

Considerations When Starting a Business

Going into business for yourself may seem like an overwhelming task. However, millions of others have done it. Many have been successful while others have failed. There are no guarantees, but here are some of the issues you should consider.

Do you have the psychological make-up to handle a start-up?

The process of starting, building, growing and managing a business is hard work. It can be somewhat frightening. There are always unexpected issues and concerns that arise. Most successful entrepreneurs have an innate ability to accept and manage risks. They also usually exhibit a passion that provides the incentive to go extra mile (or to make that next presentation) that may be needed.

You should also consider the affect that starting a business may have on your lifestyle and your family. Long hours, constant distractions and sacrifices can put strains on your mind and body as well as those around you.

What type of business makes sense?

Hundreds of thousands of ventures are started each year in all lines of business. Starting a business from scratch, buying an existing business or entering into a franchise arrangement all present opportunities and potential pitfalls. Be sure to do your homework. Consider the current and potential markets for whatever business you are considering. Examine the strengths and weaknesses of competitors. The Internet and trade associations can be great sources of valuable information. You may be surprised what you can find readily available.

Find a line of business that matches your skills, experience and interests. If you are considering starting a personal service business, it can be nice to start off with at least one existing customer. Whatever type of business it is, be sure you like it. If you are successful, you may spend many years or several decades in that business. There are few things worse than not liking your job.

If you are looking at an existing business or franchise, investigate them thoroughly. Have a professional look at the financial statements and any contracts you may be signing.

Are you going alone or should you have a partner?

This can be one of the most challenging issues you face. Running the business yourself gives you the opportunity to make all the decisions, but you must live with the results. A partner can bring skills, experience and capital, however you should be confident that you work with that person for an extended period of time.

If you choose to have a partner, you may also want to discuss how your partnership can be ended. While everyone has good intentions at the beginning, things can and often do change. Having a buy/sell agreement or a contractual agreement may avoid difficulties and hard feelings later.

Where will you get the financing you need?

Starting and growing a business takes money. Consider the funds you may need for office space, equipment, inventory, marketing and working capital. You should also remember that not all customers pay quickly. One of the most common causes of business failures is inadequate capital.

Arranging that needed capital should be undertaken early in the startup process. Once the business is operational, you will probably want to focus on running it and not have to constantly be looking for funds. Be sure to speak with your financial institution about what they may be

looking for before they would be willing to lend to a new business. You may also want to explore a loan through the Small Business Administration. The SBA programs offer a number of types of loans, but can be time consuming and frustrating.

The final observation on needed capital is to consider setting a limit on how much you are willing to risk or lose before shutting the business down and accepting failure. While this may be difficult to consider when starting out, having a contingency plan for failure is prudent.

What are some of the other legal, financial and tax issues to be considered?

After addressing all the other aspects, these will probably seem easy. You need to choose a business form (sole proprietorship, partnership, corporation, sub-chapter S corporation, limited liability company). While this may sound complicated, it is much easier to decide upon than the issues discussed above. Each business form has attractions and drawbacks. Your attorney can be very helpful in evaluating the options and drafting any documents you need.

Your personal financial and tax situations may also change when you become a business owner. You may lose the predictability of a monthly paycheck and the other benefits found with a larger company. You may have to pay for your medical insurance and fund your retirement account.

Summary

The entrepreneurial spirit is alive and well in America. As you consider your future, remember that being in business for yourself can be risky as well as rewarding. Taking some key steps early in the process, hard work, a good idea, using sound business practices and maybe a little luck can make all the difference.

Avoiding Common Small Business Start-Up Problems

Hundreds of new businesses are started every day and unfortunately more than half of them fail within their first two years. Some businesses fail because the original business concept was ill conceived and others fail because of external factors such as a deteriorating economy. However, most businesses fail due to the decisions that the owner makes.

Here are some common pitfalls that you should try to avoid.

Not anticipating start-up issues.

Starting a business is difficult, time consuming and expensive. There are literally hundreds of decisions that must be made and actions to be taken. Everything, including choosing a name, handling all the paperwork, setting up a location, getting supplies and staffing take time and effort, probably more time than what you may think. And everything costs money. So be prepared to work hard, make decisions, and spend money.

Inadequate consideration of financial issues.

There is always some period between the decision to start a business and when revenues start coming in. During that time, you must have the funds to pay all the startup costs and cover your normal living expenses. It can be tempting to just continue to charge more on your credit cards, but ultimately those balances must be paid and the interest costs can add up. Be sure you have enough funds to see you through these difficult months.

Once the business starts, the financial issues continue. If you have a retail business, sales may start quickly, but getting an initial inventory and keeping inventory can be costly. Many vendors are reluctant to extend credit to start-ups and may require payment in advance or upon delivery. Negotiate terms with your vendors early. If you have a service business, do not forget to consider how long it may take for your customers to pay you after you send an invoice. Thirty to sixty days are not uncommon, and until you get a flow of payments, the anxiety of waiting for a check to arrive can be difficult.

On an ongoing basis, you must balance your desire to pay yourself, the operating cash needs of the business and accumulating funds to grow and expand the business. Starting a business demonstrates that you have an entrepreneurial spirit and that ambition often enables you to see additional opportunities.

Poor marketing.

Most people that start businesses have a passion about their product or service. Do not let that passion blind you to the reality that others may not share that passion for your product or service. You must have a marketing plan that identifies potential customers, makes the benefits of your product visible to those prospects and motivates them to make a purchase decision. Creating a formal marketing plan early and then constantly adapting it to what you learn in the marketplace is critical. In addition, you must execute that plan.

Poor location.

It should go without saying that if you have a retail business, customers must be able to find your location and visit it easily. It may be tempting to commit to a long-term lease, but traffic patterns can change, competitors may move close by and your needs may change. Be sure to consider these factors before you sign that initial lease and every time it comes up for renewal. If your business is more service in nature, the location may not be so important, but parking and access to conveniences may be a factor in recruiting the right employees and in your personal lifestyle.

Not listening to good advice.

The self confidence it takes to start a business can also hinder your efforts if you are not careful. One of the most enlightening aspects of being in business is realizing that you do not have all the answers. Professionals like attorneys and accountants can help you deal with some of the technical aspects of your business, but others, like customers, employees, other business people and even competitors, can also provide insights into the operation of your business and marketplace.

Truly listening to a customer tell you what they want from your products and how they want to interact with your business can provide clues for making improvements that will help you deal with that customer and others. Employees will often know more about certain aspects of the business than you do, and their observations can be valuable. Business people you know, especially other small business owners, may have already faced many of the issues you are facing and would be happy to offer ideas. Even your competitors may be a source of valuable advice. It is surprising how often a casual conversation can lead to useful ideas and maybe even a way to work together on certain types of business

Choosing the Right Form of Business

Choosing the appropriate legal form for a business is one of the first issues most entrepreneurs face. It is an important decision at the formation stage and also as a business grows.

Sole proprietorships usually are the easiest. Corporations offer some different advantages, but often with additional complexity. This article addresses some of the pros and cons of different types of legal structures for businesses. Even if your business has been in existence for a while, it may be time to review your options. There can be many complexities in determining the best legal structure. A qualified attorney may be of value when evaluating your choices.

Consider the following issues when evaluating the business structure decision:

- Number of owners
- Personal liability of owners
- Tax treatment
- Control and management
- Capital contributions

Here is a chart that provides some of the basic information to consider.

Sole Proprietorship

Ownership rules	One owner.
Liability of owners	Unlimited liability for obligations of the business.
Tax treatment	Entity is not taxed, all income and losses passed through to owner.
Control and management	Sole proprietor manages the business
Capital contributions	Sole proprietor makes capital contributions as needed. Easiest.
Ease of establishing	Easiest.

C Corporation (Regular corporation)

Ownership rules	Unlimited number of shareholders with no limit on the classes of stock.
Liability of owners	Generally, no personal liability for obligations of the corporation.
Tax treatment	Corporation is taxed at the corporation level. Shareholders are taxed on any dividends received.
Control and management	Board of Directors has overall management responsibility with officers having day-to-day responsibility.
Capital contributions	Shareholders usually by stock in corporation. Corporation can issue common and preferred stock.
Ease of establishing	Must file Articles of Incorporation with the Secretary of State.

S Corporation (Sub-chapter S corporation)

Ownership rules	Up to 75 shareholders are allowed. Only one class of stock is allowed.
Liability of owners	Generally, no personal liability for the obligations of the corporation.

Tax treatment	Entity is not taxed; profits and losses are passed through to the shareholders.
Control and management	Board of Directors has overall management responsibility with officers having day-to-day responsibility.
Capital contributions	Shareholders usually buy stock in the one class of stock issued by the corporation.
Ease of establishing	Must file Articles of Incorporation with the Secretary of State.

General partnership

Ownership rules	Unlimited number of general partners.
Liability of owners	All general partners are fully liable for the obligations of the business.
Tax treatment	Entity is not taxed, all income and losses passed through to the partners.
Control and management	General partners have equal management rights unless they decide otherwise.
Capital contributions	General partners contribute money or services to the business and receive interests in income and losses.
Ease of establishing	No filing; but a partnership agreement is needed.

Limited partnership

Ownership rules	Unlimited number of general and limited partners are allowed.
Liability of owners	Unlimited liability for general partners and no personal liability for the limited partners.
Tax treatment	Entity is not taxed, all income and losses passed through to general and limited partners.
Control and management	General partner manages the business subject to the Limited Partnership Agreement.
Capital contributions	Both general and limited partners contribute money or services and receive interests in profits and losses.
Ease of establishing	File an application with the Secretary of State.

Limited-liability company (LLC)

Ownership rules	Unlimited number of "members" are allowed.
Liability of owners	Generally, no personal liability for obligations of the entity.
Tax treatment	Entity is not taxed, all income and losses passed through to the members.
Control and management	The Operating Agreement describes how it is to be managed. A manager is usually designated to manage the business.
Capital contributions	The members typically contribute money or services to the LLC and receive an interest in the profits and losses.
Ease of establishing	File Articles of Organization with the Secretary of State.