THE WHAT TO DO WHERE TO TURN WHO TO ASK

GUIDE FOR NEW ENTREPRENEURS

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FOUNDER
Hidden Star

THE
WHAT-TO-DO,
WHERE-TO-TURN,
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Most of the material in this book was generated or curated by the authors. In many instances we have included work from other worthy organizations similarly dedicated to helping entrepreneurs. In most cases we were able to contact the organization and get approval, in some cases we were not. We have opted to include some material in this book that we deemed important and appropriate and for which we are still seeking approval.

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DEDICATION

This book is dedicated to the men and women who, for generations, have started their own business and changed their lives forever, and to the example they set for us to follow.

And to my wife and kids for putting up with me.

ACKNOWLEDGMENTS

I dedicate this book to the entrepreneurial spirit and ambition of so many people across this country and around the world. They want to control their own destiny, start their own company and make a difference in their lives and the lives of their families for generations to come.

This book is written to provide valuable, helpful advice and guidance on how to start and how to succeed. The United States economy needs more successful entrepreneurs from every part of our society and Hidden Star is dedicated to helping make that happen.

Though I wrote this book, it is the product of Hidden Star, a nonprofit 501(c)(3) organization dedicated to helping low-income, disadvantaged, and minority entrepreneurs start and grow their own businesses.

A special thanks goes out to the U.S. Department of Commerce's Economic Development Administration for their unending support of new businesses and job creation in the U.S. economy. This organization goes largely without notice, but it is doing some amazing things to support the small business ecosystem in this country. They have proven to be great stewards of taxpayer money and champions of entrepreneurs.

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CHAPTER 1:
TAKING THE PLUNGE

Congratulations! If you are planning, or even just thinking about starting your own business, you have come to the right place. This book is your essential guide to starting, growing, and succeeding.

This book is written specifically for anyone who wants to start a business but doesn't know much—or anything—about how to do it. We do, and this book will help you.

Other books are written for people with experience and a level of understanding on how to go about the complex tasks required in a startup. Not this book. We are writing this book for YOU. It is an easy-to-understand, easy-to-follow, step-by-step plan and process designed to take you from dreaming about starting a business to being a successful business owner.

In this book, you will hear things you won't hear anywhere else. For example, everyone talks about "passion," as if it is a critical ingredient in any successful business. That is simply not true. In fact, one of the things we tell entrepreneurs all the time is, "PASSION IS OVERRATED!" You can be as passionate as you want about the wrong product or service and you could still lose all your money and go out of business. You can be passionate about designing, producing, and selling the world's greatest buggy whips, and you could still go broke.

Passion is useful ONLY when it is matched up with a business idea that can actually make money. A functional business model is far more important than burning passion. Don't get me wrong, passion is great and inspiring—but it is not enough. For most people, their passion is a hobby, not a job. Imagine your passion is bird watching (and there are a LOT of passionate bird watchers in the world). Can you turn that into a business? Probably not. I don't know of any profitable bird-watching companies in the world. Conversely, if you start a profitable business, then you can afford to indulge your passion and watch birds all you want.

Another thing: having a great business idea is NOT an essential part of the deal.

Please don't get confused between a great business and a great business idea. Sure, it would be great if you invented a new category or an entirely new way to do something, but it is not essential.

All across this country there are successful, thriving businesses that don't, in any way, qualify as a great idea. There are car-repair shops, bakeries, small restaurants, and other types of non-exciting, non-unique businesses providing a very nice living for their owners—paying house mortgages, buying cars, and sending kids to college.

As near as anyone can tell, the essential elements to starting and growing your own business include:

- A burning desire to start and own your own business and control your own financial future.
- A good, solid business idea that has a proven business model.
- Help and support from your family, friends, and network. (Trust me, you will need it.)
- The willingness to seek out and ask for help.

The good news is there is a proven, well-worn path to success. You just need to learn it and follow it. That is what this book is about.

The bad news is lots of businesses fail. You may have seen the statistics, heard the stories, or even know an entrepreneur who failed. Yes, some fail; but you are taking a very important step by reading this book. This will significantly increase your odds of succeeding.

One very important rule is this: Avoid Catastrophe. There are certain things known to be business killers, and we will point them out as we go through this book. Please make sure to pay attention to them.

There are some rules we use at Hidden Star when we help people start companies. Among them are:

- Business is about mathematics. Not passion, not charm, not ethnicity. It is just math. Is there more money coming in than going out? It is pretty simple, really.
- Cash is king. Follow the cash, it will determine whether the business lives or dies. Understanding that is a great advantage.
- Cash is like oxygen. I'll bet you haven't thought about oxygen since you started reading this book, but if someone sucked all the air out of

the room you are in, you would think about nothing else. If you can't breathe, the only thing that matters is your next breath. Same with cash in a business. Companies that are low on cash get desperate and do foolish things.

- Hire the best people you can, but admit quickly if they are not the right fit. It is better to end it quickly than let it drag on.
- Relentlessly focus on revenue. The old saying is: Revenue covers a multitude of sins.

Capitalism is the single greatest economic system ever invented, and there is no close second. It creates opportunity and prosperity, but it requires hard work and a willingness to deal with risk.

Unfortunately, in too many communities, capitalism is a four-letter word; and Free Enterprise is something that happens to other people. Not true. Capitalism is a proven way out of poverty and whatever circumstances you find yourself in. History is clear on this point, it works and it can work for you. You can change your life and the lives of your family for generations to come.

Just do it.

Some businesses succeed, some fail. Either way, they can't eat you. If you seek out great advice and follow it, you have a much better chance to succeed. If you fail, get up, dust yourself off, and try again. Getting knocked down happens. Staying down is up to you.

If you are reading this book, you have already taken a very important step toward realizing your dream—moving from a dream to reality. We are excited to accompany you on this journey. One of our favorite sayings for entrepreneurs comes from that famous business coach, Dr. Seuss:

> ***You are off to great places***
>
> ***Today is your day***
>
> ***Your mountain is waiting***
>
> ***So be on your way!***
>
> *—Dr. Seuss*

One last thing that should give you comfort as you begin this: You CAN be successful at this. We know this because lots and lots of people who are not as

smart as you, who don’t work as hard as you, who are not as dedicated as you, and who have not read this book have already succeeded and are running their own businesses.

CHAPTER 2:
PRE-START CHECKLIST

Take a deep breath; you can do this.

It may seem overwhelming, but it is not. Remember: millions of everyday people have started their own businesses. You can too.

Like everything else, you increase your odds of success if you are organized and if you have thought about some or most of the things that need to be done. It is true for starting a business, starting a new school year, or building a house. As the old saying goes, "How do you eat an elephant? One bite at a time."

You do not need to do all of these things right now, but as you begin the process of creating a real company there are lots of little details you eventually MUST take care of. If an item is on the list below, it is important, but some are more important than others and some are critical to complete before you can move ahead. If you are not a *detail person* this will be harder for you. Please understand how important it is to take care of the little things. If you don't, they can come back to haunt you, sometimes at very stressful times. There are lots of tools you can use to help track your progress. You will see a list and description of these in a later chapter.

"Any time is a good time to start a new company."

—Ron Conway, Noted Startup Investor

Below is a simple checklist that will help get you started. Don't worry about the timing of these things, but most of them will need to happen before you officially open for business. From experience we can boldly predict you will forget one of these. Forgetting or skipping one is not a killer, but you will need to get it done before you open, or shortly thereafter.

Determine viability. Is this a business that can make a profit? In order to give yourself the greatest chance for success, you MUST be brutally honest.

Can you even make a profit? Is there a demand for the product or service?

Are other people and businesses currently making money doing the same thing? As you will see later in this book, it is probably better for you if the answer is yes.

Everyone thinks they just invented sliced bread and they have the world's greatest product. It's easy to be overzealous about your idea due to self-confirming bias. Make sure you take a step back and view your idea purely from a business standpoint.

We have a GREAT rule of thumb: You don't really know if it will work until you get total strangers to give you money. Friends and family don't confirm anything. They support you and want you to succeed and they don't want to hurt your feelings or dampen your ambition. Affirmation from friends and family is a dangerous trap.

The good news is, if you decide this is not a viable business you can always go get another idea and see if that will work. It is better to do nothing than to pursue a terrible idea.

Create a business plan. We will talk about these in a later chapter and provide you with examples. Two things: (1) it is not as hard as you think; and (2) it is mainly helpful for YOU to understand how you are going to tackle this.

We also have included two actual, fully complete business plans (a long one and a short one) so you can see what they actually look like and have an example to work from.

Figure out the money. Do you need financing? If so, how much? Where will it come from? Many of the *fatal* business mistakes come in this area. Getting the wrong money is a killer. Sometimes getting the wrong money is worse than getting no money at all.

Later in this book you will see an actual example of a profitable company started with only $293.

Choose a business name. You want a name that not only describes your product or service, but also will stick out to your customers. Make sure to check the name isn't already taken. You can go to www.godaddy.com and see if any website address is available; it only takes seconds. Then, generally, the Secretary of State's office in your state will be able to tell you over the phone or online if a particular name is available.

Brand and logo. You will need a logo, a tag line (motto), and other materials before you can open. This will be needed before you print business cards, start a website or other activities. HINT: take this seriously; it is how the world sees you.

Register a domain name. Even if you are unsure if you need a website, domain names can be pretty inexpensive (less than $15 for the first year). It doesn't hurt to secure yours. Check out. www.GoDaddy.com

Set up a website. In this day and age, a website is necessary for credibility. Even if your product is not yet built, get your website up and running as soon as possible. It is quick, easy, and very inexpensive. You can get an entire website up and running in your own domain for less than $50. No kidding. Again, see www.GoDaddy.com. Even better, check out the free WordPress website setup and hosting services offered by Hidden Star at www.galaxyofstars.org. It is free and easy.

Figure out legal structure and incorporate. This step can help protect your personal assets, and allow for future growth and funding. We will talk about the various ways to do this in a following chapter. While it may involve an attorney or accountant, it'll be fine.

Apply for an EIN. What's an EIN? An Employer Identification Number issued by the federal government is beneficial if you plan to incorporate your business or open a bank account. Also, it will help you avoid giving out your personal social security number. Bonus: they are free and easy to get! More information and a step-by-step guide on how to get one will be covered later in this book. (See: Resources.)

Investigate and apply for business licenses. You may need one, if not several, for your startup. Here in the United States, the SBA (see: Resources) has a helpful business license and permits tool.

Register social media profiles. Social media is one of the most powerful tools for marketing your business. Make sure to secure accounts with your business's name as soon as possible and get them up and running.

Even if you are not 12 years old, you can work social media. Lots more information on that later.

Rent a physical location (retail or office space). You have heard it your whole

life: Location, Location, Location!!! We will give you some resources and pointers on finding the right spot for your business.

If your business requires a brick-and-mortar shop, you'll need to find a space early. If you do not need a retail location, put off renting office space as long as possible to avoid saddling your startup with lease payments.

Order business cards and network. As a startup owner, it is important to get your name out there and make as many connections as possible. Handout business cards at every opportunity so people can remember you and contact you.

Open a business bank account. The last thing you want to do is intermingle your personal expenses with your business expenses. Make sure you open a separate account early so there is no confusion.

Set up your accounting system. Messy accounting books are a quick way to confusion and inefficiency and legal liability. Once you have your bank account set up, choose an accounting system or program and stick to it.

Delegate responsibilities. As much as we wish we could do it all, that's not always the case. Nor is that always efficient. If you have more than one founder, it is imperative you decide who will do what upfront. Co-worker disagreements can—and have—ruined a good business.

Consult an insurance agent and get coverage. Depending upon the type of business you plan to start, you will probably need insurance of one kind or another (e.g., liability, workers' comp, or health insurance), especially if you hire full-time staff. No one likes paying for insurance but it is essential.

Start your revenue stream. Money is, of course, how your business will stay afloat. At the early stages of a startup, there is never enough money. Don't worry about waiting until things are *perfect*—just start earning revenue early. The concept of an MVP—Minimum Viable Product—is a useful thing to know about. This is covered at length in the book Lean Startup. Details are in the Resources chapter.

Hire employees. Depending upon your business, you may need a few employees (retail) or you may be able to outsource certain tasks (tech and service businesses). Keep in mind trying to do everything yourself can take away from growing your business.

You may be able to save money by bringing someone on as a partner, or if you are you willing to give early employees stock ownership in your company, that can entice good help as well.

Line up suppliers and service providers. Finding a reliable source of inventory is crucial, especially in retail or manufacturing businesses. Make sure to line up good suppliers and service providers so you don't have to sweat the details.

File for trademarks and patents, if applicable. If you have a new invention or innovative service, you will want to protect your *intellectual property* if you can.

You'll typically want to consult an attorney for this, and consult them early. Doing it yourself could take longer than it needs to and leave important gaps.

The U.S. Patent and Trademark Office is the first stop and you can see if anyone else has filed an invention or trademark similar to yours. Check out: www.uspto.gov

Don't waste time on *partnerships*. This is an early, seductive, destructive trap that many new business owners fall into. If another, established, company wants to enter into a marketing or lead-sharing partnership, beware. They almost never work.

Your business won't be attractive to potential partners that are worth having as partners until you start making money. Focus your time and energy on making sales and getting customers.

Refine your pitch. You need a good elevator pitch for many reasons: potential investors, customers, recruiting new employees, and the like. You must be able to clearly explain your business if you expect key stakeholders to buy in.

Refine your product, marketing and sales approach. As you go along you will learn more about the marketplace. Use customer feedback to refine your product and service offerings, and your go-to-market approach.

Don't get locked into or emotionally attached to any particular product or service. If the market changes, you change.

Secure your IT. Whether your company is a tech company or a shoe store, you will more than likely have sensitive data on computers and devices you want protected. Protect it from intrusions and disasters. Oh, and make sure to back it up. Often.

Get a salesperson or sales team in place. In many startups the business owner starts out as the chief sales person. But to grow you need a dedicated sales function, so you can focus on other important activities.

Lastly…Get a mentor. As much as we may think we know it all, we simply don't. Especially as we start out. There are people out there who are more experienced and have learned from mistakes that are willing to share their wisdom. Go find one.

Hint: We've got some great mentors here at Hidden Star! SCORE is also a good place to find them. More details in the Resource chapter.

Find free advice—there are lots of resources for new entrepreneurs and business owners. Generally you can find people who want to help you. Let them.

Peer and support groups are also great way to find help from people undergoing the same types of challenges you are facing. For an amazing, free online community of entrepreneurs—both new and experienced—helping each other, check out: www.galaxyofstars.org

Warning: Sometimes good mentors tell you things you do not want to hear. While it can be unpleasant to hear these things, they are incredibly valuable and can really help you avoid disaster.

CHAPTER 3:
MISTAKES TO AVOID

One thing we know for sure is you are going to make mistakes—just like everyone else has who ever started a company. Over time, though, we have come to understand the most common mistakes entrepreneurs make and we can help you avoid them. Some mistakes are common and trivial; others will kill your company. You need to quickly recognize when you have made a mistake, figure out the best thing to do next, and do it.

A smart person makes a mistake, learns from it, and never makes that mistake again. But a wise person finds a smart person and learns from them to avoid the mistake altogether.

—Roy H. Williams, founder The Wizard Academy

Here are some all-too-common mistakes made by new and old entrepreneurs:

- **Choosing a business or industry that isn't profitable**. This is critical, make sure it can be a real company.
- **Acting without a plan**. "If you don't know where you are going, you will end up somewhere else." Whether or not you produce a formal business plan or not, you need to think about, and plan for, all of the things that go with starting a company.
- **Running out of cash**. There are a number of reasons for this, and none of them are good. Cash is like oxygen for a business. One of the most common mistakes—as silly as it sounds—is being afraid to look at your cash balances and be honest about your situation.
- **Inability to control expenses**. Every business must live within its means. You must constantly look at how you are spending money.
- **Not being honest about your situation**. No one likes to admit their business is in trouble, but if it is, you need to take action NOW! Denial is a killer; and most people want to avoid hard conversations/confrontations. Avoid that trap! A little unpleasantness now can save you a LOT of unpleasantness later.

- **Overdependence on a single customer**. Believe it or not, this can be a bad thing. Think about it this way: if your biggest customer went out of business tomorrow; could YOUR business survive?
- **Believing you can do everything yourself**. Hint: You can't.
- **Thinking it has to be perfect before you launch**. "Don't let the perfect be the enemy of the good." There is real value to getting to market as quickly and as inexpensively as possible to prove the market and get revenue flowing. There is a great book, *The Lean Startup*, and its great concept: The Minimally Viable Product (MVP), has great applications to many new entrepreneurs.
- **Poor location**. "Location! Location! Location!" This is true if you have a physical location or only a website. Don't just listen to a realtor or rent the very first available space. This is a critically important decision you should take your time with. If you are in retail, traffic counts are enormously important.
- **Bad systems/software/technology**. This goes for everything from accounting, to point-of-sale, to inventory, and beyond. The days of the Shoe Box Accounting System are over.
- **Weak team**. If you hire people with lax work ethic, no experience, and that need to be micromanaged; you may find yourself worse off than working by yourself. This is better to get right than to get fast.
- **Failure to get good, sound advice**. As we say throughout this book, "It is important to find a source for good, impartial advice." Please see our Resources chapter.
- **Failure to learn from mistakes**. The key is to recognize it early, deal with it, learn from it, and get it behind you. EVERYONE makes mistakes, and you probably will too. That is okay; but making the same mistake twice is not. It requires being honest with yourself.
- **Quitting too soon**.

CHAPTER 4: FEASIBILITY—CAN THIS BE A REAL BUSINESS?

As mentioned previously, building a good or great business does not require a great business idea. You don't have to invent a new technology or a shiny new gizmo to succeed. You can open a bakery, a coffee shop, a car-repair business, or a food truck—just so long as it can make money.

Over the years there has been a lot of learning on how to assess the feasibility of a new business. This chapter will walk you through the process and you can decide for yourself if this is worth your time and effort.

At Hidden Star we get lots of calls and emails from people wanting to start all kinds of businesses. Some are good, some are just okay, and some probably do not have a realistic chance to succeed. One of our core principles is that we tell people the truth as we see it. Sometimes that involves telling someone their business likely will not work; and many of those just need to change some small part of their business model to turn it into a green-light proposition.

The hardest person to be honest with is yourself.

—Anonymous

Many or most of the business ideas we hear have a realistic chance of success if the owner has a good plan and executes it well. Generally there are some BIG questions to ask to determine feasibility, and if those test out, then move on to smaller questions.

Remember: Be brutally honest with yourself about these questions. It is better to throw away a non-feasible idea and move onto another, better, more feasible idea than to stick with an idea just because it is YOUR idea. There is a business out there for you; this will help you make sure you pursue the right one.

Big Questions:

What is the business? Define the product or service you will be selling.

Who is the customer? Who buys the product or service you are selling? And why?

Why would this customer buy from YOU? It might be as easy as, "I'm closer to their house," or as complicated as, "Our flux capacitor is 3.2 times faster than theirs and sells for 23% less." You must clearly define the Value Proposition to the customer.

What is the pricing compared to your competitors? If it is different, you must be able to justify and explain the difference.

Are other companies using the same business model or similar product? For most small businesses, "YES" is the best answer here. It costs a lot of money to educate the public about a brand new way to do things. Executing a proven model well is a big part of success.

Are there any barriers to entry? Cost? Are licenses required? Do you have to have certain schooling? (E.g., doctors, veterinarians, engineers.)

Too many people have learned the hard way a business with no real barriers to entry are easy to get into, for you AND your competitors. This is the fabled *two guys and a truck* competitor problem.

Generally, do similar businesses have medium to high profit margins? Low margin businesses are plentiful and okay when they work; but there is a very small margin for error. You can generally do a quick internet search for, let's say, the margins of car repair shops. (NOTE: profit margins for car repair is about 50% on labor and 35% on parts; which is pretty good.) All in all, higher profit margins are better and allow you to recover from mistakes.

Is the industry growing or shrinking? There is a great saying in business, "Sometimes the current is more important than the swimmer." You can have the best business in a rapidly shrinking industry (buggy whips), and not do well.

And one of my favorite questions for new entrepreneurs:

Who are you picking a fight with? Are you going to compete against Google and Facebook? Or the small bakery down the street? Are you going to compete against Home Depot? Or tiny Fred's Hardware Store? Are you going against a Goliath? Or are you going to compete against other small businesses? This is a

critically important issue.

Example: We received a call at Hidden Star from a low-income individual who wanted to create and manufacture a brand new style of audio headphones. He was just tired of buying headphones that failed. Fair enough. We did the industry research and found it is a $286,000,000 market—okay, that is big—but the downside is Beats, Bose, and Apple hold 85% of the market. Yikes. Certainly a cool new design could compete against those giants, but it would be VERY expensive and risky.

Elon Musk started Tesla and competes against GM, Ford, Toyota, and others, but he had billions of dollars, government backing, and a star-studded engineering team. Tesla was not your normal startup.

After you answer the questions we listed above, the next step is to do an industry analysis. This is boring and a little hard to do sometimes, but it is very important. Not looking at the industry is a common and sometimes very painful mistake.

CHAPTER 5:
BUSINESS PLAN

"If you don't know where you are going, you will end up somewhere else."

This is an important chapter. You may have heard you must have a business plan, and on some level that is true. Unfortunately, there are a lot of different views on what exactly a business plan IS, and why you need it.

The most common reasons you would need a business plan are:

- To make sure you understand your business and have thought out what might go wrong—and how to capitalize on what is right.
- To provide to potential lenders and/or equity investors if you need, or want, outside money.
- To help recruit early employees or business partners. Sure, you can explain your vision over coffee and they will be impressed, but in order for them to commit, they really want to see that you can develop a solid plan and put it in writing.

So, yes, you need a business plan—but how do you go about it?

Give me six hours to chop down a tree and I will spend the first four hours sharpening the axe.

—Abraham Lincoln

Like most things, creating a business plan is easier to understand if you can see an example. In this chapter we give you two examples of completed business plans. One is short; the other is long. Writing a perfectly acceptable business plan is not magic and it does not take an army of accountants and lawyers. At Hidden Star we talk with a LOT of aspiring business owners who are very intimidated by having to write a business plan. You should not be intimidated or let the idea scare you off; it just takes a little of your time and thought.

There are a lot of different business-plan templates out there you can use, download, and fill in with your own information. Some are very long and

complicated; one famous organization has a 36-page, fully integrated tool you can use. I have seen would-be entrepreneurs with absolutely no sophistication fill out this entire document and accompanying financing information and not know much more than when they started. Conversely, I have seen aspiring business owners write a short, sweet, well-directed business plan that made all the sense in the world.

In our experience when someone says you need a business plan what they mean is, "You need to think about how you plan to start and grow your business," and you must be able to explain it to someone else. That's it, and that does make sense.

There are lots and lots of famous, successful companies, (Facebook and Instagram among them) and not-so-famous, local companies who NEVER had a business plan. They just started and kept plugging away. Those companies are exceptions. It is more likely than not that if you want to raise money from strangers (the best kind of money!), you will need some sort of business plan.

We recommend putting a business plan together if, for no other reason, it will make YOU think about most of the issues you will face. It will (or should) point out some obvious flaws or defects in your plan or financial model. It does not have to be long, fancy, or hard. There are lots of tools and examples available for you to use.

Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future.

— Warren Buffett

We have included an example of an actual, acceptable business plan. This plan is from real company that went on to be successful. They raised both equity and debt and have a thriving business now. Of course, we changed the names of the companies and employees.

Here are three business-plan resources you will find helpful:

1. Long-form business plan: This is an actual written plan from a real company and will give you a lot of guidance and examples of how these things are written and thought about. This has a lot of information and projected financial performance. Yours may not be nearly as long as this one, but it will be very

helpful either way. Writing your own business plan won't be as hard when you have an example.

2. A four-page investment summary: For a different company and their fundraising deal. This was sent out to banks and other funding sources to see if there was any interest in participating on the $2,400,000 debt financing. There was a LOT of interest and the deal got done. This four-page document gives enough information (but not all) and gets them more interested.

3. One page *starter kit* example: In case you get stuck; this is not a complete plan, but it should get you started.

SCORE (Service Corps of Retired Executives) downloadable template Business Plan: It is long and very intense, but it can be very helpful even if you don't complete everything. SCORE is also a great resource as you go forward. This is a blank template used by thousands of successful business owners:

www.score.org/resource/business-plan-template-startup-business

Below you will see two great examples: one long and one short. In the Resources chapter, you will see links to other examples. You may use any of these examples for your own plan, or bits and pieces from each. Remember: the business plan is mainly for YOU, and it is intended to increase your odds of succeeding as a business owner.

Generally, a business plan will include the following sections:

- Executive summary
- Your market and your marketing plan
- Your product or service
- Your industry/competitors
- Your company, people, places, and the like
- Financial projections

EXAMPLES OF REAL BUSINESS PLANS

Follows are two different of examples from actual companies that were started and became funded.

OFFICE CLEANING SERVICES COMPANY BUSINESS PLAN

Janitorial Services

Company Name: Your Office Staff

Executive Summary

Introduction

Your Office Staff is a new cleaning service specializing in office cleaning and serving the Dallas area. The business will sell office cleaning and related services to businesses with office spaces of any size. To that end, Your Office Staff seeks funding for equipment and initial operations of the business.

The Company

Established in 2011, the business provides office cleaning, floor treatment, carpet cleaning, and window cleaning for businesses with office space in the Dallas area. Fred Smith and Jim Rogers, cleaning industry professionals with decades of collective experience, founded the business and have pooled their resources to develop a new strategy for reaching and serving business clients. The business will operate out of a central office and storage facility and use the labor of trained cleaning crews to serve clients.

Services

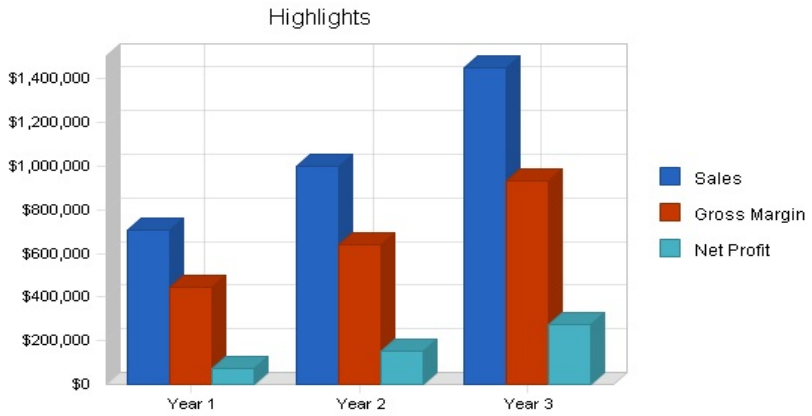
Services will be based around basic office cleaning scheduled on a monthly basis, which will be offered with extreme care for the client's privacy, security, and assets. Additional services will be sold to the same clients to deepen their relationship with Your Office Staff. Organizational services will be introduced after three years. Services will be environmentally friendly, both in products used and methods of disposal.

The Market

The market currently consists of 40,000 small, medium, and large office businesses. Healthy growth is expected for this market, especially for small offices, which will be the initial target market for the business. Focusing on small offices will establish the reputation of the company by working with a variety of clients and will force the streamlining of operations.

Financial Projections

The business expects to reach $1 million in annual sales in its second year of operation and begin to pay dividends to investing partners in its first year. A net profit of $70,000 will be achieved in the first year and will double in the second year. Breakeven will be achieved quickly, partially due to management experienced with sales, marketing, and operations, and cleaning crews paid only for hours worked, reducing the payroll risk for the business.



Objectives

Your Office Staff seeks to establish itself as a leader in office cleaning in the Dallas, Texas area. Specific objectives we will seek to meet over the next two years include:

- Build a substantial, regular client base of 100 clients on monthly cleaning plans, for a total of more than 800,000 square feet of office cleaning each month.
- Build operations infrastructure including a central headquarters, five delivery vans, professional management, and documented processes for operations and cleaning practices.
- Build healthy gross margins by establishing the company as a significant buyer in order to reduce vendor pricing on cleaning supplies and training low-cost labor to be more productive.
- Create a culture of productivity and resourcefulness for all staff by encouraging the best ideas and cleaning procedures to rise to the top and rewarding cleaning crew for their contributions.

Mission

Your Office Staff seeks to ensure businesses have a spotless office environment to support the work they do and forget their worries about office cleaning. The company encourages its employees to clean well and clean smart, listen to the needs of its client to do the job they need done, and respond to the demands of the environment.

Keys to Success

To become successful in the office-cleaning business, Your Office Staff must:

- Foster an environment of employee empowerment from day one of operation and make sure cleaning crews clean well (thoroughly and carefully) while cleaning smart (efficiently).
- Listen attentively to the needs of the client and communicate this information effectively to cleaning crews.
- Research and remain experts on the greenest cleaning practices and products.
- Remember the cleaning must meet or exceed client expectations to be considered done.

Company Summary

Your Office Staff, established in 2009, is an office-cleaning business located in Dallas. The company offers office cleaning, floor treatment, carpet cleaning, and window cleaning for businesses with office space in the Dallas area. Fred Smith and Jim Rogers, cleaning-industry professionals with decades of collective experience, founded the business and have pooled their resources to develop a new strategy for reaching and serving business clients.

Company Ownership

Your Office Staff is an S Corporation currently owned 51% by Fred Smith and 49% by Jim Rogers, founders and directors of the company. Angel investors who contribute additional investment will own 49% of the business, Fred Smith will own 26%, and Jim Rogers will own 25%.

Services

Services to be offered by Your Office Staff will focus specifically on office spaces and include:

- Office cleaning (including garbage removal, dusting and cleaning all surfaces, sweeping and mopping floors, and cleaning doors and walls as needed)
- Furniture cleaning
- Floor waxing
- Floor stripping and sealing
- Carpet cleaning
- Window cleaning
- Bathroom and kitchen area cleaning

In the future, Your Office Staff will provide office organization and de-cluttering services through an interior designer. This service will be provided as an upsell to the company's foundation of services.

Market Analysis Summary

The market for office cleaning in the Dallas area includes small offices (1 – 5 employees), medium offices (6 – 20 employees), and large offices (21 employees and more). In the Dallas area, businesses with offices are growing as the service sector increases, with a net of 3,000 new businesses established in 2008. Due to the economic renewal occurring in this community, this growth is expected to continue over the next two years. Small offices will be targeted as well as large, although margins will be lower due to the increased amount spent on sales and travel relative to medium and large offices. With the expansion many small businesses realize, Your Office Staff will have achieved a foothold in this market by the time competitors are willing to service them.

Market Segmentation

The market for Your Office Staff is comprised of small offices, medium offices, and large offices in the Dallas area.

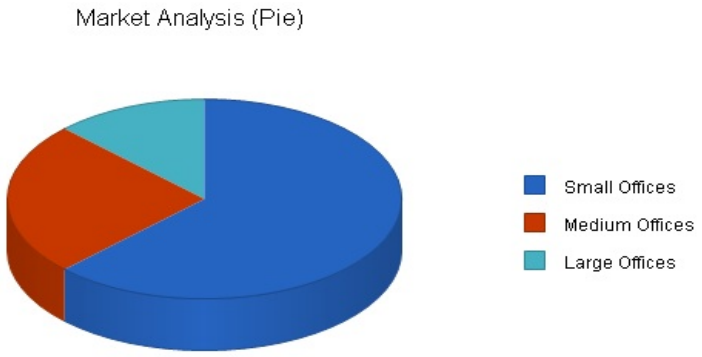
Small Offices: In the case of newly established ventures, or small businesses designed to remain small, few cleaning businesses seek to serve this market because of the cost of doing so. Therefore, business owners generally require employees to do their own cleaning, assuming they are saving money through this work. Your Office Staff must show these businesses not only do they not save money by having employees do this work, but by having professional cleaners maintain their offices they will increase morale, productivity, and their businesses' appearance when customers/clients visit.

Medium Offices: This group has a growing acceptance of the need for professional cleaning services and is concerned primarily about price.

Large Offices: This group accepts the need to outsource their office cleaning to professionals and is interested in working with vendors that can handle specific requests and take care to protect the information, security, and equipment within their office spaces.

Your Office Staff will establish expertise by building a successful base of small-office clients, moving on to medium-office clients, and then on to large-office clients. While larger clients will not be turned away as the business starts out, it is expected such businesses would be more likely to use Your Office Staff services after it has established a record of customer service and operational success by working with numerous smaller clients. Furthermore, with this approach, Your Office Staff will gain a foothold faster since the company will not at first be competing directly with established cleaning companies and will be able to work toward making this group more

profitable through economies of scale and tight operations.



MARKET ANALYSIS

POTENTIAL CUSTOMERS	GROWTH	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	CAGR
Small Offices	9%	25,000	27,250	29,703	32,376	35,290	9.00%
Medium Offices	7%	10,000	10,700	11,449	12,250	13,108	7.00%
Large Offices	6%	5,000	5,300	5,618	5,955	6,312	6.00%
Total	8.14%	40,000	43,250	46,770	50,581	54,710	8.14%

Your Office Staff will not provide landlords with janitorial services. Many firms specialize in this service already, and marketing janitorial services to buildings involves different promotional activities, operations, and cleaning skills, to a certain extent. By specializing in commercial office cleaning, Your Office Staff will increase its ability to market to the many thousands of area businesses directly.

Service Business Analysis

The office-cleaning industry includes many local companies as well as some national franchises. Services are purchased directly by business managers and owners for small businesses and by purchasing agents, office managers, and procurement specialists for larger businesses. Businesses desire ongoing relationships with cleaning vendors where they do not have to worry about the cleaning process, but will be concerned if they are paying higher than market rates. Businesses appreciate the ability of a company to quote monthly cleaning rates to make costs less variable, but also to handle special cleaning requests as they arise. Cleaning vendors are sought out through internet searches, the yellow pages, and business referrals.

Financial analysts report the commercial cleaning industry is recession resistant and highly stable. Commercial cleaning overall was an $80 billion industry in 2008, and is one of the fastest growing industries in the US, with projected growth to $150 billion per year by 2010.

Competition and Buying Patterns

The commercial-cleaning industry is very fragmented with no single company owning more than 6% of the market. Franchises account for 10% of the market and local companies account for 90%. Top franchises include JAN-PRO Cleaning Systems, ServiceMaster Clean, MTOclean, the

Cleaning Authority, and MARBLELIFE. Economies of scale for franchises are obtained through unified operations systems, national marketing campaigns, and (somewhat) through volume discounts from suppliers.

Customers seek out cleaning services based upon a combination of reputation, price, and depth of services offered. While large offices value depth of services more so, smaller firms put a greater value on price.

Strategy and Implementation Summary

Your Office Staff has selected the following priorities for its rollout strategy:

- Target small offices to gain a foothold in the Dallas office-cleaning market.
- Leverage the reputation and experience from work with small offices to increasingly seek medium- and large-office clients in the third year of operation.
- Rapidly scale organizational infrastructure, including cleaning crews, equipment, and vans.

Competitive Edge

Your Office Staff will develop a competitive edge based upon its utilization of the skills, ideas, and productivity of its employees. By encouraging and rewarding employee initiative and ingenuity to discover the best ways to clean well and smart, morale will be increased, making Your Office Staff a more desirable place to work. The reputation of the firm as a great place to work will increase application rates and the strength of new hires, thus reducing the costs of turnover and training. Customer satisfaction will increase and costs will drop due to this focus on employee utilization.

Initial training by Fred Smith and Jim Rogers will be for cleaning crew heads. This will be ten hours of training in Your Office Staff methods for experienced cleaning personnel. In turn, cleaning crew heads will each provide ten hours of training for new members of their cleaning crews—when they are brought in to the business—based both on Your Office Staff methods and basic-cleaning skills (depending on the current skills of the crew member).

All client information about the cleaning will be transferred to a detailed job sheet, which will be discussed with the cleaning crew head before reaching the job site. The cleaning crew head will go through a tour and inspection of the job site while the client is present to ensure the job sheet is complete and all information about keys, security, and access is understood. A cleaning crew head and a crew of one to four members will always run cleanings. After the crew has experience on a site, a cleaning crew head may move between a few job sites to supervise a greater number of jobs during the span of each day.

Marketing Strategy

The marketing strategy for Your Office Staff begins with its initial target market of small offices.

Promotional activities in the startup phase will include:

- Local trade show booths at office services and entrepreneurial trade shows
- Blogging, newsletters, and micro-blogging to establish Your Office Staff as thought leaders in office cleaning
- Prospecting by phone to cold and warm leads
- Business networking to generate qualified leads
- Coupons for free trials for new businesses passed on through the local Small Business Development Center and chamber of commerce

From the startup period onward, the following promotional activities will be important:

- Search engine marketing through text ads targeting office cleaning keywords in the local area
- Search engine optimization to improve organic search rankings
- Yellow page listing

- Local TV commercials

These ongoing promotional activities are reflected as marketing expenses on the Your Office Staff Profit and Loss statement.

Sales Strategy

Co-founder Jim Rogers will manage sales. Jim expects about ten small business clients from his previous work at JAN-PRO to move to Your Office Staff upon learning of their value proposition. This will account for a starting base of clients for the business.

The sales process will begin with a short phone conversation to review the basics of the services offered and to qualify the customer as one interested in regular cleanings. An in-person meeting at the customer's office will follow, after which a proposal for a monthly rate for cleaning will be given. A follow up with the client will occur after the first three regular cleanings to gain feedback and to continue to adjust the directions to the cleaning crew.

Before inquiries can be driven by advertising, Rogers will prospect for sales through business networking, cold calls, and warm calls. Your Office Staff expects 5% of cold calls, 20% of warm calls, and 30% of networking leads to yield regular customers.

As a partner in the business, Smith will be compensated through a base salary, dividends, and appreciation of the company's stock. After two years of operation, an additional salaried salesperson will be hired who will be compensated for sales through quarterly bonuses and Rogers will remain sales manager.

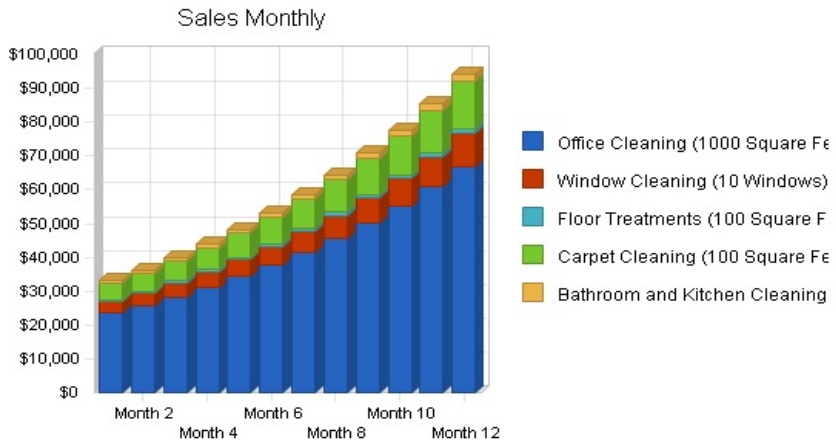
Sales Forecast

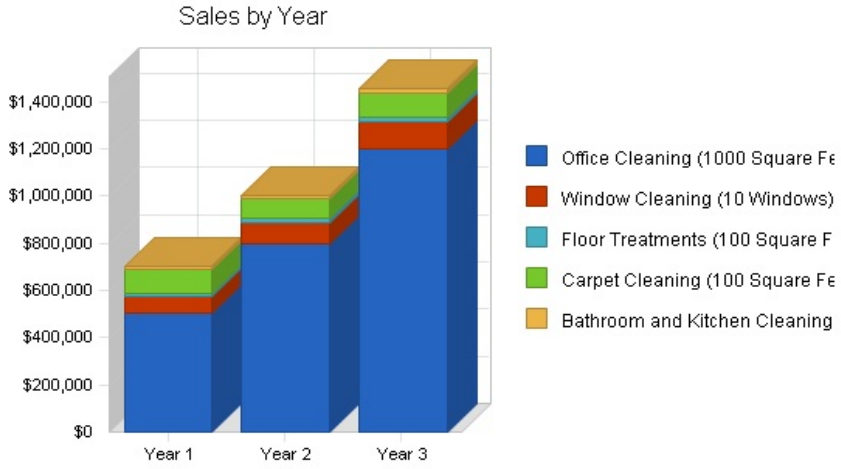
Growth is expected to accelerate rapidly over the first two years as small-office customers are sought out and secured as clients. Growth will slow after the first two years and operations must be continually increased to allow for greater growth. However, the additional target market of medium and large offices will be accessed starting in the third year of operation. The basic office-cleaning service will continue to drive sales. Based upon the previous success of Jim Rogers as a seller of commercial cleaning, these projections are reasonable, as Smith sold $2 million in cleaning services in his last full year at JAN-PRO. The additional services will be presented as upsells to clients who purchase office cleaning. It is estimated 50% of clients will purchase some additional services.

The forecast is also supported by the fact that, after the first year of operations, medium offices will be targeted as well, increasing the rate of growth as each sale will bring a higher square footage of space to clean.

Direct costs include the labor of cleaning-crew members and the cleaning crew head, cleaning supplies, and gasoline or other transit costs for crew and equipment. Cleaning-crew supervisors are expected to cost 5% of sales and Cleaning crew (hourly) wages for the execution of cleanings is expected to cost 27.5% of sales.

To ensure sales are profitable, Rogers will not be compensated on commission by sales, but by profits, after a reasonable base salary. This will keep gross margins around the industry average of 68%.





Management Summary

Fred Smith and Jim Rogers will be the initial managers of the company. Fred Smith has ten years' experience as store manager of a cleaning supply store, where he managed a staff of ten and was responsible for marketing, operations, and human resources. He will continue to manage those departments at Your Office Staff and his title will be CEO.

Jim Rogers will manage sales and be the lead salesperson for the early operations of the firm. He has ten years' experience as an account executive for JAN-PRO, a commercial cleaning business. Rogers' title will be chief of sales.

Financial management will be through a part-time accountant during the early operations of the firm.

Personnel Plan

The business will begin with minimal salaried staff, with most work performed by the two founders. The founders will be compensated through reasonable base salaries and will receive compensation through dividends and the growth of the business.

In the first year, an accountant will serve the role of Chief Financial Officer (CFO). In the second year, this will become a part-time position, which will grow into a full-time position in the third year.

The operations assistant will be a basic administrative assistant focusing on the fulfillment of cleaning services, scheduling, quality assurance procedures, and human resources needs.

Total staff full-time equivalent on the following chart include cleaning crew members who work on an hourly basis and have their payroll assigned as costs of sales. One cleaning-crew head will be hired at the outset of the company, an additional crew head will be hired in the second year, and a third in the third year. Each will oversee crews of one to four members, and can also supplement

their supervision responsibilities as members of crews under other supervisors.

PERSONNEL PLAN

	YEAR 1	YEAR 2	YEAR 3
CEO	$48,000	$50,000	$52,000
Chief of Sales	$48,000	$50,000	$52,000
Accountant/CFO	$24,000	$40,000	$80,000
Operations Assistant	$36,000	$40,000	$45,000
Total People	13	16	24
Total Payroll	$156,000	$180,000	$229,000

Cleaning-crew members will grow from five in number at the outset of the business to 11 on average in the second year, and 16 on average in the third year. All of these hourly staff will be hired when at least 20 hours per week of work is available, but their overtime will be limited. The business will hire additional employees rather than use significant overtime.

Cleaning crew will receive competitive base salaries as well as quarterly bonuses based upon performance ratings from both their supervising cleaning crew head and clients. Crew heads will receive performance ratings from the company managers and clients to determine their quarterly bonuses.

Once the company reaches a sustainable level of profitability, the owners will consider options for providing a health benefits plan for their employees, but this is not included within the plan's estimated expenses at this time.

Financial Plan

Your Office Staff will grow significantly, even over the first three years of operation, by taking advantage of the opportunity presented by its first target market—small offices—and leveraging this success with medium and large offices. Growth of about $300,000 is expected in sales from the first year to second, and more than $400,000 from the second year to third.

Financing for this growth will come from the free cash flows generated by the healthy margins in this business once break-even volume has been achieved in the first year.

By the fifth year of operation, the business will be well positioned for a strategic sale to a commercial-cleaning franchise (one of the competitors discussed earlier) interested in expanding its expertise with small businesses. At this point an exit will be possible for investors and the original owners.

Start-up Funding

Start-up funding will come in part from the financing of the initial purchases (delivery van, computer and cleaning equipment), and from credit card debt.

Beyond this debt financing, most start-up funding will be provided by the two founders and from additional angel investors. Once the additional investment has been contributed, the angel investors will own 49% of the business, Fred Smith will own 26% and Jim Rogers will own 25%.

START-UP FUNDING	
Startup Expenses to Fund	$33,500
Startup Assets to Fund	$105,000
Total Funding Required	$138,500
Planned Investment	
Jim Rogers	$25,000
Fred Smith	$25,000
Additional Investors	$61,500
Additional Investment Requirement	$0
Total Planned Investment	$111,500
Loss at Start-up (Start-up Expenses)	($33,500)
Total Capital	$78,000
Total Capital and Liabilities	$105,000
Total Funding	$138,500

Projected Profit and Loss

Gross margins will remain relatively stable and grow slightly as better margin business (medium and large offices) is sought and better prices are established with vendors for volume discounts. The first year will represent a net profit of $71,000, which will continue to grow.

PRO FORMA PROFIT AND LOSS

	YEAR 1	YEAR 2	YEAR 3
SALES	$705,053	$1,001,500	$1,452,500
Direct Cost of Sales	$256,951	$360,600	$521,000
Other Costs of Sales	$0	$0	$0
Total Cost of Sales	$256,951	$360,600	$521,000
Gross Margin	$448,102	$640,900	$931,500
Gross Margin %	63.56%	63.99%	64.13%
EXPENSES			
Payroll	$156,000	$180,000	$229,000
Marketing/Promotion	$79,000	$90,000	$110,000
Depreciation	$18,400	$30,000	$35,000
Rent	$30,000	$35,000	$50,000
Utilities	$1,800	$2,400	$3,000
Insurance	$3,000	$4,000	$5,000
Payroll Taxes	$49,095	$63,060	$86,450
Other	$6,000	$10,000	$15,000
TOTAL OPERATING EXPENSES	$343,295	$414,460	$533,450
Profit Before Interest and Taxes	$104,807	$226,440	$398,050
EBITDA	$123,207	$256,440	$433,050
Interest Expense	$2,766	$4,809	$6,159
Taxes Incurred	$30,612	$66,489	$117,567
NET PROFIT	$71,429	$155,142	$274,324
Net Profit/Sales	10.13%	15.49%	18.89%

Projected Cash Flow

Cash flow before dividends will be positive in the first year. Five months of negative cash flow are required for marketing activities to take hold before they show a greater effect on sales. Dividends to investors can be paid beginning in month nine.

Accounts receivable will be collected in 30 days, but 45 days average has been used to be conservative.

Investment will be continually made in additional cleaning equipment and delivery vans to enable more cleaning crew to work. Furthermore, by the end of the first year, the office will expand to allow for additional storage and staff.

BUSINESS PLAN EXAMPLE #2:

Here is an example of a much smaller (only four pages) investment summary to use when looking for funding. This was for a real travel center/truck stop in the Western U.S. This is NOT a full-blown business plan; this is a short introduction to send to possible lenders and funders. In most cases, the investor will require a business plan at some point in the review process.

COMPANY NAME: TEDDY'S TRAVEL STOP

Financing information for asset/collateral heavy new convenience store and gas station

Investment Summary

Business Summary: Teddy's Travel Center will be a modern, fully integrated convenience store and gas station near Las Vegas; in a desirable, high-traffic location and with the full support and significant equity participation of substantial, accredited investors. In addition, there is a federal loan guaranty.

Financing Summary

$4,000,000 total build/start cost

$1,600,000 cash equity (40%) from owner

$2,400,000 debt financing being sought

Solid cash flow business, ample coverage for debt and principal service

75-year lease on real estate, assignable

Additional collateral available

Personal guaranty from owner investors

Good solid loan opportunity with good fundamentals and significant over collateralization, and a 90% federal loan guaranty.

Location

Near a newly constructed casino, this store is set to benefit from the increased traffic associated with the casino as well as tourist traffic from the nearby interstate highway and daily commuter needs for food and fuel. The municipality has deemed this project a priority for their residents and visitors and the future development and expansion of business in the area as well as the new jobs created. As a result, they have committed significant financial support to the project.

Management: The Navjar family has been in the convenience store business since 1975, and have a vast array of experience running and managing profitable stores. This includes favorable lease terms on a very desirable location.

Store Economics

Pro forma projections: $4,000,000 max to open

Year 1 Total Annual Revenue: $3,997,560

EBITDA: $462,447 (11.6%)

Net Income: $119,988

Year 5 Total Annual Revenue: $4,499,289

EBITDA: $535,462 (11.9%)

Net Income: $189,473

CAPITAL BEING RAISED: $2,400,000 commercial debt secured by assets and backed by a 90% federal loan guaranty.

Lending Ratios

Use Of Funds: Construction of new facility and initial working capital

Financial Projections

Income Statement – Pro Forma

Spreadsheets follow.

	Year 1	Year 2	Year 3	Year 4	Year 5
REVENUES					
Motor Fuel Sales	2,712,120	2,793,484	2,877,288	2,963,607	3,052,515
Covenience Store Sales	964,080	993,002	1,022,792	1,053,476	1,085,080
Fast Food Sales	321,360	331,001	340,931	351,159	361,694
TOTAL REVENUES	**3,997,560**	**4,117,487**	**4,241,011**	**4,368,242**	**4,499,289**
COST OF GOODS SOLD					
Cost of Motor Fuel Sales	2,386,666	2,458,266	2,532,014	2,607,974	2,686,213
Cost of Convenience Store Sales	655,574	675,241	695,499	716,364	737,854
Cost of Fast Food Sales	218,525	225,081	231,833	238,788	245,952
TOTAL COST OF GOODS SOLD	3,260,765	3,358,588	3,459,346	3,563,126	3,670,019
GROSS PROFIT (LOSS)	736,795	758,899	781,665	805,116	829,270
OPERATING EXPENSES					
Salaries	225,680	225,680	225,680	232,450	232,450
Employee Benefits	22,568	22,568	22,568	23,245	23,245
Rent/Lease	-	-	-	11,000	11,000
Utilities	12,000	12,000	12,000	12,360	12,360
Telephone	1,200	1,200	1,200	1,236	1,236
Office Supplies	900	900	900	927	927
Supplies	3,000	3,000	3,000	3,090	3,090
Maintenance	3,000	3,000	3,000	3,500	3,500
Insurance	6,000	6,000	6,000	6,000	6,000
Depreciation	149,200	149,200	149,200	149,200	149,200
TOTAL OPERATING EXPENSES	423,548	423,548	423,548	443,008	443,008
EBIT/OPERATING PROFIT (LOSS)	313,247	335,351	358,117	362,108	386,262
EBITDA	462,447	484,551	507,317	511,308	535,462
EBITDA as % of Total Revenue	11.57%	11.77%	11.96%	11.71%	11.90%
INTEREST (INCOME), EXPENSE & TAXES					
Interest (Income)	-	-	-	-	-
Interest Expense	141,231	134,952	128,286	121,209	113,695
Income Tax Expense	28,123	28,966	29,835	30,731	31,652
TOTAL INTEREST (INCOME), EXPENSE & TAXES	169,354	163,918	158,121	151,940	145,347
NET INCOME (LOSS)	**143,893**	**171,433**	**199,996**	**210,168**	**240,915**
Net Income as % of Total Revenue	3.60%	4.16%	4.72%	4.81%	5.35%
NET OPERATING CASH FLOW	**293,093**	**320,633**	**349,196**	**359,368**	**390,115**
Note Payment	101,800	108,079	114,745	121,822	129,336
Free Cash Flow*	191,293	212,554	234,451	237,546	260,779

Balance Sheet – Pro Forma

ASSETS						
Current Assets:						
Cash	100,000	291,293	503,847	738,299	975,845	1,236,624
Petty Cash	-	-	-	-	-	-
Accounts Receivables	-	-	-	-	-	-
Inventory	75,000	125,414	129,176	133,052	137,043	141,155
Prepaid Expenses	25,000	25,000	25,000	25,000	25,000	25,000
Employee Advances	-	-	-	-	-	-
Temporary Investments	-	-	-	-	-	-
Total Current Assets	200,000	441,707	658,024	896,350	1,137,888	1,402,779
Fixed Assets:						
Land	-	-	-	-	-	-
Buildings	2,683,548	2,683,548	2,683,548	2,683,548	2,683,548	2,683,548
Furniture and Equipment	875,000	875,000	875,000	875,000	875,000	875,000
Computer Equipment	25,000	25,000	25,000	25,000	25,000	25,000
Vehicles	-	-	-	-	-	-
Less: Accumulated Depreciation	-	(149,200)	(298,400)	(447,600)	(596,800)	(746,000)
Total Fixed Assets	3,583,548	3,434,348	3,285,148	3,135,948	2,986,748	2,837,548
Other Assets:						
Trademarks	-	-	-	-	-	-
Patents	-	-	-	-	-	-
Security Deposits	-	-	-	-	-	-
Other Assets	216,452	216,452	216,452	216,452	216,452	216,452
Total Other Assets	216,452	216,452	216,452	216,452	216,452	216,452
TOTAL ASSETS	**4,000,000**	**4,092,507**	**4,159,624**	**4,248,750**	**4,341,088**	**4,456,779**
LIABILITIES						
Current Liabilities:						
Accounts Payable	-	50,414	54,176	58,052	62,043	66,155
Business Credit Cards	-	-	-	-	-	-
Sales Tax Payable	-	-	-	-	-	-
Payroll Liabilities	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-
Current Portion of Long-Term Debt	-	-	-	-	-	-
Total Current Liabilities	-	50,414	54,176	58,052	62,043	66,155
Long-Term Liabilities:						
Notes Payable	2,400,000	2,298,200	2,190,121	2,075,376	1,953,554	1,824,218
Mortgage Payable	-	-	-	-	-	-
Less: Current portion of Long-term debt	-	-	-	-	-	-
Total Long-Term Liabilities	2,400,000	2,298,200	2,190,121	2,075,376	1,953,554	1,824,218
EQUITY						
Capital Stock/Partner's Equity	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Opening Retained Earnings	-	-	143,893	315,326	515,322	725,491
Dividends Paid/Owner's Draw	-	-	-	-	-	-
Net Income (Loss)	-	143,893	171,433	199,996	210,168	240,915
Total Equity	1,600,000	1,743,893	1,915,326	2,115,322	2,325,491	2,566,406
TOTAL LIABILITIES & EQUITY	**4,000,000**	**4,092,507**	**4,159,624**	**4,248,750**	**4,341,088**	**4,456,779**

If you find yourself stuck and unable to start on any of that, try this simple one-pager at www.100startup.com. You can complete it online by filling in the blanks.

THE $100 STARTUP

The One-Page Business Plan

Answer each question with one or two short sentences.

OVERVIEW

What will you sell?

Who will buy it?

How will your business idea help people?

KA-CHING

What will you charge?

How will you get paid?

How else will you make money from this project?

HUSTLING

How will customers learn about your business?

How can you encourage referrals?

SUCCESS

The project will be successful when it achieves these metrics:

Number of customers

or

Annual net income

(or other metric)

OBSTACLES / CHALLENGES / OPEN QUESTIONS

Specific concern or question #1

Proposed solution to concern #1

100STARTUP.COM

CHAPTER 6:
ACTUALLY SETTING UP THE COMPANY (LEGAL STRUCTURE)

At the point where you need to actually take steps to establish a real company, you move from a dream to reality. There are several things that must happen, and others that probably should happen.

NOTE: This is going to seem confusing if you don't know much about business, but please do not let that deter you. Lots and lots of people without your drive and determination have done this successfully and so can you.

An ounce of prevention is worth a pound of cure.

— Benjamin Franklin

Generally, forming your company goes like this:

Decide what kind of legal entity/structure you should form. (Hint: LLCs are popular and simple.)

File for a federal tax ID number, also known as an EIN. We will give you instructions on this. This is easy and free.

File your company with the state in which you live.

Check for any permits or other filings required by your state, city, or county.

That's it. Let's get started.

WHICH TYPE OF BUSINESS ENTITY SHOULD YOU CHOOSE?

When starting a new business, one of the first decisions to be made is deciding which legal structure your company should take. Generally, you have four basic choices:

- Limited Liability Company (LLC)

- DBA
- Regular or “C-Corporation”

S-Corporation

Limited Liability Company (LLC)

The LLC has become the entity of choice for startups, and has recently surpassed corporations in popularity. Easy management and limited compliance requirements have made the LLC the user-friendly solution for small business.

An LLC can be best described as a hybrid between a corporation and a partnership. It provides easy management and *pass-through* taxation (profits and losses are added to the owner(s) personal tax returns), like a sole proprietorship/partnership, with the liability protection of a corporation. It’s a relatively new form of business created in 1977 in Wyoming and now recognized in all 50 States and D.C.

Like a traditional corporation, an LLC is a separate legal entity; unlike a corporation, there is no stock and there are fewer formalities. The owners of an LLC are called *members* instead of *shareholders*. So in essence, it’s a like a corporation, with less complicated taxation and stock formalities.

The heart of an LLC is known as the *operating agreement*. This document sets the rules for operating the company and can be modified as the business grows and changes.

Operating an LLC is less formal than a corporation, usually only requiring an annual members’ meeting and members agreeing to changes of the operating agreement and other major company decisions.

ADVANTAGES: Provides the liability protection of a corporation without the corporate formalities (board meetings, shareholder meetings, minutes, etc.) or extra levels of management (shareholders, directors, officers). Taxed the same as a sole proprietorship (one member LLC) or partnership (two or more members).

DISADVANTAGES: Usually more expensive to form than a DBA, requires more paperwork and formal behavior, but still costs less than a traditional corporation (Inc.)

DBA

A DBA (also known as a *sole proprietorship*, *Doing Business As*, or a *fictitious*

name) is a business that is not separate from its owner, merely a different name the business owner operates under. The owner is personally liable for the company and its debt; all income is added on the owner's or owners' personal tax return(s) (pass-through taxation). If there is more than one owner, the business is classified as a *general partnership*.

ADVANTAGES: Easy to setup; easy to maintain.

DISADVANTAGES: Owners are personally liable for the company and its debt (the owner(s) could lose a house, cars, personal assets, etc.) in a lawsuit. Usually not recognized at the state level, only in your city/county. No corporate *prestige* of having the Inc. or LLC designation attached to your company name. LLCs have primarily replaced DBAs as the entity of choice for even the smallest businesses.

Regular Corporation (also known as a C-Corporation)

A corporation is a separate legal entity that can shield the owners from personal liability and company debt. As a separate entity, it can buy real estate, enter into contracts, sue, and be sued completely separately from its owners. Also, money can be raised easier via the sale of stock, its ownership can be transferred via the transfer of stock, the duration of the corporation is perpetual (the business can continue regardless of ownership), and the tax advantages can be considerable (e.g., you are able to deduct many business expenses, healthcare programs, etc. that other legal entities are not). Income is reported completely separate via a tax return for the corporation.

A corporation is set up in this structure:

- Shareholders own the stock of the corporation.
- Shareholders elect *directors* (known as the *board of directors*).
- Directors appoint officers (i.e., president, secretary, treasurer, etc.).
- Officers run the company (day-to-day operations).

In many cases (especially during the startup phase), you will be the 100% owner of the stock; therefore you elect the directors (usually yourself) and then appoint yourself as an officer (or all the officers: CEO, treasurer, secretary).

The rules for operating your corporation are set in *corporate bylaws*. This document sets the rules for the company and can be modified as the business grows and changes.

Operating a corporation involves, at a minimum, holding a yearly directors and shareholders meeting (the location is determined by you and the expenses are deductible), keeping written minutes of major company decisions, and maintaining general corporate compliance as dictated by the corporate bylaws.

PROS: The oldest, most successful and most prestigious type of business entity; provides personal liability protection; conveys permanence; can reduce taxes (lower tax rate on retained profits; items such as healthcare, travel and entertainment are deductible).

CONS: More expensive to set up than a DBA, more paperwork and formality required than an LLC (holding shareholder/board meetings, keeping minutes, and resolutions).

S-Corporation

After a corporation has been formed, it may elect *S-Corporation status* by adopting an appropriate resolution and completing and submitting a form to the Internal Revenue Service (some states require their own version). Once this filing is complete, the corporation is taxed like a partnership or sole proprietorship rather than a corporation. Thus, the income is *passed-through* to the shareholders for purposes of computing tax returns.

Most new small corporations elect S-Corporation status (90%+) so profits and losses can be added to the shareholders' personal tax returns without having to pay taxes on profits and then again when they are given back to the shareholders as income (dividends). This is known as *double taxation* and is the reason S-Corporations were created. An S-Corporation can also revert back to regular corporation status fairly easily.

There are some limitations on S-Corporations: they cannot deduct some expenses such as health insurance, travel, entertainment, and the like that normal corporations can. Also, they are restricted to 100 shareholders or fewer and those shareholders must be U.S. citizens. Finally, S-Corporations may not own or be owned by other business entities.

PROS: Prestige of the corporation without the double taxation. Ideal for one-person corporations.

CONS: More expensive to setup than a DBA, and more paperwork and formality required than an LLC (holding shareholder/board meetings; keeping minutes and

resolutions).

File It

After you decide what type of company you want to form, you will need to file with the state, and the secretary of state's office. Every state now allows you to file online, and it is pretty simple.

Many people file these forms without the assistance of an attorney, while others use very helpful, inexpensive services such as BetterLegal.com (www.betterlegal.com).

All in all, it should ONLY cost a few hundred dollars to get properly filed, registered, and organized in your state. Be wary of anyone who wants to charge you a lot more.

Check out our Resources section for links to helping organizations that can give you guidance if you need it.

CHAPTER 7:
FINANCING YOUR BUSINESS

After you have an idea and a dream for a business, and after you have thought about exactly how you are going to go about it, then you need to start thinking about money. NOTE: Please do it in this order because thinking about money first is a surefire killer.

This chapter is going to give you some background on the history of financing, the types of financing, the *sub-categories* of each type, a brief description of each, and a warning of what to look out for and avoid in each case.

BE CAREFUL HERE!!! This is very important. Getting the *wrong* money has been the death of many companies. As hard as this is to believe, sometimes taking no money is better than taking the wrong money.

Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver.

—Ayn Rand

The vast majority of companies lose money for a while when they start up. Yours probably will too—and that is not a problem. You just need to figure out where money is going to come from. Depending on what type of business you want to start, you might need a lot of money or a small amount of money.

Generally, the BIG questions you will need to answer about financing are:

- Do I actually need more money? It will not surprise you that most aspiring entrepreneurs answer yes to this question, but it is not always true. Be careful taking in money—ALL money comes with strings attached.
- If you do need money, how much money does the business need to get started? Getting too much or too little money both have problems attached; try to be as accurate here as possible. NOTE: You probably will not get it right! Almost no one does.
- What type of money is most appropriate for my company? Debt?

Equity? A Hybrid? What kind of debt or equity?

- What are you willing to give up in return for this money? One of the difficult truths of business is every single dollar you bring in will cost you something. With debt, it is interest rates, repayment terms, and protective covenants. With equity it is your ownership percentage getting diluted, governing or management participation, and protective provisions that gives them more of your company in the event of underperformance.

Throughout history, the money needed to start a business generally came from the founder and their friends, family, and business contacts. Given the risk involved in starting a new company, the people who know the founder best were the most logical place to turn.

An entrepreneur without funding is a musician without an instrument.

— Robert A. Rice Jr.

In the 1970s a new area of investing became popular in the United States: *Venture capital* is a term for smart, professional investors who are willing to make earlier, riskier investments in new or early stage companies than other investors. They can, and often do, put considerable amounts of money into companies with little or no as-yet real *value*, so tend to get a lot of equity or ownership in these companies.

IMPORTANTLY, they often put terms and conditions into the agreement that lets them take over the company in the event the entrepreneur or the company does not perform as expected. Lots of people complain about this and call them *vulture* capitalists, but it is just part of the deal. They cannot force an entrepreneur to take their money, but if you do take this kind of money, you will know what you are signing up for. Be careful.

Advantages and Disadvantages of financing types: Debt vs. Equity

Debt		
Advantages	**vs.**	**Disadvantages**
Keep all ownership, no dilution of equity		Repayment
Retain profits		Impacts credit rating

Tax deduction		Collateral needed
Lower interest rate		High cost
Easy administration		Restricts cash flow
Predictable/easy to plan for		Covenants that must be met
		Strict requirements

Debt

ADVANTAGES

- **You don't give up any ownership**.
- **Retain profit**: Allows the entrepreneur to retain the profit earned by the business without sharing it with the lender. The lender does not have any share or stake in the profit and only gets the loan payments in the set time, and only for the agreed upon period
- Tax deduction: The principal and interest payments on a business loan are classified as business expenses and they can, therefore, be deducted from your business's income at tax time.
- **Lower interest rate**.
- **Easy administration**: Debt financing is easy to manage and administer, and generally has no extensive or complex reporting requirements.
- **Future Planning**: In debt financing, the principal repayments and interest are calculated beforehand, and do not depend upon market conditions. This allows for better planning and forecasting.

DISADVANTAGES

- **Repayment**: A debt requires repayment whether or not the debtor makes a profit or loss with the loan. This is in contrast to equity financing where the repayment bases itself upon the actual performance of the borrowed money
- **Impacts on your credit rating**: It might seem attractive to keep bringing on debt when your firm needs money, a practice known as *levering up*, but each loan will be noted on your credit report and will affect your credit rating. The more you borrow, the higher the risk becomes to the lenders so you'll pay a higher interest rate on each subsequent loan.
- **Collateral**: You'll most likely be asked to put up collateral to protect

the lender in the event you default on your payments.

- **High cost**: The fixed interest costs can raise the company's break-even point, or the point where no profit and no gain occur.
- **Restricted cash flow**: Debt repayments are a fixed obligation regardless of profits, loss, or delayed payments. This raises the risk of insolvency for the business, especially during difficult financial periods
- **Covenant**: Lenders may include some covenants in the contract to keep you from doing something they don't want or ask you to keep minimum performance of your company. Warning: Some of these can be very restrictive—be sure to understand exactly what you are agreeing to.

Strict Lending Requirements: Debt financing can be difficult to get, especially for a startup company. Banks are wary of startups because many fail.

Equity

You sell a part of your company to someone else in exchange for something of value, typically money. It works differently than a loan or debt. For some companies this is better, for others debt is better.

Equity		
Advantages	**vs.**	**Disadvantages**
Pay-back flexibility		Sharing profits
Intellectual capital		Time consuming
Sharing ownership		Sharing power
		Lifelong/forever obligation

ADVANTAGES

- **More flexible pay back**: Investors will want to see a return on their investment, but that won't be in the same, rigid timeframe a loan requires. If things do, unfortunately, go south, your personal assets are not at risk and you won't be on the hook for a loan repayment.
- **Intellectual capital**: Investors are usually savvy people who have been successful in business and want to stay in the game. Tapping

that experience and expertise can be a real advantage

DISADVATAGES

- **Sharing profits**. Just as you will have to repay a loan, so too will you need to split the profits with your equity investor—during profitable times, that could be a lot.
- **Time consuming**: It is usually a quicker process to get a loan than it is to find the right equity investor.
- **Sharing power**: You will be giving up part or even all of the control of the company. Equity investors may get into your daily operations and make decisions you don't agree with.
- **Lifelong obligation**: The investors have a right to stay put and take their cut of profits forever. This is in contrast to debt financing when all obligations end when the loan plus interest is repaid in full.

The bottom line is this: You will need to decide which is better for you. With equity you will have a partner for a long time; and they get a part of the profits from your efforts. With debt, you need to pay it back at predetermined times, and if you don't they can take possession of all of the collateral. All things considered, debt is rarely the best option for a brand new company. There are some exceptions, of course, but defaulting on a loan is a very unpleasant experience.

CHAPTER 8: SOURCES OF FINANCING FOR YOUR BUSINESS

FUNDING SOURCES FOR SMALL BUSINESS

The following funding sources can help you start a small business. Some of these funding sources can be used by anyone. While others, like factoring or leasing, can be used only by certain types of businesses.

There are a bewildering number of places to get money, and a truly amazing variety of ways to structure it. Some of it is simple; some is difficult and takes some time to fully understand.

As an entrepreneur and a small business owner, you are intimately familiar with goals. You've dreamed of the right ones, you've projected real ones for the banker and the investor, and,
secretly, you've imagined how life can be if you can reach
the ones you've set.

—Michael Gerber

Either way, finding the RIGHT kind of money for your company is very important. Conversely, finding the wrong kind of money can be fatal for your company. If you can find an organization such as Hidden Star or SCORE that will give you guidance, great. If not, you owe it to yourself to take the time to think about and understand the dynamics of getting money for your company.

SOURCE #1: YOUR SAVINGS

Most entrepreneurs start their companies by investing their own savings. This source of financing can be ideal—if you can afford it. It puts you in full control of how much you are going to get and keep. Furthermore, you never have to justify yourself to investors. This last point is an important benefit. You have the freedom to operate as you see best. There is a trade-off, though. This freedom

usually comes at the expense of having little or not enough money.

Saving up to start a business takes determination and sacrifice. Save a portion of your income every month. Save as much as you can for as long as you can. You will need every dollar you can get your hands on. Consequently, you may have to give up luxuries—such as vacations and new cars—for a while. The reward is the ability to launch your startup and keep more ownership.

SOURCE #2: YOUR CREDIT

Many entrepreneurs also use their credit—either through credit cards or a home equity loan—to start their small businesses. Be very careful about using these sources, as you could ruin your personal credit, risk your home, or both. If possible, avoid using a home equity line of credit as the risk is too high. Many businesses fail and you don't want to lose your business *and* your home.

Credit cards are best used to pay expenses directly related to a project. Once the project is completed and the client pays, pay the credit card back. It's best not to use credit cards to pay for startup company expenses not related to a specific revenue-generating project. This strategy limits the chances of something going wrong that could damage your credit.

SOURCE #3: FAMILY MEMBERS AND FRIENDS

One common way to finance a business is to ask friends and family members for an investment. Generally, we recommend against it. The problem is if things go wrong, your friend/family relationship is affected—and in any startup business, you are guaranteed things will go wrong at one point or another. If you are careful and upfront about the risks and uses of the money; family and/or friends can be fine, but you need to have a candid conversation before borrowing.

If you start your small business using friends and family investors, decide whether to sell them equity or take a loan from them. Both have advantages and disadvantages. Investments from selling equity don't have to be paid back. However, the person to whom you sold the equity becomes an owner and shares the profits. Loans, on the other hand, have to be paid back. However, once the loans are paid, the transaction is concluded.

Regardless of which structure you use, have an attorney draft a formal agreement or use a legal service such as LegalZoom.com. Lastly, separate the

personal relationship from the business relationship—treat all investors professionally. Whether they are family, friend, or stranger, anyone who invests money in your company deserves your full dedication and full and regular reporting.

SOURCE #4: CUSTOMERS AND SUPPLIERS

Two great funding sources for small businesses are actually your customers and your suppliers. Customers can finance your business by prepaying for orders—or by giving you an advance. Obviously, you use these funds to handle their transaction. This funding is not easy to get, but customers may be willing to prepay if your service is unique enough or if they really need your products.

Another great source of financing is supplier credit. Basically, suppliers give your company 30 to 60 days to pay an invoice. Getting supplier credit is similar to getting interest-free financing for 30 to 60 days. It takes a little effort to get supplier credit, but it is definitely worthwhile. Learn more about getting credit terms from suppliers.

SOURCE #5: SMALL BUSINESS ADMINISTRATION

One interesting source of small business funding is the Small Business Administration (SBA). The SBA has a special program that offers *microloans* to small business owners. Microloans can reach $50,000 (varies by state) and tend to be easier to get than conventional financing. They also come bundled with business training, which can be very useful for first-time entrepreneurs. The SBA also works with banks to provide 7(a) loans. These loans are larger that microloans and have stricter underwriting criteria.

Whether you get funding from them or not, the SBA is a great resource and is dedicated to helping you succeed.

SOURCE #6: PEER-TO-PEER LENDERS

Peer-to-peer (P2P) lenders offer a platform that allows people to seek financing from other individuals. The P2P platform acts as a matching service and provides basic due diligence. Like microloans, most P2P loans are small. They usually cap at $25,000 to $35,000.

In a P2P loan, individuals are usually not lending money to your business. Instead, they lend money to the entrepreneur (personally), who then invests the

funds into the business. Your personal credit matters since this loan is a personal loan.

SOURCE #7: FACTORING COMPANIES

Many small businesses encounter financial problems because their commercial clients ask for payment terms. As a small business, you may have to give them 30 to 60 days to pay an invoice. Otherwise, you could lose the client. The problem is most small businesses cannot afford to wait up to eight weeks to get paid.

You can improve your cash flow and get paid sooner by factoring (or pledging) your invoices and accounts receivable. Factoring allows you to finance slow-paying invoices, which provides your company with immediate working capital. You take your slow-paying invoices to the factoring company and they give you, let's say, 80% of the total right away. You can use these funds to run the company. When the client pays the factoring company, you will receive the rest of the money, minus the financing charge.

The advantage of factoring is it allows you to finance your business by leveraging the commercial credit of your clients. This method is a great option for small businesses with a strong roster of clients. The disadvantage is it is very expensive money. If you use a factoring service, you will want to move away from them as fast as you can.

SOURCE #8: LEASING

Small businesses in certain industries need equipment to get started. One way to finance the equipment is to lease it through a finance company. Most equipment leases are structured so the finance company buys the equipment and rents it to you for a monthly payment. Once the term of the lease concludes, you can buy the equipment from the finance company for a fairly modest cost.

SOURCE #9: CROWDFUNDING

Crowdfunding is a new way of financing businesses and is often misunderstood. Typical crowdfunding can be used to finance only certain types of businesses. Think of crowdfunding as a platform on which you can pre-sell your products to consumers. If enough customers pre-purchase your product, the transaction clears and you can move forward.

Example: If you want to build a brand new type of bicycle but do not have the funds to do so; you could start a crowdfunding campaign on a popular crowdfunding platform such as Kickstarter.com or Indiegogo.com. On their platform, you outline the details of exactly what the buyer gets for their money, upload a video, provide pictures, set your goal, and launch. NOTE: There are a LOT of people who can give you great advice on how to run a crowdfunding campaign such as this.

So let's say you want to sell your new, innovative bicycle for $1,000 and it will cost you $600 to produce. You launch your crowdfunding campaign with a *goal* of selling 100 bicycles. At $1,000 each, your goal is $100,000 in sales. Let's say you sell exactly 100 bicycles and meet your goal.

You would then have $100,000 in cash in your account but you would need to produce and deliver 100 bicycles to the people who bought them. That will cost you about $60,000, for a gross profit of $40,000. That is all good. However, now you have an obligation to deliver 100 bicycles to the folks who pre-paid for it.

If, for whatever reason, you are unable to produce the bike you will need to return all of the money to the customers. Or, if it costs you more than $1000 to make the bicycle, you will lose money. So make sure you can live with each of these alternatives.

Crowdfunding is a great platform if you are selling an innovative product that could have mass appeal, and the *usable* cash is the profit margin from people pre-purchasing the product.

A new kind of crowdfunding is quite different. In this model, you are not selling a product, you are actually selling some of your company's stock (equity). This is a little trickier and you will need to spend more time on this, but for many it is a far superior option. One of the reasons is it totally shifts your risk. If someone buys a bike from you, they do not assume any risk; you do. If they buy stock, they share the risk with you.

If someone buys—let's say—5% of your company that is going to build this new bicycle, they assume the risk you might not be successful in your endeavor—you do not have to pay back their money if you fail. Another advantage of this type of money raising is individuals cannot command/demand the unpleasant concessions you might have to make if you were dealing with a very sophisticated venture capital firm or private equity firm.

SOURCES THAT USUALLY DON'T WORK

Before finishing this chapter, we would like to discuss three common funding sources that usually don't work for many small business entrepreneurs. There is nothing wrong with these sources, *per-se*, they are just typically not the right source of money to start a new small business.

SOURCE #10: THE BANK

After you are established and have cash flow, a bank can be a great source of capital to expand your business, but very few new companies qualify. It can lead to tremendous frustration and a giant waste of precious time.

Far too few people understand the business a bank is in—or more accurately, what business a bank is NOT in. Banks are not in the *risk* business. Generally, a bank is more open to loaning you money only after you can show them your business is sound, will produce cash flow, AND you can show the bank several ways they would get their money back.

This makes sense, since they are loaning out the life savings of little old ladies and men who cannot afford to lose their money by making a bad loan to you or any other entrepreneur. Yes, the deposits are insured, but still, this is how you should think about it.

For some reason, many business books recommend you consider a bank loan to start a business. This approach may work well in theory but not in practice. Banks typically lend only against assets or cash flow. Unless you have a business with assets or you have substantial personal assets, you will not qualify for a commercial line of credit or bank loan. However, bank loans may be a good or very good source of funding later on, once your business has grown.

A lot of new entrepreneurs waste a lot of time trying to get bank financing long before their business is a good candidate for bank financing. There is an old adage something like, "A bank will loan you money only after you prove you don't need it."

Remember, Facebook was five years old before it could have supported any debt at all.

SOURCE #11: VENTURE CAPITALISTS AND ANGEL INVESTORS

Venture capitalists and angel investors can be a great source of financing if your company has the right opportunity for them. Consider venture financing only if you have an innovative concept with high margins that can scale quickly.

Venture capital and private equity investors are private investor firms that invest in, typically, early-stage private companies. These firms are generally populated with very smart, very sophisticated professional investors. They can be great; they can be terrible. Watch out.

Angel investors are typically high net worth (rich) individuals investing their own money.

Getting this type of funding is notoriously difficult. As a matter of fact, many entrepreneurs spend weeks or months creating presentations and pitching to venture capitalists and end up with nothing to show for their efforts. Worse yet, they have lost the most precious asset: time.

SOURCE #12: GOVERNMENT GRANTS

Usually, the government does not provide grants to start or operate a for-profit business—unless the business is in a specific industry or serves a very targeted cause.

Remember that the government is investing your tax dollars and is very strict and careful when spending them. The government won't be able to help you if you need money to:

- Start a business
- Pay operational expenses
- Settle business debts

Unfortunately, trying to get this type of funding is a waste of time for most people. Your time is better spent looking elsewhere. Having said that, there are some exceptions.

CHAPTER 9:
RUNNING YOUR BUSINESS

After you get your business set up and operating, you will have a new set of challenges. Now you actually have to run the business. Some parts of running your own business are exciting and glamorous; some are pure drudgery. You need to be good at both of these, and you must have the discipline to do the routine, recurring, boring things that need to be done every single month.

Sometimes the difference between success and failure is the little things done well; again and again and again.

—Mike Dewey, founder Hidden Star

This chapter is to get you thinking about all of these things, and we will provide names and resources of where you can obtain or learn more about this. The very important takeaway is this: someone—whether it is you, an employee, or a partner—MUST pay attention and do these things. Lots of promising businesses fail because they do not take care of these. For example, here is a partial list of repetitive things that must be done or else some very bad things happen to you and your business:

- Pay rent
- Pay utilities, internet, and related expenses
- Pay yourself and employees
- Report and submit employer taxes for all of your employees
- Pay liability insurance premium
- Pay bank or other loan
- Pay all required local, state, and federal taxes

In addition, you may also need to do some of these:

- Order inventory
- Pay vendors and suppliers
- Make sure you are current on all of your business licenses and state corporation filings

Sounds glamorous, huh?

Oddly enough, there are a ton of businesses that just miss or forget to do these little things and they shut down as a result. Please remember to put these on a list or calendar and take care of them each and every month. That is the bare minimum you have to do to stay in business.

In addition, you will need other help from technology to help you do these basic functions.

Now that, literally, everything is online, you will also need to get software tools essential to running the business. This includes:

- **Point of sale**: Payment acceptance. Companies such as PayPal and Square are easy and cheap.
- **Company website**: For company awareness, brand recognition, sales/lead generation, and actual sales.
- **Accounting**: QuickBooks is the clear leader here, but there are others. These are simple and easy to use, but you do need to take some time up front to understand how.
- **CRM (Customer Relationship Manager)**: You will want and need somewhere to keep, track, and manage the people and other companies interacting with your business. This includes customers, prospective customers, vendors, suppliers, professional services providers, and others. SalesForce.com, best for use by larger companies, is a leading provider of CRM software but there are many others. These CRMs are not cheap; and there are low-cost alternatives. At the beginning, Microsoft Outlook (which may have been included with your computer) does a pretty good job of this.

TIP: Do your banking online and be sure to check your bank balances either daily or every other day. Why? Cash is like oxygen and you must have it. If you are running low on cash and you have advance notice you can do things to get past a crisis point; but if you get surprised by running out of cash your business is doomed.

Running out of cash is the *deadly sin* of small business. Please stay informed and stay in front of it. See below for more information on banking your business.

You should pay attention to all of this, even though it feels and seems like it is not *running* the business. This is the technology infrastructure every business

must have to succeed; you cannot shy away from it. It is easier than you think, and is absolutely essential.

Banking

It is very important to keep your personal and business banking accounts separate. In fact, it is critical for a number of reasons—some of them are legal and some are operational. There are many tracking systems banks provide to all customers as an account benefit that can help you stay organized. These tools can help keep income and expenses separate, make reporting easier, keep track of taxes you owe, help keep the budget current, and forecast future financial needs. Many of them will interface directly with programs such as QuickBooks and make things much easier.

Always shop around for a bank that will provide the best rates and benefits for your small business. Find out what fees are associated with business accounts—daily minimum balances, transaction limitations—so you can avoid these. Many banks offer payroll, tax, and other accounting tools for an additional small monthly fee. Keep in mind: Banks compete with each other, so shop around for the best deal. For example, if you do apply for a loan, don't be afraid to take your new loan offer to different bank to see if they will provide more upfront capital, a lower interest rate, or other/better terms.

To open a small business bank account, you will need to have a registered business name with your local government office, a copy of your filings, and an EIN issued by the IRS (otherwise known as a tax ID number). If your business is a sole proprietorship, your social security number can be used. Sometimes banks will also require a business license. For more information, visit this website:

www.inc.com/aj-agrawal/how-to-open-a-business-bank-account-for-your-startup.html

Collection Methods

	PROS	CONS
Cash	easy day-to-day	bookkeeping nightmare must keep cash drawer for change easy to make mistakes temptations to steal
Checks	easy to track and deposit	bounced checks create new issue
Credit or Debit Cards	most secure payment type	additional fees for processing

After you have set up a bank account for your business you will need a way to receive funds. If your business will accept payment via credit or debit cards, you will need to open a

merchant credit card account. Most banks offer this service, but if not, choose a third-party vendor. You can use this same merchant account with your website's ecommerce solution or you can sign up for a system such as PayPal or Stripe. For in-person purchases, Square and PayPal are an inexpensive ways to accept payments by way of credit card using your smartphone or tablet. Last, but not least, accepting cash requires a method to make change and record incoming sales.

As with most things there are pros and cons for all payment options. You will want to be able to accept several different types of payment options, but here are some things to consider:

Hiring

When you start a small business you will be filling many (if not all) roles within the company. As the business grows you will eventually find managing the day-to-day operations becomes impossible and/or you need to focus on something specific to increase business, most likely sales. Continue to do what you are best at and start outsourcing specific functions. Some typical outsourcing categories are: accounting, advertising, legal help, and advice. LegaZoom.com is a great resource for proofed documents, however eventually you will want to enlist an attorney to make sure your contracts, invoices, and any agreements are written correctly and adhere to your local rules.

When your company is ready to expand and find employees, you'll need to be sure you are in compliance with state and federal labor and payroll laws. Check with the Department of Labor and the Department of the Treasury, and the Workforce Commission in your state for details. They make it very easy to find and follow.

Commercial General Liability Insurance is also a necessary part of doing business, especially when you hire employees. You will need enough coverage for all activities related to the business. Pricing insurance is relative to size of business, limits, and deductibles. This is another area where you will want to shop around. You must have insurance; please do not go uninsured, it is a killer.

Employee Handbook

Another important step to accomplish when you are ready to hire employees is to put together an employee handbook. This helps establish purpose, policies

(dress code, business hours, breaks), procedures, and set general expectations for employees. Here are two good articles to help you with creating an employee handbook:

www.gusto.com/framework/hr/policies-in-your-employee-handbook/

www.inc.com/guides/2010/06/what-to-include-in-employee-handbook.html

A good place to find information about what you should include in your employee handbook is federal requirements; there are resources on the Department of Labor website:

www.dol.gov/general/aboutdol/majorlaws.

Each state has its own agency that handles employment regulations; find your state's labor agency and click through to individual state's hiring laws:

https://employment.findlaw.com/legal-help-and-resources/state-labor-agencies.html.

Having new employees read and sign off on a handbook can help protect you legally, should you ever have the unfortunate situation of firing an employee. It sets the tone for a company, so keep it positive.

Along with federal and state paperwork, you will want to put compensation and any benefits (or lack thereof) in a contract with all new employees. Consider what type of employees you will need to hire: independent contractors, salaried, or non-exempt. Decide whether you need a non-disclosure agreement (NDA) or non-compete agreement. This will depend on the type of business you are starting, e.g., a service or product needing protection from competitors. Be sure to obtain any business license or permits needed for your particular industry (home repair, tax preparation, cosmetology, etc. all require licenses or permits).

Cash is King

Cash is king and as you may remember...cash is like oxygen! When you don't have enough; it's all you can think about… Whether it's selling a service or product, an influx of money is what's most important and keeps the business going, not passion.

Advertising

Money is best spent on marketing if research is done ahead of time. Think about who is likely to buy your product or use your service before spending money on marketing. Consider which methods will best reach the people interested in buying your service or product: email marketing, social media, traditional

advertising (newspaper, radio, flyers). Find community events you can participate in to get your name out there and join local small business associations. Network with complimentary small businesses in your area to further increase your referrals. Stay current on what's new in your industry, so you can keep up with or get ahead of competitors. Keep a list of satisfied customers and consider providing them with incentives for referring new customers, providing a positive review, and/or being a reference for your business to future customers.

The key to getting started with a new business idea is getting a handle on what is called Customer Acquisition Cost (CAC). New customers must be willing to pay for more for your product or service than it costs to win their business. In other words, choose your advertising wisely and efficiently. Social media ads and online marketing are cost efficient ways to target ads to potential customers if you have done your homework on where your customers are and how to find them.

After CAC is determined, the next metric to pay attention to is Client Lifetime Value (CLV)—once gained, how can you keep this customer coming back either as a repeat customer or as a subscription? In order for your business to grow and revenue to increase over time, you want to continue to gain new customers, while also keeping old customers coming back over and over.

Contracts

A contract is a written agreement enforceable by law. There are many instances where a contract is a necessary part of doing business. LegalZoom.com is a good resource for some general contracts, however, you will want to have an attorney review any contracts specific to your particular business. Contracts should include how and where they can be disputed.

Accounting

After you figure out how to accept payments, the next step is to manage a budget and a long-term financial plan you can live with. Setting up a good accounting system and/or hiring an accountant is key to staying on track and looking ahead. Accounting includes keeping records daily, monthly, quarterly, yearly, and one- to five-year projections. Here's a breakdown of accounting tasks to keep in mind:

	DAILY	WEEKLY	MONTHLY	QUARTERLY	YEARLY & BEYOND
Cash	X	X	X	X	X
Record Transactions	X				
Filing Receipts	X	X			
Review unpaid bills		X	X		
Pay vendors			X		
Send invoices		X			
Review projected cash flow			X	X	X
Balance checkbook			X		
Review past-due accounts		X Bi-weekly	X		
Process payroll		X			
Payroll tax payments			X		
P & L Statement			X		
Sales Tax Statements			X		
Income Tax Statements					X
Employee Tax Forms:					
W-2, 1099-Misc					X
Full year Financial Reports/					
Tax Returns					X

Taxes

Taking care of submitting taxes is an important part of running your business; and some bad things can happen if you not comply with the regulations.

The best place to start is with the Workforce Commission in the state you live in.

Here is a website with links to every state Workforce Commission:

www.usnlx.com/state-workforce-agencies.asp

They have helpful information on how to set up your accounts and how to stay in compliance.

Insurance

You will need to consult with an independent insurance agent to see what types

of insurance coverage you need. There are a bewildering number of options for coverage—some required and some just desirable. It is easy to make a mistake here; make friends with someone you can trust in the business.

CHAPTER 10:
HOW TO READ
INCOME STATEMENTS

Financial statements are confusing and intimidating to a lot of people, but they don't have to be. Actually, they are nothing more than a straight-forward, common sense way to organize lots of different pieces of information and display it in a way you can understand the health of your business at a glance. They are among the most beneficial tools a business owner has at their disposal to run the business.

You have to understand accounting…it is the language of business.

—Warren Buffett

In this chapter we will give you a short, easy lesson on what is on a financial statement, how to read it, and what to do with the information.

There are two basic types of financial statements: Income statements and balance sheets. For the vast majority of small/new businesses the income statement is far more important and we will focus on that here. Sometimes an income statement is referred to as a Profit and Loss Statement (P&L).

Also, these are the common documents used by literally everyone in business. If you need money from a bank or investor they will ask for your financials; and they mean an income statement and a balance sheet. More good news, all of the popular accounting and business management software will produce them for you; quickly and easily!

Income Statement

Simply put, an income statement is a waterfall of money. It starts at the top and goes straight down. All of the money that comes in is at the top, then come all of the things that reduce your amount of money, and at the bottom you end up with the amount of profit. Easy. It is kind of the way you would do it yourself; it is

easy math.

INCOME STATEMENT

For the Years Ending December 31, 2017

	REVENUES:	
1-	Sales Revenue	$500,000
2-	Other Revenue	$0
3-	(Less Sales Returns & Allowances	0
4-	**TOTAL REVENUES**	**$500,000**
5-	Cost of Goods Sold	150,000
6-	**GROSS PROFIT**	**$350,000**
	EXPENSES:	
7-	Accounting	$2,500
8-	Advertising	25,000
9-	Amortization	0
10-	Bad Debt	1,000
11-	Depreciation	50,000
12-	Employee Payroll Tax	15,000
	Employee Wages	100,000
13-	Entertainment	0
14-	Insurance	2,000
15-	Interest Expense	12,000
16-	Miscellaneous	5,000
17-	Rent	24,000
	Software	0
	Telephone	2,500
	Utilities	7,000
18-	Web Hosting	500
19-	Vehicle Expense	12,000
	-	0
20-	-	0
	-	0
	-	0
21-	**TOTAL EXPENSES**	**$258,500**
22-	**NET INCOME BEFORE TAXES**	**$91,500**
23-	Less Income Tax Expense	0
24-	**NET INCOME**	**$91,500**

Above is an example of a simple income statement. Note the arrows and explanations. This is important—take a few minutes on this. If you need money from a bank or investor this is typically the very first thing they will ask for.

Let's pretend this is a new bicycle manufacturing company. We will call it BIKECO. All they do is make bicycles and sell them. Here is the Income Statement:

Sales Revenue: This is all the money they actually received during the year of 2017 from selling bikes.

Other Revenue: If they had made any money for something else (like renting out part of their warehouse to another company), it would go here. They did not, so the number is zero.

Sales Returns and Allowances: If someone had returned a defective bicycle, the amount would go here and be subtracted from the Sales Revenue total. They did not, so the number is zero.

Total Revenues: This is the total of the first three lines and represents their total collections for the year.

Cost of Goods Sold: This confuses a lot of people but it shouldn't. This is the total cost to the company to produce all of the bicycles they sold during the year, and represented in Line 1: Sales Revenue. Here is the kicker: it is ONLY the actual cost of producing bikes; and does not include any corporate overheard, management salaries, rent, and so on. All of those costs come *below the line* and are discussed later in the section titled *Operating Expenses*.

Gross Profit: This is just Line 1 minus Line 5. It does NOT mean your company is profitable; but it does mean you are selling your bikes for more than it costs to make them.

Now that you have calculated all of the money coming in, it is time to account for all of the money going out.

In the next section all of the expenses associated with running the company—not just making the bikes—are listed. In this example income statement there are a typical set of expenses; but expenses will be different for different kinds of businesses. For example: a consulting company would not have a significant Cost of Goods Sold line entry (because there are no *raw materials* for consulting. The expenses would all be in the employee wages/payroll expense. For the most part, this is a good illustration of expenses.

NOTE: You can always add or delete items from an income statement list like this, or even change the titles of the expenses. For example, *entertainment* could be changed to *travel*.

Accounting: If they paid an outside accounting firm to do or oversee their account, the cost would go here.

Advertising: Any money spent on social media, advertising, promotion, coupons, and similar efforts go here.

Amortization: This is an accounting term that, in most cases, does not apply to new, small businesses. This represents, for example, how much of a *write off* you take on paying down a loan or an intangible asset. Again, most small businesses will not have an amortization entry.

Bad Debt. This is money you should have received but did not. For example, if you sold a bicycle for $500 and took a check from the customer, that $500 would be included in the sales revenue line. If the check bounced and the customer disappeared with your bicycle, that is now a *bad debt*; and you would enter that amount on this line. By doing it this way, the revenue number will reflect both the sale AND that you could not collect the money or get the bicycle back.

Depreciation. This is a *kissing cousin* to amortization. This represents how much of a write off you take in the year for hard assets. For example: If you bought a $100,000 machine to weld a certain part onto the bicycles, you would record or claim a percentage each year. Your accountant will give you better guidance on this, but it is an important issue.

Employee Payroll Tax and Employee Wages: This is where you enter in the costs of all of the employees of the company.

Entertainment. This is sometimes *travel and entertainment* and is generally where you would put expenses associated with sales and marketing travel expenses, client expenses, and son on.

Insurance. All costs associated with the necessary insurance for your business goes here.

Interest Expense. If you are paying off a loan or credit card for business expenses, they go here. Many small businesses don't have any interest expenses at all.

Miscellaneous. If there are expenses that don't have a category they fit in, put them here. NOTE: Be sure to make a note somewhere of all of the items included in this category.

Rent. This is for your office/retail/manufacturing location costs. Below are the related items where you would account for costs associated with your location

such as telephone internet, utilities (e.g., electricity, etc.).

Web Hosting. If you have significant expenses for maintaining and upkeep on your website, the costs go here. Costs associated with creating, coding, or developing the website do not go here.

Vehicle Expense. If you have a delivery truck for taking the bicycles to retail stores, or if you pay a sales person to drive around and make sales calls, the costs go here.

ANYTHING else. If you don't see a category here for some of your costs, no worries, you can add a line. There are lots of different kinds of businesses with lots of different kinds of accounting items.

TOTAL EXPENSES. This is the total of all of the items in expenses, which will be deducted from revenue.

Net Income Before Taxes. This is simply the amount left after you subtract total expenses from gross profit. If you are lucky, this is a positive number.

Income Tax Expense. If you have a tax payment obligation, it goes here.

Net Income. This is also known as *profit*—the amount truly left over after everything is paid.

NOTE: Your accountant (when and if you get one) will have their own idea on how to organize your income statement; listen to them. They are creatures of habit and like to do it in a way comfortable for them, but they typically all come to the same results.

CHAPTER 11: WHERE TO TURN: RESOURCES FOR NEW ENTREPRENEURS

As you can already tell, there is a lot of information you need and it can be confusing. In this section we will provide you with links to information sources and other resources. This is obviously a limited list. These are trusted sources and each of them can lead you to other trusted sources.

The great news is it is easy to research. The bad news is there are a LOT of people out there who want to profit off of you. For example, if you Google a search term such as "resources for starting a business," most of the first two pages of results are people who are trying to SELL you something.

Asking for other's guidance helps you see what you may not be able to see. It is always important to check your ego and ask for help.

—Ken Blanchard, Author of the One Minute Manger

That is probably not what you are seeking, wanting, or needing, so just beware there are people and companies who want to take advantage of your confusion and your search for answers.

There are also a lot of well-meaning nonprofits that offer what may seem to be great services, but may not be a great fit for you. This is not a criticism, but most of these nonprofits are staffed by people who have never started or run a company; many of these folks are, unfortunately, not qualified to give relevant, usable advice on starting or growing a company.

Business Advice

On the other hand, there are truly great organizations such as SCORE. (Service Corps of Retired Executives). Typically, these are older folks with an entire

career of experience they are willing to give away for free just to help you. In fact, they are prohibited from accepting compensation.

There are many different types of careers and expertise represented in SCORE, and you can request a mentor with—for example—expertise in the automotive repair business. In fact, that is about the only challenge with SCORE. There is so much expertise in various fields, it can take a while to get to someone who knows your space—but it is totally worth it.

So let's start there, here is the SCORE website:

www.score.org

Small Business Services & Help

The U.S. Small Business Administration has a lot of resources you can easily access and read. This is a great government agency doing a truly remarkable job helping small business and fostering the entrepreneurial spirit. The SBA is a lot more than just loans. Check them out:

www.sba.gov

It is a lot of helpful information to take in, but worth the time.

If you live in a city with a Small Business Development Center, you can walk in and get help. They are affiliated with the Small Business Administration and have folks who can direct you to other resources. This is the website with a map and contact information for these across the country:

www.sba.gov/local-assistance/find/?type=Small%20Business%20Development%20Center

Downloadable Forms

There is an amazing array of 122 free, usable downloadable forms from Office Depot—everything from template employee manuals (which you will need) to an income statement template in Excel (which you will need). BIG kudos for Office Depot for making all of this available for free, this is a great resource.

Office depot forms:

www.officedepot.com/a/businesstools/forms/default/

SCORE provides a downloadable Business Plan template. It is long and intense but it can be helpful even if you don't complete everything. SCORE is also a great resource as you go forward. This is a blank template used by thousands of successful business owners:

www.score.org/resource/business-plan-template-startup-business

Sample Income Statement:

www.basicaccountinghelp.com/income_statement_example.html

Statistics

For some entrepreneurs it is vitally important to know things about the market and their customers. The federal government has a great site with statistics and actual data about just about everything. It is a lot to take in, but there is a lot of free, very informative data that can help you:

www.usa.gov/statistics

Low-Income and Minority Businesses

For low-income and minority entrepreneurs, Hidden Star has great programs to help you. They have a unique approach to helping new businesses get started that can be very beneficial. Check them out and get great help:

www.HiddenStar.org

Peer Groups/Support

Sometimes it is very important to talk with people in the same situation as you, struggling and working to get your business started and growing. Hidden Star provides the Galaxy Forums, an online community where you can get help, give help, get invaluable information, and help your business—and it is free:

www.galaxyofstars.org

Communication. For those of you new to business, one of the common mistakes is bad communication; it can hurt you more than you know. There are some accepted norms on how to write, communicate, and relay information. This is more important than you may think it is. Here is a website with examples of correspondence you will want to visit:

www.thebalancecareers.com/business-letter-examples-samples-and-writing-tips-2059673

Business Plans

For business plan preparation, here is the *Entrepreneur Magazine* free business plan templates for different industries. You will need to root around a little bit, but there are some good examples:

www.entrepreneurmag.co.za/advice/business-plans/business-plan-research-and-preparation/free-sample-business-plans/

Patents and Trademarks

If you want to know about Patents and Trademarks and how to file and protect your intellectual property/invention, the Patent office website is the place to start:

www.uspto.gov

You can also check out the intellectual property forum Hidden Star's Galaxy Forums:

www.galaxyofstars.org

Business Books

If you are a reader, we can recommend a few books you will find useful. You can buy all of them on Amazon:

The Lean Start Up by Eric Ries. Here you will learn about starting a company with limited resources and the Minimally Viable Product approach to getting to market.

Measure What Matters by John Doerr. This remarkable book will teach you how to run your new business the same way he taught Google when they started —and many other companies he has helped.

The 22 Immutable Laws of Marketing by Al Ries and Jack Trout. This short, easy-to-read book is a timeless lesson on how businesses actually sell their products and services. It is full of amazing advice and lessons.

There are many more great business books, but if you start with these you will have built the foundation for growing your business.

CHAPTER 12:
THE $293 PROFITABLE COMPANY, A REAL LIFE EXAMPLE

Many people have said this a story about the founding of Hidden Star was inspiring and insisted I include it in this book.

I am the founder of Hidden Star and the author of this book, and very early in my development of this non-profit I was talking with a friend about the concept and the people I intended for Hidden Star to help.

I had just read an article that studied economically disadvantaged people who wanted to start their own company. They had, on average, only $300 they could get or spend on starting a company. I told my friend this did not seem like a lot of money, but I would make sure Hidden Star had a success plan for an aspiring entrepreneur with only $300 to spend.

He was emphatic it could not be done; and there was simply no way you could spend that little and get to profitability. He ridiculed me for even entertaining the idea.

After a few minutes, I made him an offer; actually, more of a bet. I told him if I could start a company and get it to profitability for $300 or less; he would donate $1,000 to Hidden Star to help these under-resourced entrepreneurs. If I could not, I would donate $1,000 to his favorite charity.

He accepted.

Game on.

Ok, yikes. Now I had to make it happen. First, I thought about the different types of companies that would lend themselves to a low-cost start up, and I thought about the leverage points I might be able to use to look, act, and seem like a *real company* right from the start.

I thought about a variety of service companies, consulting services, retail

products, web-based businesses, and others kinds of businesses. Then I considered the *flash to bang* time for getting something started. I heard a saying one time I believe to be true: "If you have a niche or specialty product, then the internet is your friend. If you have a commodity product, the internet is your enemy."

Made sense to me.

I decided to invent a new specialty product and sell it on the internet.

[Check that box.]

Now what kind of product would it be? Expensive? Cheap? For the masses or for a specialty audience? Having never invented anything before, I knew I did not have any technical expertise and therefore it could not be a tech product. It could not be an expensive product because just getting enough inventory to sell would put me over my $300 budget.

So I came to the conclusion it needed to be an easy-to-make product with a specialty focus, but directed at a large group of people. And it had to have very high gross profit margins.

What would it be?

Well, I am a runner. Sometimes the clothes I go running in become smelly—and remain so even AFTER I wash them. My wife, a saint, would even sometimes mention the foul odor of my running clothes. So I decided to invent a product that, when used in conjunction with normal laundry detergent, would get the funk out of the clothes.

Over the course of several weeks, I tried a number of different combinations and finally found one that worked. Not only that, it worked really well! (NOTE: the secret seemed to be citrus, but that is all I will disclose!!)

I went to the grocery store and researched all of the competitive products. (There are a couple but not many. Good for me.) I looked at the spray bottles they came in, style, labeling, etc. I made contact with the U.S. Food and Drug Administration and found out the regulations about such a product, and they were not too bad.

[Check.]

Now I had to come up with a name. Something catchy and a little edgy (but not

too much). Some of the finalists were: Stink Bomber, Odor Killer, and B.O. Killer. I finally settled on B.O. Buster.

Now I had to make the product appealing. I paid a freelance graphic designer $50 to design the logo. Here it is:

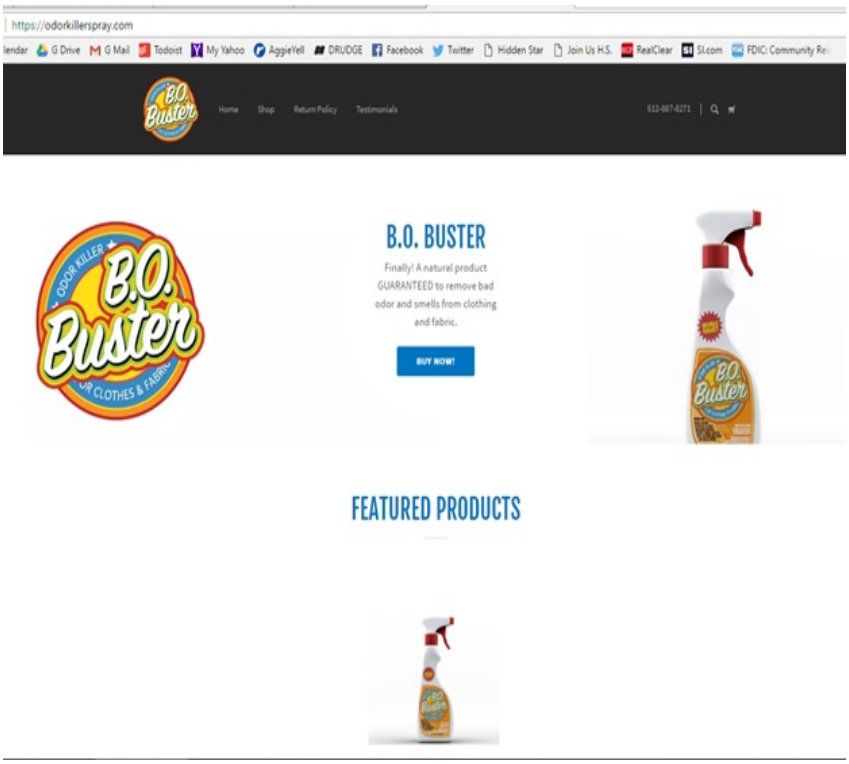
I am biased, but I think that is a pretty darn good logo for $50. Good news, there are a LOT of good graphics designers that freelance for very little money.

OK, now, how do I package it? I found a supplier of white spray bottles that would take my label. It was cheap and plentiful. The bottle and the label together turned out to be pretty good looking. Here it is:

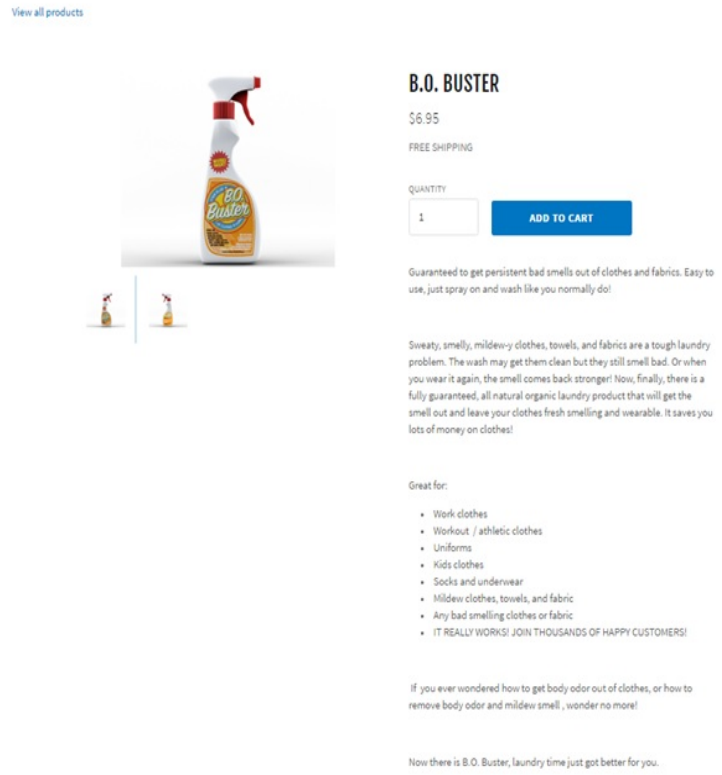
Pretty cool, huh? And remember I had/have no relevant experience or knowledge of this sort of thing—but it was easy to research.

Now I needed a website. This was quick and easy, even for an old guy like me with absolutely NO experience or knowledge of how to build a website or do E Commerce.

I went to GoDaddy.com and for $29 and just a few hours, I had a fully functional website with functional ecommerce store. It was very, very basic. Here is the home page:

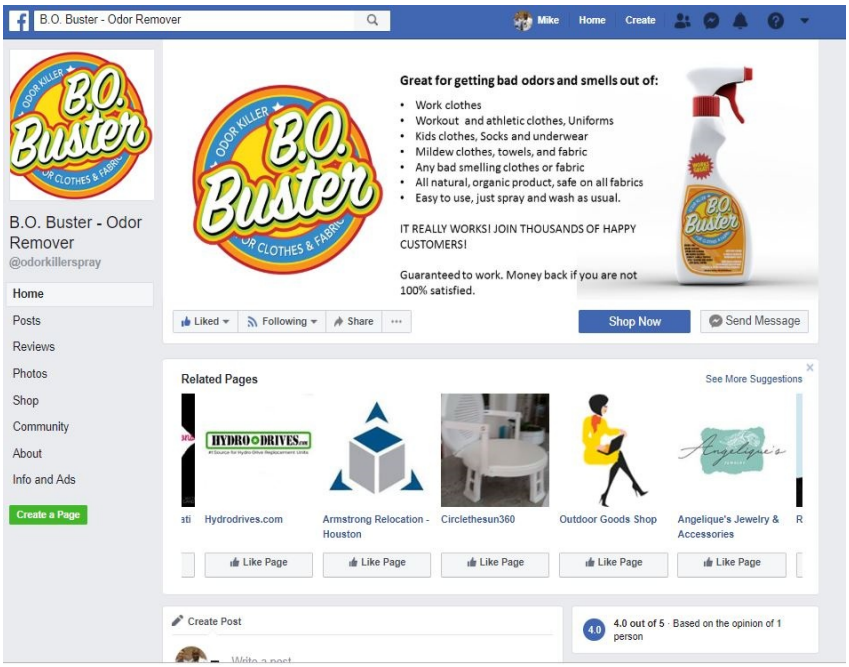


Like I said, it was basic and simple. Here is the product/shopping page:

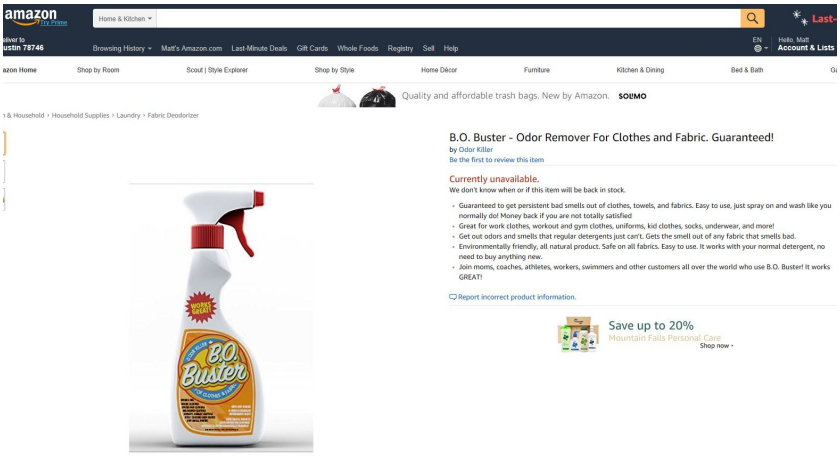


Great, so now I could sell the product and the ecommerce part of the godaddy.com website would send money to my bank account. So far, so good. I had now spent $79—$50 on the logo, $29 for the ecommerce website.

In order to increase my visibility and presence in social media, I then set up a Facebook page. It is free to do, doesn't take much time, and is your portal to the world's largest gathering of people and potential customers. Here is the Facebook page I created:



The other large group of potential customers was Amazon. I decided to open a *store* on Amazon to sell this. This was significantly harder than the Facebook page, but I was able to finally get it operational—and it was free. Here is the Amazon site I created for B.O. Buster:



So now I had a product, a logo, a website, a Facebook page, and an Amazon store. Now I was ready to sell. But how? I knew if I went to sell it through a physical store the inventory cost would put me over the $300 limit so I was restricted to online sales only.

[No problem.]

I began to purchase Facebook ads targeting people I thought would be interested: families with kids. Here is an example of a Facebook ad I ran:

It was not hard to create, post, or pay for. Facebook makes it very easy. I also purchased some Google AdWords targeting the same audience. I then paid Amazon to promote B.O. Buster to Amazon visitors who might be interested.

I charged $6.95 per bottle, plus shipping charges of $7.00, which were exactly my costs on shipping.

I began the ad campaigns on Facebook, Amazon, and Google. I was amazed at how little it cost to get widespread coverage. Since I had to factor my product costs into the $300 maximum, I was limited in how much I could spend. The

good news is that the response was terrific. We got some traffic and buyers. How many?

We ended up spending a whopping $81.80 on all of the advertising on all three platforms and we sold 125 bottles of B.O. Buster at $6.95 in just a couple of weeks. Here are the numbers:

125 sales × $6.95 = $869 total revenue on product sales (shipping was a net zero)

Cost of Goods Sold:

Spray Bottle: $.37 (37 cents)

Label: $.10

Shipping package: $.30

Handling: $.28

Total cost of product: $1.05

Total Other Costs:

Logo design and execution: $50

E-Commerce site: $29.95

Product Costs: $131.25 (125 x $1.05)

Advertising: $81.80

Total spent: $293

Total Profit:

$869 total revenue ÷ product sales – $293 total costs = $576

And now that the set up and logo were done, all of the sales came because of $81 in promotion. The next $869 in sales would have produced $657 in gross profit; which is a very healthy margin.

So that is the story of the $293 success. My friend audited all of the costs and made the $1,000 donation to Hidden Star.

The point of the story is this: Companies can sometimes be started with very little money. If I can do it, I am certain you can do it.

Think about it: a 57-year-old guy with exactly ZERO experience in products,

ecommerce, advertising, social media, website building, or technology was able to start a company for less than $300 and become profitable.

From start to finish it was about six weeks.

The moral of the story: If I can do it, YOU can do it.

CHAPTER 13: CONCLUSION—KNOCK ’EM DEAD

You may be at the end of this book but at the beginning of your journey. Congratulations on your courageous decision to start your own company. There will be highs and lows, but the satisfaction you get from trying is amazing.

There are a lot of places for you to get help, this book is just one. Do not hesitate to find a helpful source and seek out help.

The fact is there are a LOT of people cheering for you, and who want to see you succeed. Some of them are people you don’t even know. The economy cannot grow without new companies being formed, selling products or services, and hiring workers. It is the lifeblood of our economic system and you are the missing piece.

There may be hard times, stumbles, mistakes, and problems, but you can get through them. To get to the finish line, you have to start.

You can do it! Get going.

You are off to great places

Today is your day

Your mountain is waiting

So be on your way!

—Dr. Suess

GLOSSARY/TERMINOLOGY
TERMS TO KNOW

To start and run a business, you often need to understand business terms that may not be well defined in a standard dictionary. This glossary of business terms provides definitions for common terminology and acronyms in business plans, accounting, finance, and other aspects of small business.

There is no shame in not knowing some or many of these terms. The more you know about the language of business, the better prepared you will be to protect yourself and your company.

In fact, this book is specifically targeting people who don't know many, if any, of the terms here. That's okay, you will get there.

A

Accounts Payable (AP)—Bills to be paid as part of the normal course of business. This is a standard accounting term, one of the most common liabilities, which normally appears in the **balance sheet** listing of liabilities. Businesses receive goods or services from a vendor, receive an invoice, and until that invoice is paid the amount is recorded as part of accounts payable. In short, expenses incurred and purchases made, but not paid for.

Accounts Receivable (AR)—Debts owed to your company, usually from sales on credit. Accounts receivable are a business asset, the sum of the money owed to you by customers who haven't paid. The standard procedure in business-to-business sales is when goods or services are delivered they come with an invoice, which is to be paid later. Business customers expect to be invoiced and to pay later. The money involved goes onto the seller's books as accounts receivable, and onto the buyer's books as accounts payable.

Accounts receivable financing—Short-term financing obtained by pledging receivables to the lender (as collateral for a loan). This enables a business owner to draw against an established line of credit, dictated by a formula (a percentage

of accounts receivable).

Accrual based accounting—Standard business accounting, which assumes there will be accounts payable (bills to be paid as part of the normal course of business) and/or sales on credit (sales made on account; shipments against invoices to be paid later), as opposed to cash-only basis.

For example, most businesses have regular bills such as rent, utilities, and often inventory purchases, which are not paid for at the exact moment of purchase, but are invoiced. Most businesses will also not be able to collect on all of their sales immediately in cash, but must bill the purchaser or wait for payment on at least some percentage of their sales (the exact percentage varies by industry).

Advertising—Act or practice of calling public attention to one's product, service, need, and so on—especially through the use of paid announcements on the web, in newspapers and magazines, over radio or television, on billboards, and many other *channels*.

Amortization schedule—Chart or table that breaks a monthly loan payment into two categories: principal and interest. It also reports the balance due.

Asset turnover—Sales divided by total assets; important for comparison over time and to other companies of the same industry. A standard business ratio.

Assets—Property a business owns, including cash and receivables, inventory, etc. Assets are any possessions that have value in an exchange. The more formal definition is the entire property of a person, association, corporation, or estate applicable or subject to the payment of debts. What most people understand as business assets are cash and investments, accounts receivable, inventory, office equipment, plant and equipment, etc. Assets can be long-term or short-term, and the distinction between these two categories might be whether they last three years, five years, ten years, or more—normally the accountants decide for each company and what’s important is consistency. The government also has a say in defining assets, because it has to do with tax treatment. When you buy a piece of equipment, if you call that purchase an expense then you can deduct it from taxable income. If you call it an asset you can’t deduct it, but you can list it on your financial statement among the assets. The tax code controls how businesses decide to categorize spending into assets or expenses.

B

Backend—(see websites backend/frontend)**.**

Bootstrapping. Funding a company solely from funds from the founders, friends and family, or by reinvesting initial profits. Derived from *pulling yourself up by your own bootstraps*.

Brand—Name, term, sign, symbol, design, or any combination of these used to uniquely identify a producer's goods and services and differentiate them from competitors.

Break-even analysis—Technique commonly used to assess expected profitability of a company or a single product. The process determines at what point revenues equal expenditures based on fixed and variable costs. Breakeven is usually expressed in terms of the number of units sold or in total revenue. The break-even analysis is a standard financial analysis used to measure general risk for a company by showing the sales level needed to cover both fixed and variable costs. That level of sales is called the break-even point, which can be stated as either unit sales volume or sales as dollar (or other currency) sales. The break-even analysis uses three assumptions to determine a break-even point: **fixed costs**, **variable costs**, and unit price. Unit price is the average revenue per unit of sales. The formula for break-even point in sales amount is: =fixed costs

(1 – (Unit Variable Cost ÷ Unit Price))

The break-even analysis is often confused with **payback period**, because many people interpret breaking even as paying back the initial investment. However, this is not what the break-even analysis actually does. Despite the common and more general use of the term *breakeven*, the financial analysis has an exact definition as explained above. One important disadvantage of the break-even analysis is it requires estimating a single per-unit variable cost, and a single per-unit price or revenue, for the entire business. That is a hard concept to estimate in a normal business with a collection of products or services to sell. Another problem comes up with break-even: its preference for talking about sales and variable cost of sales in units. Many businesses, especially service businesses, don't think of sales in unit, but rather as sales in money. In those cases, the break-even analysis should think of the dollar as the unit, and state variable costs per unit as variable costs per dollar of sales.

Break-even point—Output derived from the standard break-even analysis. The unit sales volumes or actual sales amounts a company needs to equal its running

expense rate and not lose or make money in a given month. The formula for break-even point in sales amount is:

= Regular running costs ÷ (1– (Unit Variable Cost ÷ Unit Price))

This should not be confused with the recovering initial investment through the regular operation of a business. That concept, often confused with break-even, is called the payback period.

Broker—Intermediary that serves as a go-between for the buyer or seller

Business mission—Brief description of an organization's purpose regarding its customers, products or services, markets, philosophy, and technology.

Business plan—Document detailing a proposed or existing venture and seeks to capture the vision, current status, expected needs, defined markets, and projected results of the business. A business plan *tells the entrepreneur's story* by describing the purpose, basis, reason, and future of the venture.

Buy-sell agreement—Agreement designed to address situations in which one or more of the entrepreneurs wants to sell their interest in the venture.

C

C Corp—see Corporation.

Capital assets—Also known as plant and equipment or fixed assets and used interchangeably, each refers to long-term assets. Assets are generally divided into short-term and long-term assets, the distinction depending upon how long they last. Usually the difference between short term and long term is a matter of accounting and financial policy. Five years is probably the most frequent division point, meaning assets that depreciate over more than five years are long-term assets. Ten years and three years are also common.

Capital expenditure—Spending on capital assets (also known as plant and equipment, **fixed assets**, or **long-term assets**). The business tracks capital expenditure in the **cash flow** table, because purchasing or selling assets affects cash flow, and the **balance sheet** table, but doesn't affect profit or loss. A positive amount typed into the capital expenditure row in the cash flow table will result in an increase in **capital assets** in the balance sheet, and a negative amount will result in a decrease in capital asset

Cash—Cash normally means bills and coins, as in paying in cash. However, the term is used in a business plan to represent the bank balance, or checking account balance.

Cash basis—Accounting system that doesn't use the standard accrual accounting. It records only cash receipts and cash spending, without assuming sales on credit (sales made on account; shipments against invoices to be paid later), or accounts payable (bills to be paid as part of the normal course of business.

Cash flow—Cash flow in a business plan is the change in the cash balance. For example, the cash flow for a month would be a positive $10,000 if the balance were $10,000 at the beginning of the month and $20,000 at the end of the month. It is important to distinguish cash flow, which is the change in the balance, from cash or cash balance, which is the resulting ending balance. More formally, cash flow is an assessment and understanding of cash coming into and flowing out of the venture in specific periods of time. This can be based on projections or actual cash flow.

Click-through rate—A way of measuring the success of an online advertising campaign. The CTR is obtained by dividing the number of users who clicked on an ad on a web page or in an email by the number of times the ad was delivered, or **impressions**. For example, if your banner ad was delivered 100 times (impressions delivered) and 1 person clicked on it (clicks recorded), then the resulting CTR would be 1%.

Cost of Goods Sold (COGS), cost of sales—The cost of goods sold is traditionally the costs of materials and production of the goods a business sells. For a manufacturing company these are materials, labor, and factory overhead. For a retail shop it would be what the shop pays to buy the goods it sells to its customers. For service businesses, that do not sell goods, the same concept is normally called *cost of sales*, which shouldn't be confused with *sales and marketing expenses*. The cost of sales in this case is directly analogous to cost of goods sold. In a consulting company, for example, the cost of sales would be the compensation paid to the consultants plus costs of research, photocopying, and production of reports and presentations. In standard accounting, costs of sales or costs of goods sold are subtracted from sales to calculate gross margin. These costs are distinguished from operating expenses, because **gross profit** is **gross margin** less **operating expenses**. Costs are not expenses.

Collection days—Also known as collection period, collection days represent the average number of days a business waits, on average, between delivering an invoice and receiving payment. The formula for calculating collection days is:

= (Accounts_receivable_balance × 360) ÷ (Sales_on_credit × 12).

Commission—In business, a commission is the compensation paid to a person or entity based on the sale of a product; commonly calculated on a percentage basis. The most frequent commission formula is gross margin multiplied by the commission percentage.

Competitive advantage—Anything causing one company to have enhanced business prospects over its competitors, such as lower cost to produce products, a patented idea or product, a better location.

Conversion rate—The percentage of unique website visitors who take a desired action upon visiting the website. The desired action may be submitting a sales lead, making a purchase, viewing a key page of the site, downloading a file, or some other measurable action.

Core marketing strategy—A statement communicating to a specific, target market the predominant reason to purchase.

Corporation—Corporations are either the standard C corporation or the small business S corporation. This is a separate legal entity, different from its owners, which pays its own taxes. The C corporation is the classic legal entity of the vast majority of successful companies in the United States. Most lawyers would agree the C corporation is the structure that provides the best shielding from personal liability for owners, and provides the best non-tax benefits to owners. Most lawyers would also probably agree the C corporation is the standard form of legal entity for a company with ambitions of raising major investment capital and eventually going public,. The S corporation is used for family companies and smaller ownership groups. The clearest distinction from C is the S corporation's profits or losses go straight through to the S corporation's owners, without being taxed separately first. In practical terms, this means the owners of the corporation can take their profits home without first paying the corporation's separate tax on profits, so those profits are taxed once for the S owner, and twice for the C owner. In practical terms the C corporation doesn't send its profits home to its owners as much as the S corporation does, because it usually has different goals and objectives. It often wants to grow and go public, or it already

is public. In most states, an S corporation is owned by a limited number (25 is a common maximum) of private owners, and corporations can't hold stock in S corporations, just individuals. Corporations can switch from C to S and back again, but not often. The IRS has strict rules for when and how switches are made.

Customer Acquisition Cost (CAC)—If you need to run $20 worth of advertising or promotion to gain one client who buys from you, your CAC is $20. This is a very useful calculation because you need to know how much it costs you to grow your business.

Customer Relationship Management (CRM)—A system or strategy for managing client interactions, dealing with future and current customers, optimizing and systematizing relationships.

www.intouchcrm.com/what-does-crm-stand-for-ina-small-business/

Current assets—Cash, securities, bank accounts, **accounts receivable**, inventory, business equipment, assets with a life of less than five years or are depreciated over terms of less than five years.

Current liabilities—Debts with terms of five years or less. Also known as short-term loans, or short-term (current) debts. These may also include short-term debts that don't cause interest expenses. For example, they might be loans from founders or accrued taxes (taxes owed, already incurred, but not yet paid).

D

Doing Business As: (DBA)—A name under which a business operates, also commonly called a *fictitious business name*. When a sole proprietor operates a company using any name except his or her own given name, the DBA or fictitious business name registration establishes the legal ownership to satisfy banks, local authorities, and customers. For example, if you start the Acme Restaurant, unless you are named Acme, you need your DBA to open a bank account in the name you refer to and operate your business and under which you pay employees. You can usually obtain this registration through the county government, and the cost is no more than a small registration fee plus a required newspaper ad, for a total of less than $100 in most states.

Debt and equity—The sum of liabilities and capital. This should always be

equal to total assets.

Depreciation—An accounting and tax concept used to estimate the loss of value of **assets** over time. For example, cars depreciate with use.

Direct-mail marketing—A form of business-to-consumer or business-to-business marketing that involves sending information by mail to potential customers.

Direct marketing—Any method of distribution that gives the customer access to an organization's products and services without intermediaries; also, any communication from the producer that communicates with a target market to generate a response.

Directory—A computer term related to the operating system on IBM and compatible computers. Disk storage space is divided into directories. Also known as folders.

E

Earnings—Also known as **income** or **profits**, earnings are the famous *bottom line*: sales less costs of sales and expenses.

Earnings Before Interest and Taxes (EBIT)—Earnings before interest and taxes

Earnings Before Interest, Taxes, Depreciation, and Amortization—(EBITDA)—Equal to the **gross margin** minus **total operating expenses** plus any **depreciation** and **amortization**. This is similar to Earnings Before Interest and Taxes (EBIT). The difference between the two is EBIT subtracts all expenses, including depreciation, as an expense, and EBITDA subtracts all expenses except depreciation and amortization.

Entrepreneur—Someone who starts a new business venture; someone who recognizes and pursues opportunities others may not see as clearly, and finds the resources necessary to accomplish his or her goals. Entrepreneurs may be categorized into a number of areas including:

- Solo self-employed individuals
- Team builders
- Independent innovators

- Pattern multipliers
- Economy of scale exploiters
- Capital aggregators
- Buy/sell artists

Equity—Business ownership; capital. Equity can be calculated as the difference between assets and liabilities.

Equity financing—The sales of some portion of ownership in a venture to gain additional capital for start up.

F

Financing model—Typically refers to spreadsheet that projects the effect of various types of investment (equity or debt), and various levels of performance of the company.

First mover—A company that attempts to gain an unchallengeable, privileged market position by being the first to establish itself in a given market

First mover advantage—Key first mover advantages include: 1) reputation effect; 2) experience curve; and 3) customer commitment and loyalty.

Fixed cost—Running costs that take time to wind down: usually rent, overhead, some salaries. Technically, fixed costs are those the business would continue to pay even if it went bankrupt. In practice, fixed costs are usually considered the running costs. These are static expenses that do not fluctuate with output volume and become progressively smaller per unit of output as volume increases. Fixed costs are an important assumption for developing a **break-even analysis**. The standard break-even formula estimates a break-even point of sales based on per-unit price or revenue, per-unit variable costs, and fixed costs.

Fixed liabilities—Debts; money that must be paid. Usually, debt on terms of longer than five years are fixed liabilities. Also known as **long-term liabilities**. Fixed liabilities, in contrast to **floating liabilities**, are secured by assets with a stable value, such as a building or a piece of equipment.

Frequency marketing—see loyalty programs.

Frontend—see websites backend/frontend.

G

Goodwill—When a company purchases another company for more than the value of its assets—which is quite common—the difference is recorded as an asset named *goodwill*. This is not a general term for the value of a brand, for example, but a very specific accounting term. For example, if one business buys another business for $1 million then it needs to show the $1 million spent as an asset. If there are only $500 thousand in real assets, the accounting result should be $500,000 in real assets purchased and another $500,000 in goodwill.

Gross margin—Difference between total **sales revenue** and total **cost of goods sold** (or total cost of sales). This can also be expressed on a per-unit basis, as the difference between unit selling price and unit cost of goods sold. Gross margin can be expressed in dollar or percentage terms. Your gross margin is the difference between the total amount of money you made from selling your product or service and the total amount of money your product or service cost you. For example, if it cost you $10 to make your widget, but you sold it for $30, your gross margin is the difference: $20.

Gross margin percent—Gross margin divided by sales, displayed as a percentage. Acceptable levels depend on the nature of the business. There are providers that can deliver standard **gross margins** for different types of industries based on SIC (Standard Industry Classification) codes used to categorize industries.

Gross profit—is the profit a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services. These figures can be found on a company's income statement. Gross profit may also go by sales profit or gross income.

Guerrilla marketing—Innovative, unconventional, and low-cost marketing techniques aimed at obtaining maximum exposure for a product.

H

Harvesting—Most often refers to selling a business or product line, as when a company sells a product line or division or a family sells a business. Harvesting is also occasionally used to refer to sales of a product or product line toward the end of a product life cycle.

I

Impressions—An impression occurs each time an advertisement is seen by a potential customer. For example, in online marketing, an impression happens when an advertisement such as a banner ad on a website is visible on the user's screen, whether for the first time, when returning to a page, or when the ad cycles through dynamically.

Income—see earnings.

Income statement—Also called **profit and loss statement**, the financial statement that shows sales, cost of sales, **gross margin**, **operating expenses**, and **profit** or **loss**. Gross margin is sales minus cost of sales, and profit (or loss) is gross margin minus **operating expenses** and taxes. The result is profit if the amount is positive, loss if the amount is negative.

Industry analysis—Industry analysis is basically a business research, which typically acts like a tool to know the potential of a particular industry. Industry analysis includes reviewing the economic, political and market factors, which influence the way any industry develops. For continued success and growth, it is immensely important for every business to understand the industries in which they operate.

Initial Public Offering (IPO)—A corporation's initial efforts of raising capital through the sale of securities on the public stock market.

Interest expense—Interest is paid on debts, and interest expense is deducted from profits as expenses. Interest expense can be either long-term or short-term interest.

Inventory—Goods in stock; either finished goods or materials to be used to manufacture goods.

Inventory turnover—Total cost of sales divided by inventory. Usually calculated using the average inventory over an accounting period, not an ending-inventory value.

K

Key success factors—See success requirements.

L

Labor—The labor costs associated with making goods to be sold. This labor is part of the **cost of good sold** or **cost of sales**, part of the manufacturing and assembly. The row heading refers to fulfillment costs as well, for service companies.

Legal structure—Association, corporation, partnership, proprietorship, trust, or individual with legal standing in the eyes of law. A legal entity has legal capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and to be held responsible for its actions.

Liabilities—Debts; money that must be paid. Usually debts on terms of less than five years are called **short-term liabilities**, and debts for longer than five years are **long-term liabilities**.

Lifecycle—A model depicting the sales volume cycle of a single product, brand, service—or a class of products or services—over time described in terms of the four phases of introduction, growth, maturity, and decline.

Limited Liability Company (LLC)—LLC formation is different for different states, with some real advantages in some states that aren't relevant in others. An LLC is usually similar to an S corporation, a combination of some limitations on legal liability and some favorable tax treatment for profits and transfer of assets. This is a newer form of legal entity, and often harder to establish than a corporation. Why would you establish an LLC instead of a corporation? That's a tough legal question—not one we can answer here. In general, the LLC has to be missing two of the four characteristics of a corporation (limited liability, centralized management, continuity of life, and free transferability of ownership interest). Still, with the advisability and advantages varying from state to state, here again, this is a question to take to a good local attorney with small-business experience.

Limited liability partnership (LLP)—A form of business organization combining elements of partnerships and corporations, in which both managing and non-managing partners are protected from liability to some degree, and have a different tax liability than in a corporation. Although this form of business is

available in the U.S., the UK, and Japan, legal details of forming and operating such a company vary from one country to another, and by state within the U.S.

Long-term assets—Assets such as plant and equipment depreciated over terms of more than five years, and are likely to last that long. (See assets; capital assets.)

Long-term interest rate—The interest rate charged on long-term debt.

Long-term liabilities—Also known as long-term loans, most companies call a debt long-term when it is on terms of five years or more.

Loss—An accounting concept—the exact opposite of profit—normally referring to the bottom line of the **income statement** (profit and loss statement). Start with sales and subtract all costs of sales and all expenses to produce profit before tax. Subtract tax to get **net profit**. If the end result is negative, then instead of **profit** it is called loss.

Loyalty programs—Activities designed to encourage repeat purchasing through a formal program enrollment process and the distribution of benefits. Loyalty programs may also be referred to as **frequency marketing**.

M

Market—Prospective buyers, individuals or organizations willing and able to purchase the organization's potential offering.

Market-development strategy—A product-market strategy in which an organization introduces its offerings to markets other than those it is currently serving. In global marketing, this strategy can be implemented through exportation licensing, join ventures, or direct investment.

Market evolution—Changes in primary demand for a product class and changes in technology.

Market-penetration strategy—A product market strategy in which an organization seeks to gain greater dominance in a market it is already targeting. This strategy often focuses on capturing a larger share of an existing market.

Marketing plan—Often found within the business plan, the marketing plan provides details regarding the overall marketing strategy, pricing, sales tactics,

service and warranty policies, advertising and promotion and distribution plans for the venture.

Market redefinition—Changes in the offering demanded by buyers or promoted by competitors to enhance its perception and associated sales.

Market sales potential—Maximum level of sales that might be available to all organizations serving a defined market in a specific time period.

Market segmentation—Categorization of potential buyers into groups based upon common characteristics such as age, gender, income, and geography or other attributes relating to purchase or consumption behavior.

Market share—Total sales of an organization divided by the sales of the market they serve.

Marketing—Set of planned activities designed to positively influence the perceptions and purchase choices of individuals and organizations.

Marketing collateral—Materials used to describe your product or service, such as brochures, newsletters, postcards, flyers, and press releases.

Marketing mix—Activities controllable by the organization that may include the product, service, or idea offered; the manner in which the offering will be communicated to customers; the method for distributing or delivering the offering; and the price to be charged.

Marketing plan—Document containing description and guidelines for an organization's or a product's marketing strategies, tactics and programs for offering their products and services over the defined planning period, often one year.

Materials—Included in the cost of sales, items involved in the assembly or manufacture of goods for sale.

Materials included in cost of sales—Materials involved in the assembly or manufacture of goods for sale.

Mission statement—Statement capturing an organization's purpose, customer orientation, and business philosophy.

N

Net cash flow—This is the projected change in cash position, an increase or decrease in cash balance.

Net Present Value (NPV)—The method of discounting future streams of income using an expected rate of return to evaluate the current value of expected earnings. It calculates future value in today's dollars. NPV may be used to determine the current value of a business being offered for sale or capitalized.

Net profit—The operating income less taxes and interest; also known as **earnings**, or **net income**.

Net worth—Assets minus liabilities; total equity; other short-term assets These might be securities, business equipment, etc.

Non-disclosure agreement (NDA)—Commonly used form designed to maintain confidentiality between potential business partners. If an entrepreneur does not want someone to steal their idea or a part of business plan, an NDA is very important

New visitors—Website visitor who has not previously visited the site.

O

Offering—Total benefits or satisfaction provided to target markets by an organization. An offering consists of a tangible product or service plus related services such as installation, repair, warranties or guarantees, packaging, technical support, field support, and other services.

Offering mix—See portfolio.

Operating expenses—Expenses incurred in conducting normal business operations. May include wages, salaries, administrative and research and development costs, but excludes interest, depreciation, and taxes.

Operations control—Practice of assessing how well an organization performs marketing activities as it seeks to achieve planned outcomes.

Opportunity cost—Resource-use options forfeited as a consequence of pursuing one activity among several possibilities. Potential benefits are foregone as a result of choosing an alternative course of action.

Original Equipment Manufacturer (OEM)—Process facilitated through

licensing or other financial arrangements where the initial producer of a product or service enters into an agreement to allow another entity to include, remanufacture, or label products or services under their own name and sell through their distribution channels. It typically results in a *higher volume, lower margin* relationship for the original producer, and offers access to a broader range of products and services the buyer can offer their consumers at more attractive costs.

Other short-term liabilities—Short-term debts that don't cause interest expenses. For example, they might be loans from founders or accrued taxes (taxes owed, already incurred, but not yet paid).

Outsourcing—Purchasing an item or a service from an outside vendor to replace performance of the task with an organization's internal operations.

P

Page views—Also known as *hits*, page view is a more accurate way of tracking the number of people who view a page because of the way website analysis works. A single page view (one visitor looking at one page) may generate multiple hits in log analysis, as all the resources required to view the page (images and program files) are also requested from the server.

Partnership—Partnerships are difficult to describe accurately because they change from state to state. Though they are governed by state laws, a Uniform Partnership Act has become the law in most states. That act, however, primarily sets the specific partnership agreement as the actual legal core of the partnership, so the legal details can vary widely. Usually the income or loss from partnerships pass through to the partners, without any partnership tax. The agreements can define different levels of risk, which is why you'll read about some partnerships that have general partners and limited partners, with different levels of risk for each. The agreement should also define what happens if a partner withdraws, buy and sell arrangements for partners, and liquidation arrangements if that becomes necessary. If you think a partnership might work for your business, make sure you do this right. Find an attorney with experience in partnerships, and check for references of present and past clients. This is a complicated area and a mistake in the agreement can cause a lot of problems.

Payables—See account payables.

Payroll—Wages, salaries, and other employee compensation.

Payroll burden—Includes payroll taxes and benefits. It is calculated using a percentage assumption applied to payroll. For example, if payroll is $1,000 and the burden rate is 10 percent, the burden is an extra $100. Acceptable payroll burden rates vary by market, by industry, and by company.

Peer-to-peer lenders (P2P)—Peer-to-peer lending is mostly an online activity. Borrowers come to the various peer-to-peer lending websites looking for loans—and better terms than what they can get through their local bank. Investors come looking to lend money at much higher rates of return than what they can get at a bank.

Point of Sale (POS)—Transaction that takes place between a merchant and a customer when a product or service is purchased, commonly using a point of sale system to complete the transaction.

Portfolio—Also known as an **offering mix**, portfolio is a complete array of an organization's offerings including all products and services.

Positioning—The orchestration of an organization's offering and image to occupy a unique and valued place in the customer's mind relative to competitive offerings. A product or service can be positioned on the basis of an attribute or benefit, use or application, user, class, price, or quality.

Premiums—Product-oriented promotion offering free or reduced-price item(s) contingent on the purchase of advertised or featured merchandise or service.

Price elasticity of demand—Change in demand relative to a change in price for a product or service.

Privately owned—1) A company in which its shares are not publicly traded on a stock market. Such companies usually have less-restrictive reporting requirements than publicly traded companies; or 2) A company not owned by the government (state owned).

Profit—see earnings.

Profit and Loss Statements (P & L)—see income statement.

Profitability—Ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses

related to the conduct of the business activities.

Pro forma income statement—Also known as a projected income statement, pro forma in this context means projected. An **income statement** is a financial statement that shows sales, **cost of sales** (or **cost of goods**), **gross margin**, **operating expenses**, and **profits**.

Pro forma statement—Financial statements that projects the results of future business operations. Examples include a pro forma **balance sheet**, a pro forma **income statement**, and a pro forma **cash flow** statement.

Product definition—Stage in a new product development process in which concepts are translated into actual products for additional testing based on interactions with customers.

Product development—Expenses incurred in development of new products (salaries, laboratory equipment, test equipment, prototypes, research and development, and so on).

Product line—Group of closely related products with similar attributes or target markets.

Product line pricing—Prices for all items in a product line involving the lowest-priced product price, the highest price product, and price differentials for all other products in the line.

Profit—An accounting concept, normally the bottom line of the **income statement**. Start with sales, subtract all **cost of sales** (or **cost of goods**) and all expenses, to produce profit before tax. Subtract tax to get **net profit**.

Profit before interest and taxes—See Earnings Before Interest and Taxes.

Profit and loss statement—Also known as income statement, this is a financial statement that shows sales, **cost of sales** (or **cost of goods**), **gross margin**, **operating expenses**, and **profit** or **loss**.

Public relations—Communications often in the form of news distributed in a non-personal form which may include newspaper, magazine, radio, television, internet or other forms of media for which the sponsoring organization does not pay a fee.

Publicly traded—A company owned by shareholders who are members of the general public and trade shares publicly, as on the stock market.

R

Receivables—See Accounts Receivables.

Receivables turnover—Sales on credit for an accounting period divided by the average **accounts receivables** balance.

Retained earnings—**Earnings** (or **losses**) that have been reinvested into the company, not paid out as dividends to the owners. When retained earnings are negative, the company has accumulated losses.

Return on assets—Net profits divided by total assets; a measure of profitability.

Return on Investment (ROI)—Net profits divided by net worth or total equity; yet another measure of profitability. ROI is your net profit divided by your total equity. For example, if it costs you $100 to invest in a lawnmower and over six months, your net profit from mowing lawns with it was $1,000. Your ROI is 90 percent. To calculate:

Equity ($1,000) – Cost ($100) ÷ Cost ($100) = ROI

Return on sales—**Net profits** divided by sales; another measure of profitability.

Return visitors—In online marketing, a website visitor who has made at least one previous visit to the same site or page.

S

S Corporation—see corporation.

Sales breakeven—Sales volume at which costs are exactly equal to sales. The exact formula is:

= Fixed_costs ÷ (1 – (Unit_Variable_Cost ÷ Unit_Price))

Sales forecast—Level of sales a single organization expects to achieve based upon a chosen marketing strategy and assumed competitive environment.

Sales on credit—Sales made on account; shipments against invoices to be paid later.

Seed capital—An investment contributed at a very early stage of a new venture,

usually in relatively small amounts. It comes even before what they call *first round* **venture capital**.

Senior Corps of Retired Executives (SCORE)—No-cost consulting and resources service offered through the Small Business Administration.

Shareholders—Individuals or companies that legally own one or more shares of stock in a company.

Short-term assets—See current assets.

Short-term liabilities—See current liabilities.

Sole proprietorship—Simplest form of a corporation; business is a sole proprietorship if you don't create a separate legal entity for it. This is true whether you operate it in your own name, or under a trade name. If it isn't your own name, then you register a company name as a *fictitious business name* or **DBA** (Doing Business As). Depending upon your state, you can usually obtain this through the county government, and the cost is no more than a small registration fee plus a required newspaper ad, for a total of less than $100 in most states.

Stock turnover—See inventory turnover.

Strategic control—Practice of assessing the direction of the organization as evidenced by its implicit or explicit goals, objectives, strategies, and capacity to perform in the context of changing environmental and competitive actions.

Strategic marketing management—Planned process of defining the organization's business, mission, and goals; identifying and framing organizational opportunities; formulating product-market strategies, budgeting marketing, financial, and production resources; developing reformulation.

Success factors—Considerations regarding 1) choice of business based on the status of the market; 2) education and experience; 3) people and collaboration; 4) creativity and innovation versus business skills and networks; 5) incubation potential; 6) leveraging available resources; and 7) management practices.

Success requirements—Also known as key success factors, success requirements are basic tasks that must be performed by an organization in a market or industry to compete successfully.

Sunk cost—Past expenditures for a given activity that are typically irrelevant in

whole or in part to future decisions. The *sunk cost fallacy* is an attempt to recoup spent dollars by spending still more dollars in the future.

Surplus (or deficit)—Used for nonprofits; known as an income statement or profit and loss statement in for-profit plans. An **income statement** is a financial statement that shows funding, cost of funding, **gross surplus**, **operating expenses**, and surplus or deficit. Gross surplus is funding less cost of funding, and surplus (or deficit) is gross surplus less operating expenses and taxes. The result is surplus if it is positive, deficit if it is negative.

T

Tactics—Collection of tools, activities, and business decisions required to implement a strategy.

Target market—Defined segment of the market that is the strategic focus of a business or a marketing plan. Normally the members of this segment possess common characteristics and a relative high propensity to purchase a particular product or service. Members of this segment represent the greatest potential for sales volume and frequency, and often defined in terms of geographic, demographic, and psychographic characteristics.

Targeted marketing—Process of marketing to a specific segment or multiple segments of potential customers. Differentiated targeted marketing occurs when an organization simultaneously pursues several different market segments, usually with a different strategy for each. Concentrated targeted marketing occurs when a single market segment is pursued.

Traffic—In broad, general terms, the number of visitors and visits a website receives.

Total operating expenses— are those expenditures that a business incurs to engage in activities not directly associated with the production of goods or services. These expenditures are the same as selling, general and administrative expenses.

U

User Interface (UI)—Design and appearance of a website which allows the user

to interact with the site's functionality. The UI of a website is ultimately how it lets users know what it has to offer them. If it lacks an easy navigation scheme, users may get lost, or have difficulty finding the information on a site.

Unique user sessions—In online marketing, a website metric tracking the number of uniquely identified clients visiting a site. A visitor can make multiple visits, but with the measurement of unique visits, no matter how many times the site is viewed by the same person, it is counted only once.

Units breakeven—Unit sales volume at which the fixed and variable costs are exactly equal to sales. The formula is:

UBE = Fixed_costs ÷ (Unit_Price – Unit_Variable_Cost)

User benefits—Understanding and appreciating the base reason an individual purchases a product or service that may not directly correlate with the feature or function of the good or service. These benefits may be intangible.

User registrations—In online marketing, a conversion value measuring the number of website visitors who voluntarily include themselves in your database in order to access the content you provide on your website or to receive future messaging.

V

Valuation—Used as a noun, valuation is what a business is worth, as in, "this company's valuation is $10 million." This would mean a company is valued at $10 million, or worth $10 million. The term is used most often for discussions of sale or purchase of a company; its valuation is the price of a share times the number of shares outstanding, and the price of a share is the total valuation divided by the number of shares outstanding.

Value—The ratio of perceived benefits compared to price for a product or service.

Variable costs—Costs that change in proportion to the number of units produced. For example, if you own a dog grooming business, dog shampoo is a variable cost. You only incur the cost based on the number of dogs you wash. Variable costs aren't as risky as fixed costs because you only incur them when you sell your product or service.

Value proposition—Tells prospects why they should do business with you rather than your competitors, and makes the benefits of your products or services crystal clear from the outset.

Venture capital (VC)—Form of financing provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth (in terms of number of employees, annual revenue, or both). Venture capital firms or funds invest in these early-stage companies in exchange for equity, or an ownership stake, in the companies they invest in. Venture capitalists take on the risk of financing risky start-ups in the hopes that some of the firms they support will become successful.

W

Website—A virtual location on the World Wide Web, identified and located by a URL (Uniform Resource Locator), an address that can lead you to a file on any connected machine anywhere in the world.

Website metrics—In online marketing, metrics are measurement tools used to evaluate how effectively a website is marketing a business. These can include:

- **Page views**
- **Impressions**
- **Unique user sessions**
- New visitors
- Return visitors
- **Click-through Rate**
- **Conversion Rate**

Website traffic—See traffic.

Wholesaler—Member of a business's channel that purchases from the producer and supplies to the retailer and primarily performs the function of physical distribution and amassing inventory for rapid delivery.

Working capital—The accessible resources needed to support the day-to-day operations of an organization. Working capital is commonly in the form of **cash** and **current assets** (**short-term assets**), including **accounts receivables**, prepaid expenses, **accounts payable** for goods and services, and current unpaid income taxes.

ABOUT THE AUTHOR

Hidden Star's founder and president, Mike Dewey, has started four successful companies in a variety of industries and has served as president of a private equity firm. Mike enjoys the process of starting and building a new company, watching it grow and hire new employees.

With Hidden Star and this book, Mike uses plain language and straight talk and taps into his deep experience and desire to help to aspiring entrepreneurs.

Mike lives in Austin, Texas; where Hidden Star is located. He can be reached at mike@hiddenstar.org

ABOUT HIDDEN STAR

Hidden Star has been called one of the greatest new concepts in minority business in the last 50 years by a world-renowned expert. Hidden Star is a unique organization providing world-class assistance to disadvantaged entrepreneurs, and improving their chances of success.

Hidden Star provides expertise and advice; and we can pay for essential start-up and growth activities at no cost to the entrepreneur. We make Free Enterprise work for everyone.

For more information, please visit: www.hiddenstar.org

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