



The Basics of Starting a Business

Scott Ladin



Successful and experienced executives acting as volunteers



Free Mentoring

- One-on-one - Virtual or Face to Face
- E-mail
- Phone

Workshops

- Starting a Business
- Business Model Canvas
- Sales and Marketing
- Finance and Accounting
- Government Contracting
- ... and more

Resources for small business: greaterphoenix.score.org

Agenda

Is Owning
a
Business
Right for
You?

Your
Options
to
Getting
Started

Legal
Things to
Consider

Simple
Business
Planning

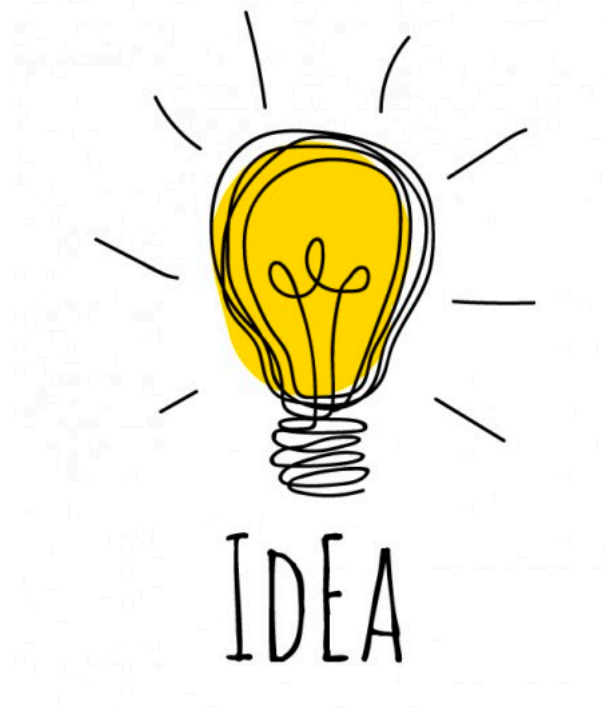
Financials
and
Funding
Your
Business

Marketing
Your
Business

Myth or Reality?

1. As an entrepreneur, you won't have to work so hard or put in such long hours.
2. My product/service is unique and there is no competition.
3. If I own a business, I won't have to pay social security taxes.
4. As a business owner, I can expense everything.
5. Business owners get to do what they want to do.

It Starts with an Idea ...



Your idea should solve a problem or fulfill a need in the marketplace.

It's should be clear who will buy and why.

It Starts with an Idea ... but Success Requires So Much More!

Can You Check All These Boxes?

- Industry experience
- Strong work ethic
- Strong time management skills
- Ability to multitask
- Management/personnel skills
- Willing to ask for help
- Self-motivated
- Leadership skills
- Emotional intelligence
- Resourceful
- Responsible
- Organized
- Persistent
- Decisive
- Good health
- A supportive family

Passion + Values



Long term success

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Your Options for Starting a Business

1. Starting a new business

PRO's

- You're not hampered by the previous image or equipment of an existing business.
- You can choose your own location, name and logo, and build your own business relationships.
- You can explore new markets and directions.

CON's

- You have no existing customer base to build on.
- You're taking a bigger risk than if you were buying an existing business.
- Because your business has no track record, it will be harder to find financing.

Your Options for Starting a Business

2. Buying an existing business

bizbuysell.com

PRO's

- You gain an established customer base, location and supplier relationships.
- The business is a known entity with a proven formula and name recognition.
- You can review the business's records before buying to make sure it's profitable.
- Because the business has a track record, it may be easier to obtain financing.

CON's

- Hidden problems could haunt you—e.g., misrepresentations of profitability.
- The business has a reputation, but is it always a good one?
- The business's inventory could be obsolete; assets or goodwill could be inflated.
- Employees or customers may be loyal to the former owner, causing management issues.
- There's no guarantee past success will continue under your ownership.

Your Options for Starting a Business

3. Buying a franchise

<https://frannet.com/franchise-consultant/kent-craven/>

PRO's

- As a franchisee you become part of a system with a well-known image and proven products or services.
- You have the marketing and sales power of the franchisor behind you.
- You get training and guidance from the franchisor.
- You're part of a network and can turn to other franchisees for help.
- Easiest to finance and most franchisors have a relationship with a lender.

CON's

- You don't have as much freedom as an independent business owner.
- You must pay ongoing royalties and other fees.
- You must sign a binding contract that limits your ability to exit the business.
- The franchisor's problems—whether financial, image or otherwise—become your problems.

The Components of Business Ownership

What Skills Do You Have?

Administration – phones, paperwork, office management and insurance issues

Accounting – bookkeeping, taxes, payables and receivables

Human resources – hiring, firing and managing employees

Marketing – creating and promoting your company's via advertising, PR and more

Sales – prospecting for new leads, cold calling, making sales presentations

Customer service – taking orders, handling complaints and building relationships

Production and fulfillment – manufacturing, shipping and warehousing

Information technology – choosing, purchasing and troubleshooting technology

Physical plant – selecting your location, negotiating leases and maintaining site

Your Very Important “Partners”

Banker



Accountant



Insurance Agent



Lawyer



And your SCORE business mentor!

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DBAs, TPTs and EINs

	DBA	TPT	EIN
What It Stands For	Doing Business As	Transaction Privilege Tax	Employer Identification Number
Why Is It Important	Puts the name on public record and prevents someone else from registering that same name with AZSoS.	A tax on a vendor for the privilege of doing business in the state.	Required to open a business bank account, get business licenses and file taxes
Who Issues	AZ Secretary of State	AZ Department of Revenue	IRS
Cost	\$10	For each location: <ul style="list-style-type: none"> • State: \$12 • City: \$0.00 to \$50.00 	Free

Choosing Your Legal Business and Tax Structure

Sole Proprietorship	Limited Liability Company (LLC)	"S" Corp
One person owns and operates the business; earnings taxed just once; personal liability	Limits liability of the business owner; earnings/losses are personally taxed; should have a written membership agreement	Limits liability of the business owner; earnings/losses are personally taxed; regulations can be costly/time consuming; possible restrictions to capital raising

***** Always review with your attorney and accountant *****

Protecting Your Company Name and Trademarks

1

**Search Availability
of Name**

US Trademark Search

tmsearch.uspto.gov/

AZ Trademark Search

apps.azsos.gov/apps/tntp/se.html

2

**Search Availability
of Domain and
Register**

Dotster.com

dotster.com/

3

**Register Tradename
/ Trademarks**

**US Patent and
Trademark Office
(USPTO)**

AZ Secretary of State

<https://azsos.gov/business/trade-names-trademarks>

https://azsos.gov/sites/default/files/BSD_Trade_Name_Handbook_v4_20190107.pdf

Hiring, Training, Retaining Employees

- Develop an employee handbook
- Develop job descriptions, grade levels, compensation by grades
- Performance review process and career pathing
- Performance improvement / coaching process
- Develop a termination agreement, exit survey
- Find a payroll processor (Quickbooks, Paychex, ADP, etc...)
- Consider an HR support system (Zenefits, Paycor, etc..)
- Ensure work eligibility in the US (I9/e-verify)
- Workers compensation insurance
- Follow labor and legal requirements re: sick time, minimum wage, withholding taxes, labor posters, independent contractors vs. employee, etc.

<https://www.irs.gov/newsroom/understanding-employee-vs-contractor-designation>

Insuring Your Business

Property: Covers fire and other loss to buildings, building contents, inventory and home-based businesses. Add-ons such as business interruption insurance can expand this coverage.

Liability: Covers bodily injury and property damage to others caused by accidents on your property, such as if a customer slips and falls at your place of business.

Errors and omissions (E&O): Covers mistakes that your employees make that may result in damages to your business or a client. Common in professional services.

Motor vehicle: Covers bodily injury and property damage resulting from the business use of your motor vehicles, such as if an employee drives a company van to make deliveries.

Umbrella liability: Provides additional liability insurance above the limits in your basic automobile and general liability policies.

Worker's compensation: Covers injuries, death and loss of wages to workers injured on the job, including the owner, and protects you against employee lawsuits for damages.

Health: If you rely on your current job for health insurance, you'll need to research private health insurance options before starting your business.

Life: Many business partners buy "key man" life insurance on the partners in the business. If one owner dies, the proceeds enable the surviving partners to buy his or her share from the heirs.

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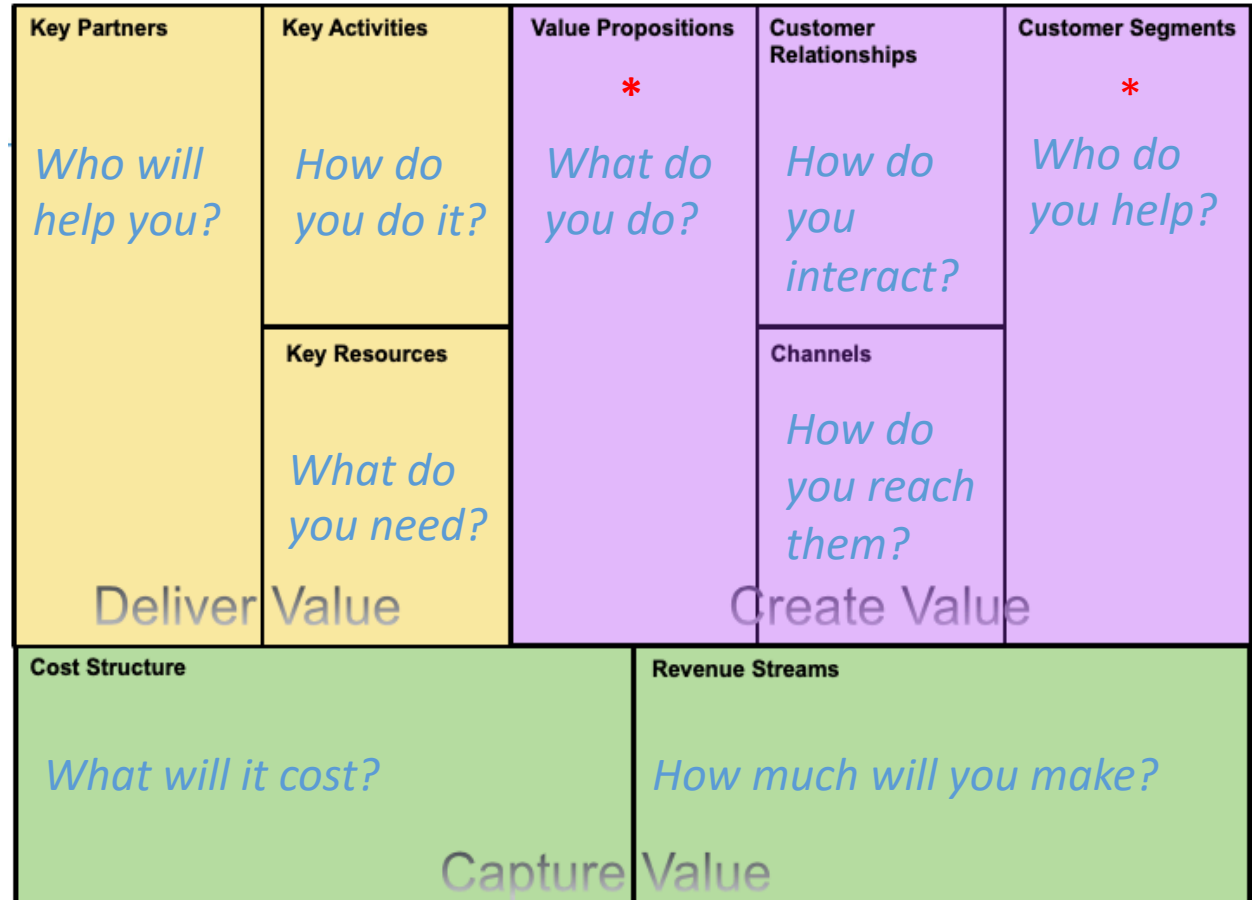
Marketing
Your
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The Business Model Canvas

A **Business Model** is everything an organization does to **Create**, **Deliver** and **Capture** value (\$'s).

The **Canvas** is a way to visualize the key building blocks of your business.

It is a “living” document!



<https://www.strategyzer.com>

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Funding Your Dream - Estimating Your Needs

STARTUP EXPENSES	ESTIMATED AMOUNT
BUILDINGS/REAL ESTATE	
Purchase/Lease	
Construction	
Remodeling	
Leasehold Improvements	
Other	
TOTAL BUILDINGS/REAL ESTATE	\$
CAPITAL EQUIPMENT LIST	
Furniture	
Equipment	
Fixtures	
Machinery	
Technology	
Other	
TOTAL CAPITAL EQUIPMENT	\$
ADMINISTRATIVE EXPENSES	
Corporate Fees, Permits and Taxes	
Real Estate and Utility Deposits	
Legal and Accounting Fees	
Insurance	
Salaries and Wages	
Payroll Taxes	
Benefits	
Website Maintenance	
Office Supplies	
Other	
TOTAL ADMINISTRATIVE EXPENSES	\$
OPENING INVENTORY	
Category 1	
Category 2	
Category 3	
TOTAL INVENTORY	\$
ADVERTISING/PROMOTIONAL EXPENSES	
Advertising	
Website Development	
Signage	
Printing	
Travel, Meals and Entertainment	
Other/Additional Categories	
TOTAL ADVERTISING/PROMOTIONAL EXPENSES	\$
OTHER EXPENSES	
Other Expense 1	
Other Expense 2	
TOTAL OTHER EXPENSES	\$
RESERVE FOR CONTINGENCIES	
WORKING CAPITAL	

What will it cost to get started?

- Leasehold improvements
- Inventory
- Equipment
- Website
- Legal fees, professional fees, licenses, permits
- Start-up marketing
- Excess working capital to cover negative cash flow in the first 12-18 months

Now add 30%!

Do You Have the Financial Resources?

Calculate your income goal using an industry benchmark

Personal and Laundry Services	2017
Sole Prop Annual Average Sales, Income & Expense	
Sales	100.00%
Inventory (% of Sales)	0.85%
Cost of Sales	9.97%
COS-Labor Portion	1.79%
Gross Profit	90.03%
Salary-Wages	5.60%
Contract Labor-Commissions	5.27%
Rent	9.72%
Taxes	1.17%
Interest paid	0.45%
Amort. & Dep.	2.28%
Advertising	1.25%
Benefits-Pension	0.08%
Insurance (non-health)	1.14%
Home Office Expense	0.68%
Other SG&A Exp.	29.18%
Total Expenses	56.82%
Net Profit	33.21%

Expected income: \$50,000

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Net profit: .3321%

=

Annual sales: \$150,557

www.bizstats.com

Funding Your Dream – Raising Capital

	You	Friends and Family	Banks	Venture / Angel Capital	Crowdfunding
Difficulty	Easy	Moderate	Difficult	Very Difficult	Emerging
What's Required	Savings / Assets	Friends and Family w/ Money	Full business plan	Full business plan	An Offer and/or Full Business Plan
Things to Consider	<ul style="list-style-type: none"> How much can you afford to lose? What are you willing to risk? Impact on your family? How do you sustain your lifestyle while business if losing money? If you don't invest a significant amount, no one else will invest 	<ul style="list-style-type: none"> Can you handle the mental anguish of losing your friend's / family's money? Can they afford to lose it? Debt vs. equity? Are you offering collateral? Create a formal loan agreement with terms of repayment, collateral, etc. 	<ul style="list-style-type: none"> You will need a detailed and professional business plan You may need proven cash flow and to provide 100% collateral You may want an SBA guarantee (SBA will guarantee up to 75% for the bank) Attend an SBA seminar 	<ul style="list-style-type: none"> Not for most businesses Best if you have a successful business and need capital to grow You will need a detailed and professional business plan You will need to knock on many doors You will have to give up a lot of equity 	<ul style="list-style-type: none"> Most common is to offer a “pre-sale” of product with a minimum raise required (Kickstarter and Indiegogo) Equity Funding allowed under Title III SEC Rules Published (about 600 pages) Equity Portals

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What is Marketing?



Changing Behavior by Changing Beliefs

1

Whose Behavior are You Trying to Change?



2

How Will You Change Their Behavior?

Increase customers or increase customer spend!

Examples of Typical Marketing Effectiveness

Example Actions	Cost per Action	Typical Conversion	Typical Conversion Rate
Blog post website visit (SEO)	Negligible	Lead	0.5% - 3%
Website visit (SEO)	Negligible	Lead	2.0% - 5%
E-commerce visit (SEO)	Negligible	Purchase	1.0% - 5.0%
Facebook Ad Impression	\$0.01 - \$0.05	Awareness	0.1% - 0.5%
Facebook Ad Click	\$2.00 - \$5.00	Lead	5.0% - 15.0%
Direct Mail Postcard	\$0.35	Purchase	0.1% - 1.0%
Paid Search Click to an E-commerce Website	\$2.00 - \$15.00	Purchase	2.0% - 5.0%
Paid Search Click to a Website	\$2.00 - \$15.00	Lead	5.0% - 15.0%
Email (list to people who have given you their email)	Negligible	Lead	0.01% - 0.02%

Lead = a phone call, a website form submission, a coupon download

Purchase = e-commerce purchase, in-store purchase, on-line booking

Awareness = awareness of your business

1. Do some serious soul searching about whether owning a business is right for you.
2. Look at all your options to become an owner ... don't just jump in.
3. Get a good team of help before you spend money (Lawyer, CPA, insurance agent, banker, ACA, SCORE Mentor)
4. Failing to plan is simply planning to fail.
5. Project your financials thoroughly and conservatively.



Take the next steps to Starting Your Business

- Start your research!
- Visit GreaterPhoenix.SCORE.org
 - Sign-up for FREE mentoring
 - Explore other workshops and resources



Questions?