

# How To Start Up Any Business

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## How To Start Up Any Business

### Legal Entity:

Determine whether you are going to be doing business as an individual proprietorship, partnership or corporation.

The individual proprietorship is the form of entity used by most small businesses at start up. If you need additional capital or expertise a partnership may be the best entity. You can always incorporate later if practical. The expense to incorporate a small business is nominal but since the latest income tax changes unless incorporating will make you more money or better protect your investment there is not much benefit in forming a corporation. Even though there is limited liability as to your personal assets with a corporate entity when obtaining outside financing, or in the event funds are misused, you can still be personally liable.

The strict laws, higher State Income taxes in some states, the legal work involved and the heavier accounting and tax reporting requirements are some of the disadvantages of running your business as a corporation. Also, if you decide later to close out your corporation, the paper work involved, especially to conform to the provisions of the Internal Revenue Code, is difficult and often runs into more problems than the initial incorporation.

Of course when interest rates are high incorporating may be the only practical method to get sufficient capital to start-up and run your operation. However when you go public with your stock you are looking at a whole new ball game. Federal regulations, State requirements, etc., will make it imperative to hire a good corporate attorney and in most instances you will need an investment company to sell the stock. The costs involved to go public are enormous and sometimes cost up to one-third of the proceeds from the sell of stock leaving the working capital and fixed assets in peril.

### Business Name:

To make the public better aware of just what your firm offers it is generally good practice to choose a business name that describes your product or service. Apply for a fictitious business name with your state or county offices when you plan on going into business under a name other than your own. Also, the bank will require a certificate or resolution pertaining to your fictitious name at the time you apply for a bank account. Your county clerk can tell you where to apply for the name.

### Location:

The location of your business will of course vary depending on the kind of business or service. Retail businesses should be located in an area with adequate parking space and heavy foot traffic. If you locate in a shopping center be certain you understand the terms of the lease. Is it a Net-Net lease requiring the tenants to pay all center expenses including utilities, signs, lighting, taxes, insurance, garbage, maintenance, etc., in addition to all the usual store expenses? If you're going into an "office" business, or an unproven venture get a month to month rental agreement. In the event your venture is unsuccessful you will not be stuck with future rent as you would if you were under a long term lease. The landlord is in control. You must get his approval in the event you want to sub-lease to another and even if he agrees you are still secondarily liable for the term of the lease.

#### Failure:

Think positive about your new venture but don't expect to make a great deal of money with little or no investment. Lack of capital has been the downfall of many otherwise good business start-ups. You may have limited take home pay for the first few months as you plow your profits back into the business to make it grow. You will need a substantial cash reserve or other source of income, during the "build-up" phase, to take care of your personal expenses.

Lack of training and experience is another great destroyer of dreams. Be sure you have the know how and are capable of running the business your propose. Get into something you already know or can learn without getting hurt in the process.

If you are going into a retail operation know who your suppliers will be before you even start looking for a location. Buy the right kind of merchandise, at the right prices, to fit the kind of customer you will be serving. Keep your inventory in balance with sells and cash flow. Plan ahead. Learn how to promote and advertise for best results. Keep up with the trends of the time and know at all times what your competition is doing.

A few of the other things leading to quick failure are: lack of over-all business planning, inept managers or employees, incomplete accounting records, improper financial reports, lack of control over assets, bad credit policy and inability of the owner to reach or act on decisions.

#### Bank Account:

Get to know the manager of your bank. He will be one of

your best references. Ask his advice and get his help on financial matters. The more he advises you the better he will come to know you. Develop a line of credit so it will be there when you need it. The banks can't exist without making loans so don't hesitate to apply. When you handle high cost items your bank may be able to work up installment contracts for your customers. Get set up with Mastercard, Visa, etc. It will cost you from 3% to 5% but you must have this service available for your customers if you want to stay in business.

To establish your bank account you will need a Federal ID number or social security number along with your certificate of assumed (fictitious) business name. If you are incorporated the bank will want a copy of the minutes and a corporate resolution authorizing the account.

#### Payroll Taxes:

One of the first things to do when starting your new business is to get Federal and State application forms for ID numbers. Request "Business Start Up" application forms from the Internal Revenue Service and from the State Tax Commission. After your applications are sent in you will be notified of your number and get a packet of information. Depository forms, quarterly report forms, W-4-A's, W-2's, estimated tax forms, etc., will then be mailed periodically as needed.

Payroll taxes and expenses will amount to from 13% to 17% of your gross payroll depending on workmen's compensation rates for the various job classifications. Payroll expenses include:

- FICA taxes (Social Security)
- FUE taxes (Federal Unemployment)
- SUE taxes (State Unemployment)
- WC or SDI (Workmen's Compensation)

Also, you will be required to withhold from your employees wages and pay over to the Federal and State:

- FICA taxes (Social Security-Employers share)
- Federal Income Taxes
- State Income Taxes (Most States)
- State Disability Insurance (Some States)

If you are a sole proprietorship business or are a partner you will have to file and pay Federal estimated tax reports each quarter based on estimated annual income. (Some states also require periodic estimates through the year.) Partnerships file an annual information return and each partners share of profits is included in their individual personal income tax return. Corporation must

also file for estimated taxes.

#### Hiring Employees:

Throughout the year it takes hundreds of hours of your time to prepare and file the various payroll reports and other governmental forms required. This is no reason for you to sacrifice 24 hours a day trying to keep up with your business all by yourself without adequate help. When you have expanded to the point you can afford good employees and/or managers, don't hesitate, hire them. Properly trained and advised they will make more money for you than you can ever make going it alone in most ventures. Advertise in the classified section, take applications, set up interviews and hire the best.

#### Utilities:

When you first start thinking about establishing your own business find out when the next issue of the telephone book will be printed and the deadline for getting listed. Place a reasonable display ad in the yellow pages under the classification which best describes your product or service. It could be a catastrophe if you missed the deadline for the next issue by a few days and have to wait 9 months to a year for a listing in the permanent directory. Advance deposits are usually required when you sign up for Power, Gas, Water and Sewer.

#### Licenses and Permits:

Apply at City or County offices for local licenses required. If you are going into a retail business and your state is subject to sales taxes, apply for a permit and number with the State Franchise Tax Board or other proper department. You will have to add the taxes to your customer's purchases and pay the proceeds over to the state periodically. Some states require a nominal deposit with your application. Your various suppliers will need your permit number for their files before they will sell to you. You do not have to collect sales taxes across state lines unless you have businesses in other states. For example: Persons in the mail order business sending their Advertising and products nationwide need only collect taxes for sales made to persons within the state.

#### Occupational Licenses:

Persons entering into certain kinds of business will have to obtain an occupational license through the State or local licensing agencies. These include Real Estate Personnel, those in the medical profession, barbers, beauty operators, electricians, plumbers, contractors, insurance agents, engineers and many others. Passing a written examination is generally required before a license is issued.

#### Other Licenses:

Federal regulations control many kinds of interstate activities with license and permit requirements. These include such businesses as common carriers, certain food processors, TV stations, radio, drug manufacturers and many others. Any organization which shops, sells, or advertises in more than one state is subject to Federal Trade Commission (FTC) regulations. This includes mail order operations although no license is required in most cases. Any firm distributing food products, including restaurants, is subject to permits and periodic inspections.

Other permits required for certain businesses include inspection and permit for occupying a new building that caters to the public, fire permits, pollution control permits, and those which regulate the size, shape, style and placement of signs, etc.

If you are in doubt about which permits and licenses pertain to your chosen business it may pay to first set down with the proprietor of a similar business in a different area or town and get full information from them.

#### Insurance:

Don't forget about insurance. The premiums are expensive, especially business liability, but you cannot operate with peace of mind without full coverage. Check with a good agent regarding Fire, Liability, Workmen's Compensation, Business Interruption, Burglary, Glass, Extended Coverage, Vehicles, etc. Have two or three agents submit estimates.

#### Bookkeeping and Accounting:

There is probably no reason you cannot do your own record keeping, at least in getting started. Just use a separate check book and bank account for your business. Use a columnar check register with several "headed up" columns and distribute the amount of each check written to the proper columns. List your deposits on the check register and carry across a continuous bank balance.

If you don't have a cash register to start with you can write up sales on duplicate sales slips, but a cash register is highly recommended. You will be able to ring up sales to different departments and by different clerks. It will pay for itself many times over in just a short time. Record receipts from the "totaled out" cash register tape at the end of each day to daily or weekly sheets.

With just the above two records of original entry plus a

"General Journal" to record any extraneous transactions, and a "General Ledger" to which accounts from the three records are posted at the end of each month, you have all that is necessary for a simple "cash" accounting system. This "cash" system can be easily converted to the accrual method of accounting by simply journalizing accounts receivable, payable, accruals, prepaid insurance, etc. After posting these entries the Balance Sheet and Income statement can be readily completed.

After preparing the financial statements, reverse the accruals and you will be ready for entries the following month.

You can enter your gross payroll, payroll deductions and the net amount in your check register. Give your employees a payroll slip showing all the facts and maintain subsidiary payroll sheets with all the information as to each employee.

With these individual payroll records and the control accounts in the General Ledger you have all the information necessary to complete the various payroll tax reports and returns as they come due.

At the end of each annual accounting period all the information for filing your Income Tax returns will be right at your fingertips.

If you know nothing about bookkeeping have an accountant set up your books on the basis of the above simple method. Let him "keep the books" the first few months while you learn how then, if you prefer, take them over yourself. Use your accountant as your advisor. After a short time you probably will be able to do all the accounting without outside help.

#### Equipment Required:

Every business is different and will not be using the same kind of fixtures and equipment. Sometimes it is much better to preserve cash for inventories or working capital and purchase good used fixtures and equipment at a much lesser price. With the recent changes in the income tax laws you will have to do extra analysis to determine whether a lease program or direct purchase is the best way to proceed. Whether to buy or lease depends on many facts which can only be determined by observation and computation. It could be better to lease electronic equipment, computers, copiers and certain other products due to the rapid advances continuously taking place in these fields.

#### Suppliers:

Suppliers are reluctant to ship their goods to new businesses. That is one reason you should get to know your banker as he can offer credit references acceptable to most any firm. You will have to convince your proposed suppliers that you are honest and hard working and that your business has a good chance for success. You may have to pay C.O.D. while getting started so take this fact into account when preparing your financial planning and start-up requirements.

After you have become established with your suppliers send your financial data to Dun And Bradstreet so your company will be listed in their files. Most every firm in the country recognizes Dun and Bradstreet as a most reliable organization for obtaining correct credit information.

Work with your suppliers to take advantage of special offers, cooperative advertising programs, trade and cash discounts, dated invoices, etc.

#### Advertising and Promotion:

When you are getting started give a press release to the local newspaper. Depending on the type of business, it may be very profitable to have a few thousand circulars printed and distributed throughout the area. Or you can have grand opening circulars inserted in the newspaper to be distributed to subscribers.

Watch the ads of your competitors. As you find time clip various ads of businesses similar to your own, from large city papers. File them for ideas when preparing your own ads.

There are all kinds of promotional ideas and gimmicks to keep your business out in front of your competitor. Search the library, book stores and mail order media for such publications. Choose the ones which fit your promotional programs or those that can be "twisted" to fit and get them working for you.

#### BUSINESS FORMAT:

Owning your own business is one of the better ways to gain wealth provided you know what is required. Starting a business is risky but your chances for making good are better if you understand the problems you will meet and work out as many of them as you can before you start.

The Business Format that follows will be a valuable aid in getting you started in a business of your own. Use the format as a check list and guide. If the response to the questions and comments is favorable you are in a preferred position to go into business for yourself.

How about you ... Are you the kind of person who can get a business started and make it go?

The first thing you need to know is if you require someone else to get you started or if you do things on your own with nobody telling you to get going.

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Do you like other people and can you get along with just about anyone?

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Are you able to lead others? Can you get most people to go along when you start something or do you have to follow the lead of others before you act?

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Do you like to take charge of things and be responsible for seeing them through?

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How good are you at organizing things; do you have a plan before you start and are you the one who gets things lined up for the group? \_\_\_\_\_  
Can you make yourself keep going as long as you need in order to accomplish something?

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Are you able to make the right decisions most of the time, even when you have to make up your mind in a hurry?

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Can people trust what you say and have confidence that you don't say things you don't mean?

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Do you stick with it and finish what you start?

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Are you in good health?

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Think very seriously about why you want to own your own business and whether you want it badly enough to keep you working long hours without knowing how much money you will end up with.

Have you worked in a business like the one you intend to start? \_\_\_\_\_

Have you worked for someone else in a management capacity?

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Have you had any business training in school?

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Have you saved any money for your venture?

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How about money? Do you know how much money you will need to get started?

To answer these questions first determine what furniture, fixtures and equipment you will need. List the cost, the down payment or cash price, and if purchased on an installment plan, the amount of each monthly or periodic payment.

Price

\$ \_\_\_\_\_

Down Payment

\$ \_\_\_\_\_

Amount of each payment

\$ \_\_\_\_\_

The furniture, fixtures and equipment required may include such things as counters, storage shelves, cabinets, display stands, tables, cash register, safe, window display fixtures, special lighting, outside signs and delivery equipment.

Now list the starting cost you have to pay only once, such as the following:

Furn., Fix, & Equip. (per previous page)

\$ \_\_\_\_\_

Decorating and remodeling

\_\_\_\_\_

Installation of fixtures and equipment

\_\_\_\_\_

Starting inventory

\_\_\_\_\_

Deposits with public utilities

\_\_\_\_\_

Legal and other professional fees

\_\_\_\_\_

Licenses and permits

\_\_\_\_\_

Advertising and opening promotion

\_\_\_\_\_  
Advance on lease

\_\_\_\_\_  
Other and Misc. cash requirements

\_\_\_\_\_  
TOTAL ESTIMATED CASH NEED TO START

\$\_\_\_\_\_

Now list the estimated monthly expenses:

Salary of owner-manager

\$\_\_\_\_\_  
All other salaries and wages

\_\_\_\_\_  
Payroll taxes and expense

\_\_\_\_\_  
Rent or lease

\_\_\_\_\_  
Advertising

\_\_\_\_\_  
Delivery expense

\_\_\_\_\_  
Supplies

\_\_\_\_\_  
Telephone

\_\_\_\_\_  
Other utilities

\_\_\_\_\_  
Insurance

\_\_\_\_\_  
Property taxes

\_\_\_\_\_  
Interest expense

\_\_\_\_\_  
Repairs and maintenance

\_\_\_\_\_  
Legal and accounting

\_\_\_\_\_  
Miscellaneous

\_\_\_\_\_  
TOTAL ESTIMATED MONTHLY EXPENSES

\$\_\_\_\_\_  
Multiply by 4 (4 months)

\$\_\_\_\_\_  
Add: Total Cash needed to start above

\$\_\_\_\_\_  
TOTAL ESTIMATED CASH NEEDED

\$\_\_\_\_\_

When you have found the approximate amount of cash needed to start, determine how much money of your own you can put into the business.

Where are you going to get the rest of the money you need to start the business?

\_\_\_\_\_  
Do you know the credit terms of your suppliers?

\_\_\_\_\_  
Have you prepared a projected Income Statement to know what profits you may expect?

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Is projected profit, including the salary you pay yourself, sufficient for you to live on and still generate working capital to help your business grow?

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How about a partner?

If you need a partner with money or know-how do you know someone you can get along with as a partner?

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Do you know the good and bad points of being an individual proprietorship, a partnership, or a corporation?

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How about customers?

Do most of the businesses in your community seem to be doing well? \_\_\_\_\_

Have you determined whether stores like the one you want to open are doing well locally and nationally?

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Do you know what kind of people will want to purchase what you plan to sell?

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Is there a good demand for your kind of business?

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Getting started in your business:

How about your building:

Have you found a good building in a good location for your business? \_\_\_\_\_

Will the building fit your business purpose without too much outlay for remodeling or leasehold improvements?

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Is there adequate off-street parking?

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Have you determined if the zoning is right?

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Have you had your attorney check the small print in your lease? \_\_\_\_\_

How about merchandise:

Have you determined how much inventory you will need to open? \_\_\_\_\_

Have you found suppliers you can depend on for good merchandise, when you need it, at a favorable price?

---

Have you compared prices and credit terms of different suppliers? \_\_\_\_\_

Have you checked out your competition in every possible manner to determine pricing, good will, volume of business, etc.? \_\_\_\_\_

How about keeping records:

Do you know how to keep track of your income and expenses; your accounts payable and accounts receivable?  
\_\_\_\_\_

Do you know how to control your inventory so you have enough on hand for your customers buy not more than you can sell? \_\_\_\_\_

Can you compute payrolls, prepare tax reports, etc., or do you know a bookkeeper or accountant who will help with your accounting requirements for a reasonable fee?  
\_\_\_\_\_

Do you know what financial statements you will need in order to guide your operations?  
\_\_\_\_\_

Have you found out what licenses and permits you will need and have you had an opportunity to read up briefly on general business law? \_\_\_\_\_

Protecting your property:

Have you make plans for protection against theft of all kinds....shoplifting, robbery, burglar, employee control?  
\_\_\_\_\_

Have you talked to your insurance agent?  
\_\_\_\_\_

Buying a business someone else has started:

Have you considered purchasing a going business rather than setting up a new operation?  
\_\_\_\_\_

Have you determined the "real" reason the owner wants to sell? \_\_\_\_\_

Have you compared the cost of buying the business with the cost of starting a new business?  
\_\_\_\_\_

Is the building, equipment and stock in good order and can the lease be readily transferred?  
\_\_\_\_\_

How about the suppliers of the company?  
\_\_\_\_\_

## MAKING IT GO:

Advertising:

Have you decided how you will advertise?  
\_\_\_\_\_

Have you watched the ads of your competitors?  
\_\_\_\_\_

How much can you afford for advertising?  
\_\_\_\_\_

Price:

Do you know how to figure out what you should charge for each item you sell?

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Do you know what other stores like yours charge?

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Buying:

Do you have a plan for finding out just what your customers want? \_\_\_\_\_

Will your plan for keeping track of inventory tell you when it is time to order more and how much to order?

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Do you plan to buy most of your stock from a few suppliers rather than a little from many so those you buy from will be more likely to help you succeed?

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Selling:

Have you decided whether you will have sales clerks or run a self service operation?

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Do you know how to get customers to buy?

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Have you thought about why you like to purchase from some sales clerks but not others?

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Your employees:

How are you going to train your help?

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Do you know where and how to find good employees?

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Do you know what kind of person you need?

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Credit:

Have you decided whether to extend credit?

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Have you checked with the bank about getting set up with Visa and Mastercard?

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Can you recognize the difference between a good credit customer and a "dead-beat"?

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What Else?

Could you make more money working for someone else and is for, how does the opportunity compare with future projected profits from a business of your own?

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Does your family go along with your plans to start a business of your own? \_\_\_\_\_

Do you know where to find out about new ideas and new products? \_\_\_\_\_

Do you have a "work plan" for your employees, and for yourself? \_\_\_\_\_

Have you checked to see if there are any governmental agencies available to help you set up your new business?  
\_\_\_\_\_

**IF YOU HAVE ANSWERED ALL THE ABOVE QUESTIONS, YOU HAVE DONE SOME SERIOUS THINKING.** As you proceed in a business of your own don't hesitate to ask others for help. Running a business takes will power. Decide what you need then go after it full blast!