthly debt service.	\$	Q30
31. How much of Q30 is payment on the principal part of the loan?	\$	Q31
32. How much of Q30 is interest expense?	\$	Q32
33. Estimate the monthly cost of other expenses.	\$	Q33
34. How much cash will you invest in the business?	\$	Q34
35. What is the minimum amount of cash that you want on hand at the beginning of each month for unexpected expenses?	\$	Q35

PRO FORMA MONTHLY CASH FLOW STATEMENT

SOURCES OF CASH	INITIAL STARTUP	MONTHLY REQUIREMENTS
Cash on Hand	Q34	Last month's ending balance
Cash Sales (Adjust for seasonality as needed)	0	Q3/12 - (Q1/12 X Q17)
Accounts Receivable Collections	0	Q17 X Last month's sales
Other Income	0	As needed
Initial Borrowing	As needed	As needed
Additional Borrowings	0	As needed
Total Cash Available	Add above items	Add above items
USES OF CASH		
Inventory	Q5	As needed
Furniture and Fixtures	Q9	As needed
Tools and Equipment	Q11	As needed
Owner's Draw	Q6	Q6
Employee Wages	0	Q13
Payroll Taxes	0	Q13 + Q14
Rent or Mortgage Payment	Q7 + Q8	Q7
Utilities	Q19	Q18
Telephone	Q21	Q20
Supplies	Q15	Q16
Insurance	Q22	Q22
Advertising	Q23	Q24

Maintenance	Q25	Q26
Legal and Accounting	Q27	Q28
Licenses	Q29	As needed
Other Expenses	Q33	Q33
Taxes	0	As needed
Other Loan Payments	0	As required
Total Uses of Cash	Total Above Items	Total Above Items
Cash Position (SOURCES OF CASH - USES OF CASH)		
*This will at least be Q35		

*If the calculated number is not equal to or greater than Q35, then additional debt must be incurred.

YEARLY CASH FLOW STATEMENT
MONTH

	Start	1	2	3	4	5	6	7	8	9	10	11	12
SOURCES OF CASH													
Cash on Hand													
Cash Sales													
Accts Rec Collections													
Other Income													
Additional Borrowings													
Total Cash Available													
USES OF CASH													
Inventory													
Furniture & Fixtures													
Tools & Equipment													
Owners Draw													
Employees Wages													
Payroll Taxes													
Rent or Mortgage Payment													
Utilities													
Telephone													
Supplies													

Insurance													
Advertising													
Maintenance													
Legal & Accounting													
Licenses													
Other Expenses													
Taxes													
Other Loan Payments													
Total Uses of Cash													
CASH POSITION													

Worksheet 5

PRO FORMA MONTHLY INCOME STATEMENT

Sales = Q1/12 (Adjust for seasonality as needed)

Cost of Goods Sold = Q1/12 X Q2

Gross Margin = Sales - Cost of Goods Sold

Operating Expenses

Employee Wages

Q13

Payroll Taxes

Q13 X Q14

Rent

Q7

Utilities

Q18

Telephone

Q20

Supplies

Q16

Insurance

Q22

Advertising

Q24

Maintenance

Q26

Legal/Accounting Fees

Q28

Licenses

As needed

Other Expenses

Q33

Interest Payments

Q32

Depreciation

Q9/Q10 + Q11/Q12

Total Operating Expenses (Add all operating expenses)

Net Profit (Loss) Before Income Taxes

(Gross Margin - Total Operating Expenses)

YEARLY INCOME OR PROFIT AND LOSS STATEMENT
MONTHS

	1	2	3	4	5	6	7	8	9	10	11	12
Sales												
Cost of Goods Sold												
Gross Profit Margin												

Operating Expenses

Owner's Draw												
Employee Wages												
Payroll Taxes												
Rent												
Utilities												
Supplies												
Insurance												
Advertising												
Maintenance												
Legal/Accounting Fees												
Licenses												
Other Expenses												
Interest Payments												
Depreciation												
Total Operating Expenses												
Net Profit Before Taxes												

PRICING YOUR PRODUCT OR SERVICE

Pricing is a key factor in the success of any business. You can offer an excellent product or service and enjoy good sales volume, but go broke because the price did not cover the expenses incurred in manufacturing the product or providing the service. In the same light, a price that is too high will drive potential customers away. In this case, you will not have a market in which to sell. The profit that a business earns depends upon a delicate balance of costs, the selling price and the number of units sold.

It is important to remember that the buyer will purchase the product or service only if the price is less than or, at most, equal to the value of the product or service as **perceived** by the buyer. An ideal price will:

" Be high enough to cover all production, overhead and marketing costs.
" Be low enough to attract customers.
" Be low enough to establish, maintain and increase a profitable level of sales volume.
" Be high enough to return a desired level of profit.

Your profit is equal to the selling price times the number of units sold minus all costs incurred in manufacturing the product. It is easy to see that the price of a product or service has a substantial impact on the profit of your business.

Upper and lower price limits exist for every product or service. Total costs and desired profits set a **price "floor."** If the price of the product or service is set below this floor, then the costs of the product or service are not covered and the desired returns to you, the owner, are not realized. Likewise, market conditions, including competitors' prices, available substitutes and complements and the potential buyers' tastes and preferences, set a **price "ceiling."** If a price is set above this ceiling, then the product or service will not be purchased by customers. Only if you can offer your product or service at a price within these limits can you expect to make a profitable sale.

Some business people always try to set a price that lies between their costs and the price of their competitor's price. Some businesses are able to charge a price higher than their competitors, but only if they are able to convince the buying public that the product or service is in some way superior than ones offered by competitors. If customers are not convinced of the superior quality of your product, sales volume may decline, even with concentrated or intensified marketing efforts.

Business owners calculate prices in different ways. Some business owners set a price and then allocate materials, time and other resources to meet that price and still maintain a desired level of profit. Others calculate their costs, add a desired return (called a **markup**), and then make allowances based on markdowns and shrinkages. **Markdowns** are reductions from the original selling price. A clearance sale may be required due to overstocking, sudden changes in consumer tastes or unseasonable weather. Shrinkages are losses due to theft, spoilage or breakage. Markdowns and shrinkages will eliminate profits if allowances are not made in pricing decisions.

Markups

The difference between the selling price of a product or service and its cost is called a **markup**. This difference corresponds to the gross profit calculation in a profit and loss statement.

It is extremely important to remember that the markup can be calculated either on the selling price or on the cost. For example, if an item costs \$10 and sells for \$20, the markup percentage is 100 percent of the item's cost, but only 50 percent of the selling price. The difference between the way the markup can be calculated has been the source of a great deal of miscommunication and confusion about pricing and has been responsible for many pricing errors.

Some accounting authorities recommend basing the markup on the selling price because other business ratios are also usually based on price. This type of markup on price is often called the **margin**.

Setting a Price

No one pricing method works for all businesses. Furthermore, no single formula will assure you the maximum profit possible in all situations. Each business must approach the problem individually. You may want to try more than one method and compare the results. Remember to examine your pricing decisions on a regular basis and adjust them as needed.

The simplest method of setting a price is to simply use the "**going price**." This may be the manufacturer's suggested retail price, the retail price suggested by your wholesaler or the price charged by your competitors. This may be an excellent place from which to start your price-making decision process, but you may find it necessary to adjust your materials, labor and profit expectations to meet this price.

The going price may not be the best pricing strategy for your business. Your cost structure may not be like your competitor's, you might be able to underprice them or you might find your returns (profits) inadequate by using their price. Also, it may be very difficult to find comparable products or services in your market area.

Some manufacturing businesses multiply their material costs by some factor (3, 7, etc.) to arrive at a selling price. Again, this is an easy way to calculate a selling price, but you must make sure that your indirect or overhead costs such as advertising, office supplies and depreciation are covered.

Many retailers use a multiple of their wholesale cost to calculate a retail price. This method of price calculation is called **keystoning** or figuring a **keystone price**. This is another simple method of price calculation that may not be adequate to cover overhead costs. Some businesses calculate a keystone price and then add an additional markup to cover markdowns or shrinkages. This is a common practice for items which have a limited or unpredictable market such as novelty items or high fashion goods. This type of item is typically seasonal, hard or expensive to hold over or is an item that is easily damaged or stolen. The amount added on is based on the retailer's experience.

If you plan to manufacture an item that is typically sold to a retail store for resale, the concept of keystone pricing can give you a rough idea of what producers of similar items are paid. Price as many similar items as you can find in retail shops, calculate the average of these prices and then divide the average by two. The result is roughly the amount the retailer paid for the item. The estimate will not be exact because of the possibility of added retail markup. This method works best for goods sold directly by the producer to the retailer. Each additional step in the marketing process adds to the price paid by the final customer.

Some business owners set a price by adding the costs of raw materials, labor and overhead together. The owner then decides the **owner's draw** (the amount of funds the owner withdraws from the business for living expenses, etc.) and profit required and adds this to the total cost to determine a selling price. This process allows you to determine exactly what you want from the business in terms of draw and profits. The actions of competitors and variations in demand can affect sales, so an adjustable markup may be added to permit price flexibility. Above all, this type of pricing mechanism provides you with the best insight regarding the costs of your business and the markup of your prices.

Many service businesses use a **labor multiplier**. This method works best if labor costs are high and wages are about equal among all employees. For example, this method is commonly used in the auto repair field. In pricing the job, this value is multiplied by the estimated hours required and the average hourly wage. The cost of materials is then added to obtain a total price for the job.

Many businesses, including a number of major corporations, decide on either a desired margin (markup) or sales or a desired return on investment from which prices are set accordingly. Because these methods require accurate cost information, a complete set of business records must be maintained. The return or investment method also requires that an estimate of sales volume be made.

Intuition, or hit-and-miss pricing, is at the other end of the spectrum from the return on investment or sales margin methods. In this case, the business manager has a fairly good idea of costs, some notion about competitor's prices, and a feeling about a desired or required level of profit. These ideas are mentally combined to form a price estimate that is adjusted until it "feels right." The item is then put on the market to see if any potential customers will buy it. This practice is used everyday in the business world. About the only guideline that exists is that lowering a price is easier than raising one; adding a little extra margin for potential price manipulation is better than not adding enough.

Pricing Policies

A business that sells in both the wholesale and the retail market should set retail prices comparable to the prices charged by other retailers who carry the item. Being undercut by the producer is a common complaint in some business lines.

It is also a poor business practice to offer different pricing terms for the same type of sale to different customers. Customers who learn about special pricing arrangements may demand the more favorable arrangements and present the choice of accepting lower profit margins or losing market share for your business. Offering the same terms to every customer can help to establish trusting relationships and build repeat business.

If The Market Balks

After estimating a price, you may find that it is noticeably higher than your competition's or that customers simply will not pay it. If this happens, you have four choices: drop the item, accept a lower profit margin, cut costs so that the price can be lowered and the desired profit margin maintained or try to convince your customers that your product is superior to that offered by the competition and therefore worthy of a higher price.

Your choice among the first three options depends upon the desired profit level and your ability to cut to reduce costs enough to set a price that customers will accept. In cutting costs, experienced owners typically recommend examining overhead costs first. These costs represent expenses that do not directly contribute to sales or profits. Second, examine the largest production costs items (in many businesses, this item is usually labor). A small percentage cut in this type of cost can represent a tremendous savings to the firm.

The last alternative involves competing on a non-price basis. Your product or service may be of a significantly higher quality than your competition's and therefore merit a higher price. Your challenge is to convince the customer of this higher quality. Your marketing campaign may highlight some combination of quality, service, performance, delivery time, credit terms, design assistance, packaging, uniqueness or personalized service. The factor(s) that you highlight will depend on the nature of your business and the values of your target customer group.

Discounts

Some businesses offer discounts to increase sales. A discount may take the form of a percentage deduction for a large purchase or multiple purchases. Another common practice is to offer a discount for payment within a few days of the purchase. This practice helps to encourage prompt payment and avoid cash flow problems.

Discount stores and national chain markets will usually market many product lines. It is sometimes tempting for the small business to try to compete head-to-head with these large merchandisers using price as a way to gain market penetration. There are several challenges that make this strategy very difficult.

Discounters and chain stores typically maintain a high volume of sales through a low price and a low margin of profit for each sale. A business must lure large dollar volumes of sales increases to make up for price cuts. The percentage of sales growth needed to maintain profit expectations increases rapidly with the size of price cuts.

Increased sales volume can also mean increased expenses for inventory, payroll, advertising, storage, display area and the like. Also, cutting prices will not automatically bring in more customers. Increased marketing and promotional efforts may help, but there is a limit to the size of any market.

As you can see, direct competition with mass merchandisers can be an extremely difficult proposition. Targeting a particular segment of the local market and striving to become a top player in that market niche is often a better strategy.

Bar Coding

If you are in a manufacturing type of business, you may want to utilize bar codes to get your products into large markets. Many retailers will not accept merchandise for resale unless it has a registered bar code.

A bar code is a way of encoding numbers and letters in a series of varying width bars and spaces so the information can be read by a computer. When the bar code is scanned, the numbers are keyed into the computer as if you were doing it manually.

The benefits of using bar codes are:

- “ Scanning is easier and more accurate than keying numbers manually.

- “ Reduces inaccuracies and delays in updating the computer. This results in better inventory control, on-time deliveries, higher sales, increased productivity, etc.
- “ Increases the efficiency of business.

Types of Bar Codes

There are a number of different bar codes available. The newer types of bar code scanner/decoders can read all types of bar codes. The most frequently used bar code is the U.P.C. (Universal Product Code). This is an internationally accepted standard that defines a method of identifying products and a standard bar code to encode the number.

The familiar U.P.C. symbol for identifying individual items normally has four components:

- “ The Number System Code composed of one character.
- “ The Manufacturer ID composed of five characters
- “ The Product ID Number composed of five characters
- “ The Check Character composed of one character



The first six numbers are assigned to individual companies by the Uniform Code Council in Dayton, Ohio. The next five numbers are assigned by the business and the last number is calculated using a formula based on the first 11 numbers.

Obtaining a Bar Code

If you want to use the U.P.C. number, contact the Uniform Code Council in Dayton, Ohio and apply for a manufacturer's ID number (Telephone 513-435-3870).

There will be a one time fee based on your most recent fiscal year's sales. The Uniform Code Council will assign your company a six digit manufacturer's ID number that makes up the first 12 numbers in your U.P.C. number. The remaining numbers identify the product.

Scanning the Bar Code

Your computer will not need to be modified to enable it to read bar codes. The bar code scanner/decoder sends the data to the computer in a form that can read by the existing software and hardware on the computer. However, special software may be required for you to be able to print the bar code on your computer.

Printing Bar Codes

Bar codes can be printed onto any surface that can hold a graphic image. Bar code labels and documents can be printed on almost any printer and any type of label. Computer software is available for developing your bar code printing program.

You have two additional options for printing bar codes. You can purchase a stand-alone system with a personal computer, printing software and bar code printer. The stand-alone system will accept data from a host system or will allow you to key in the data.

The other option is to buy pre-printed labels from a company specializing in bar code labels. Check the yellow pages or with computer supply businesses in your area for options available to you.

Summary

Pricing is a highly competitive game. The goal of pricing decisions should always be to maximize profits or realize the other goal(s) of the business. You may feel that more sales are needed to increase profits, but remember that increased sales does not always mean increased profits. Anyone can have tremendous sales volumes by selling dollar bills for 90 cents.

Also remember there is no magic formula that will work for every item every time. You need to understand your costs and how they behave with different levels of sales volume. You should regularly review your pricing decisions and change them as needed. Keep your knowledge of your market up to date; the right price in today's market may be the wrong price tomorrow.

FINANCING YOUR BUSINESS

Finding the money to start, run or expand a small business can be a major hurdle. Competition is keen because of the number of small businesses that start each year. Investors are aware of the statistics on business failures and select carefully to reduce their risks.

As the following table shows, the money to start a business most often comes from personal investment, friends and relatives.

Sources of Capital	Start New Business	Buy Existing Business
Personal Resources	60%	34%
Lending Institutions	23%	37%
Friends and Relatives	9%	11%
Other	4%	7%
Investors	3%	4%
Government Agencies	1%	2%

This chart also shows that “outsiders” are more willing to provide funds for purchasing an existing business than to start a new business. This is due to the fact that risks and unknown business factors are usually lower with an existing business.

Whether you contact friends, relatives or outside sources regarding financing, you will have to answer several questions about your business idea. A well-prepared business plan will be a great asset, but you must be familiar with the words and meaning of the plan. You want to be sure that you appear on top of the concept; it creates a bad impression to shuffle through papers looking for information you should already know.

Basic Questions

There are several basic questions that you should be able to answer without hesitation. Potential lenders/investors will undoubtedly ask more than seven, but thinking through answers to these should help you prepare for a financing interview.

“ What do you need the money for?
“ What collateral do you have?
“ Exactly how much do you need?

"	When do you need it?
"	How long will you need it?
"	How will you repay it?
"	Can you afford the interest on the loan?

The Five Cs of Credit

Tied into these questions are what is known as the Five Cs of Credit. These are factors that every lender uses to evaluate a loan proposal. Be sure to think about each one from a lender's point of view; they may help you find the strong and weak points of your business idea.

Character You are important to the lender. Are you honest, a good manager and experienced in business? Will you make every possible effort to repay the loan? Also, what is your previous history regarding loans? Have you been late on payments in the past? Have you ever filed for bankruptcy? If you can answer yes to one or both of the last two questions, you will have to convince your lender that you will repay this loan in a timely and efficient manner.

Capacity Will your business generate enough revenues to repay the loan(s)? If the business fails, do you have the personal capacity to repay the loan?

Collateral What collateral will you pledge? If the business fails, will the value of the collateral cover the loan? How easily could it be sold? Some lenders accept co-signers as collateral; in this case, the co-signer's character and capacity is important. However, some lending institutions may be reluctant to accept co-signers. In this case, you may think about using personal assets such as your home, vehicle or stock shares as collateral for the business loan. Before you pledge these assets, think carefully about losing them if the business fails.

Conditions Market conditions and trends are of utmost importance to a lender. The projected changes in your target market, trends (both economic and social) of your community and market, and the seasonality of your business will be considered. The lender will also look at your competition and your plans to deal with them. Also, the lenders' experiences with similar businesses will help to influence their decisions.

Capital

The size of your commitment to the business is critical. Lenders will hesitate to risk their funds if you are not risking a substantial amount yourself. Lenders will rarely invest more than 60 percent of the total amount needed for a new small business. You should be prepared to invest as much capital in your idea as you can “reasonably” risk.

Possible Financing Sources

Many sources of financing are available depending, in part, on your particular situation. The following list is a set of potential financing sources that you may want to explore.

A. Business Startup

- Personal savings, family, friends
- Life insurance policies
- Mortgaging real estate
- Commercial banks
- Savings and loan associations
- Government agency loans (SBH, FMHA, etc.)
- Internal financing (Selling stock to outside investors)
- Public venture capital (SBIC, MESBIC)
- Private venture capital
- Finance companies
- Obtaining equipment on a loan, leasing or using a lease-back agreement
- Credit cards

B. Operating Capital

- Good money management inside the business
- Trade credit
- Customers
- Accounts receivable financing
- Other sources listed under startup financing

C. Expanding an Established Business

- Mortgaging existing facilities
- Industrial revenue bonds
- General revenue bonds
- 503 certified development companies
- Other sources listed under startup financing and operating capital

Feasibility in Summary

The last two sections have presented a list of things to think about and questions to answer. After you have honestly answered them, consider these last few questions.

- “ Are there any major questions remaining about my proposed business? If so, what are they?
- “ Do these questions arise because of a lack of data?
- “ Do these questions arise because of a lack of management skills?
- “ Do these questions arise because of a “fatal flaw” in my business idea?
- “ Can I obtain any additional managerial skills needed?
- “ Am I aware of all the major risks associated with my business idea?
- “ Have I identified ways to minimize each of these major risks?
- “ Are there any major risks beyond my control?
- “ Can these major risks (fatal flaws) bankrupt me or cause my business to fail?
- “ I know that statistically there is a small chance that I will be in business two years from now, but I want to try it anyway.

When you have completed the feasibility study and summarized the results in a written business plan, read the section in the appendix “What Do Investors Consider Important?” Analyze your plan with this idea in mind. If you were an outside investor, would you risk your money in this enterprise?

References:

ISIT, Getting Started With Bar Code...Lite, 1996.

LAWS AND REGULATIONS

The laws and regulations that will apply to your business depend on the kind of business you begin, how it is legally organized and where it will be located. Since the possible types of business are unlimited, this chapter can only give you a brief overview. Consult the references listed and talk with an attorney, accountant and other relevant advisors for specific regulations that govern your particular business.

Legal Organization

Deciding on the legal form of organization is one of the first things to be done after you decide to go into business. This choice will directly affect the laws and regulations with which you must comply and the way your business will operate.

Your decision can be changed. However, be sure to spend some time making the selection to ensure the best alternative for your business.

The three most common forms of organization are the **sole proprietorship**, the **partnership** and the **corporation**. Also, the **limited liability company** is a new form of business structure available in Tennessee since 1994. This section contains a brief description of these four kinds of legal organization, including possible advantages and disadvantages.

Sole Proprietorship

In a **sole proprietorship**, one person owns the entire business, provides all the capital and assumes all responsibility. Some are small "mom and pop" businesses, while others are large operations. If you have all the skills necessary to operate your own business and have sufficient capital, this form of organization should be considered very carefully. Some businesses begin like this, then add a partner or incorporate later.

A husband and wife team can operate a business either as a sole proprietorship or as a partnership. To determine the legal status, the IRS will consider questions such as: (1) Does one spouse spend more of his/her time running the business, or do both spouses spend equal time operating it? (2) Are the business licenses, permits, etc., in one or both names? (3) Does one spouse have other employment, or is the business the sole income for both? To avoid being considered a partnership, one spouse can hire the other as an employee (wages are then deductible as a business expense).

ADVANTAGES AND DISADVANTAGES OF A SOLE PROPRIETORSHIP

Advantages

- “ Low start-up costs
- “ Greatest freedom from government intervention
- “ Direct control and decision-making by the owner
- “ All profits go to the owner
- “ Flexibility
- “ No federal income tax on business profits as such; profits are taxed as income to the owner

Disadvantages

- “ Unlimited liability for the owner
- “ Difficulties in raising capital for startup or future expansion
- “ Relatively limited experience by the owner
- “ Unstable business life

Partnership

If two or more individuals decide to share the responsibilities and profits of operating a business, they have formed a partnership. There are two categories — general and limited partnerships.

In a **general partnership**, each partner is personally responsible for all the debts and liabilities of the firm. This amount could very easily exceed the sum he or she has invested in the business and could lead to personal bankruptcy. Each partner may be held responsible for the acts of the other partners if he or she represents the business at the time of action.

On the positive side, sharing the ownership of the business is one way to obtain sufficient financing for the enterprise. You may lack technical or management skills that are basic to the business. Finding a partner with these skills could be the best way to cover this deficiency. **The selection of a partner could be one of the most important decisions you will make; base the decision on logic, not on emotion.** In a good general partnership, each member contributes an element of expertise that the others do not have and each can see how his or her work is important to the business.

A **limited partnership** is made up of one or more general partners and one or more limited partners. The general partners are responsible for all debts and liabilities of the business, while the limited partners are responsible only for the amount of their investment. This option can attract investors who do not wish to be part of the day-to-day operation of the

business. Limited partnerships are governed by the Uniform Limited Partnership Act. Consult an attorney about the requirements of this act.

Writing a partnership agreement is strongly recommended for any partnership. It can specify the duties of each partner, indicate how profits/losses will be shared and cover the "what if" situations that may be encountered when more than one person runs a business. A written agreement prepared with the help of an attorney can prevent misunderstandings among partners in later years; verbal agreements may be subject to different interpretations, especially after a few years have passed.

Some points to consider in writing a partnership agreement include:

- " Business name, purpose, location, goals
- " Duration of the agreement (annual, when a partner leaves, etc.)
- " Character of partners (general or limited, active or silent)
- " Authority and responsibilities of each partner
- " Amount of capital to be contributed by each partner
- " Division of profits and losses
- " Salaries and other draws against the business
- " Death or disability of a partner
- " Sales of partnership interests
- " Arbitration of disputes
- " Required and prohibited acts

ADVANTAGES AND DISADVANTAGES OF A PARTNERSHIP

Advantages	Disadvantages
" Ease of formation	" Lack of continuity
" Low start-up costs	" Divided authority
" May provide additional sources of capital	" Unlimited personal liability of at least one partner
" Broader management base	" Hard to raise large sums of capital

- “ Direct profit rewards
- “ Relative freedom from government control and special taxation
- “ Hard to find suitable partners
- “ Difficult to dispose of a partnership interest

Corporation

A **corporation** is a separate legal entity. Members of the corporation are not personally liable for its debts or for legal judgments held against it. The owners' liability is limited to the amount each individual pays for stock shares. The life of the corporation is not affected by death or the transfer of shares of stock by any or all owners. However, corporate profits are taxed twice, first as a business tax and then as a personal income tax when they are distributed. An S corporation avoids this double taxation.

The **S Corporation** (sometimes called a **Subchapter S Corporation**) is designed for small, closely held operations. Primarily, it differs from the regular corporation by the way it is taxed. Profits are distributed to shareholders on the basis of stock owned; the shareholders then pay tax on the profits as a personal income. The S corporation pays no tax itself. However, there are even more legal restrictions on an S corporation than on general corporations, including who can be a stockholder, the number of stockholders allowed, how profits are distributed and the amount of fringe benefits allowed owners/employees. More information can be found in the IRS publication "*Tax Information on Subchapter S Corporations*."

Deciding to incorporate a new business should be done in consultation with an attorney and an accountant. Factors to consider include the degree of liability associated with your business and your personal tax situation.

ADVANTAGES AND DISADVANTAGES OF A CORPORATION

Advantages

- “ Liability limited to the investment in stock
- “ Ownership is easily transferable
- “ Stability and relative permanence of existence
- “ Easier to secure large amounts of capital through stock sales

Disadvantages

- “ Most closely regulated form of business
- “ Most expensive to organize
- “ Double taxation (unless organized as an S corporation)
- “ Extensive record keeping necessary

- “ Centralized control in board of directors
- “ Specialized management possible
- “ Less incentive if manager does not share in profits
- “ Charter and legal restrictions

The Limited Liability Company

This form of organization has some elements of a partnership and some of a corporation.

Income taxes are paid only on money distributed to members as ordinary income like a partnership (or S corporation). Members' liability for the actions of the company or other members is limited like in a corporation. However, like a partnership, members can be held liable for their own actions or misconduct.

This form of organization can be cumbersome and expensive. Memberships can be sold only when all members agree to the transaction. Financial statements must be prepared at the request of any member. An annual fee of \$50 per member (\$300 minimum, \$3000 maximum) must be paid to the state.

A limited liability company may be of most interest to general partnerships and professionals who will do business together. An attorney and an accountant should be consulted in the decision to use this form of organization.

Laws and Regulations

After you decide on the form of organization for your business, determine the specific requirements for your particular business. The following list is a general guide to help you. Don't depend on it alone. Be sure to talk with knowledgeable people like bankers, attorneys, accountants, government employees and people in businesses like the one you want to start.

Regulations

Investigate the local, state and federal regulations that apply to your business to make sure you will comply.

Local government regulations may include zoning laws, building codes, health requirements and fire and police regulations. Check with your county offices and/or city hall for information.

State government departments and regulatory boards grant licenses, give professional examinations and/or approve operation of a wide variety of businesses. Check with the

Regulatory Boards Division of the Department of Commerce and Insurance and/or the Small Business Office of the Department of Economic and Community Development for information.

Federal regulations generally apply to businesses that engage in interstate commerce (business that crosses state lines). Federal licenses or permits are also required for a number of businesses such as operating radio and television stations, making pharmaceuticals or alcohol products and running investment advisory services. More information is available from the state regulatory agencies or the Nashville District Office of the U.S. Department of Commerce.

Business License

Unless your business is exempt, obtain a county business license from the county court clerk. If you will operate within an incorporated city, then also obtain a city business license from the city clerk.

Local Business Taxes

Unless you are exempt, check with the county clerk about the gross receipts (local business tax) classification of your business and payment/reporting requirements.

Sales and Use Tax

This is a consumption tax on the retail sale, lease or rental of most tangible goods and many kinds of services. A few items are specifically exempt, like agricultural products sold by the grower directly to the consumer, but almost all retail transactions including crafts, flea markets and home businesses are liable for this tax. A local tax of 1 - 2.75 percent, depending on locality, is added to the state sales tax, which was 6 percent when this was written.

Contact the Tennessee Department of Revenue for collection and reporting information and forms to register your business.

State Business Taxes

Investigate the state taxes your business should pay. These taxes depend on the kind of business and its legal form. For instance:

- “ Businesses organized as corporations are subject to state gross receipts taxes, corporate charter tax, excise tax and franchise tax.

- “ State taxes on certain kinds of business include gasoline taxes on petroleum product dealers; taxes on liquor, beer and tobacco products; and privilege taxes on soft drink manufacturers and bottlers.

Unemployment Compensation Taxes

If you will have employees, contact the Tennessee Department of Employment Security for information about state and federal unemployment compensation taxes.

Federal Income Taxes

Review the Internal Revenue Service (IRS) requirements for your form of business organization. Investigate filing dates, deductions, income categories and required records.

Social Security Taxes

Also contact the IRS for information about Social Security (FICA) regulations for you as a self-employed business person and/or your employees.

Employer ID Number

If needed, obtain an employer identification number (EIN) by filing Form SS-4 with the IRS.

Federal Excise Taxes

Review federal excise tax requirements that may apply to your business. Excise taxes are due on the sale or use of certain items, for certain occupations and for certain facilities and services. Local IRS offices have information available.

Organize Your Information

Summarize the results of this work in a tax calendar to help you keep track of your obligations. Make provisions to maintain the required records and to set aside the dollars needed to pay these taxes and fees when they come due. Some experts recommend opening a separate account to deposit your tax payment money until it is needed.

Don't Stop!

Laws and regulations are constantly changing. Keep informed about changes that may affect your business. As in all legal matters, ignorance of the law is no excuse.

PROTECTING YOUR IDEA THROUGH COPYRIGHTS, PATENTS AND TRADEMARKS

When beginning your own business, you may want to protect your product, your original work, your company name, logo or other parts of the business that are original to you. For this you will find a working knowledge of copyrights, patents and trademarks useful.

What is a copyright?

A **copyright** provides the author an exclusive right to reproduce or sell the original work. The protection becomes available when the published or unpublished work had been finished and is in a tangible form. The original work may be writings, music, drama, dance, pictures, sculpture, graphics, movies and a myriad of other creative works.

How do you get a copyright?

Under current law, no publication or registration is required to secure a copyright since securing the copyright is automatic. It only requires that a work be created and be in fixed copy. A copyright is claimed when a copyright notice is included on the item. The copyright has three parts. They are:

- “ The copyright symbol, a circle C, ©, the word **COPYRIGHT** or its abbreviation, **COPR**, or the symbol circle P, h, for photo records.
- “ The year of the first publication.
- “ The name of the copyright owner or abbreviation, for example, Jane Doe 1997.

The copyright notice can appear anyplace on the work as long as it can be readily seen.

Should you register a copyright?

Although you are not required to register the copyright for protection, it is good idea in case you need to take legal action at a later date. To register a copyright or for more information write to: Copyright Office, Library of Congress, Washington, DC 20559. Telephone 202-479-0700.

How long is a copyright in force?

A copyright generally protects the work from reproduction for the author's life plus 50 years after the author's death. If the work has more than one author, the protection lasts 50 years after the death of the last surviving author. Works for hire are protected for 75 years from publication or 100 years from the creation of the work, whichever is shorter.

Can you use copyrighted patterns to produce a product?

You may be using patterns to produce some of the products you sell in your business such as stuffed toys, woodworking projects, needlework projects, etc. This may be a violation of the copyright law. It is your responsibility to check to make sure there is no copyright violation. This can be done by checking the pattern or package and/ or writing a letter to the originator of the pattern. If you have produced an original pattern, you should seriously consider obtaining a copyright registration for protection of the pattern.

What is a patent?

A **patent** gives the inventor the right to exclude others from making, using or selling the invention or idea anywhere the United States government has jurisdiction. The patent is issued by the Commissioner of Patents and Trademarks, U.S. Department of Commerce.

How long is a patent in effect?

The patent is generally in force for 17 years and cannot be renewed. Patents exclude all persons, other than the inventor, from making, using or selling the invention or idea anywhere in the United States or its territories and possessions for the 17 years. Design patents generally offer 14 years of protection.

Can my idea, product or process be patented?

The inventor must write up a detailed description of the idea or invention. The description should include documentation for originality, superiority and/or novelty of the product or process.

To determine the novelty of your idea or product is a two-step process.

Step 1: Analyze the invention according to specific standards.

- “ The product or process is a new, useful and an unobvious process, machine, composition of matter or idea.
- “ The product or process is a new, useful and unobvious improvement.

- “ The invention is a new or distinct variety of plant which is asexually produced. (Other than tubes-propagated).
- “ The idea was not known or used by any other person or company in this country before you thought about it.
- “ The idea or invention was not patented or described in a printed publication in this or a foreign country before you thought of it.
- “ The idea or invention was not described in a printed publication more than one year prior to the date of the application for patent in the United States.
- “ The idea or invention was not in public use or for sale in this country more than one year prior to the date of patent.

Step 2: Determine if anyone else has a patent on the same or similar invention.

- “ To determine if a patent has been granted to an idea or an invention similar to yours, you will need to request a search of the patent office files. Members of the patent office staff will do the search for you.

Will I need help in obtaining a patent?

The process of obtaining a patent is difficult and detailed. It will probably be in your best interest to hire a professional to assist you. In addition to doing the specific work needed for obtaining the patent, a patent lawyer can assist you with many legal and technical issues. Look in the telephone book yellow pages to find the names of patent lawyers in your area.

How do I apply for a patent?

After your research of your idea or invention is finished, you will need to submit a patent application. The application will usually be in the name of the inventor. Send the application to Commissioner of Patents and Trademarks, Washington, DC 20231.

Exact requirements of a patent application review document can be obtained from the Superintendent of Documents, Government Printing Office, Washington, DC 20402. Request “Title 37, Code of Federal Regulations.”

Generally the patent application will require three items. These items are:

- “ A written document that outlines your request for a patent and descriptions and claims. Describe in detail the construction of your invention, its operation, the new features and its advantages.

- “ If possible, include a drawing of your invention.
- “ A filing fee will need to be submitted with the application.

What happens when the Commissioner of Patents and Trademarks receives my application?

After your application is received and placed on file, an examiner will review it. You will be notified of the examiner's findings. You may be asked to revise your application because of existing patents that are similar. If no revisions need to be made, you will obtain the patent upon payment of a fee, plus printing charges.

Trademarks

The U.S. Patent and Trademark Office recognizes four types of marks. These marks are trademarks, service marks, certification marks and collective marks. Marks are used to distinguish your products or services from someone else's. Marks can be any word, name, including brand name, symbols, logos or device used to identify your product. Companies use trademarks for goods and service marks for services. Certification marks indicate that a good or service has met certain standards or requirements. Organizations, unions or associations use collective marks to identify the members of the group.

Can I use any mark I want?

The mark you choose cannot be similar to any other mark already in use. When you decide on a mark, check to see if you are duplicating one already in use. For a fee, search services will provide a printed list of marks most similar to the one you select. Hire an attorney specializing in marks to help you determine if the selected mark can be used.

How do I protect the mark I choose?

A mark does not have to be registered. Registration only requires the mark be used and products bearing the mark be sold and shipped to a commercial customer. The mark must be identified with a particular product or service and point directly to the origin or ownerships of the product or service. If a mark is used entirely within one state, it is protected by the state's law. Federal mark law applies only to marks used in interstate commerce.

The advantages to officially registering the mark are:

- “ Registration notifies everyone that the mark is yours. This avoids the problem of having to prove an infringer had knowledge of the mark.

- “ In case of a lawsuit, you could get an injunction against the wrongful use of your mark, receive payment for damages and be assured of the destruction of the mark used by the infringer.
- “ Registration is sufficient proof to the courts for validity and ownership.
- “ Registration allows for relief against imported products wrongfully using your mark.

There are three methods to identify a registered trademark. These include: 1) printing **registered in the U.S. Patent and Trademark Office** on the product by the registered mark, 2) printing **Reg. U. S. Patent and TM Office** on the product by the registered mark or 3) a **Circle R ®** printed on the product to the upper right of the registered mark.

In Tennessee, trademarks are protected for 10 years. Federally registered marks are good for 36-year periods.

For information about registering your mark in Tennessee, contact:

Secretary of State
Trademark Office
Suite 1800, James K. Polk Building
5th Ave North & Deaderick
Nashville, TN 37243-0306

Sources:

Passewitz, G. R., Copyrights, Patents, Trademarks, Ohio State University Fact Sheet, Community Development, CDFA-1203-95.

Tennessee Small Business Information, Tennessee Small Business Office, Tennessee Department of Economic and Community Development, 1994.

OPERATIONS AND MANAGEMENT

According to studies, 90 percent of small business failures are caused by poor management. Therefore, the concept of business management deserves close attention. The following 12 questions are designed to help you look at yourself and your skill levels regarding the operation of a small business. The answers you give should aid in determining whether you are the type of person who has the experience and skills necessary to run a business.

	YES	NOT SURE	NO
Are you the kind of person who can start a business and make it work?	_____	_____	_____
Do you have management experience?	_____	_____	_____
Have you worked in a business similar to the one you want to start?	_____	_____	_____
Have you had any formal business training?	_____	_____	_____
Do you have enough money to invest a substantial amount of capital in the business?	_____	_____	_____
Will you need trained personnel to operate the business?	_____	_____	_____
Are trained workers available in your area?	_____	_____	_____
Is the business seasonal?	_____	_____	_____
Is there any use that can be made of the facility and/or distribution system out of season?	_____	_____	_____
If it is to be a home-based business, have you considered the potential challenges and problems you will face?	_____	_____	_____
Have you developed a plan to deal with potential problems and challenges?	_____	_____	_____
Have you considered what you could earn by working for someone else?	_____	_____	_____

You may not have all of the skills required to run the business at the present time, but you can learn or develop these skills over time. Are you willing to spend the time necessary to develop them? And remember, even if you have these skills, there is a good chance that you will fail within the next three to five years. Do you still want to go ahead?

Record Keeping

As you begin a home-based or small business, you may feel that it is not necessary to maintain separate records for family living and business expenses. However, one of the most important actions you will make when starting your business will be to develop and maintain a separate set of records for family living expenses and your business. A complete record-keeping system will provide you with needed information for tax purposes, for making sound financial decisions regarding your business and your personal life and for determining the profitability of your business. Furthermore, a good business record-keeping system will provide a professional way of dealing with customers and other business contacts.

To help simplify this process, decide where the records are to be stored and make it a point to store all records in this designated place. Next, develop a schedule for recording the information and stick to it. The simplest (and perhaps the best) schedule may be to set aside time at the very beginning or very end of the day. Use this time to record all transactions made in the previous 24 hours. A schedule for recording daily transactions will usually result in reduced time spent on record keeping. More importantly, it will help reduce frustrations resulting from forgetting to record transactions or misplacing important information.

Accounting method

Before you set up your record-keeping system, you will need to decide which accounting methods or set of rules you will follow when recording income and expenses. Whatever method you choose must be used regularly and must clearly show your income. Once you choose an accounting method, it cannot be changed without approval from the Internal Revenue Service.

The two most common methods of accounting for small or home-based businesses are the cash method and the accrual method. If your business maintains inventories, only the accrual method can be used. The following chart illustrates the difference between the two methods.

Reporting Income

Cash

When you actually receive payment. A check is taxed as cash received in the year it is written rather than the actual year the cash is received.

Accrual

Sales are taxed as income in the year that the sale is made, regardless of when payment is actually received.

Deducting Expenses

Cash

Usually, expenses are deducted in the year you pay them. If you pay in advance, expenses can only be deducted in the year for which they apply.

Accrual

Expenses are deducted in the year in which they are accrued, regardless of when they are paid.

In certain circumstances, a combination of the cash and accrual methods can be used. In fact, most off-the-shelf computerized financial record-keeping systems use some combination of cash and accrual methods of accounting. Publication 583 from the Internal Revenue Service gives more information about this accounting procedure.

Although the cash and accrual systems are the most common accounting methods used, other systems are also acceptable. Be sure to remember that the system you choose must be used regularly and must clearly show your income.

Record-Keeping Systems

Your record-keeping system should be one that will not only give you accurate information regarding the state of your business, but can also provide needed information to the Internal Revenue Service in the event your business is audited. The record system may be one you develop or one you purchased from an office supply store. The transactions may be entered in your record-keeping system manually with a pen or pencil or you may use a computerized record keeping system. The cost of a record-keeping system can range from \$20 per year for a simple handwritten ledger type system to thousands of dollars for a complex, computer-based system. It is important to remember that, if a computerized record-keeping system is chosen, the system must maintain adequate permanent records and be able to produce a legible report of the required information.

A complete record-keeping system for a small business should include a method for tracking the business checkbook, a means for tracking incomes and expenses, a depreciation record and a method by which employee compensation can be tracked.

The business checkbook is the simplest part of the record-keeping system and it can be used as the entire system. If you decide to only use your checkbook as your record-keeping system (or if you use a computerized checkbook program), make certain that each check stub in the check register includes the name of the person or company to whom the check is written, the amount the check was written for and the purpose for which the check was written. For tax purposes, you will also need written documentation of the goods or services purchased by the check. Filing the bill or invoice with the canceled check covering the transaction is a good business practice. In addition to recording expenditures, recording each deposit is important. You will also need to maintain a file of deposit slips.

As your business grows and becomes more complex, you will probably want to supplement or replace the checkbook system with either an enhanced manual ledger system or a computerized financial record-keeping system.

A ledger system consists of a sheet of paper divided into rows and columns (see below). The rows are used to record the transaction data, who the transaction was with, and the amount of the transaction. The columns describe what the transaction was for (retail sales income, for example, or electricity expense). Each column would be a separate income or expense category and a total for any particular income or expense category can be obtained at any time of the year simply by summing the transactions that appear in that column.

	1			2			3		
1									
2									
3									
4									
5									
6									
7									

A computerized financial record-keeping program can either simplify or complicate your financial record-keeping chores. These programs vary in intensity from simple, checkbook-like programs to full-fledged, "double entry" accounting systems. A computer can help you in keeping financial records to whatever level of detail you would like. However, you must remember that people keep records, not computers. Many small business owners have made the mistake of believing that the computer would keep their records with little or no input from the owner or employees. These owners ended up being very frustrated because they had no records to reveal how their business was performing. Furthermore, the records that they did have were the result of poor planning regarding the record-keeping system's setup and were of no use when they tried to analyze their business.

As you expand your record-keeping system from a simple checkbook to a more complex system, you must recognize the fact that you will spend more time entering records and more time analyzing those records to determine the health of the business.

While you may have a need for only one or two income categories (Retail Sales Income and Wholesale Sales Income, for example), you will probably have a need for several expense categories. A practical list of expense categories can be found in **Schedule C** of the **1040 Federal Income Tax Form**. These categories include:

Advertising	Office Expenses
Bank Service Charges	Pension and Profit Sharing
Car and Truck Expenses	Postage
Commissions	Rent or Business Property
Dues and Publications	Repairs
Employee Benefit Programs	Supplies
Insurance	Taxes
Interest or Business Debt	Telephone
Laundry and Cleaning	Travel and Entertainment
Legal and Professional Services	Wages
Other Business Expenses	

All the categories listed here may not apply to your business. Therefore, select and enter only those categories that you will use in your record-keeping system. As your business grows and becomes more complex over time, you will probably need to add categories.

As you make entries into whatever type of financial record-keeping system that you decide to use, be sure to retain bills, invoices and receipts to document the expenditure. The Internal Revenue Service requires adequate and clear information regarding claimed business expenses. A poorly maintained set of records can cost you extra money in taxes.

In addition to the normal documentation discussed above, there are six areas that require special attention to documentation. These include the petty cash fund, the use of a personal car or truck for business purposes, the fixed asset list, employee compensation records, inventory records and credit records.

Petty Cash Fund

There will be many times that you will want to pay for expenses and do not wish to write a check. These include payment for incidental expenses such as a tank of gasoline, a small amount of office expenses, small freight bills or merchandise for which the vendor does not allow checks. To cover these expenses, you will need to create a petty cash fund. To create the initial fund, write a check to *Petty Cash*. To keep track of expenses from this fund, keep receipts for the products or services purchased and/or fill out a petty cash slip such as the one

shown below. When the Petty Cash fund starts to run low, simply replenish it by writing another check.

Date of Purchase _____
Item Purchased _____
Cost of Purchase _____
Expense Category _____
Purpose of Purchase _____

Petty Cash Slip

Use of a Personal Car or Truck For Business

Keeping track of the use of a personal vehicle for business is important for two reasons. First, this use represents a very real expense to the business and could have a substantial impact on the business structure. Second, the Internal Revenue Service allows you to claim a tax deduction on the time that your vehicles are used for business purposes because this use is an expense to the business. Since the deductions are usually based on the mileage that the vehicle is used for business purposes, you must maintain an accurate and clear mileage log. The example of a mileage log shown below includes the date, purpose and beginning and ending mileage of the trip.

	ODOMETER			
DATE	START	FINISH	NUMBER OF MILES	PURPOSE (WHO, WHERE, AND WHY)

Fixed Asset List

The fixed asset list includes all equipment purchased for the business that must be depreciated over several years rather than taken as an expense in one year. The information you need for a fixed asset list is the purchase date of the asset, the name of the asset, the purchase price, the depreciable basis of the asset (this would be different from the purchase price if Section 179 of the IRS code is used. Section 179 allows you to expense a certain

amount of depreciable assets purchased each year to simplify depreciation record-keeping), and the type and life of the tax depreciation schedule used. It is useful to include additional columns to reflect the equipment's "book" or depreciated value as the equipment is depreciated for tax purposes. A sample fixed asset list is shown below.

DATE OF PURCHASE	ITEM DESCRIPTION	PURCHASE DATE	DEPRECIABLE BASIS	TYPE, LIFE OF DEPRECIATION

Employee Compensation Records

You will need to maintain employee compensation records even if the business only involves family members. The employee record will include the employee's name, Social Security number, withholding status, hours worked, pay per period and deductions withheld. The record should also include monthly and quarterly totals of gross pay and withholding items for the employee.

Inventory Control

Maintaining accurate and complete inventory records can help you determine the actual direct cost of the products you sell. Many of the computerized double-entry accounting systems have inventory record-keeping features built into the program that are quite easy to implement and use. Another method that works well in maintaining inventory records is the inventory control card. The card example shown below is set up for a retail business that buys and resells items. However, this card can be modified quite easily to handle a manufacturing-type operation.

Updating the inventory records on a regular (usually daily or weekly basis) will help you to maintain better control of your business. It will keep you informed as to the amount of money that you have invested in inventory and the effect that inventory loss due to theft, breakage, etc., has on your business.

Item _____ Location _____				Minimum _____ Maximum _____					
	Received			Sale			Balance on Hand		
Date	Units	Cost	Total	Units	Cost	Total	Units	Cost	Total

Credit

Whether or not you will extend credit to your customers will depend upon the growth of your business, your desire to keep up with your competition and the type of clientele that you expect to serve.

Because of the additional record keeping that is necessary when store credit is extended, you will probably find that accepting a national bank card is the simplest and least expensive way of offering credit to your customers with little or no risk to your business. The bank card company will be responsible for bookkeeping, collection and accounting services and will charge your business a fee, usually ranging from 3 to 10 percent of the amount of purchases.

National bank card companies usually do not sell their services directly to business owners. Your local bank or savings and loan association purchases the services of the national credit card companies. You, the business owner, will sign an agreement with the bank or financial institution. You will receive instructions for handling charges, filling out forms, handling credit and returns, verifying credit approval, how you will be reimbursed and how much you will be charged. You should be aware that it may take two days to four weeks or more for credit card reimbursements to be deposited into your checking account.

It is very important that you follow the verification rules established by your bank and the credit card company to make sure that you do not extend credit to a customer who has a credit card that is not valid. In addition to the guidelines provided by the financial institution, you may require additional information such as home and work telephone numbers and a driver's license number. This will be useful if you later need to locate the customer.

If you accept American Express cards, you will mail your sales receipts directly to an American Express collection office. That office will mail you a check equal to purchases minus your service charge.

For further information about American Express, call the national WATS line information operator at 1-800-555-1212 for the closest toll-free American Express office. For further information about other bank cards, contact your local bank or other financial institution.

Tax Calendar

To aid you in paying your payroll liabilities and income taxes, you may want to establish a tax calendar. Failure to pay these liabilities on time may result in additional expenses for your business in the form of penalties and interest on the unpaid amount.

Payroll Liabilities (Except for Unemployment Taxes)

You must pay these liabilities by mailing or delivering a check, money order or cash to an authorized financial institution or Federal Reserve Bank. (The exception to this rule is that you must use the Electronic Federal Tax Payment System (EFTPS) if your total deposits of Social Security, Medicare, railroad retirement and withheld income taxes were more than \$50,000 in 1996 or if you were required to use the EFTPS in years prior to 1996.)

If you do not have to use the EFTPS, you will fall into one of two deposit schedules, either monthly or semiweekly deposits. The type of deposit schedule that you will use depends on a four-quarter “**lookback**” period (the lookback period for 1998 is shown in the figure below). If you reported \$50,000 of taxes or less for the lookback period, you should make your payroll liability deposits on a monthly basis.

If you are a monthly depositor, you should deposit withheld federal income tax liabilities and employer and employee Social Security and Medicare liabilities for a particular month by the fifteenth of the next month. If you are a semiweekly depositor, you should follow the schedule shown in the following table.

Semiweekly Deposit Schedule

<i>Payment Days/ Deposit Period</i>	<i>Deposit By</i>
Wednesday, Thursday and/or Friday	Following Wednesday
Saturday, Sunday, Monday and/or Tuesday	Following Friday

If you are not making deposits by the EFTPS, use IRS **Form 8109**, Federal Tax Deposit Coupon, to make the deposit at an authorized financial institution or Federal Reserve Bank. It is very important to mark the correct type of tax and the appropriate tax period on each FTD

coupon. Also, make sure that your name and the correct Employer Identification Number (EIN¹) appears on the FTD coupon. This information is used by the IRS to credit your account.

Filing Form 941

All employers who pay wages subject to income tax withholding (including withholding on sick pay and supplemental unemployment benefits) or Social Security and Medicare taxes must file **Form 941**, Employer's Quarterly Federal Tax Return, each quarter. However, there are four exceptions to this rule. They are:

- " Seasonal employers who no longer file for quarters when they regularly have no tax liability because they have paid no wages. To alert the IRS that you will not have to file a return for one or more quarters during the year, mark the seasonal employer box above line 1 on Form 941. The IRS will mail two Forms 941 to the seasonal filer once a year after March 1. The preprinted label will not include the date the quarter ended. You must enter the date the quarter ended when you file your return. Generally, the IRS will not inquire about unfiled returns if at least one taxable return is filed each year. However, you must mark the Seasonal employer box on every Form 941 you file. Otherwise, the IRS will expect a return to be filed for each quarter.
- " Household employers reporting Social Security and Medicare taxes and/or withheld income tax.
- " Employers reporting wages for employees in American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, the U.S. Virgin Islands or Puerto Rico.
- " Agricultural employers reporting Social Security, Medicare and withheld income taxes. Report these on **Form 943**, Employer's Annual Tax Return for Agricultural Employees.

When filing Form 941, be sure to use the preaddressed form mailed to you. If you do not have a preaddressed form, get one from any IRS office in time to file the return when due. If you do not use a preaddressed form, be sure to include your name and EIN. See the Instructions for Form 941 for suggestions on preparing the form.

Federal Unemployment Tax (FUTA)

¹If you are required to report employment taxes or give tax statements to employees, you need an Employer Identification Number (EIN). For more information, get **Publication 1635**, Understanding Your EIN. If you have not asked for an EIN, request one on **Form SS-4**, Application for Employer Identification Number. You can get this form at any Social Security Administration Office or by calling 1-800-TAX-FORM. Form SS-4 has information on how to apply for an EIN by mail or by phone.

The Federal Unemployment Tax Act (FUTA), combined with state unemployment systems, provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a federal and a state unemployment tax. Only the employer pays FUTA tax; it is not deducted from the employee's wages.

Use the following three tests to determine whether you must pay FUTA tax. Each test applies to a different of employee and each is independent of the others. If a test describes your situation, you are subject to FUTA tax on the wages you pay to employees in that category during the current calendar year.

“ General test

You are subject to FUTA tax on the wages you pay employees who are not farmworkers or household workers if in the **current or preceding calendar year**:

“ You paid wages of \$1,500 or more in any calendar quarter, or

“ You had one or more employees for at least some of a day in any 20 or more different weeks.

“ Household employees test

You are subject to FUTA tax only if you paid cash wages totaling \$1,000 or more in any calendar quarter of the current or preceding year. A household worker is an employee who performs household work in a private home, local college club, or local fraternity or sorority chapter.

“ Farmworkers test

You are subject to FUTA tax on the wages you pay to farmworkers if:

“ You paid cash wages of \$20,000 or more to farmworkers during any calendar quarter in the current or preceding year **or**

“ You employed 10 or more farmworkers during at least some part of a day (whether or not at the same time) during any 20 or more different weeks in the current or preceding year.

FUTA tax is deposited quarterly with **Form 940** under the same guidelines as other payroll-related liabilities. Deposit the FUTA tax by the last day of the first month after the quarter ends.

Estimated Income Tax

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment. You must make estimated tax payments for a particular year if you expect to owe at least \$1,000 **in tax** for that year after

subtracting your withholding and credits and if you expect your withholding and credits to be less than the smaller of:

- “ 90% of the tax **to be** shown on the current year’s tax return, or
- “ 100% of the tax shown on the preceding year’s return. The preceding year’s tax return must cover all 12 months.

The formula for calculating estimated tax is beyond the scope of this publication, but a worksheet to help you calculate this tax can be found in **Form 1040-ES**, available from any IRS office.

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific payment due date. If you do not pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if you are due a refund when you file your income tax return. The following chart gives the payment periods and due dates for estimated tax payments.

For the period:	Due date:
January 1 through March 31	April 15
April 1 through May 31	June 15
June 1 through August 31	September 15
September 1 through December 31	January 15 next year

EXPLORING OTHER OPPORTUNITIES

When you begin to consider ways of getting into business, the road may look narrow. But inspect the path a little closer and you will discover several avenues from which to choose. This section looks at two alternatives to starting a business from scratch — buying a franchise and buying an existing business. Each of these options has its unique advantages and disadvantages. One of these paths to your own business may be right for you.

Franchises

What is a franchise?

In a franchise, a company sells its products and methods of doing business to another enterprise. The franchise operates as though it is part of the larger company, using its trademarks, layout and design, equipment and standardized products or services and the franchise may either be purchased or leased.

Franchises can be divided into two general categories. First are **product distribution agreements** in which the franchisee is not completely identified with the parent company. Automobile dealers are one example. A dealer sells a particular line of cars, but the business has an individual name, a unique layout and design, and personalized advertising.

Second are **whole business franchises** in which the franchisee is completely identified with the parent organization. Fast food businesses and service stations are examples of this type of franchise.

What is the advantage of a franchise?

Under the franchise system, an individually owned business is operated as though it were a part of a large company, complete with a trademark, advertising campaign, tested and proven operating procedures, established design, proven equipment and standardized services or products. In an era of tight money, greater competition and large chain growth, franchising can offer distinct advantages for the small entrepreneur as compared with a totally independent business.

Can an inexperienced person get a franchise?

A franchise may be particularly suitable for an inexperienced business person. Some advantages that a franchise has over starting your own totally independent business are listed below:

- “ You can begin more easily with a proven business idea.
- “ You have the benefits of a recognized name.
- “ The parent company usually supplies you with a merchandising plan.
- “ Management assistance is available from the parent company.
- “ Collective buying power can decrease your cost of inventory and supplies.

The parent company is looking for individuals who want to become independent business people but who will conform to the guidelines set by company headquarters. Furthermore, you may be interviewed by company representatives who will evaluate your financial situation, character and work history.

What are some of the primary cost factors when getting into a franchise?

Costs can vary as widely as the type of franchises available. The following factors are commonly found in today's franchise opportunities.

- “ An initial franchise fee, which can range from a few thousand dollars to more than \$200,000 depending on the business.
- “ Continuing royalty fees, which can vary from almost nothing to 18 percent or more of gross sales.
- “ Advertising contributions, which may range from nothing to 4 percent or more of gross sales.
- “ Equipment purchase, lease or rental costs and rent on your business location.
- “ Labor and supply costs.

What can be expected from the firm issuing the franchise?

Depending on the type of franchise, the parent company can be expected to provide some or all of the following items:

- “ A recommended business location based on market surveys, perhaps including a negotiated lease for the site.

- “ Exclusive territorial rights.
- “ Use of company name, trademarks and any exclusively developed equipment or techniques.
- “ Standardized inventory and accounting systems.
- “ Training in the business operation and operation manuals.
- “ Assistance with store design and layout in keeping with the company standards.
- “ Inspections by company supervisors and follow-up operations assistance.
- “ Prepared advertising copy or assistance in preparing or placing ads.
- “ An opportunity to open additional locations as the franchise succeeds.

Am I suited for the business?

It is important to be certain that you are the right type of person for the business. Are you willing to accept the degree of direction and long hours of hard work necessary to succeed? Is the business one that truly interests you?

If possible, visit one or more operating franchises. The owners can be valuable sources of information. In addition, you can more easily visualize yourself in the business while observing an actual operation. Ask yourself, is this really for me? What do I like about this operation? What would I change?

Who are good candidates for getting a franchise?

All kinds of people with diverse skills can find franchises that suit their individual needs. Women in Franchising, a Chicago-based educational group, sees more women gravitating toward service franchises. One reason is the lower capital investment required. Another reason is the chance to use some of the skills in which they excel, like getting along with a wide variety of people, being sensitive to the needs of others and having the commitment to work long hours if necessary to succeed.

What are some of the personal qualities necessary for making a go of a franchise?

Experts caution that it takes more than a good idea to succeed in today's service-oriented world. You must have good interpersonal skills and a strong commitment to serve others. Having a nationally recognized name does not guarantee success. The individual

operation you create under the franchise umbrella determines whether the business will succeed.

What profits can one expect from a franchise?

Depending on the type of franchise, profits can vary nearly as widely as costs of buying a franchise. Yet franchising may offer a greater degree of security and a better chance for success than independent business for those willing to devote the needed time and effort to their business.

What precautions should be taken to ascertain the validity of the company issuing the franchise?

Thoroughly investigate any franchise offering before making any commitment. Competent legal and accounting advice is highly recommended. Remember, some people make a good living from the ignorance of others.

What organizations can be helpful for checking on the validity of a franchise?

Check the background and current business practices of the parent company. Your local Better Business Bureau and the International Franchise Association (1350 New York Avenue, N.W., Suite 900, Washington, D.C. 20005) should be able to give you information on the history and current operations of the company.

How can I guard against a pyramid scheme?

Con men have taken the idea of the legitimate franchise business and created the pyramid scheme, which benefits only themselves. Income is made from selling the business plan rather than a product or service. Early distributors may earn some income, but most fees go to the originator of the scheme.

Several tests can be used to identify pyramid schemes. The following chart lists key elements to consider when evaluating franchise opportunities.

Acceptable Plans

“ Emphasize sale of products

Questionable Plans

Promotion

“ Emphasize recruiting distributors

Work Requirements

“ Require work to build up a solid business

“ Emphasize recruiting rather than serving needs of customers

Income

“ Earn reasonable profits

“ Promise large profits from recruitment fees and bonuses

Promised Earnings

“ Project realistic earnings

“ Promise unrealistically high earnings with little effort

Company Support

“ Can include training, planning, book-keeping systems, inventory, quality control

“ Offers little or no support

Limits

“ Limit sales force or numbers of franchises in the area

“ Unlimited franchises

Advertising

“ The parent company sets standards and may provide ad copy

“ Provides no support

Company Discipline

“ Disciplines those who violate company policy through established guidelines

“ No reporting system

What are some areas for franchise exploration?

In recent years, the traditional areas of franchising (automobile dealers, service stations and soft drink bottlers) have been augmented by the entry and expansion of other industries. Food service, accounting, retailing, employment service, motels and hotels and even real estate are now major areas of franchise opportunities.

What is the growth projection for franchises?

Growth in the franchising sector of the economy has been rapid. About 35% of all goods and services sold in the USA today are by franchise operations — more than \$700 billion in sales annually.

What is the hottest kind of franchise at present?

Opportunity is knocking at franchises that come to one's doorstep — the hottest trend in service franchises. Examples of this kind of franchise include cleaning services, pizza delivery franchises and nanny services.

Buying an Existing Business

What is the business worth?

Buying an existing enterprise may be a simple way to get into business. Many of the time-consuming and expensive steps (such as market surveys and site selection) necessary in launching a new enterprise can be avoided. You may be able to buy an entire firm, including equipment and fixtures, supplies, inventory, office, trademarks and company goodwill and be in business immediately.

But remember that no matter how good the deal may appear, you should investigate carefully. Be sure that you know exactly what physical items (inventories, building, equipment, shelving, display cases, etc.) and what intangible items (trademarks, company good will, employee loyalty, customer loyalty, etc.) are included in the sale. Examine existing fixtures, equipment and supplies to determine their condition and worth. Will they fit in with your plans for the business, or will they need to be replaced? Have an accountant examine the business's financial and tax records for at least the past three years. Owners of small businesses often have inflated ideas of the worth of their business. Professional help in evaluating the true worth of the business is invaluable. The value of a business is its ability to produce cash and profits for you, not the worth of its assets.

How does the cost of buying the existing business compare with the cost of starting a new business?

Consider the start-up costs of beginning your own new business and compare these costs with the cost of the existing business. Determine if you will need to make changes in the existing business; if so, calculate what the changes will cost. Will these costs exceed the advantages of buying the business? You may also need the help of an accountant in making this comparison.

Why is the business for sale?

Before buying an existing business, check and re-check the reasons given for its sale. Investigate the business conditions in the area. Ask neighboring businesses and local professionals about the situation. Also investigate the conditions of the industry itself and talk with people in similar businesses as well as local advisors about the field. An attractive business may be doomed if it is in a declining industry, if it is located in a deteriorating neighborhood or if it has an unfavorable reputation or outdated facilities and equipment.

If the business has been successful, what are the key elements of its success? Are these elements transferable to me as the new owner?

For example, if the business has been doing well for a number of years and has an established clientele, will these customers have the same loyalty to a new owner? If current employees are the drawing card that keeps customers coming back, find out whether or not these employees will stay with you.

If the business has not been very successful, can the situations be corrected that are preventing its success? In other words, can the business be turned around and made successful?

Declining profits do not necessarily mean that the business is a bad buy. This trend may be reversed through better cost control, improved advertising or other changes that you can make.

How can I find out more about an existing business before I make a commitment to buying it?

Depending on the kind of business, you may be able to become part of the daily operation for a few days and observe the volume of business and customers. This also offers a chance to discuss operations with employees, suppliers and customers.

What are the current owner's future plans?

Take time to discover if the current owner is planning to open a competing business that may lure away customers. Or, on the brighter side, will the current owner be available for part-time consulting as you work into the business?

Where can I find out about existing businesses for sale?

Business opportunities can be found through trade publications, newspapers, shopping center publications, real estate agents, bankers and suppliers. Buying an established business is a short cut that may work for you. Opportunities merit careful consideration.

APPENDIX A

BUSINESS PLAN OUTLINE

Cover Page

The cover page should include the company name, address and phone number as well as a contact person's name, address and phone number. Be sure to include any fax numbers or e-mail addresses that might be applicable. This information should be placed on the cover page of the business plan in an attractive and easy-to-read format. Be sure the contact person will be available during reasonable business and after work hours.

Executive Summary

In one page (two at most) cover these key points:

<i>Contact Point</i>	Repeat the names, addresses and phone numbers from the cover page at the top of the first summary page.
<i>Business Description</i>	One or two paragraphs indicating the business you are in or plan to be in, the state of development and the company history. Emphasize strengths and accomplishments.
<i>Management Description</i>	One or two sentences about each principal. Focus on experience in this kind of business.
<i>Product Description</i>	One or two paragraphs telling what your product or service is and why it is unique. Explain why and how it will succeed over the competition. Point out how it fits into the industry.
<i>Funding</i>	Describe how your business is financed. If you are looking for money, state the exact amount, how it will be used and the type of financing (debt or equity) you prefer. If you are flexible, indicate your preference and then state that you are flexible. If you seek venture capital, indicate when the venture capitalist can expect to sell his or her shares in the company to earn the expected return on investment.
<i>Financial Information</i>	If your business has a history, summarize your past financial statements into a single table (use totals instead of details). Summarize projected financial statements in a single table. Indicate the projected breakeven point.

Description of the Business

Type of Business Describe what the company does and what product or service it offers. Clearly state your purpose for being in business.

Business History Tell when the business was founded, when it introduced its first product and other significant events. Is this a new start-up, an expansion of an existing business or the take-over of an existing firm?

Business Organization Describe your business's organizational structure as to whether it is a sole proprietorship, a partnership, a limited partnership or a corporation.

Future Plans Describe what your business is and what it will be. Indicate what the company will need to do step by step to succeed and when you expect these steps to occur.

Business Position Why will you be profitable and succeed? What makes your business different from others in the field? Explain if it is the product, production, sales approach or some other aspect of the firm that is unique.

Your Market

The Market Describe your target market, its present size, the share you will be able to capture and your strategy to satisfy your market. Tell if the market is growing or declining and if your share will grow or decline as the market grows.

The Competition Identify your five nearest competitors. Describe what their business is doing, their strengths and weaknesses and their possible reactions to your plans. Explain how your business will be better than theirs and the ways their operations are like yours or not like yours (a new business will want to consider what it can learn from watching other operations).

Key Personnel

Directors and Officers List the names and positions of all directors, officers and key employees. Age may also be important, especially if your business plan will be sent to lenders/investors.

Personal Information Attach a resume and personal financial statement for each principal in the business.

Statement of Integrity Write a sentence or two that states that you and your key people are free from crime, have excellent credit histories and are honest people. If you wish, this statement can be included at the end of each resume.

Labor Costs Make a table listing the name (or job title) of each person who will be paid by your business (from owners and directors through hourly employees). Indicate their position with the firm and the total costs associated with each one (salary, fringes, fees, bonuses, commissions, etc.). Describe your stock option program if you have one. If you have given stock options to anyone up to this point, make a separate table listing name, amount of total options and amount exercised.

Owners/Investors Describe your financing to date: list the name, amount of investment and percent of ownership for each investor. If you offered shares to the investors, indicate the number under option and the number exercised. If shares have been offered in exchange for services, indicate this as well.

Contracts If you have signed employment agreements with any director, manager or employee, state so here and attach a copy. If you are seeking financing, explain why the agreements are necessary and how they will benefit the business.

Professional Help List the names of all the professionals you have consulted or plan to consult. Lenders and investors will want to know the amount you have paid them and if part of the money you now seek will go towards their fees.

Financing

Financing Sought

If you need outside funding to get your business going or to expand, this is the point to give a detailed description of what you are seeking. If you want debt financing (a loan), describe the terms you feel you must have and those about which you can be flexible. Generally speaking, a lender will need to know your preferences on loan amount, length of the loan, interest rate (fixed, variable or escalating) and whether the loan could be converted to stock at some future date. Indicate any negotiable

points (the more flexible you are, the greater your chances of getting a loan).

If you plan to sell stock to investors, indicate if it will be common and/or preferred stock, the price of each, the preferences and restrictions preferred stock owners will have, dividend policy, redemption and convertibility options, registration and voting rights of common and preferred stock. Again indicate any terms you feel are negotiable.

Existing Capital Structure Indicate sources of funds to this point in the business. If you have already sold stock or obtained loans, describe the terms here. If your financing until now has come from the principals of the business, refer to the "key personnel section" where that information was presented.

Collateral If you have or are seeking a loan, describe the collateral involved. If the same collateral is listed on more than one loan, indicate which is the subordinated debt.

Guarantees A statement of corporate or personnel guarantees for the loans or investments you seek. Attach a financial statement for each individual or company willing to be a guarantor.

Financial Objectives State any specific financial goals you wish to obtain, along with a timetable to accomplish each objective. If you intend to keep your firm operating within specific financial ratios, describe those goals here.

Financial Statements These tables support your loan/investment request and/or indicate the financial condition of your business (past, present and future). Suggested financial statements for beginning and existing businesses looking for additional capital or needing to know their financial picture include:

Start-up Businesses Start-up costs (estimated)
Owner's living expenses (estimated)
Operating costs (projected)
Loan/Investment information²

²Loan/Investment Information — Prepare a table showing exactly how you will spend money from outside sources. Indicate how much an investor may expect to get for the

Balance sheet (projected)
Profit/loss (income) statement (projected)
Cash flow statement (projected)
Breakeven analysis³

Existing Businesses Capital equipment list
Expansion costs (projected)
Operating costs (projected)
Balance sheets (past and projected)
Profit/loss statements (past and projected)
Cash flow statements (past and projected)
Breakeven analysis
Loan/Investment information
Tax returns (past)

Section V, Economic Feasibility, and Section VIII, Operation and Management: Record Keeping, has more information and sample forms for these statements.

If you will present your business plan to lenders/investors, indicate here how often you will supply them with these statements (monthly, quarterly or annually).

Risk

You need a record of things to watch out for so you can be alert to the problems that can arise because of these hazards. If you are seeking outside funding, lenders/investors need to know these weak points and also to know that you recognize and are prepared for them. Try to look at your business as an outsider would and discuss situations under which the lender/investor could lose his or her money. Possible weak spots include:

Lack of Company History

A new business may be handicapped by the lack of an operating history. For instance, it may be difficult to get trade credit from your suppliers.

investment. If you expect any involvement from your money source (help in developing a marketing program, for example), describe the help you want. Also indicate the number of board positions you are willing to offer to investors and whether this number is negotiable on your part.

³Breakeven analysis determines the dollar amount of sales you need to break even, that is, cover all costs without making either a profit or a loss.

Limited Financial Resources

If you and/or your partners have invested most of your savings in start-up, you may have trouble keeping the business running if it doesn't turn a profit when expected.

Management Experience

If management has limited experience in the industry, how could this affect operations? If management has little or no business experience at all, you should look for ways to compensate, such as finding a management consultant.

Market and Production Uncertainties

If the market and/or your production depends on factors beyond your control, what could go wrong? How could you compensate?

Plans for Tragedy

What will happen if you or another key person dies? How will the business continue to function? Who will be assigned specific responsibilities?

Attachments

Attach resumes of key personnel, copies of contracts, consultant reports and any other supporting documents at the end of the plan. This makes them available without cluttering up the body of the plan.

APPENDIX B

WHAT DO INVESTORS CONSIDER IMPORTANT?

What are the key points in a feasibility study? One way to answer this question is to ask what experienced investors consider important when they evaluate a business plan.

The Utah Innovation Foundation recently sent a model plan to venture capitalists and investors across the United States. These investors were asked what emphasis they place on the individual parts of the plan.

The Utah Foundation's Plan contained five sections. The weights indicate the importance the investors place on each section in making an investment decision. On a 100-point scale, for instance, information on the company is worth 15 points, while marketing is worth 35.

The Company (15% weight)

- “ What business are you in?
- “ Purpose of the business
- “ A brief summary of the company's history and current status, including legal organization and whether the company is publicly or privately held
- “ The company's overall strategy and objectives
- “ Many of these points are covered in the supply section of the feasibility study outline

The Product or Service (15% weight)

- “ Important features and user benefits
- “ Relation of products and services to market needs
- “ Pricing
- “ Present status — current stage of development, expected life cycle

- “ Proprietary position — trademarks, patents, trade secrets, special production skills, proprietary processes, etc.
- “ Products and projects planned — their status, when due out, expected life, potential revenues

The Market and Marketing Strategy (35% weight)

- “ Who buys your product and why?
- “ Describe the market, size, anticipated growth, key changes
- “ Competition — Who are they? How much of the market do they have? What is their strategic position?
- “ What needs in the market will you satisfy? What market situation do you plan to exploit?
- “ Unique characteristics — What do you offer that makes you different and gives you an advantage?
- “ Marketing plans — market penetration — How will you reach the market (direct sales, mail order, etc.)? How much will the marketing program cost?

Management (25% weight)

- “ Background and abilities of key individuals. Why can they do this job? What do they bring to the company?
- “ History of working together as a team
- “ Immediate personnel needs and costs
- “ Organizational structure, decision making framework and authority

Financial Summary (10% weight)

- “ Funds required
- “ Use of the funds
- “ Simple projections of sales revenues, income and expenses over a three-to-five year period

- “ Any security offerings planned
- “ Best estimate as to when and how an investor will get his or her money back
- “ Funding needs at each stage of development, along with objectives to be reached at each stage

Surprisingly perhaps, the "bottom line" is not as important as other factors. Marketing strategy and management are the most important parts of a plan in the opinion of these venture capitalists. They should then receive careful consideration before you invest your own valuable time and hard-earned money in a business venture.

APPENDIX C

ECONOMIC

ANALYSIS EXAMPLE

Imagine you have developed an idea for a blue-tick hound stuffed animal with suction cup paws for UT fans to put on the windows of their cars.

Materials, including waste allowance, will average \$1 per hound. From test marketing during sports events, you believe you can sell an average of 80 a month at \$10 each.

You will make them in a basement workroom in your home during the evenings and sell them yourself on weekends. You estimate your start-up costs as:

Commercial sewing machine (used)	\$720.00
Initial materials order	\$480.00
Display cards ("stationery")	\$100.00
Recordbooks, receipts, etc.	\$ 57.00
Miscellaneous office supplies	\$ 10.00
Business cards and local ads	\$ 77.00
Folding display rack	\$300.00
Installation charge for second phone line	\$ 25.00
County business license	\$ 20.00

Once in operation, you plan to pay \$20 of your monthly mortgage from business income for use of the basement workroom. You will buy thread, buttons and trim cloth as needed and estimate the cost will average \$40 per month.

Your other estimated operating costs are listed in Worksheet 3.

**WORKSHEET 1
OWNER'S LIVING EXPENSES**

Complete this list of expenses based on an average month. Add or subtract items to fit your own lifestyle and financial obligations.

Rent or mortgage	\$	290.00
Car loans*		0.00
Other loans		0.00
Life insurance premiums		28.00
Other insurance premiums*		0.00
Utilities		140.00
Home repairs, maintenance		100.00
Food, at home and away		296.00
Auto repairs, gas, parking*		0.00
Travel		397.00
Medical and dental care		93.00
Education		18.00
Clothing		87.00
Newspapers, magazines		9.00
Savings		60.00
Spending money, allowances		110.00
Taxes		190.00
Other		<u>172.00</u>
TOTAL PERSONAL EXPENSES	\$	1,990.00
Less Income From Other Sources (if any)		<u>1,640.00</u>
PERSONAL EXPENSES TO BE COVERED BY THE BUSINESS	\$	350.00 Q4

*All car expenses are included in "Travel." This is an example of modifying these forms to fit your individual situation and information you have available.

WORKSHEET 2 START-UP COSTS

This worksheet should include all the expenses you will pay in opening your business. This list is a sample; add or subtract items to fit your situation. Use the totals in completing Worksheet 3.

Initial Inventory	\$	0.00	Q3
Rent Deposit		0.00	Q6
Furniture and Fixtures:			
Desks and Chairs		0.00	
Filing Cabinets		0.00	
Office Machines		0.00	
Light Fixtures		0.00	
Counters, Shelves		0.00	
Other		<u>0.00</u>	
Total Furniture and Fixtures		0.00	Q7
Tools and Equipment		720.00	Q9
Supplies and Materials:			
Stationery		100.00	
Business Forms		57.00	
Cash Register		0.00	
Pens, Pencils, etc.		10.00	
Other		<u>480.00</u>	
Total Supplies and Materials		647.00	Q12
Utility Deposits		0.00	Q16
Telephone Deposit		25.00	Q18
Advertising and Promotion:			
Business Cards		50.00	
Ads, Posters, etc.		27.00	
Business Logo Design		0.00	
Exterior Signs		300.00	
Other		<u>0.00</u>	
Total Advertising and Promotion (Q20)		377.00	

WORKSHEET 2
START-UP COSTS (continued)

Site Preparation:		
Remodeling	0.00	
Decorating	0.00	
Repairs	0.00	
Other	<u>0.00</u>	
Total Site Preparation	0.00	Q22
Organization Costs:		
Accounting Fees	0.00	
Legal Fees	0.00	
Other	<u>0.00</u>	
Total Organization Costs	0.00	Q24
Licenses and Permits	20.00	Q26

WORKSHEET 3

Answer these questions with realistic, conservative estimates. Use the best information available. Initial, rough estimates should be changed as you get actual price quotes, negotiate contracts and/or gain experience.

Estimate your sales in dollars for the first year of operation	\$9,600.00	Q1
Estimate your cost of merchandise or materials as a ratio or proportion of sales (in this example, cost of materials (\$1)/total sales (\$10) = 0.10)	0.10	Q2
Estimate the cost of the inventory needed to start the business	0.00	Q3
Enter your monthly personal expenses to be covered by the business (Worksheet 1)	350.00	Q4
Estimate your monthly rent or mortgage payment	20.00	Q5
Estimate your rent deposit (Worksheet 2)	0.00	Q6
Estimate the cost of all furniture and fixtures you will buy (Worksheet 2)	0.00	Q7
What is the average useful life (in months) of these furnishings and fixtures?	0	Q8
Estimate the cost of all equipment you will buy (Worksheet 2)	720.00	Q9
What is the average useful life (in months) of this equipment?	36	Q10
Estimate the total monthly wages you will pay to your employees.	0.00	Q11
Estimate the total cost of the supplies and materials you will need to start your business (Worksheet 2).	647.00	Q12
Estimate the average monthly cost of supplies and materials you will need to operate.	40.00	Q13
Estimate the proportion of sales that will be on credit (for example, credit sales \$25/total sales \$100 = 0.25; enter zero if you will not make credit sales).	0.00	Q14
Estimate your monthly utility bill	50.00	Q15

WORKSHEET 3 (continued)

Estimate utility deposits (Worksheet 2)	0.00	Q16
Estimate your monthly telephone bill	30.00	Q17
Estimate your telephone deposit (Worksheet 2)	25.00	Q18
Estimate your monthly insurance costs	20.00	Q19
Estimate the advertising and promotion costs for the initial opening of your business (Worksheet 2)	377.00	Q20
Estimate your monthly advertising costs after the initial opening	5.00	Q21
Estimate your expenses to get the business location ready for opening (Worksheet 2)	0.00	Q22
Estimate your average monthly costs of maintenance and upkeep after opening	3.00	Q23
Estimate attorney and accounting fees to start the business (Worksheet 2)	0.00	Q24
Estimate the average monthly attorney and accounting fees after the business opens	0.00	Q25
Estimate the cost of business licenses and permits (Worksheet 2)	20.00	Q26
Estimate your monthly debt repayment, both principal and interest (enter zero if you will not borrow money)	0.00	Q27
Estimate the monthly cost of other expense(s)	90.00	Q28
How much cash will you invest in the business?	2,179.00	Q29
What is the minimum amount of cash that you want on hand at the beginning of each month for unexpected expenses?	100.00	Q30

WORKSHEET 4
PRO-FORMA MONTHLY CASH FLOW STATEMENT

CASH SALES	Q1/12-(Q1/12XQ14)	800.00
CASH ON HAND	last month's ending balance	100.00
OTHER INCOME	as received	0.00
ACCOUNTS RECEIVABLE	Q14 X last month's sales	0.00
TOTAL CASH AVAILABLE	add above items	900.00
CASH PAID OUT:		
Inventory	As needed	0.00
Furniture & Fixtures	As needed	0.00
Equipment	As needed	0.00
Owner's Salary	Q4	350.00
Employee Wages	Q11	0.00
Payroll Taxes	Q4 + Q11 X 0.15	52.50
Rent	Q5	20.00
Utilities	Q15	50.00
Telephone	Q17	30.00
Supplies	Q13	40.00
Insurance	Q19 (monthly premium pymts)	20.00
Advertising	Q21	5.00
Maintenance	Q23	3.00
Legal & Accounting	Q25	0.00
Licenses	As needed	0.00
Other	Q28	90.00
Taxes	As needed	0.00
Interest	Q27 X 0.75	0.00
Principal	Q27 X 0.25	0.00
TOTAL CASH PAID OUT	(Total above items)	660.50
CASH POSITION	(Cash Available - Cash Paid Out)	239.50
ADD'L BORROWINGS	As needed for ending balance of	0.00
	Q30	
ENDING BANK BALANCE	Q30 (at least)	239.50

WORKSHEET 5
PRO-FORMA MONTHLY INCOME STATEMENT

SALES = Q1/12 (adjust for seasonality as needed)	800.00
COST OF GOODS SOLD = Q1/12 X Q2	80.00
GROSS MARGIN = Sales - Cost of Goods Sold	720.00
OPERATING EXPENSES:	
Owner's Salary = Q4	350.00
Employee Wages = Q11	0.00
Payroll Taxes = Q4 +Q11 X 0.15 ¹	52.50
Rent = Q5	20.00
Utilities = Q15	50.00
Telephone = Q17	30.00
Supplies = Q13	40.00
Insurance = Q19	20.00
Advertising = Q21	5.00
Maintenance = Q23	3.00
Legal/Accounting Fees = Q25	0.00
Licenses = Q26	20.00
Other = Q28	90.00
Interest = Q27 X 0.75 ²	0.00
Depreciation = Q7/Q8 + Q9/Q10	20.00
TOTAL OPERATING EXPENSES (Add all operating expenses)	700.50
NET PROFIT (LOSS) BEFORE INCOME TAXES = (Gross Margin - Total Operating Expenses)	19.50

¹The rule of thumb that payroll taxes are about 15 percent of total payroll is used here. Your estimate or actual payment experience should be substituted if different.

²The rule of thumb that interest is approximately 75 percent of a debt payment is used here. Again, your estimate or actual payment history should be used if different.

WORKSHEET 6

PRO-FORMA BALANCE SHEET: START-UP

ASSETS

Current Assets:

Cash = Q29	2,179.00
Accounts Receivable = 0	0.00
Inventory = Q3	0.00
Prepaid Expenses = Q5+Q19+Q20	40.00
Supplies = Q12	647.00
Total Current Assets	2,866.00

Fixed Assets:

Furniture & Fixtures = Q7	0.00
Equipment = Q9	720.00
Improvements = Q22	0.00
Total Fixed Assets	720.00

Other Assets:

Deposits = Q6+Q16+Q18	25.00
Legal & Acct Fees = Q24	0.00
Licenses = Q26	20.00
Total Other Assets	45.00

TOTAL ASSETS (Add Total Current, Fixed and Other Assets) 3,631.00

LIABILITIES

Current Liabilities	0.00
Long-Term Liabilities (Total Assets-Equity)	1,452.00
Equity = Q29	2,179.00

TOTAL LIABILITIES AND EQUITY 3,631.00

WORKSHEET 7
PRO-FORMA BALANCE SHEET: YEAR 1

ASSETS

Current Assets:	
Cash = Q29	2,179.00
Accounts Receivable = Q1XQ14	0.00
Inventory = Q3	0.00
Prepaid Expenses = Q5+Q19+Q20	40.00
Supplies = Q12	647.00
Total Current Assets	2,866.00
Fixed Assets:	
Furniture & Fixtures = Q7-(Q7/Q8) (less depreciation)	0.00
Equipment = Q9-(Q9/Q10) (less depreciation)	700.00
Improvements = Q22-(Q22/5) ³ (less depreciation)	0.00
Total Fixed Assets	700.00
Other Assets:	
Deposits = Q6+Q16+Q18	25.00
Legal & Acct Fees = Q24	0.00
Licenses = Q26	20.00
Total Other Assets	45.00
TOTAL ASSETS (Add Total Current, Fixed and Other Assets)	3,611.00

LIABILITIES

Current Liabilities (additional borrowings from Worksheet 5)	0.00
Long-Term Liabilities (debt or parts of debt not due for payment within a year)	1,432.00
EQUITY = Q29+Retained Earnings	2,179.00
TOTAL LIABILITIES AND EQUITY (long-term liabilities and equity should = total assets)	3,611.00

³A five-year life for improvements is used as a rule of thumb.

APPENDIX D

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U. S. Small Business Administration. *Pricing for Small Manufacturers*, Management Aids No. 226.

U. S. Small Business Administration. *What Is The Best Selling Price?* Management Aids No. 1002.

Information on average costs and returns for many lines of business are published by Dun and Bradstreet and Robert Morris Associates. These publications can help you decide on initial estimates for preliminary analysis of your idea. You can also use them as a check on your work; if your estimates are considerably higher or lower than the averages in your industry, you should review your estimates looking for errors.

Selected Key Business Ratios. Dun and Bradstreet, Inc., 99 Church Street, New York, NY 10007.

Annual Statement Studies. Robert Morris Associates, Philadelphia, PA 19107.

Both firms publish other reports which may be useful.

To learn about industry ratios and ratio analysis read:

Ratio Analysis for Small Business. U.S. Small Business Administration, Stock No. 045-000-00150-4.

Law and Regulation References

The Internal Revenue Service has several publications that can help. Publication 334, "Tax Guide for Small Business," is a good general guide. Publication 910, "Guide to Free Tax Services" includes a complete list of IRS publications. Contact your local IRS office or call 1-800-424-3676 (toll-free) for publications.

Small Business Information published by the Tennessee Department of Economic and Community Development includes a summary of state laws and regulations. Call 615-741-2626 or 1-800-872-7201 (toll-free, in-state) for a copy.

The book *Tennessee General Corporation Act* outlines the steps to take for incorporation. It is available at no cost from:

The Secretary of State
Corporate Division
Suite 500
James K. Polk Building
Nashville, Tennessee 37219
(615) 741-2286

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Business Computer Software

http://www.intuit.com/quickbooks/product_info/just_qbpa/index.html

Become a QuickBooks Professional Advisor!

<http://pasware.com/>

Business Plan Pro, Business Plan Pro 2.0, Business Plan, Business Plans, business, business planning, business resources, Business Plan Toolkit, Toolkit, Bizplan, Smart Business Plan, Plan Write, business software, business systems, Palo Alto Software, Palo Alto Software Inc., Jian, Success Inc., Business Resource Software Inc., American Institute for Financial Research, Marketing Plan, Marketing Plus, Marketing Plus 2.0, Marketing Plans, entrepreneur, entrepreneurs, consultant, consultants, Tim Berry

<http://www.toolkit.cch.com/default.htm>

CCH Business Owner's Toolkit

<http://www.cdci.com/>
CDCI - Software for the Construction Industry

<http://www.agriculture.com/markets/flagship/>
Flagship Technologies' Home Page

<http://www.palisade.com/>

<http://outreach.missouri.edu/imaster/>
Internet Masters

<http://www.financehub.com/>
InterSoft Solutions FinanceHub

<http://www.qfn.com/>
Intuit Home Page

<http://www.intuit.com/quickbooks/contents.html>
QuickBooks SBO Contents

<http://www.intuit.com/quicken/technical-support/quicken/releases/qfw5-releases>
Quicken for Windows 5.0 Update Information

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<http://www.gw2k.com/index.stm>
Welcome to Gateway 2000

<http://www.shareware.com/?crawler.fast>
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Directories & Maps

<http://www.tollfree.att.net/dir800/>
AT&T Internet Toll Free 800 Directory

<http://s17.bigyellow.com/>
BigYellow - The Biggest Online Yellow Pages Directory!

<http://www.lycos.com/roadmap.html>
Lycos RoadMaps

<http://www.census.gov/datamap/www/index.html>
Map Stats

<http://www.mapquest.com>
MapQuest! Interactive Atlas

<http://www.nmq.com/fambiznc/>
NetMarquee Family Business NetCenter

<http://turnpike.net/cgi-bin/htmlscript?~turnpike/emporium.hts>
TurnPike Emporium Directory

http://www.yahoo.com/Business/Small_Business_Information
Yahoo! - Business and Economy:Small Business Information

Financial Management

<http://www.epa.gov/efinpage/guidebk/guindex.htm>
A Guidebook of Financial Tools-Index

<http://dbisna.com/>
Dun and Bradstreet Home Page

<http://www.financenter.com/>
FinanCenter

<http://www.financenter.com/>
FinanCenter: Smart Personal Finance Made Easy

<http://www.firstgpa.com/>
First American Group Purchasing Association

<http://pathfinder.com/@@uwlDWAUAXzqF@CX9/money/>
Money Online Personal Finance Center

Home Based Business

<http://decit.if.uidaho.edu/HBB/homebus.html>
Home Based & Micro Business

<http://decit.if.uidaho.edu/HBB/homebus.html>
Home Based & Micro Business

<http://www.ces.msstate.edu/~bethd/hb-mbb/>
Home-Based & Micro Business Briefs (Mississippi State)

<http://www.ag.ohio-state.edu/~ohioline/lines/home.html#business>
OSU Info - Home

http://www.ro.com/small_business/homebased.html
Small & Home Based Business Links

Importing/Exporting

<http://www.tradenet.org/>
TradeNet World Service

Legal

<http://www.ces.ncsu.edu/depts/fcs/business/welcome.html>
Welcome to the Small Business Primer on Legal Issues

Marketing

<http://www.kcilink.com/>
Khera Communications, Inc.

<http://homepage.interaccess.com/~mar/openair.html>
Openair-Market Net: Farmers', Street, Flea and Street Vendors

<http://civic.net/webmarket/index.html>
Public WebMarket Home Page

Business Organization

<http://www.loop.com/~cartano/table.htm>
Limited Liability Companies Table of Contents; Taxation of Limited Liability Companies Book; Limited Liability Company state taxation; Limited Liability Company federal taxation; Limited Liability Company forms

Small Business Development

<http://www.ag.ohio-state.edu/~rande/>
Ohio Business Retention and Expansion Program (R&E)

<http://www.sbaer.uca.edu/index.html>
Small Business Advancement National Center

<http://www.isquare.com/home13.htm#ninestep>
The Small Business Advisor

<http://www.webcom.com/~seaquest/>
The Small Business Resource Center Home Page

<http://www.tsbdc.memphis.edu>
Tennessee Small Business Development Centers

<http://www.business.gov/>
U.S. Business Advisor

Technical Assistance

<http://www.state.tn.us/e.cd/links.html>
Business Development Division Web Links

<http://www.pstcc.cc.tn.us/bcs/sbdc.htm>
Pellissippi State Community College Small Business Development Center

<http://www.tsbdc.memphis.edu/tsbdc.htm>
Tennessee Small Business Development Center

<http://www.business.gov/>
U.S. Business Advisor

Other Sources of Information and Assistance

Internal Revenue Service, U. S. Department of the Treasury. *Tax Guide for Small Business*. Available at District Offices of IRS. Designed to assist business owners in the preparation of their federal tax returns. Discusses tax problems incident to conducting a trade, business, profession, or acquiring or selling a business.

U. S. Small Business Administration, Tennessee office:

50 Vantage Way
Suite 201
Nashville, TN 37228
(615) 736-5881

The Agency's Management Assistance program is extensive and diversified. It includes free individual counseling, courses, conferences, workshops, problem clinics and a wide range of publications. Counseling is provided through programs established by SBA's

Management Assistance staff, the Service Corps of Retired Executives (SCORE), its corollary organization of active business men and women, the Active Corps of Executives (ACE), and numerous professional associations. SBA tries to match the need of a specific business with the expertise available through its counseling programs.

Tennessee Department of Economic and Community Development.

Within Tennessee's state government, the **Department of Economic and Community Development** has much to offer a new or existing business. A brief discussion of the department's divisions, services and publications follows.

Existing Industry Services

This office works to help Tennessee manufacturers remain profitable and continue to expand in the state and promotes the manufacturing community as a contributor to the state's economic growth and general welfare. An Existing Industry Visitation program seeks to reduce unnecessary burdens of government on industry which might impede growth. An Industry Image program promotes and preserves the state's business climate and improves public understanding and appreciation of industry in Tennessee. Priority is given to a Product Match program encouraging existing Tennessee manufacturers to purchase supplies, materials and equipment from other Tennessee manufacturers.

Department of Economic and Community Development
Existing Industry Services
7th Floor, Rachel Jackson Building
Nashville, TN 37219
(615) 741-5020
Toll Free in Tennessee 1-800-342-8470

Industrial Training Service

This office promotes the development of new and expanding industries by assuring a trained labor force for manufacturing facilities in Tennessee and helps Tennessee citizens acquire the basic skills and knowledge necessary to be successful on a specific job. Primary duties include initial contact and discussions with industrial prospects, negotiations of specific training requirements, project coordination, developing training content, and monitoring and evaluating on-going training projects.

Department of Economic and Community Development
Industrial Training Service
113 Capitol Towers
Nashville, TN 37219
(615) 741-1746
Toll Free in Tennessee 1-800-342-8470

Office of Minority Business Enterprise

The Office of Minority Business Enterprise coordinates minority economic development activities within the overall state economic development program. It provides minority businesses with greater access to local economic planning data and resources of local governments, provides minority entrepreneurs with greater access to data concerning existing and emerging business trends and market conditions in the State of Tennessee, provides assistance with loan packaging and preparation of business plans, and prints a business newsletter for minority businesses in the state.

Department of Economic and Community Development
Office of Minority Business Enterprise
7th Floor, Rachel Jackson Building
Nashville, TN 37219
(615) 741-2545
Toll Free in Tennessee 1-800-342-8470

Office of Small Business

The Office of Small Business was established permanently in 1982 when the Governor and the General Assembly appropriated funds for its operations. This office is the vital link between state government and Tennessee's small business community. The office is designed to provide the following functions:

- “ to serve as an office of advocacy for small business, giving assistance to business owners dealing with state government departments and agencies;
- “ to be responsible for review of all pending legislation to determine its impact upon small business and to assist the Administration in understanding the small business community's point of view with regard to this pending legislation
- “ to serve as an information center for new small businesses and a one-stop center for business people in need of information on licenses, permits and taxes
- “ to serve as a clearinghouse and assist small businesses in identifying and contacting sources of capital and procurement opportunities.

Department of Economic and Community Development
Office of Small Business
7th Floor, Rachel Jackson Building
Nashville, TN 37219
(615) 741-2626
Toll Free in Tennessee 1-800-342-8470
Small Business Hotline 1-800-872-7201

Export Office

This office's objectives are to increase the export of Tennessee's goods and services, thereby generating jobs and revenues for the state. Primary duties are to assist Tennessee businesses in locating international markets by such activities as educational seminars, trade missions, exhibitions, catalog shows and general export consulting.

Department of Economic and Community Development
Export Trade Promotion Division
7th Floor, Rachel Jackson Building
Nashville, TN 37219
(615) 741-5870
Toll Free in Tennessee 1-800-342-8470

High Technology Development

This office leads in the planning for the development of a scientific/technological-based economic growth within Tennessee. It conducts and aids applied research efforts considered essential to the effective support of the state's initiative for experiencing futuristically-oriented industrial and business development. It supports the Sales and Marketing efforts to recruit such industries and provides on-going liaison to small, high technology-type business and industrial start-ups and expansions within the state.

In addition to providing assistance in planning and delivery of logistical support to the mission of Tennessee Technology Foundation in its development of the Oak Ridge/Knoxville area Technology Corridor, the office delivers planning assistance to other areas of Tennessee which have rich potentials for this type of industrial growth.

Department of Economic and Community Development
High Technology Development
6th Floor, Rachel Jackson Building
Nashville, TN 37219
(615) 741-2994
Toll Free in Tennessee 1-800-342-1340

Energy Division

This division is made up of the offices of Energy Conservation and Energy and Technology Marketing. Primary duties include providing energy management/technical assistance to existing business and industry and new industrial prospects, and the development and marketing of the state's energy resources such as oil, coal and gas.

Department of Economic and Community Development
Energy Division
6th Floor, Rachel Jackson Building
Nashville, TN 37219
(615) 741-2994
Toll Free in Tennessee 1-800-342-1340

Tennessee Department of General Services

The **Department of General Services** is responsible for the state's procurement program, handling purchasing for all of state government. The departmental goal is to make 25 percent of all state purchases from small businesses; at present, no more than 10 percent comes from small firms. The department has set up a special unit to handle small supplier registration and bids and to encourage participation from small businesses. The people to contact with questions are:

Staff Coordinator for Small Business
C-2 211 Central Services Building
Nashville, TN 37219
(615) 741-7159

Bid Officer
C-2 211 Central Services Building
Nashville, TN 37219
(615) 741-7159

The procedure to follow to be placed on the bid mailing list is this:

1. Write or call the Bid Officer to have an application for registration sent to you.

There are two types of application forms. The short form is restricted to small businesses in Middle Tennessee who can make the trip to the Central Services Building every week to check for new bids and who want to serve only the Middle Tennessee area.

The long form applies to most businesses, since only with the long form will the department mail notification of bid requests. It should be used by types of businesses:

- * large businesses
- * small businesses outside the Middle Tennessee area
- * small businesses in Middle Tennessee who can deliver state-wide,

* small businesses in Middle Tennessee who want written notification of bid requests.

2. Fill out the application completely and mail or carry it back to the department.

The criteria for determining a small business change with the product being supplied. The long application form shows the criteria for each item.

3. The application will be evaluated and the department will issue an ID number. When you receive (by mail) your number and a book of rules, you are ready to bid.

Tennessee Small Business Development Center

The Tennessee Small Business Development Centers are an excellent source of assistance for people across the state. These centers offer business counseling, training and technical assistance to small business owners and entrepreneurs to help them solve organizational, financial, marketing, technical and other problems they might encounter. These services are offered through regional and affiliate centers located at state universities, community colleges and technical institutes across the state. For information on the center nearest you, contact:

Tennessee Small Business Development Center
Dr. Ken Burns, State Director
Memphis State University
Memphis, TN 38152
(901) 454-2500

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The Agricultural Extension Service offers its programs to all eligible persons
regardless of race, color, national origin, sex or handicap and is an Equal Opportunity Employer.

COOPERATIVE EXTENSION WORK IN AGRICULTURE AND HOME ECONOMICS

The University of Tennessee Institute of Agriculture, U.S. Department of Agriculture, and county governments cooperating
in furtherance of Acts of May 8 and June 30, 1914. Agricultural Extension Service/Billy G. Hicks, Dean