

Business Ownership... Is It For Me?

With home-based and micro business emphasis

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Note: You may want to get a notebook and a folder/binder so you can keep the various materials together as you explore the exciting idea of starting your own business.

Introduction

Owning your own business - A dream for many. Many people think about the dream and a substantial number take the steps to be their own boss. Over 70% of all individuals, both young and old, anticipate owning their own business someday. Between 5 and 8% of working adults start a business every year or approximately 6 million new businesses each year.

New small businesses form the core of our economic engine. They It has been repeatedly reported that small businesses generate the majority of new jobs in the United States. And the smaller the business, the more jobs proportionately they generate. Plus small businesses contribute about 50% of our economic productivity. They represent over 95% of all businesses in the United States. The vast majority of these small businesses are very small in terms of employment with most having four or fewer employees.

Many people are starting home-based and micro businesses than ever before. People are turning their skills, hobbies and ideas into profitable ventures. This can be a satisfying experience. The endeavor is usually something a person enjoys doing or is very skilled at doing. It allows for flexibility so you can work around your family and work schedules. It also gives you the independence of being your own boss.

The words **entrepreneur** and **entrepreneurship** come from the French word "**entreprendre**," or "**to undertake**." An entrepreneur is someone who organizes, operates and takes the risk in a business venture expecting to gain a profit. Entrepreneurship refers to the process of planning, organizing and operating a business.

Business ownership is not for everyone, even more true for home-based businesses. For many people it will be a supplemental income source for retirement or extra income for the family. In fact, less than 50 percent of home-based and micro business owners recently surveyed cited making lots of money as a motivation for starting their own business. Seventy-eight percent of business owners stated that having more control over their lives was an important reason. So, even though you may not get rich from such an endeavor, it may be worth the effort to try your idea. And remember, entrepreneurs may not see a profit right away; it will depend on the type of business.

There are several facets to consider when starting a business. The process begins with two key tasks. The first is taking a reflective look at yourself as an entrepreneur and the second is determining if there will be a profitable market for your products or services. Both help you avoid wasting a large amount of time and money. Too many businesses fail because people do not plan before starting.

Once you have surveyed yourself and the business landscape, the next most challenging business tasks have been found to be: 1) marketing; 2) time management; 3) financial record keeping; 4) avoiding overhead and inadequate capital; and 5) assistance in managing varied responsibilities. Again with planning and effort, these obstacles can also be minimized.

This publication will identify and address how to identify and minimize many of these obstacles. If you decide to pursue a business, careful planning and consideration of these topics will help increase the chances of success and in some cases prevent you from making an unwise investment or help avoid unnecessary risks.

This material is a tool to help guide your planning and to provide other helpful resources. The focus is helping you develop as an entrepreneur and to moving your idea to an opportunity with success the eventual goal. However, the information is not a guarantee for success; it cannot provide you with the basic requirements of the successful entrepreneur – **passion and persistence**.

Advantages and Disadvantages of Owning Your Own Business

Advantages of a home-based business include having a flexible schedule; integration of family and work responsibilities; less involvement with others in a regular work environment, such as power struggles and red tape; no commuting time (unless you travel to a customer's home or place of business); control of your own personal environment (temperature, light, work breaks, etc); self-determination and independence; increasing personal fulfillment; seeking and setting personal goals; enhancing creativity; and remaining in a community or moving with a spouse to a new community even when jobs are scarce or not available.

Disadvantages of a home-based business include needing to know a lot of information to operate a business successfully; the risk involved in operating a business; time conflicts including how to get everything done, family versus business and my time versus business time?); lack of guaranteed employee fringe benefits; competing roles and responsibilities (producer, promoter, bill collector, customer service representative); lack of job security; loss of home space use by family; interruptions; lack of self-discipline; little opportunity to delegate; long hard hours, and legal requirements including zoning regulations. Realize that being committed to a business may mean lack of freedom to do other things and to go as you please.

Other factors to consider - The decision to go into business is based on a thorough study of factors such as the potential market, sales promotion and advertising, location, making the product or setting up the service, delivery of the product and profit potential. Consultation with a small business expert such as a Small Business Administration Service Corps of Retired Executives Association (SCORE) counselor (<http://www.score.org/index.html>) or the Small Business Development Center (SBDC) staff (<http://www.ndsbdc.org>) will help you decide if the particular small business would be feasible and help find answers to the following and other related questions: How likely is it that the business will be profitable? Who is the competition? Is there a long-time need for the product or service, or is it a fad-type item? Are you an expert in producing the product or service?

Am I an Entrepreneur?

So why begin with a self-analysis of you as an entrepreneur? You already know that you want to own your own business and you may already have a great idea. Perhaps you are tired or bored of your regular job and never get to show your creative or leadership abilities. Or maybe you need something to fill in the gap between what you earn and what you spend (for agricultural producers, it may be to keep the farm).

So why - Because starting a business is a risk and you may be investing everything, your savings, your current earnings, your reputation, the farm, your career, the house, and, most importantly, your time. Time is something you cannot get back. You need to minimize the risks.

This reflection and the later business planning process all focus on identifying weak areas and making adjustments that will strengthen those areas. It is much easier to do this before something happens than to try and fix things while or after an issue arises.

Remember that this analysis helps find weaknesses. The positive of all this is that each weakness can be overcome. So nothing you discover will stop you from achieving your goal of owning your own business.

Business owners need three types of skills:

Entrepreneurial skills. These skills include many of the traits identified in the tools shown below. Skills included are self-discipline, creativity, determination and perseverance, enthusiasm, self-confidence, and responsibility. Each business owner needs to develop or enhance entrepreneurial skills to be successful. Without entrepreneurial skills, the business will be successful only with a lot of luck!

Management skills. These skills include: planning, organizing, record keeping, problem solving, and managing employees. Business owners who have limited management skills need to work with someone who can help them develop skills in this area. A lack of business management skills is a primary cause of business failure for many owners.

Technical skills. These include skills and qualifications to be able to perform the tasks required of the business you want to run. Examples include plumbing, electricity, catering, hanging wallpaper, and tutoring.

The following are some tools to help you start your personal evaluation.

Tool 1 – Self-Evaluation Checklist

Tool 2 – SBA Self-Analysis Checklist

Tool 3 – Resources, Experiences and Networks

Other Tools

Small Business Administration – Checklist for Going Into Business

http://www.sba.gov/idc/groups/public/documents/sba_homepage/pub_mp12.pdf

Small Business Administration – Business Readiness Assessment Tool

<http://web.sba.gov/sbtn/sbat/index.cfm?Tool=4>

Small Business Administration – Plan Your Business – Get Ready

<http://www.sba.gov/smallbusinessplanner/plan/getready/index.html>

Do I have the Resources (\$\$\$\$\$) Available?

In the previous section, you were asked to list a variety of resources that are valuable, but not always necessary, when starting a business. There are, however, two resources, that no business can start without – money and time. Let us first look at the financial resources needed and then turn our attention to time.

No business can begin without some financial capital required. While stories are written about businesses starting for less than \$1000 dollars, such as Domino's Pizza and Hewlett Packard, a more realistic minimum starting figure is between \$5000 and \$10,000. The amount though is highly variable depending on where you are located (home-based businesses have a tremendous advantage here), the amount of inventory you must carry, and the costs of obtaining licenses, permits, registration, etc.

Often this transition to being an entrepreneur takes preparation. Resource 1 provides some ideas of where these initial funds can be obtained. Not mentioned in the article is the fact that borrowing money can also be used for initial capital. To do that, you must have a good credit rating with room to borrow more. Any source of funds in the early stages will look at the creditworthiness of the individual. More will be discussed about this later.

So now is a good time to determine your creditworthiness, get a copy of your credit report, and to develop a personal snapshot of your assets (Tool 4).

Resource 1 - Business Startups Require Money
Tool 4 – Financial Resources Available

Time Mangement

Time is a resource we all have the same amount of, yet some people seem to get more done in their 24 hours than other people do. Time is the one resource that can only be used, not saved, borrowed or wasted. Juggling time for home and work can be a special problem for those who work at home.

To plan better for time use, you need to know how you are currently using your time. Some things you can do include:

- Record how time is used.
- Analyze what you recorded to see how it related to the business.
- Look at each category and separate those activities that had to be done at a specific time and those that could be done anytime.
- Decide what are time wasters. Are they controllable and uncontrollable?
- Determine if there are things that needed to get done that were left undone and why.
- Think about ways to improve the effectiveness of your use of time.

Keeping a daily log from time to time and analyzing it in this fashion will provide a reality check on how time is being used and provide incentive for "plugging the gaps" between how time is being used and the goals for work and home. Some basic suggestions for planning time include:

- Schedule based on your business plan and priorities.
- Look at what needs to be done for the week and determine which of those items go in "today's schedule."
- Put items that have to be done at a certain time on the schedule first.
- Arrange storage areas and work centers so items used frequently are at your fingertips.
- Do more than one thing at a time. Some tasks require minimal concentration, and this time can be used to plan other activities.
- **Learn to say "No"** if your involvement in too many activities becomes a problem. Don't spread yourself too thin.

- Recognize the time of day when you are most productive. Do the important tasks during this prime time.
- Delegate as many tasks as you can. Identify certain jobs (home or business) that can be handled by other family members.
- Prevent a crisis. Don't procrastinate so that a failure to act becomes an urgent matter.
- Divide major tasks into many small, manageable tasks.
- Look at ways to improve every task you undertake. Try to find ways to make them quicker, easier, simpler and less tiring.
- Plan ahead and anticipate problems before they occur.
- Think through jobs so you can work efficiently. Careful organization can prevent the loss of valuable time.

Look at your schedule the first thing in the morning and don't become distracted. Time is a tool. It is one of the resources of your business. How you use this resource may be one of the most important factors in the success of your business. You may need to let family and friends know that just because you work from the home, you still have to maintain business hours.

Other Resources

Cashing In On Business Opportunities, Part 1, Developing Time-Management Tactics,
Southern Rural Development Center,
http://srdc.msstate.edu/trainings/educurricula/cashing/files/4_p1_developing.pdf

Look for:

- Take the Time Quiz
- How Do You Use Your Time Now?
- Time Management Tips

Business/Family Balance

If you are thinking of going into business, the most important group that you need on your side is your family. As indicated above, a business will change your life, certainly in terms of money and time, but also in terms of interactions, relationships and roles. This is true whether your family members are involved in the business or whether they are just your sidelines support group. Even for family members who do not ever work in the business may find themselves with new tasks at home that you once handled.

Starting a business may bring a variety of changes including:

- Need for coordinating schedules
- Change in decision making roles
- Family tension and conflict
- Being asked to work without pay in the business or at home
- Skipping household or business tasks
- Getting less sleep
- Doing business work at home and family work at the business
- Confusion over who does what at home and perhaps at the business
- Confusion over authority at home and at the business
- Unfair, or the perception of unfair, workloads
- Downward or upward shift in income
- Competition for resources among the family and the business

- Loss of personal time together
- A shift in family and work goals

Yet family can also, in addition to being the cheerleader, offer:

- A sounding board for difficult questions
- A source of labor
- Funding
- A sense of values that can be brought into the business

So at this early stage, sit down with family members and discuss your idea and why you want to make the change. This is the time to let everyone in on the plans and to have a conversation about what lies ahead. The focus of your discussions should be to outline the demands of the business, the needs of the family and how these two can be integrated. Tool 5 might help you begin.

Can You Live Where You Work...And Work Where You Live? – While being in any kind of business has certain basic requirements, a home-based business has additional ones. Self-discipline is very important. When working for someone else means that many responsibilities are shared with other employees, being in business for yourself means you carry the whole load. Some people don't want all of the responsibility of licenses, regulations, taxes, insurance, keeping records, advertising and pricing, etc. Are you willing to take on these responsibilities?

Depending on the business, you may also find a home-based business to be confining, stressful, expensive and physically exhausting. On the other hand, being on your own can be very stimulating, financially rewarding and satisfying.

A home-based business may cause problems within the family. You need the full support of spouse, children and others. They need to take you and your business seriously. What help can you expect or do you need from family members? Use of their money, skills and time often make the difference between success and failure.

A unique situation occurs when a business is operated out of the home. Conflict can result from the infringement of the customer/business interaction on family functioning. A family and business does not integrate successfully in the same space without some planning. Six areas of family functioning are likely to be affected.

Family cohesion. Having a business at home brings a number of potential conflicts. Some of the more common ones include disruptions of routines, meal schedules and even where a meal might be eaten, use of family vehicles, and feeling of always being in the public view.

Personal and family time schedules. If the schedules of family members are fixed and intermeshed (one car and each person needs to be on time for various commitments), a business would have to meet this time schedule. It would be difficult to retail items such as paintings and crafts if customers stop by anytime.

You must ask yourself if you will have adequate time to spend with your family? Doing work part-time or postponing starting a business a few years may enable you to better prepare for starting a business and allow you more time with your family when they particularly need you.

Use of space. Each household will need to answer the following: 1) What will the business demand from the home space? 2) What does the family need from the space in the home? 3) How can you develop a management plan for household space use that best accommodates your family and your business?

Is your business one which requires storage space, an area for customer interaction, specialized tools and equipment, or convenient access for pickup and delivery? Is confidentiality a problem? How about areas of privacy for family? The arrangement of space may affect ongoing family activities. The most convenient part of the house for customer interaction, pickup and delivery is often the most shared and public parts of the house (kitchen, living room, etc.).

And not all home-based businesses are the same. Different business types, such as production/service; consulting or counseling; sales or marketing and mail order, all have different space needs. Thinking about what category describes your business can help you begin to think about space needs. Think about storage space, space for tools and equipment, production space, area to meet with clientele, pickup and delivery and office space.

Space separations must be maintained for deductions as business expenses for tax purposes. The IRS regulations say:

To deduct expenses for business use of the home, part of your home must be used regularly and exclusively as one of the following:

1. The principal place of business for your trade or business
2. The place where you meet and deal with your patients, clients, or customers in the normal course of your trade or business; or
3. In connection with your trade or business, if you use a separate structure that is not attached to your home

IRS Topic 509

Beyond the tax implications, you must determine if a part of the house simply is too important to your family's life lifestyle and patterns to also be used in the business.

The issue of space, research shows, is the most common cause of disharmony. Included in the space issue is that of privacy, both for individual family members but also for the business owner.

Communication. Communication has been identified several times already and will be seen more times as you go through this program. Certainly communication with family members is crucial for you to achieve your goals.

Another important communication link that research has shown as difficult to develop and maintain for home-based business is a professional network. This network includes other business owners, mentors, coaches and general supporters. Your network can provide leads to prospective sales, suppliers, and needed professionals.

The Neighborhood. How do your neighbors feel about a business in the neighborhood, and do city and county codes permit your business to be established in the neighborhood? Higher traffic in the neighborhood may cause disenchantment among

friends and neighbors. A seamstress may consider fitting garments at the client's house or secure alteration business through a clothing store or dry cleaners in order to preserve the character of the neighborhood, for example.

Shipping and deliveries could be made to a U.S. postal service box or parcel service branch office to avoid unwanted truck traffic.

Risk handling behavior. Another aspect of family functioning which relates to a business at home is the family's attitude toward risk. Some are risk seekers who look for opportunities to be tested, willingly take financial risks, and promote novelty and change in their lives. Others tend to avoid change and desire a secure environment at home and around the family.

Tool 5 – Family and Business Goals and Relationships

Finding and Turning Business Ideas into Business Opportunities

Background

A business can be either product-oriented or service-oriented. Product-oriented businesses are usually two types: a) selling products made by you, family members and/or employees (like raw materials such as fabrics or tanned leather, kits like yarn/pattern and knitting needles, partially finished items like unpainted bird houses or completed articles such as jewelry and belt buckles) or b) selling products manufactured by others and either purchased by you for resale or sold on an order basis. Services may involve performing a service at the place of business (word processing, tutoring, bookkeeping or child care) or at another location (house painting, carpet cleaning or consulting). The business you select can also be a combination of both product and service. A relatively new business, combining both, is the sale and installation of closet organizers.

Whatever you decide to do, you must “love what you do.” (Check out the video at: <http://ecorner.stanford.edu/authorMaterialInfo.html?mid=279>). Just because you make super apple pies or wooden toys doesn't mean that you would want to create them six days a week. But keep yourself open to other ideas that are in the area you enjoy. You love music so you could perform or you could teach or you could just work in a recording studio making advertising jingles or you could sell music in various forms. See Resource 2 – Business Ideas for a list of potential ideas. Experience seems to show that often the business owner who really wants to do something can make it happen.

Finding the Idea

Business ideas can come to you from just about anywhere and in many different forms. You just have to be aware of problems, challenges, and opportunities that make you or someone else say...why have I never heard of a company selling that or providing that service? The key is listening - listening for what the market wants. Ideas also arise from change – change in technology, demographics, rules and regulations, raw materials, products going obsolete, new production methods, new marketing plans, or lifestyle are just some examples.

Many business owners have turned their hobbies, interests and skills into satisfying and often lucrative business ventures. They simply saw a need in the world around them and figured out a way to make money by filling that need. Your business idea may come from your interests, skills and abilities, education/training, and experiences.

Besides ideas coming from what you love, they also come from what others tell you – you might excel at teaching or photography. Ideas also come from watching the market place. Ask yourself what is going on that you can capitalize on. Today's desire for knowing where our food supply comes from is driving a growing “local foods” industry.

Ideas also come from turning old ideas into new products and services. Truly innovative ideas are rare. Many of our new products are just a replay of something done before or represent a small twist on an existing product or service. For years, businesses hired lawn care services for their grounds. It has now become common for homeowners to also do this. Ideas also can come from doing the same thing as another business only doing it better or with a different, unique angle.

One good idea generator is to drive to another town similar to yours. Then ask what they are offering where people are waiting in line to get it. Then go home and try the same thing. Or try to see where a new product or service is taking off and try to jump on the wave. This is hard to do but can be profitable if done right.

So ideas can come from anywhere and can be unlimited in number. Take time to sit and think, asking yourself “what does the market need” or “what problems exist that I can solve.” Today we have, people who shop for you, cook for you (in your own home), pet sit, and take your boat or recreational vehicle out and have it all set up for when you arrive. All of these were started by people looking for a market niche. Finding ideas is not the issue. The harder task is determining which of your ideas represent an opportunity.

Resource 2 – A List of Business Ideas

Finding the Opportunity among the Ideas

Three things to remember:

1. An idea is not necessarily an opportunity.
2. You do not need a great idea or a new idea.
3. Entrepreneurs don't see problems, they see opportunities.

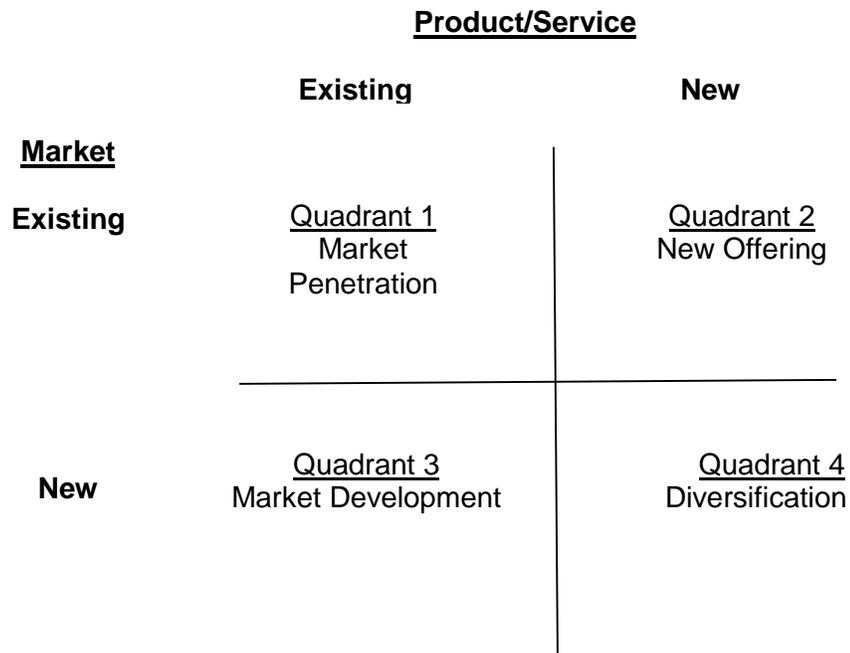
So what does this mean? What you need, as a successful entrepreneur are:

1. Good ideas
2. A great plan on how to implement the idea, and
3. The passion and persistence to bring everything together to make it happen.

Over 20,000 new items enter your typical supermarket each year. Of those, maybe 5-10% will enjoy market success and adequate penetration that you will find them 2-3 years later. Note however that what a supermarket may consider as adequate sales to continue a product may be far greater than what you, the small business owner, need to not only survive but to thrive.

So as you look at turning ideas into opportunities, it is important to remember that all products and services fall into one of the four areas of the entrepreneurial grid.

Entrepreneurial Grid



As you think about turning the idea into an opportunity, quadrants 2 and 3 are typically the easiest places to enter. Going back to the idea of going to a similar town and seeing what ideas you might replicate. That is an example of a quadrant 3 opportunity – taking an existing product or service to a new market. Adding honey to Cheerios® was a quadrant 2 opportunity. This latter idea does not represent a large leap; instead it is a small step in changing a product and providing it to a market that already identifies with the original product. As you begin looking for your opportunities, you may wish to re-examine Tool 3.

Tool 6 – Opportunity Questionnaire

Tool 7 – Moving From Ideas to Opportunities

Resource 3 – Market Analysis Data

See also:

Evaluating Your Business Idea – Missouri Small Business Development Centers

<http://www.missouribusiness.net/sbtcd/docs/evalbus.pdf>

Assessing the Business Idea (click on this topic)

<http://www.planware.org/businessideas.htm#4>

Buying, Starting from Scratch, or Franchise

Once you know you want to be in business and have decided what business you want to operate, the next question is how to start. This question raises several issues but the first question is do you start from scratch (this may be your only alternative) or do you buy an existing business, or do you start with a franchise. Each method has certain advantages and disadvantages. The next section will look at starting a business from scratch but many of the steps discussed apply also to these other two methods of getting into business.

Buy an existing business – First question, is “is there a business available?” A related issue is the ability to buy that business at a reasonable price. This means doing your homework. You will need professional assistance to analyze the details as you look through the company’s books and records. You need to ask yourself why the business is for sale. Also consider what needs to be done to the business and the risk of a change in ownership.

With an existing business you can avoid some startup problems plus have an established reputation (which can be good or bad) and a recognized name. Buying an existing business may offer the chance to contract with the previous owner for operational support and the owner may also consider financing part of the sale.

You will need the help of an attorney to help draft the sales agreement. Clearly outline what you are buying – name, client list, inventory, building, equipment, intellectual property, non-compete clause, management assistance, etc. Up-front diligence and clear agreements can be very helpful in the long run.

You can also read: <http://www.businesstown.com/businessopps/forsale-consider.asp>

Franchise – There has been over the years a tremendous growth in the number of franchises available. Again, buying a franchise can give you a recognized product/service plus methods of operation. The franchiser may help with financing, suppliers, layout, trademarks, equipment, and marketing. Each of these items though will come at a cost, either directly or indirectly. Some lenders view a franchise operation as less risky.

What you give up with a franchise is some control plus a share of your profits. You also run the risk that the franchiser does not have solid financial footing. To check a franchise, contact the Better Business Bureau, both where you want to put yours and where the home company is located, and the Secretary of State or Attorney General’s Office, again in both locations. Talk to other franchise owners and go see franchise operations in operation.

Resources

Buying a Business - U.S. Small Business Administration

<http://www.sba.gov/smallbusinessplanner/start/buyabusiness/index.html>

Buying a Franchise - U.S. Small Business Administration

<http://www.sba.gov/smallbusinessplanner/start/buyafanchise/index.html>

Scams

As you consider a business beware of scams. Home-based business opportunities have been a regular source of scams. Many companies are more interested in selling a worthless business idea to someone instead of helping them develop a real small business opportunity. So check it out! The old adage "if it seems too good to be true, it probably is" holds true. Evaluate all ads carefully, and if you suspect it's a scam notify the Attorney General's Office before investing in a business opportunity. Thoroughly evaluate the potential for the business you plan to operate. Obtaining good advice can help prevent you from making expensive mistakes which often lead to failure.

Resources

Local Better Business Bureau

ND Attorney General

1-800-472-2600

<http://www.ag.state.nd.us/cpat/cpat.htm>

Cashing In On Business Opportunities, Southern Rural Development Center – see “Spotting Opportunities among Scams”

<http://srdc.msstate.edu/trainings/educurricula/cashing/contents.html>

Council of Better Business Bureaus, Inc.

4200 Wilson Bld. Suite 800

Arlington, VA 22203-1838

703-276-0100

<http://www.bbb.org>

Federal Trade Commission

Consumer Response Center

600 Pennsylvania Ave, NW

Washington, DC 20580

877-FTC-HELP (382-4357)

<http://www.ftc.gov>

National Consumers League

1701 K Street, NW, Suite 1200

Washington, D.C. 20006

202-835-3323

<http://www.natlconsumersleague.org>

National Fraud Information Center

PO Box 65868

Washington, DC 20035

800-876-7060

<http://www.fraud.org>

United States Postal Service

Office of Inspector General

1735 N. Lynn Street

Arlington, VA 22209-2020

888-877-7644

<http://www.uspt.gov>

Start-Up Preparation

The Business Plan

If you have done any research regarding going into business, you have probably seen references to the need to develop a business plan. Many business owners associate doing a business plan with the need to borrow money. And while that is one use of the plan, the reality of business plans is that they are for you, the owner. It is a guide of what you want to do and how it will be done. It provides markers to make sure you are on track and meeting deadlines. The process of writing the plan, bringing your idea into reality by dealing with the who, what, when, where, why, and how, is as important as the final product. The process encourages you to take a hard look at your enterprise. It helps find the gaps and then identify the resources and networks you have in place.

Although plans may vary slightly, there are common sections that can be found in all plans. These include:

1. Executive Summary
2. Introduction
 - Your company, mission statement, values and beliefs of company, legal structure of business, key employees,
3. Business Description
 - Industry, products, services,
4. Market Analysis
 - Size, location, trends, competition, consumer demographics, opportunity analysis, industry trends and market conditions, regulatory and legal conditions, niche opportunities, market shares and analysis,
6. Marketing Plan
 - Production, placement, pricing, place, positioning, promotion, packaging, perception, branding, distribution,
7. Operating Plan
 - Business structure, record keeping systems, ownership, management, staffing, facilities and equipment, operations, schedules, source of raw materials, supplies, inventory, inventory control, quality control, billing and collections, policies and procedures, legal issues including intellectual property protection, regulatory compliance,
8. Financial Assessment/Plan
 - Pro forma balance sheet, profit and loss statement, and cash flow statement (1-5 years out), break-even analysis,

Tool 8 – Balance Sheet – Tool 8
 Tool 9 – Profit and Loss Statement
<http://www.ag.ndsu.edu/pubs/yf/leaddev/eb44app-2.pdf>
 Tool 10 – Cash Flow Statement
<http://www.ag.ndsu.edu/pubs/yf/leaddev/eb44app-1.pdf>
9. Supporting Documents
 - Existing contracts, agreements, leases,

There are many tools available to help develop the plan. You can ask employees or find consultants who can write the plan for you. The ND Small Business Centers will provide guidance for free, a resource that all business owners should consider. Plus you can ask your professional network of bankers, accountants, attorneys, insurance agents, etc. to review your plan.

While the tools are nice and employees and consultants can see things you might miss, a business plan is something you need to do. Why? You alone know best what your business is and how you envision it operating. Certainly use the tools to help you draft it but **it is your plan!**

A common question asked is how long a plan should be. The answer depends on the purpose of the plan. It may be that you have several versions, one for the lender, one for yourself, one for key individuals, and maybe even one for the public. Each will differ based on the audience focus. The length will also vary based on: (1) the complexity of your business; (2) the amount and sources of funding being sought; and (3) the repercussions or damages you will incur if your business fails. While some plans for a simple business with no funding being sought may be only a 1-page outline, the basic plan will probably be between 5-15 pages with the more formal plan being 18-30 pages in length. Being concise is crucial when writing your plan – more is not a good thing if the additional pages are fluff or repetitious.

Resources

With everything available, these resources will help you get started. They represent only a small portion of the resources available. Most libraries will have materials and you can find much more in bookstores.

Business Planning Resources - ND Small Business Development Center

<http://www.ndsbdc.org/resources/default.asp?ID=372#reference>

Plan Your Business - U. S. Small Business Administration

<http://www.sba.gov/smallbusinessplanner/plan/index.html>

Purdue Extension

Elements of a Business Plan

<http://www.extension.purdue.edu/extmedia/EC/EC-735.pdf>

On-line business planner - <https://www.agecon.purdue.edu/planner/>

Fatal Business Planning Assumptions -

<http://www.extension.purdue.edu/extmedia/EC/EC-734.pdf>

Writing a Business Plan - Cashing in on Business Opportunities, Southern Rural Development Center - http://srdc.msstate.edu/trainings/educurricula/cashing/files/6_p2_writing.pdf

Developing a Business Plan for Value-Added Agricultural Products – Oklahoma State University

<http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-981/AGEC-909web.pdf>

Business Structure

One of the early considerations for people starting a small home-based business is to determine the best form of organization and ownership. There are four basic types of business organizations plus a related business structure, the cooperative, used at times to help business owners develop joint efforts. The four basic structures are: sole proprietorship, partnership, limited liability company, and corporation. The form of organization used depends on the type of business, how many owners or investors are involved, and how tax and liability issues will be handled. The basic forms of business organization including advantages and dis-advantages are discussed here.

Sole proprietorship - The sole proprietorship is a business owned and operated by one person for profit. The business owner is responsible for all financing, management decisions and liabilities of the business. Special trade names used to do business must be registered with the Secretary of State.

Advantages:

- Owner in direct control (you are your own boss)
- Low start-up (organizational) costs
- Least government regulated
- Ease of formation and simple structure
- No double taxation
- Business losses can offset personal income
- Owner receives all profits

Disadvantages:

- Total (unlimited) personal liability
- Limited financial resources (capital)
- Lack of continuity as a result of disability or death of owner
- Owner may have limited managerial expertise
- All profit is taxed as personal income
- Can expand with only "after tax dollars"

Partnership

A partnership provides the opportunity to pool the capital and management resources of two or more individuals to conduct business. If a spouse is joint owner of the business you have a partnership. The two types of partnerships that exist are general partnership and the limited partnership.

A **general partnership** is fairly easy to establish. Special trade names used to do business must be registered with the Secretary of State. Although not required by law, a written partnership agreement drawn up by an attorney should be used to clarify business arrangements and avoid misunderstandings. The partnership agreement should include a list of the rights and responsibilities of each partner and their heirs, the management and continuity arrangements for the business in the event of death or disability of one of the partners, the profit distribution plan, a buy-out agreement, expulsion or addition of partners, appraisal of assets, and any special conditions or arrangements that may affect any of the partners through operation of the business. When signed by all partners, the agreement is an enforceable contract.

Advantages:

- Simple organization

- Additional personal resources (financial and managerial)
- The right to select partners
- Low start-up (organizational) costs
- Limited outside regulation
- No double taxation

Disadvantages:

- Costs more than sole proprietorship
- Unlimited liability for all partnership obligations
- Lack of continuity in event of death or disability of one partner
- Sharing of profits
- All profits are taxed as personal income
- Difficult to raise additional capital
- Hard to find suitable partners
- Divided authority (limited decision-making)

The **limited partnership** permits investor involvement with liability limited to the amount of the investment or the amount agreed to in the limited partnership agreement. The partnership must include at least one general partner who has general liability for the debts of the limited partnership. The general partner usually manages the business. The limited partner usually exercises no control over the business of the partnership but is merely an investor.

Advantages:

- General partner maintains control of the business
- Limited partner can invest with a limit on personal liability
- Easy way to secure capital
- Business not taxed directly

Disadvantages:

- More complex to organize
- Limited partner has no control over the business
- General partner has unlimited personal liability for the obligations of the business
- Lack of continuity in event of death or disability of one partner
- Must maintain certain records according to state laws

Withdrawal of one partner or the addition of another automatically terminates a partnership unless the partnership agreement provides otherwise. Business liquidation can be avoided by a partnership agreement covering ownership transfer and continuity of the business operation. You must file a Certificate of Limited Partnership with the Secretary of State.

Limited Liability Company (LLC) - A limited liability company is a cross between a partnership and a corporation, with mostly partnership characteristics. The owners of the business are called "members."

Advantages:

- Moderately easy to set up and operate
- Profits are taxed once
- Moderately easy to liquidate
- Limited legal liability

Disadvantages:

- Some formalities are required in setup
- May or may not terminate upon death or withdrawal of member, depending upon operating agreement
- Must prepare and adopt an operating agreement

Corporation - A corporation is a separate legal entity (artificial person) distinct from its owners, the shareholders. It can enter into contracts, be liable for any obligations, and must pay taxes on earnings.

A corporation attracts capital investment funds by selling shares of stock in the company to investors or by trading stock for assets. Generally, stockholders are not liable for claims in excess of the current value of their shares. Corporate officers may be required to personally guarantee bank notes or loans and, therefore, are personally liable for the obligation. Other creditors can generally only lay claim to the assets of the corporation.

Advantages:

- Legal entity
- Specialized management
- Transferable ownership
- Perpetual life
- Easier to raise capital
- Many tax advantages
- Limited personal liability

Disadvantages:

- Closely regulated
- Most expensive to organize and liquidate
- Charter restrictions
- Complex organization and management
- Extensive record keeping necessary
- Double taxation

One corporate form to consider by small businesses is the "S" corporation (Sub-chapter S Corporation). The "S" corporate structure should be considered when the following factors are present:

- Owners expect operating losses
- Large dividends are anticipated
- The owner's individual tax rates are lower than the corporate rates
- There are 35 or fewer stockholders
- The corporation has only one class of stock
- It is a domestic corporation

The "S" corporate structure, for smaller businesses, allows a tax burden shift to shareholders. It is not taxed, but it must file an informational return allocating profits or losses to shareholders.

An attorney and an accountant should be used to help draw up the articles of incorporation. Their expertise can help to avoid the many problems and possible pitfalls of establishing a legal corporation.

Cooperatives

A cooperative is a type of business formed by a group of people to obtain good and services or to sell products and services more effectively or more economically than they

can on their own. Cooperatives do not replace the individual business structure that each member would have in place. Members of cooperatives own, finance and operate the business for their mutual benefit.

The need for assistance with problems such as those noted below has prompted business people, including home-based businesses, to form cooperative organizations:

- Limited access to markets due to rural isolation that may result in a lack of awareness of what is marketable in metropolitan areas and having to accept whatever price is offered locally.
- Limited access to sources of supply due to the same rural supplies for production. This may result in supplies having to be purchased in relatively small quantities and at retail prices.
- Lack of business training to turn a producer into a successful business person. Training in design skills and business management is needed.

While the cooperative approach does not assure success of any enterprise, it does provide a method to bring together the resources needed to overcome many problems.

Like a sole proprietorship, partnership or corporation, a cooperative must operate as a business if it is to succeed. Competent planning and management are essential for an effective cooperative. The members of a cooperative must work together and manage (or oversee management) for the cooperative to be successful.

Cooperatives are similar to corporations with a few exceptions, which are:

- Ownership benefits in proportion to use
- Democratic control — one vote per patron
- Service at cost
- Limited return on equity capital

All income is distributed to members on a participation basis. Therefore, cooperative organizations come under no state or federal income tax liability.

The needs of home-based business people differ somewhat, depending on location, type of product, skill levels and other factors. Each cooperative membership must determine what is needed and how those needs can be met. Some of the questions that need to be answered before forming a cooperative include:

- Does a need exist for an income-producing activity, and if so, could a cooperative provide a possible solution?
- Does sufficient interest exist in the community or region to make formation possible?
- Is a cooperative likely to be successful and beneficial to its members?

Surveys may be used to identify potential members, producers, benefits and needs. If there is sufficient interest, an organization committee should be formed to set up the cooperative. Some of the responsibilities of this committee are to: sign up potential members, draft the bylaws and other legal organization papers, file the articles of incorporation, and arrange the first meeting of members. An attorney should be retained by the committee to ensure that proper legal procedures are followed in setting up the cooperative.

The U.S. Small Business Administration has further information on this topic - <http://www.sba.gov/smallbusinessplanner/start/choosestructure/index.html>.

Franchise

Often prospective business owners plan on opening a franchise business. The idea is to pay a fee that allows the owner to use the name of the franchise plus often provides other benefits such as marketing and management assistance plus, at times, help with financing and even construction. However there is also a myth that operating a franchise is a type of business structure. As noted, purchasing a franchise is just a means of getting into business. The owner still needs to set up his or her own legal structure under which they will operate the franchise. And the owner should do the same feasibility analysis that he or she would do if they were starting a business from scratch or buying an existing business.

Small Business Administration - Franchising Basics - <http://www.sba.gov/training/startingabusiness/index.html>

Financing

A Myth – There is free money for business start-ups. The reality - There is little free money available AND, even if you can find a grant, you need to be prepared to invest some of your own resources to get the business going.

The good news is that many start-ups do not require a great deal of money. The majority of companies are launched with \$10,000 or less, according to a Gallup study with many starting for \$1000 or less. A second piece of good news is that entrepreneurs are usually very creative at “bootstrapping” or finding the resources they need through a variety of methods. However, inadequate capital is the cause of many business failures even when limited amounts of start-up funding are needed.

Your search for financing begins with examining your personal financial situation. This includes a look at your personal balance sheet, monthly cash needs, and your credit score. Tool 9 provides a simply balance sheet and cash flow analysis. (Also see <http://www.ag.ndsu.edu/pubs/fammgmt.html> and <http://www.extension.org/personal%20finance> for more information and tools).

Next you need to determine how much it will cost to start your business and then to operate it for the first three months or until you begin to generate cash flow. Do a cash flow analysis (<http://www.ag.ndsu.edu/pubs/yf/leaddev/eb44app-1.pdf>) to determine capital needs. The North Dakota Small Business Development Centers (<http://www.ndsfdc.org/>) can assist you with developing and completing your cash flows. You can also find some simple on-line calculators such as that at: <http://www.businessknowhow.com/startup/startup.htm>.

When you know how much money you need, start looking for sources of capital. Experienced business owners recommend that at least half, if not more, of your business investment should come from personal savings. This can include savings, investments, retirement accounts, real estate equity loans, cash-value insurance policies, or credit card advances. (**Note:** Using items such as your retirement account, the equity in your home, or credit cards are risky. If your business fails, you may have used money you had hoped to use for another purpose or your

house may be taken to pay for your business loan. Also with credit cards, interest rates may be very high compared to other sources of capital.)

A second source of funds used by many start-up businesses is “bootstrapping.” Bootstrapping, or the art of building a business with little or no money, is a common way to start a company. Bootstrapping techniques include operating with no frills, barter instead of buy, swap equipment and expertise, starting small while testing the market, doing your own marketing and market research, rent instead of buy, and getting publicity versus paying for advertising. Anything that keeps cash in your pocket and moves your business forward is a bootstrapping idea

The reason for limiting your need to borrow by using personal cash and bootstrapping is simple – freedom. You do not have debt payments to worry about nor do you give up partial ownership, and sometimes management options, as an angel investor or an equity position would mean.

If you do not have enough startup money, many business owners then consider borrowing from friends and relatives who believe in you and your business plan. But remember to do it on a business-like basis by writing up a loan agreement that specifies the amount borrowed, the length of the loan period, the interest rate, schedule of payments, and any collateral.

But if all of this is still not enough, what is your next step? For most small business owners it means some type of loan or debt financing. No matter where you go for a loan, there are common parts to every loan application. You need to be aware of and address these elements. Understand that for most start-up and small businesses, the lender will not only look at your business but also your personal credit score, net worth and how much you have or are willing to invest in the business. In today’s market, these factors are even more important than they were a few years ago.

Loan request review - A loan officer's primary concern, when reviewing a loan request, is whether or not the loan will be repaid. Lenders usually use the five C's of credit when evaluating your credit-worthiness: these are character, capacity, capital, collateral and conditions. All of these elements are used to determine the overall focus, ABILITY TO REPAY!

Character centers on the borrower's integrity, trust-worthiness and attitude toward honoring outstanding credit obligations. Do you intend to repay the loan?

Capacity deals with you or your firm's repayment ability. This is frequently evaluated on the basis of past history, income and in-depth credit analysis. The most useful measures of the ability to repay are the cash flow statement (already mentioned) and a projected business income (profit and loss) statement (<http://www.ag.ndsu.edu/pubs/yf/leaddev/eb44app-2.pdf>) which can help determine if the business will generate enough income to pay expenses and cover loan payments. These should be provided along with a personal income statement (Tool 9) covering one year's operation.

Capital refers to your general financial position with special emphasis placed on tangible net worth or financial health. A lender needs to know what is owned (assets) and what is owed (liabilities). After the required amount of capital is determined, the lender will analyze where this money will come from. A personal balance sheet (<http://office.microsoft.com/en-us/templates/personal-financial-statement-TC001017522.aspx>) and a projected balance sheet for the business should be

submitted to the lender. Lenders need evidence that you have personally made a sizable financial commitment. They know from experience that it is easier for you to back out if you do not have your own money at risk.

Collateral is represented by assets that you can pledge as security for the loan. A list of collateral to be offered should be provided. These can include home, vehicles, or stock shares. Before pledging them, think about the effects of losing them if the business fails.

Conditions refers to market conditions, including trends in the overall business economy, trends in your community, the seasonal character of your business, the nature of your product or service, and the amount of competition in your trade area.

Lenders look more favorably on loan applications when the people applying for the loan have done their homework and provide them with the necessary personal and financial information. All business owners, large and small, should develop a working relationship with their primary lenders, establish a credit history and keep your lenders current on information concerning your business. As noted before, the lender will look not only at the credit history or the business but will also look at the credit history of the individual/s who own the company.

Banks are sometimes reluctant to lend to owners of new businesses because the business has no background of proven success. If you are persistent, have a good business plan, demonstrate through market research that there is a market for your product or service, and can prove your worthiness as a business owner, you will find many ways to finance your business. Possible loan sources include banks, credit unions, and other commercial finance companies and savings and loan associations. Following are other sources for loans:

See also:

Bankrolling a business - <http://www.youtube.com/watch?v=5AkBo-lfVKA>

Local banks - Banks generally limit loans for start-up expenses to 50 percent of the money needed. Loan officers look for borrowers with good credit ratings and sound business plans. Interest rates and repayment plans vary from bank to bank, so comparison shop for the loan that is best for your circumstances.

Government programs - Federal, state and local governments have several programs designed to help finance new ventures and small business. Local programs differ from community to community, so check with your local economic developer, SBDC, chamber of commerce, USDA Rural Development, or the Regional Planning Council in your district. In addition, a good source of information for capital in North Dakota is the One Stop Capital Shop Business Information Center located in the Bank of North Dakota (call 1-800-544-4674).

http://www.banknd.nd.gov/lending_services/business_financing_programs/index.html

USDA Rural Development - <http://www.rurdev.usda.gov/nd/comdevel.htm>

Small Business Administration - The best known source for small business assistance is the Small Business Administration (SBA). The SBA doesn't provide direct loans but guarantees loans. The loan is made through a commercial bank, but SBA may guarantee up to 90 percent of the bank loan if repayment ability is indicated from the potential earnings of the business. A business must prove that it is unable to secure reasonable financing from other sources to receive financial assistance from SBA. Women and minorities may qualify for special loan

programs. Contact the SBA office to get more information at: Small Business Administration, 657 2nd Avenue North, Fargo, North Dakota 58102.

See also: <http://www.sba.gov/smallbusinessplanner/start/financestartup/index.html>

Resources

Resource 4 – Financing Your Business

Tool 9 – Personal Cash Flow Statement and Balance Sheet

Licenses, Permits and Zoning

Federal, state and local governments regulate and tax businesses for several reasons such as raising revenues, protecting the public from dangerous substances and fraud, and protecting businesses from unfair or illegal competition. If you are starting a business, you will want to determine in advance the licenses, permits, filing requirements and taxes required by various agencies. It can be very frustrating when trying to purchase supplies, applying for a loan, or filing a tax return to find out that you need some type of business permit or I.D. number. And it can be devastating if one of these issues is the reason your business must close.

Local - Many cities and counties have zoning ordinances that restrict certain business activities (hazardous materials or products, etc.) to designated areas. There may also be local guidelines regulating business activities, such as the use of advertising signs, lighting, parking, etc. Town residents, especially, should know about local ordinances before making any major investment in the business. In some residential neighborhoods, it may be possible to have the area spot-zoned for your home business. If you cannot change your zoning or have other reasons, you can look for alternatives. For example, you decide you are going to make a salsa using a local café's kitchen, commercially licensed, during the hours the café is closed. Still you need to check the zoning ordinances as the area may be zoned for eating establishment, but not for manufacturing which may be how your salsa business is classified.

Permits and zoning issues may also arise when making significant renovations or additions to your home to accommodate the business (changing from residential to commercial use) or if the commercial use of the building is changed. The permit is required so the building can be certified safe for the operation of the business and the safety of your customers. Building permits, especially in cities and towns, are required when erecting a new building or remodeling an existing one. Local or state building inspectors should be contacted to determine the building code requirements. If you are thinking of building or remodeling, you must also take into consideration the Americans for Disability Act provisions regarding accessibility.

Another local issue are local health department regulations. While the State of North Dakota has a general set of guidelines for various types of businesses, it is possible that your local region has developed additional guidelines. The key is to contact your local health department early.

Again, these are just the common requirements. It is possible that you may need a local license, have some proof of insurance, etc. Please check with your local auditor or business development office. You can also contact the local county extension office for assistance.

State – There are three requirements for all businesses. The first is registration of the business and its trade name with the Secretary of State. All businesses are required to complete this requirement. More information can be found at:

<http://www.nd.gov/sos/businessserv/registrations/index.html>

The second requirement is the need for a North Dakota sales and use tax permit. This permit is obtained from the state tax department. Often business owners who do not plan on selling retail assume that this permit is not needed. However this permit also allows you to buy raw materials and supplies that go into your product and service without paying sales or use tax. The tax is captured only when the consumer makes the purchase. (See <http://www.nd.gov/businessreg/tax/index.html>).

The third requirement, mentioned also as a possible local requirement, is obtaining an operating license by type of business. Remember that not only might the business need a license but you and/or your employees may also need to be licensed. Not all businesses require a license. For more regarding if your business needs a license, check

<http://www.nd.gov/businessreg/license/index.html>. You can also get NDSU Extension Service circular 752, "[Business Reports, Forms and Licenses Required in the State of North Dakota](#)."

Again, additional requirements may be required. Your local chamber of commerce can help as can other agencies such as the ND Tax Department, ND Secretary of State, Bank of North Dakota, and Small Business Development Centers located throughout the state.

Federal – As a business owner you will be required to pay Federal income tax.

A requirement of many businesses is obtaining an Employer Identification Number (EIN). To see if you need to obtain one, go to:

<http://www.irs.gov/businesses/small/article/0,,id=97872,00.html>. If you do need to get an EIN number, the process is easy. This web site,

<http://www.irs.gov/businesses/small/article/0,,id=102767,00.html?portlet=4>, walks you through getting it online. These and more Federal requirements can be found at:

<http://www.nd.gov/businessreg/federal/index.html>

Of course, you also will be subject to Federal income tax laws. This probably will mean some type of estimated payments and filing a yearly tax return. See www.irs.gov for more information. You can also get a calendar of when various reports and payments are due at:

<http://www.irs.gov/businesses/article/0,,id=100935,00.html>.

Additional requirements which may be in effect if employees are hired including: state and federal income tax withholding, F.I.C.A. (Social Security) withholding tax, unemployment insurance (Federal and state) and worker's compensation. See the IRS web site,

<http://www.irs.gov/businesses/small/article/0,,id=172179,00.html>, for more information.

Information on the filing requirements and the names and addresses of various agencies to be contacted in North Dakota are found at: <http://www.nd.gov/businessreg/links/index.html>.

More information on tax issues can be found at:

<http://www.sba.gov/smallbusinessplanner/manage/paytaxes/index.html>.

For more information on licensing and permits, see <http://www.sba.gov/smallbusinessplanner/start/getlicensesandpermits/index.html>

Recordkeeping and Taxes

Recordkeeping - You have been introduced to a variety of tax resources in the previous section. This section will look at recordkeeping for your business. Money is the lifeblood of any business and keeping track of the flow coming into and going out of your business is essential to its survival, growth and profit. Good records also help minimize your tax burden and ease preparation anxiety.

For many small business owners, recordkeeping is the last thing they want to do (and it often is the last thing done). Yet good recordkeeping is important for several reasons. It helps you determine if your business is profitable and where money is leaking out of the business. It not only lets you determine overall profitability but you can focus in on separate products and/or services. Records help track clients and determine your pricing structure. Your records serve as the basis for preparing needed financial statements. Finally, it helps you complete the tax, governmental and creditor requirements you will have.

Parts of your record keeping system will include a business checking account, deposit receipts and sales slips, invoices, ledgers and journals. These may be paper, electronic, or a combination (Always think about back-up in case of a disaster). You will use one of two accounting methods: single entry or double entry and you will keep your records based on a cash basis, the most common especially for smaller businesses, or on an accrual basis.

Deciding what records to keep, how to keep them and on the accounting system used are just a few of the decisions for entrepreneurs starting new businesses. One way of deciding which information to keep and how to keep it is to work backwards from the questions you need answered and the type of information necessary to answer them. You certainly don't want to spend your time keeping data that will be of little use in analyzing business performance or position. You will need a certain amount of data for operations, marketing and finance along with other data about personnel. The U. S. Small Business Administration offers some help on determining what records are needed and how to keep the data - http://www.sba.gov/idc/groups/public/documents/sba_homepage/pub_fm10.pdf.

Recordkeeping can be done in many ways from tossing everything into a shoebox to sophisticated computerized records. While certain systems offer easier access and ability to access reports, you the owner must decide what system you can and will keep updated. As often said, the data is only as good as the information that is entered. The key to an effective and efficient bookkeeping system is to set it up right in the first place. It must be simple to use, easy to understand, reliable, accurate, offer consistency, and be designed to provide information on a timely basis. An accountant can assist you in setting up your books or advise you on the use of a recordkeeping system.

Recordkeeping is an area where you do not need to do yourself. You can hire an employee or utilize a bookkeeping or accounting service. These services can be local or you can also find them online. Two popular electronic recordkeeping programs are Quick Books® and Quicken®. You may also get the assistance of an accountant to help set up your system and to be there for questions as they arise. They can even prepare certain reports if requested. The SBA link mentioned above will again help you through these issues.

Some of the areas you need to be concerned about are:

Cash flow - <http://ecorner.stanford.edu/authorMaterialInfo.html?mid=1373>,
<http://www.ag.ndsu.edu/pubs/yf/leaddev/eb44app-1.pdf>

Income Statement or Profit and Loss Statement
http://www.sba.gov/financialassistance/borrowers/resources/basics/INCOME_STMT.html
 automated form - www.sba.gov/idc/groups/public/documents/.../form_finasst_incomestmt.xlt
 Profit and Loss Statement - <http://www.ag.ndsu.edu/pubs/yf/leaddev/eb44app-2.pdf>

Balance Sheet.
http://www.sba.gov/financialassistance/borrowers/resources/basics/BALANCE_SHEET.html
 automated form - www.sba.gov/idc/groups/public/documents/sba.../sba_010150.xlt

You can also think of these as “can you pay your bills tomorrow?,” “am I making any money?,” and “is my business growing?”. You do not necessarily need to be able to do the accounting for the business yourself. You do need to understand the concepts and be able to work with the person who is actually doing the work. For more information see <http://accountinginfo.com/study/fs/fs-01.htm>.

In addition to the statements mentioned above, the typical parts of most record keeping systems will include:

A business checking account separate from your personal checking account. If you have a very small business this may be your entire record keeping system. All income and disbursements of cash must go through the checkbook. Deposit slips can be used for sales transactions. Record on each check and deposit slip the details of each transaction. Every check needs a written document to support it, such as an invoice, payroll summary, or bill statement. Reconcile the checkbook with your bank statement monthly to provide a frequent summary of revenue and expenditures.

A **sales slip** (Appendix A) is essential to record the merchandise or service sold, especially if you have several transactions which cannot be immediately entered in the cash receipts journal or offer sales on credit. Today you may have such slips generated by your cash register but carbon sales slips are also a choice and provide both you and the customer with a record of the purchase. Choose a sales slip which includes customers' names and addresses that can be used in developing mailing lists. Information from each sales slip can be easily recorded in the cash receipts journal or a sales journal if it is a charge sale. In some cases, daily or weekly summaries of sales should be entered. This should be done on a regular schedule for ease of comparing.

A cash receipts journal and a cash disbursements journal to record each transaction. The **cash receipts journal** (Appendix B) has columns for various categories of receipts with a line for each receipt including date, source of cash and total amount. Depending on the type of business, the column categories may be by type of merchandise or service or even by departments. All columns of the cash receipts journal should be totaled each month with year-to-date totals after each month.

The **cash disbursement journal** (Appendix C) can have columns for various categories of expenditures with a line for each expenditure including date, check number, payee,

description of expense or purchase and total amount. The column categories may be merchandise for resale, supplies, interest, utilities, taxes, occupancy costs, services performed, owner's salary and other common purchases or expenditures depending on the type of business. All columns of the cash disbursements journal should also be totaled each month with year-to-date totals after each month.

An **invoice** (Appendix D) is a bill submitted to you by a vendor or supplier for the merchandise you receive from them or from you to someone purchasing your goods and/or services but not paying for them immediately. The invoice may be attached to the merchandise, mailed separately with each order, or mailed at specified intervals (usually monthly). Always check the invoice against the merchandise received. Some vendors allow only five days to inspect the merchandise and confirm the invoice amounts. Then place the invoices in the "bills" file so you can pay them when due.

Two other forms, an auto log (Appendix E) and Inventory Control Records (Appendix F) may also be helpful in your business operation. These will be further mentioned below.

Taxes and Tax Deductions - A business person deducts cost of operations (expenses) from revenues to determine the profits and losses for the business. This information is also needed for income tax purposes. (Get more information go to:

<http://www.irs.gov/businesses/small/article/0,,id=109807,00.html>)

For self employed individuals go to:

<http://www.irs.gov/businesses/small/article/0,,id=109807,00.html>

Examples of deductible expenses include:

- maintenance of equipment,
- supplies (business cards, postage, envelopes, record keeping supplies, etc.),
- insurance,
- licenses,
- interest,
- utilities,
- taxes,
- advertising,
- mileage if you use your automobile for business,
- professional update expenses (books, magazines, costs to attend workshops or classes), and
- professional services (lawyer or accountant) and contract labor.

A person using a personal automobile for business purposes must keep a log of the mileage if the vehicle is not used full time in the business. A simple notebook organized similar to the sample auto log provided will be sufficient (Appendix E). A standard mileage deduction allowed by IRS can be used. Alternatively, actual expenses or the business portion of gas, oil, repairs, depreciation, etc. may be deducted if it is to your advantage to do so. This method requires accurate records (and receipts) throughout the year. *If a standard mileage rate is not used in the first year of service for a vehicle you may not use it in future years.*

Some home-based business people hire independent contractors to do work for them from time to time. If you do, make sure that you check with an accountant or the IRS for submission of the required forms. If you do use services, you may be required to prepare a IRS Form 1099 (<http://www.irs.gov/efile/article/0,,id=98114,00.html>) for them. The regulations for this area are

changing in terms of who must do this and at what levels. Contact the IRS for the latest information.

An **inventory control card** for each item may be needed for some businesses when purchasing merchandise for resale. This will help you keep a record of the merchandise and how much money is tied up in these items. A semi-annual physical inventory (count) should be taken to confirm the amounts on hand and on record to detect any losses or discrepancies. It also is needed for preparation of income taxes. The sample inventory control card (Appendix F) shows the maximum and minimum number to keep in stock, the number of items received, the number sold and the balance on hand. This information can be obtained from sales slips and purchase invoices. Inventory can include more than finished products. For a manufacturer it includes unused materials.

Tax Considerations of Home Use - When you operate a business in your home, additional expenses for the home may be deducted. These regulations have changed over time. The best resource is IRS Topic 509, Business Use of Home (<http://www.irs.gov/taxtopics/tc509.html>). The IRS has certain criteria that must be met in order to take a business deduction for your home.

A "home," for tax purposes, includes a house, apartment, condominium, mobile home, boat, or similar property. It also includes other structures on the property such as an unattached garage, studio, barn or greenhouse.

If you operate a business out of your home, you are allowed to deduct a proportion of the costs for operating and maintaining your home as a legitimate business expense. The IRS notes: "To deduct expenses for business use of the home, part of your home must be used regularly and exclusively as one of the following:

1. The principal place of business for your trade or business
2. The place where you meet and deal with your patients, clients, or customers in the normal course of your trade or business; or
3. In connection with your trade or business, if you use a separate structure that is not attached to your home "

Exclusive use means that you must use a specific part of your home **only** for the purpose of carrying on your trade or business. If you use part of your home as your business office and also use it for personal purposes, you have not met the exclusive use test. If a personal computer located in the business part of your home is used for both personal and business activities, the home business deduction would not be allowed.

Regular use means that you use the exclusive business part of your home on a continuing basis. The occasional or incidental use of a part of your home does not meet the regular use test even if that part of your home is used for no other purpose. An occasional sale of a hobby item would not qualify as regular use.

Two exceptions to the exclusive use test are for the storage of inventory and as a day-care facility, the most common exception (See Publication 587, <http://www.irs.gov/publications/p587/index.html>).

Expenses relating to the use of part of your home for storage of inventory or product samples may be deducted if all of the following tests are met:

1. The inventory must be kept for use in your trade or business.
2. Your trade or business must be the wholesale or retail selling of products.
3. Your home must be the only fixed location of your trade or business.
4. The storage space must be used on a regular basis.
5. The space used must be a separately identifiable space suitable for storage.

Expenses can be deducted by using a part of your home on a regular basis to provide **day-care services** if the following two requirements are met.

1. You must be in a trade or business of providing day-care for children, persons 65 or older, or persons who are physically or mentally unable to care for themselves.
2. The owner or operator of the day-care business must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a day-care center or as a family or group day-care home under any state law.

The portion of the expenses of the home that can be deducted for business use is usually determined on an area basis (square-foot) or on a time-usage basis.

Square foot - A 120 square foot area of a 1,200 square foot home would provide a 10 percent rate for business expenditure deductions -
 $120 \text{ sq. ft.} / 1200 \text{ sq. ft.} = .10 \text{ or } 10\%$

Time-usage - The deductions for day-care facilities must be figured on a time-usage basis. The days used for business should be multiplied by hours used per day, then divided by the total available hours per year. Example:
 $220 \text{ days of child care} \times 8 \text{ hours/day} = 1760$
 $\text{House available} - 365 \text{ days} \times 24 \text{ hours/day} = 8,760$
 $\text{Home used in business} - 1760 / 8760 = 20\%$

Limitation - The overriding rule on home business expenses is that you may not have a loss (for tax purposes) resulting from deductions for the business use of your home. You can carry over expenses to the next year. Expenses for the business use of the home can be deducted in the following order:

1. Real estate taxes, mortgage interest and casualty losses, if any. The portion allocable to business use is deductible.
2. Direct expenses that benefit only the business part of the home, which include painting or repairs made directly to the specific area of the room used for business (except day-care). These direct expenses are fully deductible.
3. Other indirect expenses such as rent, utilities and services.
4. Depreciation - a portion of the value of the home and equipment used in the business is deductible. If you sell your home after taking a business deduction on the depreciation, you must recognize any capital gain or loss on that business portion regardless of whether you buy another home or not.

Roll-Out

Pricing

Pricing is vital to any successful business. One of the most difficult questions for the business owner to answer though is “What price is a right price?” From an economic view, the right price maximizes the owner’s profit. Often business owners set prices that maximize sales or maximize customers. Yet neither may maximize profit. Also it is not uncommon for owners to set prices that do not even cover costs. This SBA publication provides an overview of pricing (http://www.sba.gov/idc/groups/public/documents/sba_homepage/pub_fm13.pdf). A second resource, (<http://www.marketingteacher.com/lesson-store/lesson-pricing.html>), outlines various pricing strategies or tactics that might be the goal of the business owner.

No matter what pricing strategy is used however, the final price must be, in the long run, one that covers costs, direct and indirect, plus other variables. Some of those other elements to consider in the pricing process include: return on the owner’s investment; profit for undertaking the risk; and money to cover sales and income tax that must be paid. All of these elements are discussed in more detail in “Product Pricing” (<http://osufacts.okstate.edu/docushare/dsweb/Get/Document-2499/T-6111web.pdf>).

Other factors which influence the price are type of business (retail, service or product), quality of the product, competition, demand for the product, pocketbook status of your customers, and weather or seasonality. Realistic prices attract customers and build sales volume. You can chose to set premium prices where only a select few can afford your product or service or have greatly discounted prices for greater appeal. Either method, or anywhere in-between, can be the “right” price if you are profitable and if the price you select develops the business image you want.

A Primer on Pricing - The total cost of producing a product or service is composed of direct costs + labor + overhead costs. This cost information is used as a basis for setting prices and profits. The more exact the figure the greater your chance for success. You may wish to consult your trade association and your accountant to learn what the best current practices, cost ratios and profit margins are for your business.

Costs - The **direct material cost** includes parts or merchandise, supplies, shipping, handling and storage, etc., anything that is directly related to the production of the product or service. The **labor** costs include all wages paid to employees, including the owner. Exact labor time is needed. This cost includes fringe benefits, Social Security, Workers Compensation, holidays, vacations, hospitalization and other labor-related costs.

The **overhead cost** includes all job-related costs except the direct materials and labor listed above. Included are utilities, interest, clerical, supply and janitorial employees, taxes, depreciation, insurance and transportation. A portion of the total overhead cost is added to each product price or service fee, so these overhead costs will be paid for over the year. Overhead expenses can be determined as a percentage of direct costs plus labor. To determine the overhead percentage for the business, add up the total overhead expenses for a year. Next, divide the total amount of direct costs + labor for the year into the first figure.

Overhead Expenses/(Direct Costs + Labor) = Overhead Percent

For example, if direct costs plus labor for a year are \$10,000 and overhead expenses for the year added up to \$2,000, your overhead rate is 20% (\$2,000/\$10,000). This percentage should be re-evaluated on an annual basis.

Rate of Return or Profit (Margin) – Often business owners equate the rate of return and profit as being the same thing but with different working definitions. The working definition that many business owners use for profit is the income left over after all direct costs, labor, and overhead expenses have been paid. In fact, the profit margin, or rate of return, is something that must be calculated in initial pricing. You may not get that exact return but it should be your goal.

Generally adding a 10 to 20 percent or more profit margin (% of direct costs + labor + overhead expenses) is standard for most businesses. A mistake many owners make when first starting out is not adding in a profit margin to their pricing strategy. If this is not done, there will be no money for growth or expansion of the business. This profit margin is also, in part, the return for undertaking the risk of operating the business.

Another element in the pricing structure is that of **taxes**. The amount paid for sales tax and income taxes should be elements of the price. Sales tax inclusions vary depending on whether you add this when the sale is made or you are pricing items with sales tax included. Just make sure that it is a part of what the customer pays. Income taxes may be included in your overhead but often are something owners forget to include. You need to estimate the impact of income tax into your price.

Total Costs + Profit margin + Taxes (sales and income) + = Price

Retail Price. Up to this point you have only figured your wholesale price. To figure the retail price a retail margin must be added. A common mark-up is two to three times the wholesale price.

Price x Retail Margin = Retail Price

The percentage a retailer adds to the wholesale price paid for an item is called the markup. If you wholesale and retail you must be careful not to compete or undercut your wholesale customers. For example, an artisan wholesales pottery to gift shops and also sells the pottery directly to customers at craft fairs. The artisan should sell the pottery at retail prices at the craft fairs.

Break-even analysis. Prices charged must exceed total costs or there is no reason to be in business. To look at the big picture in pricing you need to do a break-even analysis or the point at which sales are exactly equal to costs. The basic equation used for this is: sales = variable expenses + fixed expenses. For example, let X represent the number of units to be sold to break even or zero profit. Suppose the cost per unit of X is \$.45, the selling price per unit is \$1.00, and there is a fixed cost of \$275 to manufacture product X. How many units of X must be sold to break even?

Basic formula - $1.00X = .45X + 275$

Solving formula - $1.00X - .45X = 275$
 $.55X = 275$

$$X = 275/.55$$

Answer - $X = 500$

In this case 500 units of X must be sold to cover all costs. In dollar terms, the break-even point is \$500 in sales of product X (500 units @ \$1.00 per unit).

Using the same example, suppose you want a profit of 20 percent of sales. You would simply add 20 percent of \$1.00 into the equation or $1.00X = .45X + 275 + .20(1.00X)$. Now to cover all costs and make a 20 percent profit on sales, 611 units must be sold for a total sales volume of \$611.00 (\$1.00 times 611).

Service Pricing - As with all businesses, service pricing will vary depending upon your clientele, competition and demand. Remember to base your prices on a fair market value and not personal preference. In the service area there may be some things you'd rather do and others you'd rather not do. Charge the same hourly rate for all of your work.

Pricing a service differs but yet is much the same as pricing a product. Again the bottom line is that you must cover your expenses, pay for labor (whether it is you or others you hire) and you include a profit margin and cover taxes. Some service providers double the expense of the job. Others add a commission fee to the cost while a third group charges a flat hourly fee. As with all business practices, it's wise to figure the various methods and choose the one which fits your business best and returns the profits you need. See Service Pricing for some additional thoughts (<http://osufacts.okstate.edu/docushare/dsweb/Get/Document-2494/T-6112web.pdf>)

Other Pricing Issues –

Competitive pricing - To determine if your price is reasonable, check the prices of similar product or services of your competitors. Find the highest, lowest and mid-range price. Where is your price in that range? As a rule of thumb take half of this retail price average. Is your wholesale price similar? If your price is higher, you'll need to lower your overhead or improve your production. Avoid cheapening your materials and supplies, for this will affect the quality of your product. If you cannot produce at a competitive price, drop the item(s) from your line.

Customer and Competition - If customers question the price you ask by comparing the products to ready-made products or other handcrafted items, you might stress the quality of custom work and the skill or talent needed to produce it. You may provide personal service that others do not. Do not compromise yourself or your products.

Limit discounts to family and friends, and discount only as low as the wholesale price. If competitors sell for less than you do, don't be tempted to lower your price. You probably have other advantages to your product and services you can stress — gift wrapping, delivery, a wider selection, etc. If the lowered price continues for an extended time and your business is hurt, you may have to lower your overhead costs to enable you to lower the price, change the product so it is no longer in competition or discontinue that particular item.

What the Market Will Bear. Understanding the market and what customers will or will not pay directly impacts pricing. Sometimes the cost of producing the product or service is too high, and no matter how great it is the market is just not willing to pay the price. On

the other hand, maybe the market will pay a much higher price than the actual cost of producing the product or service.

Production and Distribution

Production - As you start your business, you must determine where and how production will occur. Probably the first decision point is identifying if you will produce the product and/or service or will it be outsourced? Either decision involves finding raw materials, equipment and labor and money necessary to meet predicted demand and any fluctuations in that demand. And there are trade-offs whether you do it yourself (e.g., quality control) or outsource (ability to get into the market faster, perhaps ability to lower per unit production cost or to ramp up faster if demand spikes).

If you are going to produce the item yourself, have you identified primary and back up suppliers of raw material and supplies? How important of a customer are you to them if they get pushed in meeting rising demands? Are you first on the list or last? This makes a difference in obtaining materials in scarce times. Have you found any method, buying cooperative, bulk purchases, etc, to lower the cost of these basic materials? Also, how will you get those items to your facility and what happens if that system has a glitch? Check out http://srdc.msstate.edu/trainings/educurricula/cashing/files/10_p2_managing.pdf for more information.

What about production equipment? Can you find it, maybe even used? Who can repair it, where do the repairs come from (or are they even available), and how long might it take to get back into production for a major breakdown. Related to that is the question of personnel to run the equipment. Are they even available in your area (Personnel will be further discussed later in this section)? Is there a supply of available labor and do they have the skills you need?

If outsourced, some of the same questions apply such as locating raw materials. An important point of negotiation will be how quickly the source can provide you with the product you need. Again, you need to think about back-up production sources? How will transportation influence receiving your product on time?

Whether you produce it yourself or hire someone else, you need to think about quality control. That means establishing a quality assurance and quality control program. Quality is key to any business. On average a happy customer will tell 5-7 friends but a dissatisfied customer will tell 10-20. Today with social networking opportunities that number can be much greater. So it pays to have quality products coming out of production and a rapid customer response to those with complaints is crucial.

Distribution – Once the product is produced, how do you intend to get it to the next step in the chain? The following publication discusses the various means you can use to get your product to market (http://srdc.msstate.edu/trainings/educurricula/cashing/files/11_p2_deciding.pdf).

You have two basic choices. Either you will distribute directly to the final consumer or there will be one or more intermediaries. Examples of direct sales include shows, door-to-door, e-commerce, direct mail, flyers, advertising, and infomercials. You may or may not have your own sales force with direct sales. Indirect means include using a wholesaler, a distributor, perhaps mail order through a distributor, consignment, or utilizing the services of someone who represents and/or sells products for a number of individuals.

If you choose to sell on consignment, the retail store displays your products, advertises and sells them for you. For this service, they charge a flat fee of 30 to 50 percent of the selling price. The store generally pays its consignors once a month for merchandise sold. A consignment store should reflect a neat and friendly yet businesslike appearance. Other merchandise in the store should be similar in quality to yours. The store owner should be able to suggest realistic selling prices for your products. Since you own the products until they are sold, the store is not responsible for theft or damage. Another disadvantage is that your money is tied up in the merchandise until it is sold. It's in your inventory, not the store's. If an item does not sell, it may be returned to you in less than salable condition or be out of date. Inspect written agreements carefully. Make sure to include all of the details you find necessary to protect your investment, including length of shelf time.

Distribution can also be accomplished via television. Shows like QVC and other home shopping shows are popular and effective, but you must have a significant supply on hand that can be shipped immediately. Infomercials are also gaining in popularity but are very expensive to produce and air.

Marketing

After you know what type of business you want to start, it is necessary to research how you might make your product or service visible and sold. Marketing as defined by Jay Levinson in *Guerilla Marketing*, is “**everything you do.**” As you may have already noticed, marketing starts while you are still in the idea stage and want to see if you really have an opportunity or not. It includes determining who the market is, where they are located, what they want, and how much they will pay. The goal is understanding the potential consumer and getting goods and services to the consumer from the producer. And it definitely incorporates the three major components often defined as marketing: advertising and promotion, pricing, and customer relations. A good marketing plan is a key part of your business plan.

Marketing is a continuous process, and you should not neglect it once you launch your business. You need to be aware of trends and changes in your market so you can respond to them. If your product or service is not selling, consider changing it, its price or name, the function of the product or service, your distribution channel or even the packaging or visual appeal.

Remember, perseverance and flexibility can keep you in business. If you establish the fact that people need and will pay for your product or service, identify the appropriate market and appeal to those customers' particular needs and have priced it right, you should have a successful business.

Market Potential - Some people will study the market and design a product or service to fill the needs identified. Others will design a product or create a service and then look for a place to market it by creating a demand in the market for the product or service. Both systems can work well depending on the product or service, although the first method is generally more successful.

The first step is customer identification. Develop a customer profile to help determine if the idea or business will be successful and to direct advertising and promotional efforts. For example, you will want to identify if you will be marketing to mothers of preschoolers, single men or

women, dual career families, senior citizens, adolescents or other specific groups. Additional information such as educational background, income levels, type of housing, etc., may be needed. Trade associations can provide information on the customer profiles for the types of businesses they represent.

Today with the Internet, the above information and much more is readily available at no cost. Census.gov (www.census.gov), is a great place to start. Within the Census site, you will also find “American Fact Finder” where you can develop specific searches and even draw maps where you can define the parameters. Other interactive tools can also be found on the site.

Some other helpful sites include”

- Census E-Stats - <http://www.census.gov/econ/estats/>
- Longitudinal Census data - <http://lehd.did.census.gov/led/>
- LEHD Maps - <http://lehdmap4.did.census.gov/themap4/>
- U. S. Bureau of Economic Analysis - <http://www.bea.gov/index.htm>
- IRS Business Tax Statistics - <http://www.bea.gov/index.htm>
- Stats America - <http://statsamerica.org/>
- Stats Indiana (national data also) - <http://www.stats.indiana.edu/>
- Google public data - <http://www.google.com/publicdata/home>
- Headwaters Economics - <http://www.headwaterseconomics.org/eps/>

Additional census information concerning characteristics of the population for North Dakota can be obtained from the State Census Data Center (<http://www.ndsu.nodak.edu/sdc/index.htm>), NDSU, Fargo, North Dakota 58105. You can also get information from city directories, plat books and your local NDSU Extension Service, chamber of commerce and economic developer may be helpful for local information. If your business depends on traffic flow, check with your local planning office of the ND Department of Transportation for traffic pattern information.

Of course, you also will want to know who and where your competition is located. You can check out yellow pages and newspapers. Today you can also do a “Google” search and even see what the outside of the business looks like with “Google Streetview.” And do not forget to ask your friends, families and colleagues for their thoughts.

You may have already used much of this information as you did your feasibility study and the marketing plan within your business plan. Not only is the challenge to identify the potential market but to determine what share of the market you might capture. Be realistic. Don’t forget to ask if that share would be profitable. What competitive advantage do you have that would allow you to maintain your market share? Building a business on price is difficult. There will always be someone who can find a cheaper way to produce any product or service. Determine if there is room for you and your competitors and the potential for expanding the market. If there is no competition, is there a reason? Find out whether your product or service can be promoted successfully to create a demand for it. A new product into a new market is the toughest way to go.

The U. S. Small Business Administration has materials to help you understand marketing and to offer further ideas on how you might develop a marketing plan for your business. See <http://www.sba.gov/smallbusinessplanner/manage/marketandprice/SERV-MARKETRESEARCH.html>.

Business Management, Branding, and Image -Experts on home-based business management report a direct relationship between certain business management practices and

income produced. These practices include: having a business mindset; maintaining a well-equipped office; using the yellow pages for advertising; using professionals for advice; securing a business bank account; incorporating the business; operating within all local, state and federal laws and regulations; making sure the telephone is answered during business hours; hiring employees; belonging to professional associations, and using delivery services. Other practices recommended are: business image and your (and your employees) image; having an orderly and clean workplace; posting your business hours and following the schedule; having good quality printed materials; maintaining good customer service, and using good manners at all times. Not only must your business have an image but you also need to consider the image of your products, i.e. packaging.

Today **branding** is an often mentioned marketing tool. Think of your brand as a promise. It is a promise of who you are, what you stand for, and what unique and meaningful benefits you deliver. Your goal with branding is to create trust and emotional attachments. Branding is a process of building a positive collection of perceptions in the customers' minds. Brands make it easier to sell; brands help you stand out from commodities or the group of others who do or produce just what you have; and they build equity. It provides a connection to the consumer and consumers will return to your brand if it continues to offer benefits. Brands are not only important for your company but you may have separate brands for different products and/or lines of products. See Entrepreneur magazine for some good information regarding branding - <http://www.entrepreneur.com/marketing/branding/index.html>.

Customer Relations. Good customer relations are essential for any business. Money spent on branding, advertising and promotion could be wasted if the customer is not treated appropriately. Business people and their employees should deal with customers in a manner that neither offends them nor allows them to take advantage of you or your business.

Establish business policies on dealing with customers before you open for business. Try to anticipate problems, objections, or special situations that may occur and determine how you want to deal with them. Try role playing possible situations that employees of your business may encounter.

Strive to convince customers that you are genuinely interested. Providing a good product or service reinforces this. Work that fails to satisfy you or the customer is a poor advertisement for your business. According to consumer surveys, a person who has had an unpleasant experience with a business will tell on average 9 to 10 other people. Some may tell as many as 20 people or more.

Solving complaints promptly may not only bring customers back, but they will have something positive to talk about. Customers who have had a good experience with a business will tell an average of five other people, some of whom may become new customers.

The following video will reinforce some of these ideas:
<http://ecorner.stanford.edu/authorMaterialInfo.html?mid=1640>.

Marketing Tools

Business cards. A professionally printed card is an asset to almost any business. Include your name, address, phone number, products or services you provide and an attractive logo if you have one. Cards done on personal computer are appropriate if attractive and look professional.

Letterhead and envelopes. Printed letterhead shows your customers that you are a professional business person. You may want to announce your business by mailing notices to prospective customers. Letterhead stationery may also be necessary when purchasing materials and equipment for your business. Many wholesale outlets will not sell to you without it.

Logo – Although a logo is not a required element of your marketing effort, it does become part of the overall look, image, and brand of your company. You

Advertising, Promotion and Public Relations - The difference between these three elements are cost, sometimes lead time, and immediacy of returns. Often however the owner does not use just one of these elements but blends them depending on your marketing goals and strategies. Typically, advertising is easier and more effective once you identify your customers and determine market potential. This will help you to determine when, where, what and how to advertise. Nothing can beat **word-of-mouth** as the most powerful medium for a business in the local area (although with the Internet what is defined as the local area is growing rapidly). It is sincere, believable and unsolicited. It is also uncontrollable so you will want to make sure that it is positive advertising. It is largely up to you to make sure that your product and the experience your customers tell others about is the kind of advertising you want. Be professional and prompt, meet deadlines, keep appointments, and do not accept more work than you can deliver. These good business practices and friendly hospitality will enhance your business and make people want to come back. It takes time to build a reputation.

Advertising lets prospective customers (target market) know about your product/service. The goal of advertising is to encourage the potential customer to take action – to make them recognize you are there and to make them want to buy from you. Effective advertising gets the right message to the right audience at the right time. Advertising results are more measurable so you can determine if it is increasing sales. It creates a business image in the customer's mind, increases customer information, about the business and attracts customers. Advertising methods include radio, television, print media, direct mail, and infomercials.

Plan your advertising based on a set budget. This can be determined by spending:

- The same amount as last year.
- What the competition does.
- A percentage of your sales.
- To meet your objectives (example: increase sales by 10 percent).

Regular, steady, targeted advertising attracts more customers than splashy, appeal-to-no-one advertisements. Zero in on your specific target audience with cost-effective advertising. Plan an appropriate advertising theme using the name of your business and featuring a logo (if you have one). People tend to remember and trade where there are catchy (not overly cute) names, slogans and logos.

Specific advertising methods include:

Brochures/Hand-Out Flyers. A brochure or flyer can be small, inexpensive and attractive. They can be excellent methods to advertise your business. Get advice from a printer or hire a graphic designer to help with the layout of pictures, text and lettering. Do not invest money in these items if you did not consider how either will be used in your campaign and who the intended audience is. You want something that will be

opened, read and responded to. They have many uses but are wasted if not well planned.

Direct mail. Mailing brochures or letters to businesses or people likely to become customers may be helpful when you first open your business. Mailing again at regular intervals throughout the year also may help but you must keep an up-to-date mailing list. Direct mail is most effectively used on clients within a 50 mile radius of your business. It adds a personal touch as a direct communication between you and your customer. Mailing can be expensive and should be weighed with the other options.

Bulletin boards. Post professional looking brochures, flyers or business cards on public bulletin boards in restaurants, grocery stores, laundromats, apartment complexes, schools or anywhere visible to your target market. It is common courtesy to ask permission to post. Some locations specify where posters can be used or may not permit their use.

Newspapers. Newspaper advertising should be done on a consistent basis. People need to see your ad several times before it will stick in their minds. Ask to have your ad placed in the same place each week and preferably on a page that is highly read. Placement does make a significant difference in whether or not an ad is noticed. Color and size also make a difference but do cost more. Classified ads are usually inexpensive and appropriate for a small business. Run ads in local newspapers and shoppers' guides in your community.

Other businesses. You may want to advertise in a business that is complementary to yours. For example, a fabric store for alterations or gourmet food store for cooking classes. This type of advertising benefits both businesses.

Yellow pages. Check with the phone company for the time of printing for the next book. Be sure to get your business name in the white pages and consider a yellow page advertisement. A listing in the yellow pages can be helpful but may have a charge, so check with your local phone company. Always consider your customer. Would a potential customer consult the yellow pages looking for your type of product or service? Today you must also ask if your likely customer uses the yellow pages or the Internet to search.

Local radio and TV. Television ads can be effective but may be expensive to produce and run. Local cable companies and competition however may provide low cost space on their cable access channels or even as fillers on regular stations.

Specialties. You may want to offer matchbooks, pens, calendars, decals, balloons or other tokens of appreciation for doing business. Many of these items have long-term use and make good seasonal gifts. You could print stickers or labels to attach to every product. However, labels may be expensive. Weigh the cost and the advantages of the items depending on your particular business.

Telemarketing. Telemarketing is a sales approach that is done entirely by the phone. It may be selling to customers who call or calling potential customers.

Promotions are often more generic in nature. You may promote a single product (or your entire business) but the goal is more to create awareness as opposed to take action. On average it will

take 3 to 5 times before a consumer will remember they heard the name of your company or product and 7 to 10 times to take action. Promotion includes your business name, business cards, logos, give-aways, and special events. Promotion can be done through news stories of your grand opening or local radio news programs. The goal of promotions is often one word – awareness.

Public relations is a third way to build awareness of your product, your brand and your place in the community. It is often free but it takes time to get this program established and for it to develop into an on-going source of customers. However it is a great way to build goodwill and solidify your place in the community. Public relations methods include developing regular news articles, sponsoring community events, writing thank you notes and even making follow-up calls to customers. You can be the local expert on cable TV channels or do regular news columns. It also involves your participation on community boards and serving in community leadership roles.

To effectively use public relations, you need to contact the local editors and tell them about your new service or product. An editor may want to do a feature story, especially about your grand opening. Getting an article may be easier if you can tie into the activities of a charitable organization, a benevolent group or a community activity. Include a picture and send along a news release. An article like this is promotion or advertising, but may be very effective. Many radio stations have local talk shows. Call the directors and see if they are interested in discussing your new business.

Choose the form or forms of advertising, promotion, and public relations that are appropriate to your business. A mix of methods is usually recommended. Experts say to not spend your entire budget on one type of media. Take advantage of every opportunity to promote your business. There is no fixed budgetary guidelines in terms of how much you should spend. Initially it may be 25% of sales but at other times, and depending on the business you are in, as little as 1-3%.

Visual Merchandising efforts are a part of your marketing, not only within a physical location but on the outside of the store and the streets leading up to your building as well as in your packaging, the bags used to put customer purchases, and business signs. Consider every aspect of the visual display opportunities within your store (if you have one) or elsewhere. Depending on your type of business, it may be appropriate to display some of your work in a public library or bank along with your business cards for people to take. You can also use road signs. Visual cues can attract, provide information and even sell your product and services.

Find more information on visual merchandising at:

<http://ra.okstate.edu/itl/specialtapings/Muske/TheSilentSalesperson/TheSilentSalesperson.html>

An On-line Presence – Although the Internet and Web have been around for some time, the last several years have seen a rapid increase in useage. While perhaps only five years ago a web site might have been viewed, depending on the type of business, as nice but not necessary, today every business needs some type of basic web presence at a minimum. More and more people turn to computer searches to find products and services. And even if you decide not to go on-line, you still need to actively monitor what is being said on-line about your products and services. The explosion Web 2.0, or social networks, blogs, and podcasts, along with traditional on-line activities have made this a source for anyone who has a customer complaint.

It is not possible to put something in print that remains up-to-date in terms of web activity. Two sources do provide a great foundation of on-line activity. Check out:

U. S. Census Bureau – <http://www.census.gov/econ/estats/>
 Pew Foundation Internet Project - <http://www.pewinternet.org/>

Yet the focus of both of these projects revolves around traditional web sites. Today activities such as Facebook, YouTube, and Twitter have exploded. And there are new access tools every day. Business owners will need to pay close attention to the trends and determine which, if any, of these new tools is right for them. As with most tools, while it is difficult to get them up and running, the heavier cost in terms of time and money is the maintenance.

Check out the National Extension E-Commerce site for educational programs and information at: <http://srdc.msstate.edu/ecommerce/>. Another source of information can be found at: <http://www.extension.org/entrepreneurship>. Finally you can find some additional on-line training at: <http://campus.extension.org/>. One program to help create a basic understanding is: “Taking Charge of Your On-Line Presence.” Finally the University of Nebraska Extension Service has a helpful site at: <http://ebusiness.unl.edu/bitcommerce/pages/index.jsp>.

Networking

You probably have heard the phrase, “It’s who you know.” In business there is some truth to that phrase. As mentioned, word of mouth advertising is the best means to make people aware of your business. And the best person to do that is you.

However networking is much more than letting others know of your business. It is finding collaborators, suppliers, professional services, and distributors. It is learning more about your local media outlets and other promotional venues. Networking is where the business of business occurs.

So how can you be an effective networker? Some key tips are: (1) Start with a plan; (2) Develop your 30-second elevator speech; (3) Arm yourself with business cards (lots of them) and company brochures if you have them; (4) Look not only for opportunities for your business but also how you might link others together (they will remember); (5) Write notes when you get a chance (not while you are talking to someone); (6) Remember that the first 30 minutes is key - after that people will gravitate to their developed friendships; (7) Make plans to meet afterwards for longer, more in-depth conversations; (8) Follow up – on promises with a thank you, etc.; and (9) Plan for your next opportunity.

A key player in your networking strategy should be your **Chamber of Commerce**. Joining the local chamber of commerce and other professional organizations is a good opportunity to make valuable contacts and participate in community activities. It also helps makes your business visible.

Additional ideas and information can be obtained from the following:

- Read magazines, trade journals and observe competitor ads in newspapers.
- Talk with public relations people and others who promote products and services to find out the best ways to advertise your business.
- Attend trade shows. The wholesalers and distributors have excellent ideas on what they would do if they were in your shoes. If you are wholesaling, visit with your suppliers. Gain contacts to meet with others who are in a business similar to yours. If you are not in their market or potential market, many will be glad to share their expertise.

- Consult people in the franchise business or in unrelated franchises if you are considering this form of business. Determine how they reach their clientele and learn their repeat sales techniques and the preferences of those customers.
- Depending on the suitability of your business, don't overlook parades, mall shows, gallery shows, street fairs, summer festivals and county fairs.

Insurance – Risk Management

As the owner and operator of a business, you have exposure to liability and property loss. Consider the following insurance coverage when exploring your business insurance needs with your agent:

- Liability insurance to cover the property of others, bodily injury, damages such libel and slander, and operations of hired independent contractors for which you are held liable. A blanket liability insurance policy can also cover legal fees and court costs.
- Extended coverage rider for windstorm, hail, smoke, explosion or vandalism protection.
- Special protection to cover loss by fire or theft of business record, cash, other business documents and property, including tools and inventory.
- Product liability insurance for many businesses, especially food and clothing processing and manufacturing.
- An endorsement or rider to your personal automobile policy for business use if it's used to make deliveries or for other business.
- Coverage for the loss of income should you not be able to operate your business for a period of time
- Electronic equipment and data coverage

An umbrella policy that covers all forms of liability can be purchased. The cost of the coverage varies depending on the business to be insured, location and the insurance company.

Worker's compensation insurance is required as soon as you hire an employee. Employers must contact the ND Workforce Safety and Insurance Department (<http://www.workforcesafety.com/>). As sole proprietor or partnership, you are not required to pay Worker's Compensation on yourself or partner. It is optional but may be to your advantage to do so. If incorporated, you become an employee of the corporation and must pay for the coverage.

Remember the main purpose of insurance is to enable you to continue your business and lifestyle if a misfortune occurs. Identify and prioritize your risks to avoid being underinsured or overinsured. It may be necessary to consult with more than one insurance agent, compare the coverage, and determine what is adequate for you and your business. Always be certain to have something in writing stating what your business coverage is. This is especially important if your business liability is being insured under a personal homeowners or automobile policy.

Insurance risks will change over time. For example, an increase in your supply inventory may exceed your insurance coverage and signal a need to increase the coverage. Annually review your insurance coverage and the risks you face with your agent.

Home-based business - If you are operating from your home, your homeowner's insurance will not cover claims related to business in your home. If a customer comes to your home and falls on the steps, your homeowner's insurance may not cover any legal action because the customer was in your home on business. It may also not apply if a

customer's property or even your own equipment used in your business is lost or damaged by fire or theft.

Some insurance companies can add a rider or endorsement to a homeowner's policy to cover home businesses. A separate policy, which is more costly, may be needed for some types of business. Consult your insurance agent to determine the most appropriate coverage for your home business.

See also: <http://www.sba.gov/smallbusinessplanner/manage/getinsurance/index.html>

Employee Relations

Many businesses and most home-based businesses start out with only one person in the business, you – the owner. In some cases, family members may have certain duties relating to the business. As the business grows and becomes more successful, it may be necessary to hire people to work for you.

Hiring employees makes a number of new laws and regulations now relevant to your business. The goal here is not to identify all of them but to encourage you to do your research before you hire your first employee. Instead this section only provides some general thoughts regarding employees and the related management.

The people you hire represent your business to the public. Sloppy workmanship and lack of pride in the product or service can make a potentially good product or service unacceptable in the market place. The image portrayed and the ultimate success of the business depends on the people working for you.

A job description including all duties assigned to the position should be clearly outlined in writing before hiring an employee. An individual's skills should fit the job to be performed. Although friends and acquaintances are considered one of the best sources for new labor, caution is advised in hiring friends. Let the applicant's qualifications be the deciding factor.

Hiring an employee is just the beginning. The first few days on the job are critical in setting an employee's perspective and attitude and making the job meaningful. Orienting the employee to the job and the business will save time and money in the long run. Continuous in-service training may be necessary in some businesses to keep up with trends and to remain competitive.

Wages and any benefits should be agreed upon before the employee starts work. This should be formalized with a written document.

Employer expectations and the goals and objectives of the business must be clearly communicated to the new employee. Likewise, employee needs, goals and desires will need to be understood by the employer so that you can better motivate employees to be productive as well as gain self-satisfaction from the work that they do. This can be done through an annual performance appraisal.

You can get further information regarding the management of employees and the applicable laws and regulations from numerous books, on-line, and from Federal and state agencies. Check out these resources as non-compliance can have serious consequences.

See also:

ND employers - <http://www.nd.gov/category.htm?id=100>

<http://www.nd.gov/businessreg/employees/index.html>

SBA - <http://www.sba.gov/smallbusinessplanner/manage/manageemployees/index.html>

Summary

This publication discusses several factors to consider in establishing your own business but not all of them. There are many others to consider that may be unique to a particular operation or situation. It is important not only to look at the factors discussed in this publication but to take advantage of other publications and resources before starting your own business. A complete study should be made to determine the feasibility of a business prior to starting. Time, and even some money, spent early on in the exploration stage can save a great deal of time, money, and frustration later on. Some ND resources include:

ND Business portal - <http://www.nd.gov/category.htm?id=69>

One Stop Capital Center of North Dakota - <http://webhost.btinnet.net/~onestop/>

ND Business Information Center at 701- 328-5850 to find out about possible classes in your area and other available information.

NDSU Center for Community Vitality - <http://www.ag.ndsu.edu/ccv/>

ND Small Business Development Center - <http://www.ndsbdc.org/>

ND SCORE - <http://www.score.org/findscore/index.html?zc=58504>

Other Resources

Entrepreneurs and Their Communities - <http://www.extension.org/entrepreneurship>

Free On-Line Program – Building Your Entrepreneurial Venture from the Ground Up, Greg Clary, <http://campus.extension.org/course/category.php?id=42>

Cashing In On Business Opportunities, Southern Rural Development Center
<http://srdc.msstate.edu/trainings/educurricula/cashing/>

Operating a Business - http://www.agmrc.org/business_development/operating_a_business/

National E-Commerce Initiative – Southern Rural Development Center -
<http://srdc.msstate.edu/ecommerce/>

Purdue Extension Center - <https://www.agecon.purdue.edu/planner/>

Small Business Administration (SBA) - <http://www.sba.gov/smallbusinessplanner/index.html>

Service Corps of Retired Executives (SCORE) - <http://www.score.org/index.html>

U.S. Business Advisor (one-stop access to federal government information, services and transactions) - <http://www.business.gov/>

Internal Revenue Service (IRS) (downloadable forms and instructions) - <http://www.irs.org>

U.S. Patent and Trademark Library - <http://www.uspto.gov>

Entrepreneur Magazine - <http://www.entrepreneur.com/>

Edward Lowe Foundation - <http://www.lowe.org/index.elf?page=sserc>

Appendices

Appendix A: Sales Slip

Date _____ No. _____			
Name _____			
Address _____			
Quantity	Item	Price	Total Price
Cash		Subtotal _____	
Charge		Sales Tax _____	
Downpayment		TOTAL _____	

Appendix B: Cash Receipts Journal

Date	Source	Total Receipts	Merchandise Sales	Service Sales	Misc.
1 1	Capital invested from me	\$1500			\$1500
1 15	Sam Owens - product sales	\$210	\$210		
1 17	Dave Jones - service and repairs	\$75		\$75	
1 26	Bob Smith - down payment	\$56	\$56		
	TOTAL for JANUARY	\$1841	\$266	\$75	\$1500
2 1	Mary Davis - product sales	\$219	\$219		
2 6	Bank loan proceeds	\$500			\$500
2 7	Bob Smith - paid on account	\$144	\$144		
2 21	Sam Owens - sales and service	\$290	\$170	\$120	
2 27	John James - service and repairs	\$75		\$75	
	TOTAL for FEBRUARY	\$1228	\$533	\$195	\$500
	YEAR TO DATE	\$3069	\$799	\$270	\$2000

Appendix C: Cash Disbursements Journal

Date	Check No	Payee-Description	Total Paid	Inventory for Sale	Supplies	Misc
1/7	001	XYZ Wholesale - purchase inventory	\$460	\$460		
1/8	002	ABC Supply Co. - service supplies	\$180			
1/9	003	Trade magazine - 1 yr subscription	\$15			\$15
1/29	004	Local newspaper - advertising	\$45			\$45
		TOTAL for JANUARY	\$700	\$460	\$180	\$60
2/5	005	XYZ Wholesale - purchase inventory	\$250	\$250		
2/10	006	ABC Supply Co. - service supplies	\$65		\$65	
2/20	007	Commercial Bank - loan repymt & interest	\$261			\$261
2/27	008	Local newspaper - advertising	\$56			\$56
		TOTAL for FEBRUARY	\$632	\$250	\$65	\$317
		YEAR TO DATE	\$1332	\$710	\$245	\$377

Appendix D: Invoice

Sold to _____ _____ Terms _____ Due Date _____	Invoice No. _____ Date _____ Distribution Order No. _____ Customer Order No. _____
---	---

Quantity	Description	Unit Price	Total



Tool 1
Self-Evaluation Checklist

Directions: Under each question, check the answer that says what you feel or comes closest to it. **Be honest with yourself!** You may wish to have a close friend or associate also complete the form

Are you a self starter?

- I do things on my own. No one has to tell me to keep going.
- If someone gets me started, I keep going.
- Easy does it. I don't 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 don't need anyone else.
- Most people irritate me.

Can you lead others?

- I can get people to go along when I start something.
- I can get most people to go along if I push them.
- I let someone else get things moving.

Can you take responsibility?

- I like to take charge of things and see them through.
- I'll take over if I have to, but I'd rather let someone else be responsible.
- There is also some eager beaver around wanting to take the lead. I say let them.

How good of an organizer are you?

- I like to have a plan before I start. I'm usually the one to get things lined up.
- I do all right unless things get too confusing. Then I quit.
- I just take things as they come.

How good of a worker are you?

- I can keep going as long as necessary. I don't mind working hard.
- I'll work hard for a while, but when I've had enough, that's it.
- I can't see that hard work gets me anywhere.

Can you make decisions?

- I can make my mind up in a hurry if I have to and my decision usually turns out okay.
- I can make good decisions if I have plenty of time. If I do it quickly, I often regret it.
- I don't like to be the one who has to decide things.

Can people trust what you say?

- People can trust what I say. I don't say things I don't mean.
- I try to be on the level most of the time but sometimes I just say what's easiest.
- Why bother if the other person doesn't know the difference.

Can you stick with the job?

- If I make up my mind to do something, I don't let anything stop me.
- I usually finish what I start if it goes well.
- If it doesn't go right away, I quit. Why beat my 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 do.

Are you independent?

___ Independence is important to me.

___ At times I like not having to make decisions.

___ I don't want to be in charge.

Are you assertive?

___ I am confident that I can meet and overcome obstacles.

___ Usually obstacles do not block me from achieving what I want.

___ I often run into things that block me from achieving my goal.

Are you creative?

___ I enjoy trying new ideas and experimenting to improve the situation.

___ Innovation is helpful at times but being too innovative often wastes time.

___ There are good reasons to stick to the current way of doing things.

Are you realistic?

___ I generally find myself able to complete my plans.

___ My plans get done some of the time.

___ My plans are rarely accomplished.

Can you accept risk?

___ I am willing to take calculated risks when I have a chance to obtain a goal by doing so.

___ I take risks then the odds are highly against my succeeding.

___ If I have a chance of losing, I won't take the risk.

Do you enjoy working with others?

___ I enjoy working with other people.

___ I sometimes find it hard to work with other people.

___ I do my best work alone.

Do you know your potential?

___ I understand myself and my potential?

___ I am hesitant about what I can do but I try and push myself along.

___ I don't try anything.

Make sure your answers are truthful and not a result of wishful thinking. Now count the checks you have made.

How many checks are there beside the first answer to each question? _____

How many checks are there beside the second answer to each question? _____

How many checks are there beside the third answer to each question? _____

If most of your checks are beside the first answers, you probably have what it takes to run a business. If your checks are mostly by the second answer, carefully examine your weaknesses to see if they can be overcome. You may need to find a partner who is strong in the areas in which you are weak. Or you can take classes or find a mentor to help you in these areas. If many checks are beside the third answer, you have more work to do before starting your business. It may be a good idea to wait before starting your business. Work on those areas where you are weak. Then check yourself again at a later date.



Tool 2
SBA Self-Analysis Checklist

Directions: Under each question, check the answer that says what you feel or comes closest to it. **Be honest with yourself!**

IDENTIFY YOUR REASONS

As a first and often overlooked step, ask yourself why you want to own your own business. Check the reasons that apply to you.

- | | |
|---|-------|
| | YES |
| 1. Freedom from the 9-5 daily work routine | _____ |
| 2. Being your own boss | _____ |
| 3. Doing what you want when you want to do it | _____ |
| 4. Improving your standard of living | _____ |
| 5. Boredom with your present job | _____ |
| 6. Having a product or service for which you feel there is a demand | _____ |
| 7. Being able to use your creativity | _____ |

Some reasons are better than others, none are wrong; however, be aware that there are tradeoffs. For example, you can escape the 9-5 daily routine, but you may replace it with a 6 a.m. to 8 p.m. routine.

SELF-ANALYSIS

Going into business requires certain personal characteristics. This portion of the checklist deals with you, the individual. These questions require serious thought. Try to be objective. Remember, it is your future that is at stake!

Personal Characteristics

- | | | |
|--|-------|-------|
| | YES | NO |
| 1. Are you a leader? | _____ | _____ |
| 2. Do you like to make your own decisions? | _____ | _____ |
| 3. Do others turn to you for help in making decisions? | _____ | _____ |
| 4. Do you enjoy competition? | _____ | _____ |
| 5. Do you have will power and self discipline? | _____ | _____ |
| 6. Do you plan ahead? | _____ | _____ |
| 7. Do you like people? | _____ | _____ |
| 8. Do you get along well with others? | _____ | _____ |

Personal Conditions

This next group of questions though brief is vitally important to the success of your plan. It covers the physical emotional and financial strains you will encounter in starting a new business.

- | | YES | NO |
|--|-------|-------|
| 1. Are you aware that running your own business may require working 12-16 hours a day six days a week and maybe even Sundays and holidays? | _____ | _____ |
| 2. Do you have the physical stamina to handle the workload and schedule? | _____ | _____ |
| 3. Do you have the emotional strength to withstand the strain? | _____ | _____ |
| 4. Are you prepared if needed to temporarily lower your standard of living until your business is firmly established? | _____ | _____ |
| 5. Is your family prepared to go along with the strains they too must bear? | _____ | _____ |
| 6. Are you prepared to lose your savings? | _____ | _____ |

PERSONAL SKILLS AND EXPERIENCE

Certain skills and experience are critical to the success of a business. Since it is unlikely that you possess all the skills and experience needed you'll need to hire personnel to supply those you lack. There are some basic and special skills you will need for your particular business. By answering the following questions you can identify the skills you possess and those you lack (your strengths and weaknesses).

- | | YES | NO |
|---|-------|-------|
| 1. Do you know what basic skills you will need in order to have a successful business? | _____ | _____ |
| 2. Do you possess those skills? | _____ | _____ |
| 3. When hiring personnel will you be able to determine if the applicants' skills meet the requirements for the positions you are filling? | _____ | _____ |
| 4. Have you ever worked in a managerial or supervisory capacity? | _____ | _____ |
| 5. Have you ever worked in a business similar to the one you want to start? | _____ | _____ |
| 6. Have you had any business training in school? | _____ | _____ |
| 7. If you discover you don't have the basic skills needed for your business will you be willing to delay your plans until you've acquired the necessary skills? | _____ | _____ |



Tool 3
Resources, Experiences & Networks

Life Experiences: Check the experiences that you have, including from your volunteer work.

- | | |
|--|---|
| <input type="checkbox"/> Budgeting | <input type="checkbox"/> Selling |
| <input type="checkbox"/> Organizing | <input type="checkbox"/> Problem Solving |
| <input type="checkbox"/> Delegating | <input type="checkbox"/> Raising Money |
| <input type="checkbox"/> Advertising | <input type="checkbox"/> Buying |
| <input type="checkbox"/> Planning | <input type="checkbox"/> Shipping/Delivering |
| <input type="checkbox"/> Directing | <input type="checkbox"/> Communicating |
| <input type="checkbox"/> Coordinating | <input type="checkbox"/> Keeping Books |
| <input type="checkbox"/> Evaluating | <input type="checkbox"/> Goal Setting |
| <input type="checkbox"/> Presenting | <input type="checkbox"/> Customer Service |
| <input type="checkbox"/> Public Relations | <input type="checkbox"/> Managing Employees |
| <input type="checkbox"/> Merchandising/Display | <input type="checkbox"/> Networking |
| <input type="checkbox"/> Market evaluation | <input type="checkbox"/> Greeting and Meeting People |
| <input type="checkbox"/> Complaint manager | <input type="checkbox"/> E-commerce/Social Networking |

Which of the above do you like to do? _____

Which do you dislike? _____

Skills, Interests, and Experiences: Consider the following points when determining if you are prepared to go into business or if you understand the industry you are about to enter. There is no right or wrong answer nor is there an amount of experience you should have. Some would argue that having no experience is a positive as you are never hampered by “how things worked in my old job.” However the majority of authors seem to support having some related experience in the field you are going to enter.

Age _____

Years of education or training completed _____

Favorite school subjects _____

Types of informal education _____

Current and/or previous jobs and duties _____

Reason for leaving each job _____

Job(s) enjoyed the most _____

 Why? _____

Favorite recreational activities _____

Hobbies _____

Community work enjoyed _____

Environment preferred: Indoors _____ Outdoors _____ City _____ Rural _____

Personal goals to be achieved by operating a business _____

Work Life Balance

How much time can you give your business? _____

To other jobs/comittments? _____

To family members? _____

Outside activities? _____

Other special circumstances? _____

How much time will these priorities take? _____

Now that you have answered the above questions, how many hours per week will you devote to your business? _____

Community Contacts

Whom do you know who can help you set up your business?

____ An attorney

____ An accountant

____ A banker

____ A friend

____ Members of your family

____ Someone who is in the same business

____ Who else do you know or what groups do you belong to that may be of help to you as you start your business?

What other types of people do you need for help, advice, and support? _____

What professional groups can you go to for the information you need? _____

Who is your mentor? _____

Money: Check the statements that are true.

____ I know how much of my own money I have to put into the business.

____ I know how much money I need to get the business started.

____ I know how much money I will need to operate the business once it is started.

____ I know how much credit I can get from suppliers.

____ I have a lawyer, banker, and accountant I can talk with.

____ I know the tax implications of my business.

____ I know my insurance needs and costs.

Fears: What are your fears as you think about starting a business? How will you eliminate, neutralize or overcome them?

So how do you measure up? Can you check all the questions and fill in all of the blanks. If so, you've done your homework. If you have missed a few, you need to seek additional information.

Adopted from 2010 revised edition, *Cashing in on Business Opportunities*, Southern Rural Development Center.

http://srdc.msstate.edu/trainings/educurricula/cashing/files/1_p1_assessing.pdf

and originally prepared by Ann Lastovica, Extension Family Management Specialist, Virginia State University



Tool 4
Financial Resources Available

Make a list of all of your available financial resources. You may need to add additional categories. You will find three sections of resources – assets, available credit, and cash flow. Please note however that you may have demands in each of these categories that will shrink the total resources you have available.

	_____	Date
Assets		
Current savings	_____	_____
Investments (excluding retirement)	_____	_____
Other assets	_____	_____
Home equity	_____	_____
Other _____	_____	_____
_____	_____	_____
Total Assets		_____
Available Credit		
Home equity line of credit	_____	_____
Total available credit card debt	_____	_____
Borrowing against assets	_____	_____
(If counted here, no longer can also be an asset)		
Potential credit including family and friends	_____	_____
Other _____	_____	_____
_____	_____	_____
Available Credit		_____
Cash Flow		
Your take-home salary	_____	_____
Significant other's salary	_____	_____
Salary of other family members	_____	_____
Investment returns	_____	_____
Rental property income	_____	_____
Other _____	_____	_____
_____	_____	_____
Available cash flow		_____
Total Available Gross Financial Resources		_____

NOTE: Corresponding expenses, liabilities, existing use of credit lines have not been included. This must be done to complete your picture.



Tool 5
Family and Business Goals and Relationships

1. What are the reasons for working at home? Have each family member complete and discuss your differences. Check each reason that applies.

Reason to work at home	My Reason	Significant Other's Reason	Family's Reason
Be at home with young children			
Be at home with children before and after school			
Be at home with aging parents/relatives			
Let my children see that I value family and work			
Allow me to pursue my business ideas			
A preferred life style			
To spend more time with family			
To avoid commuting			
For tax benefits			
To save money			
Started here with my hobby			
Already identified as the base for my business			
I am disabled and this offers me opportunities.			
Do not need to spend money on office clothing.			
I control my own life			
More relaxed atmosphere			
Space has already been created to hold my tools, supplies, inventory, etc.			
I get more done.			

2. What 3 aspects of family life are most important to you? Examples might include: having friends visit, family outings, meals together, social activities, family time together, a space of my own, a tidy and attractive environment, etc.

- 1.
- 2.
- 3.

3. How will you maintain those important aspects of your life?



Tool 6
Opportunity Questionnaire

Questions to ask before investing in a business opportunity

Does this offer seem too good to be true? _____

What exactly do I need to do in order to be successful in this opportunity?

What is the total cost? _____

Whom have I had review this business opportunity with me?

attorney SCORE county NDSU extension agent
 accountant SBDC other specialist _____

How will I be paid? _____

Salary _____ Commission _____

How often and criteria for payment? _____

What type of training will I be given?

What agencies have I checked with concerning this company?

U.S. Postal Inspector ND Attorney General's Office
 Federal Trade Commission Consumer Protect Office
 Better Business Bureau

Have I been given a list of other investors? _____

Has everything been provided to me in writing and have I been provided all of the disclosure information regarding the company? _____

Have I reviewed the contact and all of the fine print before signing it? _____

*Originally prepared by David A. Buchen, Director, Home-Based Business Project,
University of Wisconsin-Whitewater.*



Tool 7
Moving from Idea to Opportunity

Idea	Opportunity or Alternative Opportunity	Benefits	Challenges	Need to Know



Tool 8
Balance Sheet

Date _____

Current Assets

Cash \$ _____
Other investments _____
Accounts receivable _____
Inventory _____
Other current assets _____

Total current assets \$ _____

Intermediate and Fixed Assets

Equipment and fixtures \$ _____
Automobiles _____
Real Estate _____
Other assets _____

Total intermediate and fixed assets \$ _____

TOTAL ASSETS \$ _____

Liabilities

Account payable \$ _____
Notes payable _____
Accrued expenses _____
Loans payable _____
Other liabilities _____

Total liabilities \$ _____

Owners Equity \$ _____

TOTAL LIABILITIES & OWNER'S EQUITY \$ _____

Source: Mary J. Stephenson, Home Economic Department, Cooperative Extension Service, University of Maryland



Personal Income Statement

Income

Wages or salary		
Husband	\$ _____	
Wife	_____	
Dividends and interest	_____	
Capital gains and losses	_____	
Rents, annuities, pension, etc.	_____	
Other _____	_____	
TOTAL INCOME		\$ _____

Taxes

Personal income taxes	_____	
Social Security taxes	_____	
TOTAL TAXES		\$ _____

Amount remaining for living expenses and investment \$ _____

Living Expenses

Fixed

Variable

	Fixed	Variable
Housing		
Rent or mortgage payments	\$ _____	\$ _____
Utilities	_____	_____
Insurance	_____	_____
Taxes	_____	_____
Maintenance and repairs	_____	_____
Other _____	_____	_____
Food	_____	_____
Clothing (including care and repair)	_____	_____
Transportation		
Gas	_____	_____
Repairs	_____	_____
Licenses	_____	_____
Insurance	_____	_____
Auto payments or purchase	_____	_____
Recreation, entertainment and vacations	_____	_____
Medical		
Doctor	_____	_____
Dentist	_____	_____
Medicines	_____	_____
Insurance	_____	_____
Personal		
Life insurance	_____	_____
Savings for Emergencies	_____	_____
Savings for major expenses such as college, buying a home, etc	_____	_____

Other expenses _____

TOTAL ANNUAL LIVING EXPENSES \$ _____

Amount remaining for savings and investments \$ _____

Adopted from Mary J. Stephenson, Home Economics Department, Cooperative Extension Service, University of Maryland.

Personal Balance Statement

Year _____

ASSETS

Cash
 On hand _____
 Checking account(s) _____
 Savings account(s) _____

Money loaned to others _____

Investments
 Savings bonds _____
 Stocks and bonds _____
 Mutual funds _____

Cash value of:
 Life insurance _____
 Annuities _____
 Retirement fund _____

Real estate _____

Personal property _____

Automobiles _____

Other

TOTAL ASSETS _____

LIABILITIES

Unpaid bills
 Taxes _____

Insurance premiums	_____
Charge accounts	_____
Installment loans	
Automobile	_____
Other _____	_____
Loans	
Banks	_____
Education	_____
Other _____	_____
Mortgage loans	
Home	_____
Other _____	_____
TOTAL LIABILITIES	_____
TOTAL ASSETS (minus)	_____
TOTAL LIABILITIES	- _____
NET WORTH	= _____



Resource 1
Business Startups Require Money
August, 2010

Starting a business means a need for money to help pay for a variety of things from registration fees to getting the store ready for customers to buying initial inventory.

Potential business owners often struggle to find those first dollars.

“Asking for help to find grants, or ‘free money,’ is one of the most common requests I get,” says Glenn Muske, North Dakota State University Extension Service rural and agribusiness enterprise development specialist. “There may be some small grants, but the business owner needs to have funds available to invest in his or her business idea.”

So how does the business owner get the cash he or she needs?

“Getting those initial dollars together should not keep anyone from pursuing their dream,” says (Insert name) of (Insert county). “Bootstrapping a business startup, or using some simple means to finance the business, is common.”

Successful business owners offer the following ideas:

- * :Use personal savings. If the perspective business owner does not have any savings, he or she may need to first save enough money to cover some or all of the startup costs..
- * Maintain some cash flow by continuing to work at your existing job while starting your business at night and on weekends. During that time, you also can focus on building a savings account. In addition, staying in your current job means you’ll keep your health insurance benefits, giving you a feeling of security.
- * Do consulting working while working on opening your business.
- * Have family members in the work force. This means discussing your idea of being an entrepreneur with your family and making sure your family understands and supports your business idea.
- * Home equity or cash from a retirement plan are possible funding sources. However, you must understand the risks. If the business fails, you may lose your home or have little or no savings to provide retirement income when you want to quit working.
- * Turn to family and friends for startup funding. The cautionary note with this method is to make sure you put all agreements in writing. You do not want misunderstandings to cause a problem in the future.

* Use credit cards. . However, you should do this cautiously for two reasons. The first is that you may need those funds to help you through the initial period when your business generates little income. Also, you are putting your credit history at risk, and you may need good credit for a future business or personal loan.

“There are many reasons why you need to bootstrap as you start your business,” Muske says. “At some point, the money, usually the first dollars used, will come from you personally. Even if you can get a grant, it will not cover all the costs. You will need some of your own funds. Even if you want to borrow money or find an angel investor, both more expensive options, bankers and investors will look to see how much you have invested yourself.”

For more information about financing your business, check with your local Extension office at [insert phone number and e-mail address] or go online to www.eXtension.org. You also can visit the U.S. Small Business Administration’s website at www.sba.gov.

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Source: Glenn Muske, (701) 328-9718, glenn.muske@ndsu.edu



The following list of possibilities for businesses is provided to stimulate your creative thinking regarding income-producing ideas. Many of these ideas have been tried successfully by business owners and may help you identify one of your personal skills that could be profitable.

PERSONAL / INDIVIDUAL / SELF IMPROVEMENT

Accounting

Adult Care - day, residential and post-surgery health care, adult in-home foster care

Animals - grooming, sitting, exercising, training, boarding, breeding

Apartment guide

Attorney

Automotive - rental, painting, cleaning, and repair

Beauty services - nails, hair care, facials, massage, beauty products

Bicycle, moped, motorcycle sales and repair

Books - binding, sales, collecting

Bridal consultant plus gowns for rent or sale

Calligraphy

Chauffeur - limousine service

Clock repair

Clothing and sewing-related - alterations, monograms, exchange, needlework, hemming, re-weaving, tailoring, refurbishing vintage clothing, custom sewing, clothing for disabled, clothes for hard-to-fit, drapery making, custom window treatments, baby specialty items

Correspondence for others

Costumes - design, manufacturing, sales, repair

Counselor - marriage, family, career, children, rehabilitation, financial, and investments

Coupon mailer service

Day Care - child day care center, group family day care, family day care home

Designing and painting murals in churches, homes, offices, and restaurants

Digital watch repair

Get-away weekends for couples, families

Genealogical research

Greeting cards/notes - design, sell

Health improvement - exercise, body toning, electrolysis, stop smoking clinics, weight control, diet preparation, recreation for older adults

Hospitality services - catering, mobile catering, clowning, parties for children and adults

Image consultant - color analysis, wardrobe analysis and planning

Income tax preparer

Jewelry design, sales, repair

Laundry and ironing

Messenger service

Shopping Service - clothing, groceries, interior design, maintenance services

Towing

SERVICES TO THE HOME

Appliance repair

Appraisals - antiques, books, collectibles, objects d'art

Architecture

Auctioneer

Awnings - design and make canvas awnings and shades, installation

Building storage sheds
Burglar alarm sales and service
Carpet installation and cleaning**Carpentry**
Cement casting - curbing, patio blocks, etc.
Chain saw service
Chair caning
Crystal and china repair
Custom rug making - braided, hooked, woven
Electronic sales and repair
Energy consultant
Fence installation and repair
Firewood
Floor refinishing
Furniture - build, design, repair, refinish, upholster, sell
Garden furniture - rewebbing, repainting, repadding, reupholstering, reweaving
Home handyman service
Home repair and maintenance - painting, wallpapering, chimney cleaning, etc.
Household cleaning
Household moving
House-sitting
"I'll finish your project" service
Interior design and decorating
Lamp repair
Lawn care, spraying, landscaping,
Mobile lock service
Musical instrument maintenance and repair
Organizing closets, cleaning basements, attics, eliminating junk
Oriental rug repair
Painting
Pest control
Pet sitting
Plants - potting, sales, care at home
Pool cleaning and repair
Porcelain refinishing (tubs, sinks, etc.)
Real estate sales
Rental agency - furniture, tools, appliances, party items, etc.
Screen and storm window service - sell, repair, install
Security patrol
Small engine repair
Tree service - treat, trim diseased trees, tree removal, replacement
Welding
Window and wall washing
Yard/Lawn maintenance - landscaping, pruning of shrubbery, flower bed preparation, fertilizing, specialized outdoor lighting, design and installation

SERVICES TO OTHER BUSINESSES

Accounting or bookkeeping - setting up books, keeping records, completing tax forms, payroll
Advertising - write, copy, layout, artwork
Advertising specialist - sell calendars, pens, bumper stickers and other items imprinted with business names and advertising message
Aerial advertising - skywriting, towing advertising banners behind airplane, balloon signs
Agent - literary, sales, insurance
Answering service
Aquarium service - design, install, clean, and maintain
Art rental - plan and display art in businesses

Booking agent representing musicians, models, actors, actresses and other temporary help
Builder's cleanup service
Burglar alarm sales and service
Business chauffeur
Calligraphy - diplomas, scrolls, certificates
Clipping service - newspapers and magazines
Computer - analysis training, programming, repair, sales, hardware, software, web site developer
Computer-generated visuals
Consultant and deliverer of professional development seminars
Copy center
Credit investigator - check on history of people applying for credit
Data and word processing
Delivery/messenger service
Employment agency - match workers with job opportunities. Teach classes in developing resumes, interview techniques, etc.
Event planning
Free-lance writer
Home-based business directory - publish directory of home-based businesses in area. Charge for listing and give directories free
Income tax preparation
Jewelry and watch repair - contract with jewelry stores to repair jobs they take in
Mailing list - develop/print labels
Marketing research
Money broker
Newsletter research, writer, editor
Notary public
Office machines repair
Parking lot maintenance - sweeping, striping, coating, snow removal, installation of signs, replacement of light bulbs
Pest control
Printing - layout, edit, operate
Proofreader
Public relations
Rubber stamp making
Sales representative
Secretarial service
Security patrol
Sharpening service
Shopping service - shop for busy executives- purchase and ship or deliver gifts to their customers or employees
Signs - design, build, install
Translator - if fluent in foreign language, may escort foreign business executives
Travel agent
Trucking - long/short distance
Typing pool
Welcome new residents - provide community information and referral
Window and wall washing
Writing

SMALL BUSINESS

Auto/boat/camper repair, detailing,
Art - prints, original art, painting, photography, framing
Bait and tackle sales
Balloons
Catering

Director sales - candles, cosmetics, seasonings, household items

Fiberglass molding

Firebacks - design and manufacture cast iron plates that absorb and radiate heat

Florist

Greenhouses - design, build, install

Homemade food products - Specialty processed foods, breads, cakes, cookies, pastry maker for restaurants and delicatessens, candy, catering gourmet meals for delivery or pick up (Be sure to check your state regulations regarding food related businesses)

Household items

Insurance

Mail order

Party planning

Personalized products

Printing, silk screening, machine embroidery

Research services

Used clothing

CRAFTS AND RELATED ARTS

Basketry

Candlemaking

Ceramics

Decoys

Dollmaking, doll clothes, collecting unique dolls, dollhouses doll repair

Dried flower arrangements

Framing

Glass blowing

Jewelry - design, repair, restyling, sales

Lampshades

Leather work

Metal design, metal work

Miniatures - manufacture and sales

Needlepoint and embroidery

Ornaments

Personalized sketches of house, boat, animals

Pottery

Quilting

Scale model making

Scrimshaw

Selling crafts supplies

Silk screening

Soft sculpture

Spinning

Stained glass

Teaching crafts

Toy sales, toy making, toy repair

Weaving

Woodworking, wood carving

EDUCATIONAL SERVICES

Career counseling - resume writing, tutoring, dressing for success

Children's camp

Educational services

Historic or educational tours

Sports camp for children

Teaching classes or individual lessons in specific areas or skills such as: time management, typing, study skills, test-taking, public speaking, computer, foreign languages, photography, music, voice, natural childbirth, dancing, physical fitness, first aid, self-defense, weight-loss, quit-smoking clinics, specific crafts skills, games skills (bridge, chess, etc.), cooking and sewing, etc.

Tutoring

OTHER BUSINESSES

Bed and breakfast

Beekeeping - keeping hives, selling honey, making beeswax candles

Bicycle repair, bicycle tours

Blacksmith

Boat rental - rent boat only or conduct charter fishing trips

Christmas tree farm

Clock repair

Coin dealer

Coordinate exhibitions - organize antique shows, art fairs, flea markets, fund-raising drives, special promotions

Fruit and vegetable growing, organic, Roadside vegetable/fruit stands

Goat production - sell meat or milk to ethnic markets, health food stores, and coops. Make cheese and fudge to sell.

Gun repair

Herbs - grow, dry, sell. Teach classes on "how-to."

Holiday greenery

Pick-your-own operations

Restorations - antiques, artifacts, cars, boats, and home

Sheep raising

Sod farm

Taxidermy

Tour guide

Trailer and camper maintenance and repair

Underground sprinkler systems - installation and repair

Unusual transportation - carriage, horse and buggy rides, etc.

IDEAS I WANT TO CONSIDER:



Resource 3 Market Analysis Data

There are many places you can look for secondary data (or data collected by others) to help you project the size of your market. The process begins with your identification of who is your target customer. Some of the more common items that identify your customer include:

Age	Income	Where they live
Marital status	Life goals	Life style
Preferences	Beliefs/Attitudes	Hobbies
Activities	Family size	Occupation
Religion	Race	Nationality
Socio-economic class	Personality	Risk taking level
What they enjoy doing	Habits	Image
Special occasion activities		

All of the above are micro aspects. You also need to look at the macro trends – is the market growing, how is it changing, what are the trends and what are the fads, does where I locate my business draw people to it for shopping, what are people buying, etc? This information can be partially found through research. The following are just some of the sources you might use.

U. S. Census – <http://www.census.gov/>

On-line analysis tool – American Fact Finder -

<http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>

Area Quick Facts - <http://quickfacts.census.gov/qfd/index.html>

Longitudinal Employer-Household Dynamics - <http://lehd.did.census.gov/led/>

Electronic Economy (E-Stats) - <http://www.census.gov/econ/estats/index.html>

Know your industry classification - <http://www.census.gov/eos/www/naics/>

U. S. Small Business Administration – # of employees, employers, establishments, payroll, etc
<http://www.sba.gov/advo/>

Bureau of Labor Statistics - <http://www.bls.gov/>

Consumer Expenditure Survey - <http://www.bls.gov/cex/>

IRS Tax statistics - <http://www.irs.gov/uac/Tax-Stats-2>

U.S. Dept of Commerce, Bureau of Economic Analysis - <http://bea.gov/>

U.S. Dept of Agriculture data - <http://www.agcensus.usda.gov/>

U. S. Dept of Education, National Center for Education Statistics – <http://nces.ed.gov/ccd/elsi/>

ND State Data Center - <http://www.commerce.nd.gov/census/>

ND Compass - <http://www.ndcompass.org/>

ND Tax Commissioner – Reports - <http://www.nd.gov/tax/salesanduse/pubs/>

Stats America - <http://statsamerica.org/>

Stats Indiana – information for all states - <http://www.stats.indiana.edu/sip/>

Headwaters Economics profiles - <http://www.headwaterseconomics.org/eps/>

Google Public Data - <http://www.google.com/publicdata/home>

Acknowledgments

The underlying concepts and basic material for this work was taken from *Home-Based Business: Is It for Me?* (EB-44), (1999), Kathleen Tweeten and Dale Zetocha, North Dakota Extension Service.