



The Entrepreneur's Business Planning Guide

We're here with the resources you need

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Getting Started

When you hear the phrase “The American Dream,” the first things that usually come to mind are owning a home and owning a small business. This booklet is designed to give prospective small business owners a superficial overview of what it takes to make the dream a reality. It is impossible to cover all aspects of launching an entrepreneurial endeavor in a few pages. This document provides an overview of most aspects of starting a business. The concepts discussed will also be helpful to existing small business owners planning an expansion or looking for financing to solve a business problem.

In addition to this guide, the Longwood Small Business Development Center can assist you with education, consulting, and economic research to support you in your business planning journey. The Longwood SBDC is available to help you Start, Fund, Analyze, and Grow your business:



Learn the best way to build the foundation of your business with a well researched plan.



Explore options for funding your startup or expansion.



Master the key success factors for your market and industry.



Get the focus you need. Determine specific strategies to move your business forward.

What should you do?

Step 1 Evaluate your entrepreneurial abilities. Take the “What It Takes to Be a Successful Entrepreneur” quiz on page 5.

Step 2 Choose the venture based on your interests/skills and, of course, the need for that product or service in your market area.

Step 3 Evaluate your personal creditworthiness. You can obtain a credit report from one of the three national credit bureaus. You are entitled to one free credit report per year through AnnualCreditReport.com. If you have already obtained a free credit report for the year and need a current report, you can contact one of the following national credit bureaus. Each of these credit bureaus charge a nominal fee for the report.

Experian (Formerly TRW): 1-888-397-3742

Equifax: 1-800-685-1111

TransUnion: 1-877-322-8228

Step 4 Fully understand your personal financial status and monthly living expenses. Since your primary source of income may be from your business, you must have a thorough appreciation of the amount of sales you will need in order to reach both a business and personal break-even point. Complete the personal expense sheet at the end of the entrepreneurial examination. (Worksheet on page 13)

Step 5 Evaluate your ability and willingness to assume risk. Many new ventures fail and you should be willing and able to take that risk both psychologically and financially. The personal financial statement will assist you in more thoroughly analyzing your financial situation.

Step 6 Gather information for a business plan and loan proposal. Use the Business Plan Outline (page 20) as a checklist to help you gather the necessary information for start-up, operations, marketing, and so on. In addition to creating a financing proposal, doing a business plan will help you determine:

- if your idea is feasible
- how much the venture will cost to start
- how much volume you will need to do to stay in business

When a banker analyzes a business loan application he/she looks at the 8 C's of lending:

- **Credit** - It must be good
- **Collateral** - Something of value to secure the loan
- **Cash Flow** - Ability of the business to repay the loan from operations
- **Capacity** - Your personal ability to repay
- **Capital** - Your cash investment or down payment
- **Character** - You!
- **Conditions** - Anything that can affect your business (industry, economy, etc.)
- **Commitment** - Your willingness to succeed

Each one of these items must be addressed in the business plan. If you walk into the banker's office with a plan in hand, you have made the first step in separating yourself from the pack.

Step 7 Financing Your Business. Lack of capital is a major cause of business failure. You must know not only how much money you need to start the project but also how much working capital will be needed to carry you through the first few months of operation.

It takes more than money...

In addition to getting your requested financing, your business needs to get legal assistance dealing with federal, state, and local government laws and regulations. You need to decide what legal structure (Sole Proprietorship, S-Corporation, LLC, etc.) is best for your situation. You will probably need to address these issues in the business plan.

Information concerning local zoning, tax and licensing requirements can be found at the Commissioner of Revenue Office for the city or county in which you plan to have your business.

Your local SBDC has resources available to provide information on how to keep financial records and how to properly register your business. However, we do recommend engaging the services of an attorney, a CPA, and other professionals to make sure you have done everything necessary to stay out of trouble, maximize your efficiency, and minimize your risks and liabilities.

Contact your local SBDC for assistance. Location information is located at the end of this document.

"The best way to predict the future is to create it."

- Peter Drucker

What it Takes to be a Successful Entrepreneur

You have worked for others all of your life. You have been recognized for your outstanding work and been praised by your supervisors. **Now, you want to start your own business.**

Do you possess the skills necessary to run your business? Your talent may not be enough to keep the business afloat if you can't market your talent and run the business.

Do you know how to negotiate? Plan? Organize? Supervise? Are you timely? Adaptable? Open to suggestions?

You may start a new business because you want to spend more time with your family only to discover that the demands of your new business keep you away from your family more than ever. An honest assessment of your skills, along with your personal and financial needs and the demands of your family and other commitments should be undertaken prior to starting your business.

The following quiz is by no means an exhaustive list of questions to ask, but is meant to start you thinking about the **broad implications of entrepreneurship.**

Ask yourself the following:

Do you like to make your own decisions?	Yes	No	Do you get things done on time?	Yes	No
Do you like competition?	Yes	No	Can you take advice from others?	Yes	No
Are you self-disciplined?	Yes	No	Are you adaptable to changing conditions?	Yes	No
Are you an effective planner?	Yes	No	Can you delegate responsibility?	Yes	No
Are you well organized?	Yes	No	Could you fire an ineffective employee?	Yes	No
Do your family and friends approve and support your decisions?				Yes	No
Are you willing to work 12 to 16 hours a day, six days a week and on holidays to get your business started?				Yes	No
Do you have the physical stamina to work as necessary?				Yes	No
Are you prepared to lose your financial investment?				Yes	No
Will the business generate enough income to meet your financial needs?				Yes	No
Are you prepared to lower your standard of living for months, even years until your business is a success?				Yes	No
Do you know which skills are critical to making your business a success?				Yes	No
Do you possess these skills?				Yes	No
Does your business idea effectively utilize your personal strengths?				Yes	No
Can you find and afford personnel to provide the skills you lack?				Yes	No
Will your business fulfill your career goals?				Yes	No
Can you tolerate the loneliness of working alone while building your business?				Yes	No

If you answered "NO" to more than a few of these questions, maybe you should think twice about whether or not you want to be an entrepreneur.

Source: The University of North Carolina's Small Business and Technology Development Center, *Business Start-Up & Resource Guide*

Many questions must be answered and certain information gathered before determining the feasibility of your business idea. Careful research and analysis will help you in evaluating your concept and assist you in assessing your idea.

Define your Business Idea

One of the SBDC's expansive training offerings includes the CO.STARTERS Core program, which is a weekly cohort-style course that covers all aspects of business planning. The program is facilitated by SBDC consultants, industry experts, collegiate faculty, and other entrepreneurial ecosystem builders in our region.

CO.STARTERS equips local leaders, problem solvers, and unconventional starters with the best tools and resources needed to accelerate culture and empower communities. They help communities build vibrant entrepreneurial ecosystems in three ways. First, they connect community leaders with one another to collaboratively solve problems and identify solutions, thus exponentially increasing their effectiveness. Second, they connect communities with proven models and tools. By partnering with the most innovative leaders in the nation, CO.STARTERS curates the best tools for startup communities and connects leaders to them to better serve the specific needs of their communities. Third, they develop their own programs and tools to address gaps in entrepreneurial ecosystems and help communities better support their entrepreneurs. CO.STARTERS's foundational offering is a cohort-based program that equips entrepreneurs of all kinds with the insights, relationships, and tools needed to turn ideas into action.

What is the CO.STARTERS Canvas?

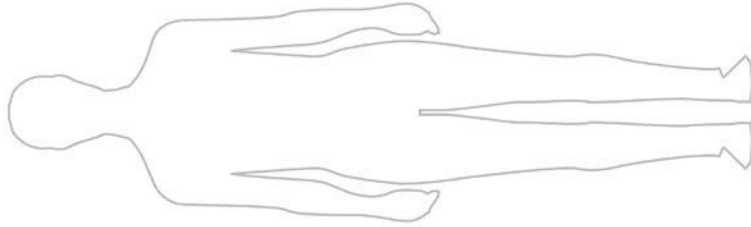
CO.STARTERS uses a version of the "Business Model Canvas" developed by Alexander Osterwalder (Strategyzer.com). Just like an artist paints a picture by layering paint on a canvas, the CO.STARTERS Canvas helps participants create a realistic picture of an entrepreneur's business. One of the most critical things you bring to your project is your set of assumptions—those hunches or ideas you have about why your idea is going to work. The Canvas will help you identify, test, and adapt your assumptions about your idea by talking with potential customers in order to create a sustainable model. Because you probably won't get everything right at the start, the Canvas should constantly change and capture your thinking along the way. Nothing should be permanent until you know it's right. The Canvas is broken into the following boxes that illustrate the key components necessary to substantiate your business venture →

"Success is walking from failure to failure with no loss of enthusiasm."

- **Winston Churchill**

CUSTOMER

WHO DO YOU SERVE?



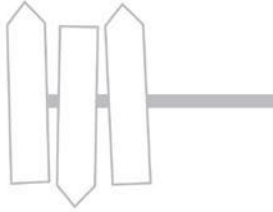
PROBLEM

WHAT IS THE PROBLEM YOUR CUSTOMER HAS?



ALTERNATIVES

HOW IS YOUR CUSTOMER CURRENTLY SOLVING THE PROBLEM? WHAT ARE THE ALTERNATIVE SOLUTIONS TO THE PROBLEM? WHAT'S THE COMPETITION?



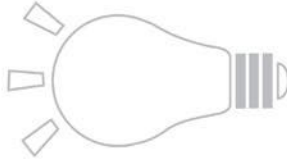
SOLUTION

WHAT DO YOU OFFER YOUR CUSTOMER? WHAT DOES YOUR CUSTOMER GET?



BENEFIT

WHY DOES YOUR CUSTOMER WANT YOUR PRODUCT OR SERVICE? HOW DO YOU SOLVE THE PROBLEM?



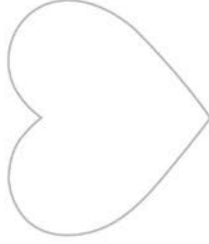
ADVANTAGE

WHAT GIVES YOU THE EDGE OVER THE ALTERNATIVES? WHY ARE YOU THE BEST PERSON TO DO THIS?



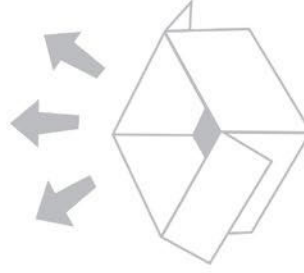
MESSAGE

WHAT IS YOUR STORY? HOW DOES YOUR CUSTOMER HEAR IT?



DISTRIBUTION

HOW DOES YOUR PRODUCT OR SERVICE GET TO YOUR CUSTOMER?



REVENUE

HOW DO YOU MAKE MONEY FROM YOUR CUSTOMER?



NAME _____

CO.STARTERS[®] CANVAS

STARTUP NEEDS

WHAT ARE YOUR ONE-TIME NEEDS TO GET STARTED? (MONEY, PEOPLE, THINGS, TECHNOLOGY, ACTIVITIES)?



COMING SOON



COSTS

WHAT ONGOING NEEDS ARE ESSENTIAL TO KEEP YOU GOING? (MONEY, PEOPLE, THINGS, TECHNOLOGY, ACTIVITIES)?

NOW OPEN



CO.STARTERS Canvas

Customer: Who do you serve?

Problem: What is the problem your customer has?

Alternatives: Is your customer currently solving the problem? What are the alternative solutions to the problem? (competition)

Solution: What do you offer your customer? What does your customer get?

Benefit: Why does your customer want your product or service? How do you solve the problem?

Advantage: What gives you the edge over the alternatives? Why are you the best person to do this?

Message: What is your story? How does your customer hear it?

Distribution: How does your product or service get to the customer?

Revenue: How do you make money from your customer?

Startup Needs: What are your one-time needs to get started (money, people, things, technology, activities)?

Costs: What ongoing needs are essential to keep you going (money, people, things, technology, activities)?

Customer Portrait(s)

Traditionally, customers are described in terms of age, gender, geographic location, and income level. Yet, some of the characteristics that are more difficult to see—interests, passions, skills, beliefs, and values—do a much better job of revealing a customer’s heart. For example, if your business serves dog lovers, your customers may be a variety of ages and backgrounds, but the important shared trait is a love of dogs. Take a minute to think about your customer:

- Who is this person?
- What is their gender?
- What is their demographic?
- Where are they when they need your product or service?
- What is their socio-economic status? Are they price sensitive?
- What are their interests? Passions? Desires? Dreams?
- Why would they be interested in what you’re offering?

Talking with Potential Customers

The best way to know whether or not your idea is good is by talking with people like your ideal customer—people who are experiencing the problem you’ve identified.

To get the most out of your conversations, here are a few things to consider:

- **Choose the right people:** While you should talk with as many people in your community as possible, it’s important to focus first on those who are actually experiencing the problem you’ve identified. You want to make sure you are really listening to the people you plan to serve and understanding their perspectives. Also, by focusing first on those who are most deeply experiencing the problem, you’ll get more valuable information than by talking to people for whom the problem is less pressing.
- **Talk face-to-face:** If at all possible, talk with people in person. You can learn a lot not only from what they say, but how they say it. If you can’t meet with someone in person, phone or video communication is a solid second option. The least valuable way to talk with customers is through email or text messaging.
- **Get stories:** What sort of stories would you need to hear in order to know whether or not your assumptions are correct? Ask questions that will get people to tell you those stories. For example, ask “Have you ever had an experience where [describe the situation]? Will you tell me about it?” Remember, ask open-ended questions (questions without yes or no answers) that will get them to share what they really think.
- **Listen:** Talking with customers will only help you if you are willing to listen to their feedback and stories. You should be listening more than talking in these customer interactions. The purpose is not to tell them about your project, but rather to get the stories you need to figure out whether or not your assumptions are correct. In fact, avoid talking about your idea until you’ve gotten the stories you need.

- **Be reflective:** Really listen when you talk with people about your project. Remember, if they say something negative, it isn't personal. Use what they say to make your idea better. Have a thick skin and remember that they are helping you. Although you don't have to do everything people suggest, spend some time thinking about what they said and how it should influence you moving forward.

What stories will you need to hear to know whether or not your assumptions are right? What sort of questions will you need to ask to get those stories?

Starting Small

Realistically, you may not be able to do everything you envision on day one. However, you can probably simplify your idea initially to something more manageable to help you get started right away. Starting small allows you to serve your customer now and not someday. Customer feedback will help you figure out right away whether or not you have something the customer really wants. More importantly, early opinions will help you create the best venture possible going forward.

Examples of starting small:

- Before launching a cupcake business, have an event with family and friends that showcases your baked goods to find out what people love.
- Rather than build a working iPhone app, make a PowerPoint presentation that simulates the user experience. Show it to customers and update it as they give feedback before building out the actual app.
- Instead of developing a full production process for a new type of jacket, have someone hand-make a sample first and get customer opinions.

Define Next Steps

Hopefully you'll find these tools helpful for developing and refining your venture. However, it's important to define some next steps to keep you moving forward. Even if you are truly passionate about your idea, sometimes it is difficult to take the steps needed to move from concept to reality or into that next critical phase of growth. But, by defining next steps and identifying who can help you, you'll be more likely to follow through.

What can you do in the next hour, next day, next week, and next month to move your venture forward?

What might keep you from doing these things?

Who will help you stay on track?

Need help putting it all together? Be on the lookout for CO.STARTERS training opportunities on our website: sbdc-longwood.com/training/.

"Every time you state what you want or believe, you're the first to hear it. It's a message to both you and others about what you think is possible. Don't put a ceiling on yourself."

- Oprah Winfrey

Define your Market through Research and Analysis

While market research provides data and information about the industry and its customers, market analysis helps the business owner understand the business environment and the basis on which you must compete.

Market Research

Market research tells you who your customers are, where they are, and how large the potential market is. Through research, you will be able to gather certain information and data such as:

- Demographics
- Customer lifestyles and buying behavior
- Determine demand for your product or service
- Size of your potential market
- Specifically who the customer is

There are two basic types of market research – primary and secondary:

Primary research is research gathered firsthand through techniques like surveys, questionnaires, focus groups, or in-depth interviews. Primary research can be time consuming and possibly expensive. However, it provides the business owner with the opportunity to hear customer feedback and act accordingly.

Primary research methods

- Surveys
- Competitor analysis
- Focus groups
- In-depth interviews
- Questionnaires
- Tracking customer response to advertising and promotion

Secondary research is already published research. It includes sources like directories, industry journals, and association publications. Secondary research is accessible, less expensive, can be conducted on a continuous basis, and can be combined with business owner’s knowledge of the business, geographic conditions, and customer base. The business owner can informally tailor the research findings to meet the needs of the business. Free market research is available by contacting your local SBDC office.

Secondary research sources

- Business encyclopedias and directories
- Business magazines
- Market analysis
- Newspapers
- Trade publications

Market analysis helps the business owner understand the business climate in which you must compete. It is through market analysis that a business owner determines if a certain business or industry provides an attractive opportunity.

Market analysis provides competitive analysis which includes:

- Industry analysis – evaluates the industry’s overall opportunity and attractiveness including ease of entry, availability of substitutes, and buyer/supplier issues.
- Competitor analysis – who are the primary competitors, and what are their strengths and weaknesses.
- Your business analysis – identifies the strengths, weaknesses, opportunities, and threats of your identified market.

“Logic will get you from A to B. Imagination will take you everywhere.”

- Albert Einstein

Establishing and Communicating your Brand

Before everything, you need a good brand. A great product or first-class service is seldom enough to sustain a lasting impression among your customers. In today's competitive market, a great branding strategy will help ensure that customers remember your business as the "go-to" source for their needs.

To build a good brand, first, you need to find answers to the following questions:

- What makes you unique?
- Will you be consistent?
- What is your niche?
- Who are you?
- How strong will your presence be on social media?
- What kind of reputation do you want?

Let's look at each of these in detail.

What Makes You Unique?

You need to identify what defines your business in the minds of consumers and what differentiates it from others providing the same products or services in your target market.

Give customers something to remember. There will undoubtedly always be competition. Show your customers reasons to come back to you.

Will You Be Consistent?

You have to be consistent so that the customer can spot you immediately. Here are a few tips to present a consistent image to your customers.

- Make sure to convey the same message in all your advertising and marketing.
- Use professionally designed branding.
- Use the same visual brand for your logo, color scheme, and style in every interaction with the public so that you look familiar to your customers.

What Is Your Niche?

Creating a niche for your business is essential for success. Often, you can identify a niche based on your own market knowledge, but it can also be helpful to conduct a market survey with potential customers to uncover unfulfilled needs and untapped opportunities. During your research process, identify:

- The areas in which your competitors are well established,
- The areas your competitors are ignoring, and
- Potential opportunities for your business.

Remember, you cannot make everyone love you, but you can make some people love you. Make sure you target the right customers and provide them with the right solutions.

Who Are You?

Be sure to understand what makes your business unique and what image of your business you want to present to the customers.

It is crucial that first you decide who you are and present that same image to your customers.

While advertising your brand image, consider the following:

- Be transparent in your dealings.
- Connect with people in every possible way-understand their needs rather than just giving them boring basics.
- Be authentic.

How Strong Will Your Presence Be on Social Media?

Social media has taken over most conversations in the realm of communications and marketing. The technology provides you an opportunity to connect with your customers more closely than ever before.

People want access to information about your business. Social media is a good way to entice customers through promotions and other marketing methods, engage them, and stay on the forefront of their minds. You can use social media often, but be creative and have something to add to the social media conversation beyond the standard advertisement plug.

What Kind of Reputation Do You Want?

A bad reputation can be a big problem for small businesses. As more people look to the internet to find reviews, feedback, and information, the need for effective reputation management is becoming a pressing issue for many small businesses.

People will talk about you, but you can help shape what they say. Therefore, make your customers feel valued; never mislead them with false claims or advertisements. Remember, reputation can make or break a small business.

Memorable Brands

Have you ever thought about why the top brands are so popular and successful? Analyzing the factors that make these brands popular will help you create a successful brand.

ENHANCING YOUR CHANCE FOR SUCCESS

There are always risks in starting a new business. As a business owner, you will want to lower your risks by incorporating the following ideas into your start-up plan:

- Plan ahead.
- Make sure you have experience in management and in the type of business you want to start.
- Try to best use your strengths and interests in the most appropriate way.
- Make decisions based on facts or reliable information. Don't make hasty decisions.
- Seek the support of your family during the start-up phase and difficult times.
- Seek advice from a counselor, an accountant, an attorney, and others.
- Talk to others in the same business.
- Be persistent, and DON'T GIVE UP!

"Your most unhappy customers are your greatest source of learning."

- Bill Gates

Monthly Personal Cost of Living

REGULAR MONTHLY PAYMENTS

Rent/mortgage \$ _____
Automobile payment \$ _____
Homeowner's insurance \$ _____
Auto insurance \$ _____
Health insurance \$ _____
Disability insurance \$ _____
Total \$ _____

PERSONAL EXPENSES

Clothing \$ _____
Laundry \$ _____
Prescriptions \$ _____
Medical & dental \$ _____
Education \$ _____
Dues/Subscriptions \$ _____
Loan payments \$ _____
Auto expense \$ _____
Credit card payments \$ _____
Gifts & contributions \$ _____
Misc. \$ _____
Total \$ _____

HOUSEHOLD EXPENSES

Telephone \$ _____
Utilities \$ _____
Water \$ _____
Misc. \$ _____
Health insurance \$ _____
Federal \$ _____
State \$ _____
Personal Property \$ _____
Other \$ _____
Total \$ _____

FOOD EXPENSE

Groceries \$ _____
Restaurants \$ _____
Total \$ _____

SUMMARY

Regular monthly payments \$ _____
Household expenses \$ _____
Food expenses \$ _____
Personal expenses \$ _____
Tax expense \$ _____

TOTAL

MONTHLY

EXPENSES \$ _____

Start Up Expenses for Business

Start-up costs are those expenses that you will incur before your business opens. They vary according to the type of business, but this worksheet will help you begin the process of assessing your financial needs so that your venture is not undercapitalized at the outset.

	Land	\$	-----
Building (Facility/location expense and/or Deposit, office or building lease)		\$	-----
Renovations (Remodeling/build-out)		\$	-----
Total Land/Building/Renovations		\$	-----
Furniture/fixtures			
Cost of Furniture/fixtures/decorations		\$	-----
Installation of furniture/fixtures		\$	-----
Total Furniture/fixtures		\$	-----
Equipment (Production, office machines, security, etc.)			
Cost of Equipment		\$	-----
Installation of Equipment		\$	-----
Total Equipment Expense		\$	-----
Initial inventory (Stock, supplies for manufacturing)			
Advertising and promotion (Business cards, stationery, brochures, grand opening)			
Advertising Expense		\$	-----
Signs (Vehicle, interior and exterior for facility)		\$	-----
Total Advertising and promotion		\$	-----
Organizational Expense:			
Licenses, permits and fees		\$	-----
Legal/professional services		\$	-----
Training/Certification		\$	-----
Franchise Fees		\$	-----
Total Organization Expense		\$	-----
Miscellaneous Start-up Expense:			
Utilities/Telephone (Installation and deposits)		\$	-----
Websites/ISP Account		\$	-----
Office Supplies		\$	-----
Insurance		\$	-----
Total Miscellaneous Start-up Expense		\$	-----
Working capital		\$	-----
<i>(Cash reserve for early months of business before sales are sufficient to pay bills)</i>			
Other		\$	-----
Total Start-up Costs		\$	-----

Monthly Operating Expenses

Some of your start-up expenses will also become ongoing monthly costs once your firm is in operation. It is necessary to estimate all of your monthly costs so that you are realistic about the income your firm will need. This worksheet includes some basic considerations. Completing it will help you and your Southwest Virginia SBDC counselor develop cash flow projections. In the column adjacent to the monthly expenses, make notes to those that increase or decrease in particular months.

	Monthly Expense	Additional Notes
Rent/Mortgage Payment	\$	
Equipment Lease	\$	
Maintenance and Repairs	\$	
Advertising	\$	
Office Supplies	\$	
Delivery	\$	
Postage	\$	
Vehicle Expenses	\$	
Legal/Professional Fees	\$	
Insurance(s)	\$	
Telephone	\$	
Utilities	\$	
Website/ISP Account	\$	
Travel	\$	
Dues/Memberships	\$	
Inventory/Materials	\$	
Payroll	\$	
Payroll Taxes	\$	
Taxes/Licenses	\$	
Franchise Fees/Royalties	\$	
Other	\$	
Other	\$	
Total Monthly Expenses	\$	

Now that you've completed these financial worksheets, your next step is to meet with your local SBDC consultant to talk through combining these relatively fixed monthly operating expenses with your unique industry variable costs of doing business.

These items could include: production labor, raw materials, packaging, labeling, and/or other costs of goods sold (COGs) that are directly attributable to a unit sale of a product/service. When all of these costs are identified and defined coinciding with revenue, you'll be able to illustrate a clear picture of breakeven and profitability for your venture.

Steps to Launching a Business

Choose a structure

SBDC consultants can provide guidance on “choosing” a business structure, depending on the complexity of ownership structure.

A business becomes a ‘legal entity’ meaning that it can own property, can hold bank accounts, and pays taxes almost exactly as if it were a living citizen of the Commonwealth of Virginia. There are several types, however, each with its own benefits and limitations. While it can be changed later, it is far easier to make this decision correctly before going further.

Business structures are like classes of cars. There are reasons to buy a pickup truck, a coup, sedan, SUV, minivan; just like there are reasons to choose LP, LLC, S-Corp, C-Corp, etc.. The ‘right choice’ for you is truly dependent on your needs. Get to know the types and make a good decision for yourself. This decision impacts taxes, the relationships between owners and legal liability. If the company is sued for personal injury, can the plaintiff sue you personally and take your house, car, and bank accounts? These are important considerations.

Sole Proprietorships are usually owned by a single person or a couple. You’re personally liable for all business debts, can freely transfer all or part of the business, and for taxes, you can report profit or loss as personal income.

Limited Liability Companies (LLC’s) are very popular. You have limited legal liability like a full corporation however, for taxes they’re more like Sole Proprietorships or Partnerships.

General Partnerships let you share profit, loss, and managerial duties among the partners, and each is personally liable for any debt entirely. Members file an informational tax return and income/loss is filed personally. (“Joint Ventures” are short-term partnerships.)

“Corporations” are complex structures with more startup cost. They are owned through stock and have more complex licensing, taxation, and regulation requirements. They have to follow formalities like issuing stock certificates, holding annual meetings and keeping minutes, electing directors, etc.. Forming a Corporation should always be done with the assistance of a qualified attorney.*

***C-Corporations** are distinct legal entities, taxed separately from their owners and are generally not favored to own assets that substantially appreciate in value. While they protect against personal liability, they do not have many of the tax and operating advantages of an LLC or limited partnership, except that lower tax rates may apply to annual net income below \$75,000.

***S-Corporations** are not taxed as a separate legal entity and protect their owners against personal liability, but there are limitations on the number and type of eligible stockholders. They also have certain less favorable tax and operating advantages than LLC’s.

***Benefit Corporations** are a new form of stock corporation that incorporate aspects of nonprofit organizations.

The entity comparison table on the next page is designed as a helpful reference and is not intended as tax or legal advice. The Small Business Development Center does not provide tax or legal advice. If you feel like you may need tax or legal advice, it’s recommended that you contact an attorney or CPA.

“What is not started will never get finished.”

- Johann Wolfgang von Goethe

	Sole Proprietorship	C Corp	S Corp	Limited Liability (LLC)
Formation Requirements, Costs	Country Registration Assumed Name Notice	File articles of incorporation, state specific, filing fee required	Sames as C-Corp, plus S-corp Status request to IRS	File articles of organization, state specific, filing fee required
Personal Liability	Unlimited liability	Shareholders are not held liable	Shareholders are not held liable	Members are not typically held liable
Administrative Requirements	Relatively few requirements	Election of board of directors/officers, annual meetings, and annual report filing	Election of board of directors/officers, annual meetings, and annual report filing	Relatively few requirements
Management	Full control	Shareholders elect directors who manage business activities	Shareholders elect directors who manage business activities	Members can set up structure as they choose
Term	Terminated when proprietor ceases doing business or upon death	Perpetual: can extend past death or withdrawal of shareholders	Perpetual: can extend past death or withdrawal of shareholders	Perpetual, unless state requires fixed amount of time
Taxation	Entity not taxable Sole proprietor pays taxes	Taxed at corporate rate and possible double taxation: Dividends are taxed at the individual level, if distributed	No tax at the entity level. Income passed through to the shareholders	No tax at the entity level. Income passed through to members
Double Taxation	No	Yes, taxes at corporate level and then again if distributed to shareholders in the form of dividends	No	No
Self Employment tax	Subject to self employment tax	Salary subject to self employment tax	Salary subject to self employment tax, but shareholder distributions are not subject to employment tax	Salary subject to self employment tax
Pass Through Tax Treatment	Yes	No	Yes	Yes
Tax Forms	1040	1120	1120S Shareholders get K-1 for personal tax	1 member: sole proprietor IRS Form 1040 - Schedule C Partnership: IRS Form 1065, Members
Transferability of Interest	No	Shares of stock are easily transferred	Yes, but must observe IRS regulations on who can own stock	Possibly, depending on restrictions outlined in the operating agreement
Capital Raising	Individual provides capital	Shares of stock are sold to raise capital (Securities laws apply)	Shares of stock are sold to raise capital. Limitations prevent S corp stock ownership	May sell interests, but subject to operating agreement (securities laws may also apply)
Ease Operation	No	Must have annual meetings, Board of Directors meetings, corporate minutes, and stockholder meetings	Must have annual meetings, Board of Directors meetings, corporate minutes, and stockholder meetings	Easy, some stated may require more than others

Register your business and its name

It is recommended that you consult with an attorney and/or CPA prior to filing your business entity documents. There are companies that will offer expensive 'services' you could have done yourself through some research and planning. Proper planning will help you avoid paying for paperwork services.

Virginia Business One Stop offers a guide and registration system on their website at <https://bos.sbsd.virginia.gov/> (fees do apply). If your business structure is too complicated for the online system, or if you are starting a non-profit organization, the forms must be filled out and filed manually with the State Corporation Commission. A lawyer and accountant can help you with this.

Special Note: Business One Stop auto-fills State Corporation Commission forms for you to print and file. However, if you are registering a new LLC or corporation in Virginia and only need to file your Articles of Organization or Incorporation, you can file those Articles electronically directly by visiting the Virginia State Corporation Commission (SCC) at www.scc.virginia.gov/

Get your tax numbers - Federal and State

The same way a person has a Social Security Number, a business has federal and state tax numbers.

- **Internal Revenue Service (IRS)**

An Employer Identification Number (EIN) is also known as a federal tax identification number, and is used to identify a business entity. For more information visit the Internal Revenue Service: www.irs.gov/businesses/small-businesses-self-employed/employer-id-numbers

- **Virginia Department of Taxation**

If your business will be performing certain activities, such as selling items retail (including food) and/or hiring employees, you need to register with the Virginia Department of Taxation for a state tax account at Register a Business in Virginia (www.tax.virginia.gov/register-business-virginia).

If you have difficulty with the Virginia Department of Taxation registration process, please call 804-367-8031.

- **Virginia Employment Commission (VEC)**

If you plan to hire employees, you will need to register with the Virginia Employment Commission (www.vec.virginia.gov/employers). VEC is responsible for collecting unemployment tax.

- **Virginia Worker's Compensation Commission**

Any employer who has three or more regular employees is required to furnish workers' compensation insurance coverage at no cost to the employees. The employer may either purchase the insurance through a private insurance company or apply to the Workers' Compensation Commission (www.vwc.state.va.us/) to be a self-insurer.

Obtain licenses

Some businesses require special permits and professional licenses.

- **VA Dept. of Professional Occupational Regulation**

The Virginia Department of Professional and Occupational Regulation (DPOR) regulates more than 30 occupations and professions through 19 boards composed of practitioners and citizens appointed by the Governor. DPOR issues licenses or certifies over 300,000 individuals and businesses ranging from architects and contractors to cosmetologists and professional wrestlers. If you believe your industry sector is regulated by the state, visit DPOR's website: www.dpor.virginia.gov/applicants

- Your city, county or town may require a local business license and/or zoning permits. It's a good idea to contact your town, city, & county's **Commissioner of Revenue** or **Department of Finance** to determine business licensing requirements as well as the **Zoning Office** to determine requirements they may have.

Contact your local SBDC for more information.

SOURCE: Original information published on website *Business One Stop*. <https://bos.sbsd.virginia.gov/>

The Business Plan

A business plan is a well-thought-out evaluation or analysis of your business venture, covering every conceivable facet and perspective in logical, concise, and where possible, statistically detailed terms. It proves that what you are about to do, have done, or may do, has substance, merit, and a demonstrable probability of success. This is a functional document which, when properly prepared and followed, is a key element in your management thinking and decision-making processes.

Define your dream.

There are a multitude of very important reasons why every business venture must establish and maintain an on-going business planning process. Perhaps the most critical motivating factor is that without one, the chance of acquiring financing from any source at any time is extremely small or non-existent.

Commercial and other sophisticated capital sources (bank, venture capitalist, angel/private investor, government sources of money) regardless of form (debt, equity, hybrids/combinations of each) will not give serious consideration to funding needs without written and convincing proof. That proof, in whole or in part, is your business plan.

GENERAL TIPS

Make it brief, to the point and easy to read. The summary items (Source & Application of Funds, Statement of Purpose, Executive Summary) and financial projections are the first parts of the plan your banker or investor will read. If they make financial sense, then the rest of the plan will have additional value. Use layman's terms (or include a glossary) if your industry uses technical terms.

As a rule of thumb, unless you are requesting a very large amount of money, **the plan should not exceed 25 pages**. Voluminous research data, surveys, letters of intent, catalog pages, samples, diagrams and other information should be included in a separate binder or as an appendix to the basic plan.

Use a market driven approach. Marketing is the engine that drives the projected sales revenues. Demonstrate and substantiate how the customer will benefit and be motivated to purchase your products, goods or services.

Exploit your company's unique selling point (USP). Explain what will give your company a competitive edge in the marketplace (patents, trade secrets, copyrights, barriers to entry, etc.).

Emphasize management strength. Convince the reader that you have the skills and expertise needed to actively manage the business. If you need a key employee (i.e. a chef in a fancy restaurant) indicate the incentives that will keep them with you.

Present attractive, yet realistic, financial projections. Paint a realistic picture - substantiated by assumptions - of where your company is going with the funding. Be detailed and keep it credible.

Weave the theme "This is how you get your money back" into the entire plan. Be definite about how lenders will get their money back and when. For lenders, show that their funds are adequately secured and that your cash flow more than covers their interest and principal payments.

Avoid computer software business plans where you plug in numbers. Individualize your financial projections because no two businesses are alike and a start-up company will not fit the standard industry norms.

Expect to spend a minimum of several weeks working on your plan. As you gather information, the plan will need to be continuously revised and edited. It's not unusual to spend up to a year developing a detailed plan.

Borrow enough money up front. Don't assume that the bank will loan you more money if you need it in the future.

Do your homework. It is likely that the loan officer will have to present your plan to a loan committee. If your plan is not complete enough to sell itself, your chances of approval are slim.

Prepare and rehearse your oral pitch.

Proofread the plan. Have someone else read your plan for style, spelling, grammar, accuracy, consistency, and completeness. If it is an easy plan to read and understand, it will be easier for possible financing sources to say "YES!"

Learn from your mistakes. If you are rejected by the first bank you contact, find out why, fix the problem and reapply at another institution.

Writing Tips for Business Plans

- Consider your audience: Banker, Investor and (always) Self
- Outline, Outline, Outline...
- Always write in the third person
- Focus on positive themes, discriminators and benefits to your customers/clients
- Don't repeat statement content or duplicate sentences
- Avoid unsupportable claims – use numbers and source claims
- Write to reduce risks – do not use words such as “all,” “every,” “most,” “guarantee”
- Use graphics and charts or tables that provide a visually clear message
- Write to inform and explain, not to impress
- Avoid technical jargon as most reviewers will not be technical professionals
- Write most of the narrative in an active voice without using adjectives and adverbs
- Do not use redundant words (e.g., a qualified expert, absolutely essential)
- Unless you have a patented invention, your business is not “unique.” There are always other businesses doing or producing what you do – show how your business sets itself apart from its core competition
- Don't be pompous, e.g., call, write, meet instead of “interface”
- Review and edit each draft several times before it is read by an evaluator to eliminate errors in grammar and spelling
- General rules to improve evaluator readability:
 - Use fewer than 20 words per sentence; three lines maximum
 - Limit paragraphs to four or five sentences
 - Avoid passive voice – makes your plan more readable and saves words
 - Avoid four or five syllable words

The following page provides a Business Plan Outline. There are many templates you can use as resources, but whichever you use, your plan should answer the following questions outlined on the next page. Use this to guide your planning process and then contact your local SBDC to meet with a consultant to help answer your questions and hone your business plan.


The Business Plan Outline

Cover Sheet

All contact and ownership information should be included on the cover sheet.

- Business name
- Full street address (mailing address if different)
- Phone, fax, e-mail, web site, etc. (Home phone number optional)
- Name of owner(s)
- Date

- 1. Description of the Business:** Describe in your own words what you would like to do. Tell us why you feel this is an idea that will work for you. Describe the overall concept of this business, including where it would be located, how it would function, and the products and/or services the business will primarily offer.
- 2. The Vision and the Management Team:** Explain who you are and what your experience is. Tell us about your partners, if you are not alone. What is your vision for this business?
- 3. Targeted Market and Potential Customers.** List the initial scope of the business with regards to location of customer base and who would make up potential customers. How big is this market? What percentage of this Market can you get? What are the demographics associated with the clients this business would target, such as age, income levels, location, or any other statistical information that would apply? Why do you think there is an opportunity to serve these clients? Does this idea serve a special niche?
- 4. The Competition.** List your local and regional competition. Visit Your Competitors! Describe your competition in the business plan. Why would customers choose your business over the competing businesses?
- 5. Marketing Plan.** What image do you want for your business? Which marketing tools will you use (i.e. radio, TV, printed materials, sales force)? How do I close deals? What are the costs associated with my plan? Will this business have a website for information and sales? Will you utilize social media (i.e. Facebook, Twitter)? Who can help and what are the costs? How will you network with people in the business community? Do you plan to join service clubs, offer to speak at school career days, take part in Chamber of Commerce events, etc.? Plan to have well designed and informative business cards available everywhere you go.
- 6. Future Growth Plans.** Do you have additional plans for the future years? What are your options if this idea really works? Examples.
- 7. Pricing.** What is the basis for pricing of goods and/or services? How would pricing be determined and how would it compare with competitive businesses? How can you buy products/supplies or deliver services at a price that will enable you to have an edge over your competition? Should you use the Internet to purchase from the world? Do you need better purchase contacts?

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- 8. Purchasing and Inventory Control.** Will you be able to purchase in large volume? How will you decide what is a wise purchase and/or a quality purchase? How much inventory will be kept on hand and how will it be controlled? Do you have dependable purchase sources? Will you utilize just in time purchasing or carry stock?
 - 9. Facility & Land Information/Acquisitions.** Will you need to include land/facilities? What are the location options and terms? What are the positives/negatives for each? Is Sewer, Water, Gas, Highways, or Rail, a consideration? What is the cost of each? Include a copy of the acquisition contract in the appendix of your business plan, along with supporting documents, such as lease agreements, warranties and building appraisals. Detail any major capital expense purchases, list options, show contracts/offers. Include pictures.
 - 10. Equipment Needs.** With what do you produce your products or services? What is the necessary equipment? Determine how your business will utilize the equipment and inventory acquired while setting up your business. Detail any major capital expense purchases. Include pictures.
 - 11. Insurance & Governmental Requirements.** Your Town or County may require special permits, licenses, fees etc. to operate a business in your area. Check now – before going too far down the road. Discuss your plans for the business with an insurance agent. Obtain quotes and compare with other agents for the best deal. Always have at least the minimum fire, liability, theft, and other hazard insurance coverage.
 - 12. Financing.** Prepare a three-year financial plan; be conservative, be factual. Compare financing options; work simultaneously with sources available to you such as your community banks, local/state/federal funding organizations; other alternative funding sources such as angel networks, crowdfunding, fintech, etc. Complete a capital request (sources and uses of funds) form listing your capital startup needs for the first three years – again, be conservative – but list all the money you will need for each item in your Plan.
 - 13. Accounting and Cash Flow Issues.** How will you stay up to date on a daily, weekly, and monthly basis. How will you compare your actual business results to projections, and stay up on taxes? Are there any special cash flow issues, such as seasonal considerations? Are you able to maintain bookkeeping and tax records or will you hire a professional accountant? Who will process payroll and file payroll tax reports?
 - 14. Risk Factors & Risk Management.** What kind of negative events could happen? Try to anticipate hazards. What could be done to minimize those risks? Spread Risks. Protect yourself, your family and employees.
 - 15. Business Organization Type.** Meet with a Lawyer or Consultant. Should this business be an S Corp, C Corp, LLC, partnership or sole proprietorship?

Financing Basics

There are three major reasons why businesses borrow; the first and most common reason is to purchase assets. A loan to acquire assets could be for buying short-term, or current, assets – such as inventory – and would be repaid once the new inventory is converted into cash as it is sold to customers. Or, the funds could be for the addition of long-term, or fixed, assets, such as equipment.

The second reason is to replace other types of credit. For example, you may wish to use the funds to pay suppliers more promptly to get a discount on the price of the merchandise.

The third reason is to replace equity. If you wish to buy a partner’s share in your business but you don’t have the cash to do it, you may consider borrowing.

Types of Capital

Start-up Capital

Start-up capital is the money you need to spend before the business opens. The amount varies widely depending on the type of business. Some examples include:

- Seed money - Research and planning (usually for high-tech businesses)
- Security deposits for a lease, utilities, etc.
- Construction, renovations, signs
- Equipment, tools, office equipment, etc.
- Inventory
- Labor - Hiring and training staff before opening
- Legal and accounting fees

Working Capital

Working capital is the money needed for day-to-day business expenses. You must have enough working capital available to pay all your bills until the business becomes profitable enough to support itself. This can take from several months to several years. After you complete your pro forma monthly cash flow projections you will have a very good estimate of the amount of working capital you will need. Allow a little extra for unexpected things. If you have just enough money to get started but not enough to properly operate the business, you may be doomed to failure from the start.

Where’s the Cash?

Think venture capitalists and angel investors finance most small businesses? Think again: bank loans and equity from the owners, their families, and friends are still the major financing source.

Facts about Small Business Loans

The increasing pressure on banks to create a return for shareholders is clearly at odds with taking risks that could result in losses or regulatory difficulty. Banks are risk managers, not risk takers. They must be as certain as possible of creditworthiness before extending credit to a business: bankers are acutely aware that it takes 10 to 20 times more effort to collect a bad loan than it did to make the loan. Clearly the principal keys to getting a bank loan is strong management reflected in the financial performance of the firm, good communication skills, and awareness of the expectations of the institution.

- 1. You will need good credit.** If there are any problems on the report that can be remedied before meeting with a banker, do so. A lender may be able to make exceptions if you can document that a negative report was due to circumstances beyond your control. Include a detailed written explanation with supporting information in your financing proposal. However, if the report shows that you are irresponsible and you have not demonstrated a willingness to repay obligations, the lender will be unable to make a loan.

2. **There is no such thing as 100 percent financing.** You are going to have to put some money into the business and the more the better.
3. **A bank will require you to personally guarantee the loan** even if you are incorporated. There is no way to avoid putting personal collateral at risk. If necessary this could include your house.
4. **Some businesses are easier to finance than others.** Since over 60 percent of all small business start-ups fail within 5 years, lenders know that the odds are against a new business being around long enough to repay a loan. An existing business is easier to finance if profits are sufficient to repay the loan. Also, many sellers are willing to hold some of the financing. Franchises are generally easier to finance than independent start-up businesses.
5. **The process is not quick.** If you must have the money to open by a certain date, make your loan application as far in advance as possible.
6. **There is no such thing as a grant.** We have never heard about anyone - anywhere - who got free money from the government to open any type of for-profit business.
7. **The Small Business Administration does not lend money.** The SBA does have a guaranty program that is designed to provide more security to lenders so that they will lend money to small ventures, which would be too risky for a regular bank loan. SBA guaranteed loans are made and processed by a bank, with the SBA guaranteeing up to 80 percent of the loan. Interest rates and repayment terms are negotiated between you and the lending institution. SBA does limit the interest rate the lender can charge and there is a small guaranty fee. Ask a business counselor with your local SBDC for additional information on SBA programs.

Types of Financing

Debt Financing – Commercial Bank Loans

Debt financing does not give the lender ownership control, but the principal must be repaid with interest. The length of the loan, interest rates, security and other terms depend upon for what the loan is being used.

Short-term

Loans for short periods (30-180 days) usually made to cover temporary or seasonal needs for inventory or personnel. These are common for established businesses, but may be hard for a new business to obtain. The key to getting a short-term loan is to always have an identified primary and secondary source of repayment. A short-term loan will probably be either a time loan or a line of credit, both with maturities of one year or less. These types of loans often possess the following characteristics:

- Time loans are made for a specified period when there is an identified source of repayment that will be available within a specified period of time. Prime candidates for these loans are seasonal businesses, with the source of repayment being the conversion of inventory to receivables and then into cash.
- Lines of credit are annually renewable pre-approved vehicles allowing the borrower access to credit whenever needed within predetermined terms. The business owner can borrow and repay as the business cash flow dictates. A line of credit is usually documented by a loan agreement, a contractual document that details the specific terms and covenants which must be observed. Self-liquidating purchases of inventory or the bridging of expenses pending the collection of accounts receivable are examples of uses for a line of credit.

Medium to long-term

These loans may be repaid over anywhere from one to five to even 20 years depending on how the funds are used. The source of repayment is the cash flow of the business. Typical uses are for equipment, fixed assets, etc. Most loans to start a small business will be of this type. Often referred to as term loans or installment loans, these usually cost more than short-term credit. The most common uses for long-term loans are to provide working capital, to purchase equipment, or to buy or improve land and/or buildings.

- Working capital loans represent funding for all purposes that are not fixed assets or a line of credit. Examples could be general and administrative funds for expanding the business, a percentage of the purchase of permanent assets, the costs of building out leased space or for purchasing furniture, fixtures, or computer and automotive equipment. Banks usually require 20-30 percent cash as a down payment and will finance the balance for a period of five to seven years.
- Loans for equipment generally will be extended for a term consistent with the depreciable values of the assets.

Real estate financing

Real estate is typically financed over a fairly long term, 10 to 30 years. Expect a down payment of about 20 percent.

- Accounts receivable financing
- Money loaned against accounts receivable pledged as collateral.

Equity Financing

In its most basic form, equity financing results in the repayment of principal and/or return only if the venture produces sufficient funds/revenues for that purpose; hence the term risk capital. Due to the risk(s), the possible capital sources could be anyone, anywhere, anytime depending on the amount, purpose, and stage of business at issue.

Equity financing will always require consideration of ownership, profit, benefit sharing, operational control, valuation, and exit strategies as important issues to be carefully evaluated. Although equity financing can cover a wide array of capital source types, there are, in general, several overall categories. The following summaries may help you in the equity search.

- Your own savings
- Friends & relatives
- Venture capital/SBICs/Investment banking

Internal Financing

- **Customers** can be a source of temporary financing if they provide the raw materials or if they pay a cash deposit. This is not feasible in most businesses.
- **Trade Credit:** Once you have obtained a good reputation with your suppliers you may be able to have credit for anywhere from 30 to 90 days. You may be able to order, receive and sell the goods before the bill is due.
- **Profit:** Hopefully you will earn enough profit to be able to invest in and expand your business.

Leasing

Leasing is simply another form of financing. Leasing reduces the cash needed up front, but like a loan you are obligated to the payment for a certain period of time. Some lease contracts give you ownership of the leased item at the end of the term for a specified amount. If your credit is less than perfect, leasing may still be an option. Leasing companies and manufacturers are sometimes less stringent with their lending practices because they are usually leasing equipment that can be easily repossessed. This might be a good option for vehicles, heavy equipment, computers, phone systems, etc.

Additional Sources of Capital

- 1. Home equity loans.** Whether it is a home-equity line of credit, a second mortgage, or the refinancing of an original mortgage, you can usually get as much as 80 percent of the equity in a house. The loan is easy to qualify for, with rates comparable to and occasionally lower than small-business loans. Obviously, the disadvantage is you could lose a home if you are unable to repay the loan.
- 2. Credit unions.** Small business owners can get personal, unsecured loans from credit unions. If you have been a member of such an institution for some time and can qualify, it's worth asking. However, credit unions cannot directly finance your business ventures.
- 3. Cash-value life insurance.** If you have such a policy you can borrow against it and reasonable interest rates may be possible depending on the fine print. Cash-value life insurance also is excellent collateral for institutional loans.
- 4. Broker loans.** Your local investment broker can lend you money based on the balance in your security account. Securities can be turned into cash in the time it takes to make a phone call to Wall Street.
- 5. Customers.** Advance payments for year-long service contracts or shipping products, special pre-release discounts or incentives for a host of products and services are examples of customer financing.
- 6. Suppliers.** Asking a supplier to give 60 to 90 day terms, particularly for inventory or goods that you manufacture or resell within that time frame, is the equivalent of a short-term loan. This works best if you can show orders to suppliers and you should be prepared to pay for the use of their money through an interest rate or more business.
- 7. Micro-loans.** These loans are usually described as unbankable deals and generally do not exceed \$50,000. For more information on these loans, please contact your local SBDC.
- 8. Liquidate retirement funds.** If you can pay the immediate income tax on funds withdrawn, and afford the 10 percent penalty for those under age 59 1/2, you can cash out an IRA, or take money out of a Keogh account. While this is a heavy price, there are no loan forms to fill out. Most other bootstrap techniques should be considered prior to using this method. You can also consider these accounts as collateral and select option 9.
- 9. Borrow from a retirement plan.** If you have not quit your job, you can sometimes borrow from a 401(k) plan. If a working spouse has a plan try borrowing from it. Be certain to read the fine print to see how the plan's rules are set up to allow these loans.
- 10. Credit cards.** Obtaining plastic money prior to starting a business is perhaps the easiest capital to raise. However, cash advance interest rates usually are between 16 percent and 23 percent or higher. Credit cards are best used as a revolving line of credit, and to get over short-term (less than four months) financial hurdles during the first two years of business. Beware: you can develop serious cash flow problems just paying the interest if credit card debt is not used judiciously and strategically.

"Success is not the key to happiness. Happiness is the key to success. If you love what you are doing, you will be successful."

- Albert Schweitzer

Lender Preparation

First Steps

- Call the commercial lending department (or a bank's branch) to find out the business loan rules.
- Ask if the lender is looking for loans of your size and type.
- Ask for a loan application.
- Prepare all the requested documents and include a business plan.
- Make an appointment.
- Rehearse your presentation.

Basic Questions from the Lender

- How much do you want to borrow? How will the loan proceeds be used?
- How long will it take to repay the loan?
- What collateral do you have to offer?
- How much are the owners investing in the business? What is your equity injection?

How Can I Prepare for a Meeting with a Lender?

These guidelines might seem basic but they are important.

- Dress properly and be on time.
- Bring your business plan, a completed loan application, and any other materials you need.
- The entire presentation should be no longer than 30 minutes. Give an overview or outline at the beginning. Know how you are going to end the presentation.
- Invite your lender to your business location and show special equipment or services. If you are expanding or remodeling, explain your plans.
- Answer all negative questions with positive answers. Back up your answers.
- Find out when you might expect an answer.
- Request decisions or negotiations made on the telephone to be put into writing.
- Follow up the meeting with a thank you letter and a phone call.

What Should I Expect from My Lender?

When lenders approve your loan request, they have faith in your business and your ability to make a profit and repay their loans. Value is added when a lender is on your company "team". Your lender can also help you determine which of their financial products best meet your business' needs.

A lender can be a good "big picture" advisor; he or she will give you insights into your industry's growth opportunities and how you can take advantage of them. Lenders want you to be successful. As your business prospers, so does their business.

What are the Small Business Owner's Responsibilities to a Lender?

Keep in mind that your lender is using depositors' money to make your loan. And that lending institutions are in business to make money, just like you are. Therefore, treat lenders no differently than you would any other business person. And - most importantly of all - make sure your loan is repaid on time.

If you are seeking to establish a financial arrangement with your lender, you will most likely be asked to submit documents as described earlier. If there is a delay, provide a date when the lender can expect to receive them. Changes to your loan, such as timing of payment, must be approved.

It is wise to meet with your lender a few times during the year to share your successes and concerns. Make an appointment, or invite the lender to your business for a first-hand look.

Succession Planning (Source: [SBA](#))

Planning to Sell or Close a Small Business

While many businesses run for years, even over several generations, businesses open and close all the time. Here are a few reasons why you may want to sell or close your business.

Business or professional reasons include:

- Job offer from another company
- Purchase offer for your business or your business assets
- Dissatisfaction with sales and profits
- Changes in the market or industry

Personal reasons include:

- Retirement
- Burnout with self-employment
- Health concerns or family needs
- Desire to go in a new direction

What is the main reason for selling your business?

Selling a Business

If you decide to sell your business, there are factors to weigh. Before starting, you need to determine if you have a saleable business. Here are some questions to consider when determining if you have a saleable business.

Do you have a history of strong profits?

A financially strong business has a lot to offer a new owner. If your business is struggling financially, the business will not be as attractive to buyers. Sometimes a business does not even have a market value beyond the assets of the business.

Is the business in an attractive industry?

Some types of businesses have more appeal than others.

Is the business in a location convenient to potential buyers?

Location is important to many businesses. Some businesses can be easily moved, others cannot.

Are your assets in good shape?

Having assets in good condition, with significant market value and remaining useful life, adds to your business' value.

Do you have quality inventory and good supplier relationships?

A prospective buyer wants to see quality (e.g. fresh) inventory and solid relationships with suppliers.

Do you have a solid customer base?

A healthy list of returning customers makes your business more valuable and attractive.

Can you transfer your business to another person?

Some businesses are dependent on a particular person's talents and cannot be transferred to another person.

Do you have a healthy balance sheet?

A combination of good retained earnings and net worth, low debt, and collectable accounts receivable make for an attractive business that is worth purchasing.

What are some of the challenges of selling your business?

Determine Your Price

The value of your business can be determined by many business valuation methods. Most valuations are a combination of two factors:

- Assets, such as cash, receivables, inventory, equipment, and real estate
- Revenue stream, that is, net profit over time

Assets are usually priced using market valuation. Valuing revenue streams is more complicated, involving return on investment, comparisons to alternative investments, and growth potential.

Many owners get help from accountants, attorneys, and industry specialists when determining the value of their businesses.

Prepare for Sale

When preparing for the sale, here are some items to consider:

- Resolve outstanding issues such as unpaid accounts receivable, debt, lawsuits, and environmental hazards.
- Demonstrate that accounts receivable can be collected.
- Prepare historical and projected financial statements.
- Provide a convincing business plan for the future.
- Secure beneficial relationships with suppliers and customers.
- Get the premises in good shape. Sell old inventory.

In addition, you must determine exactly what equipment is included in the sales price and make sure all this business and office equipment is in good order. Finally, you should provide a clear picture of how you will be compensated as the owner.

Negotiating the Deal

Negotiating and structuring a business sale is a complex process. Many business owners engage the expertise of attorneys and accountants. Here are some of the issues to consider:

- **Buyer qualification:** Just like buying a home, buyers need to demonstrate the financial ability to purchase a business. Demonstrated financial ability includes having sufficient cash and the creditworthiness for borrowing part of the purchase price. A prospective buyer should also demonstrate the management skills to run the business.
- **Payment in lump sum or installments:** Buyers can provide the entire price, through a combination of cash and loans from banks, or pay the business seller in installments.
- **Non-compete agreement:** Often business sellers are required to sign an agreement to not start a competing business for a few years.
- **Management assistance:** The new owner of a business may benefit from the previous owner's expertise. The seller of a business often will serve as a paid consultant or manager for a few months to help the new owners learn how the business operates.
- **Sales agreement preparation:** A sales agreement covers many elements of the sale including sale price, buyer deposit, promissory note, security, seller and buyer's representations, contingencies, dispute resolution, and more.

- **Down payment:** If a purchase is to be paid in installments, the buyer and seller must agree on a down payment.
- **Collateral:** If the purchase requires a loan, all parties must agree on collateral. Often the business itself is collateral. However, if the seller does not want the business back in the case of a default, the parties can negotiate a different form of collateral.

As you can see, many factors are involved in the sale of a business. You should work with an experienced attorney and an accountant to help structure the deal and prepare all the documentation.

Closing a Business

Here are a few reasons why it might make more sense to close a business rather than sell it:

- The businesses might be too small, with insufficient assets and profitability, to interest a buyer.
- Businesses in decline are not promising investments.
- Businesses that are specialized, located in remote areas, or have other unique characteristics may be difficult to sell.
- Businesses with significant assets, but not sales, might be better off selling the assets and closing.

Here are some steps to take when closing your business:

Follow Instructions in Your Founding Documents

If you're a sole proprietor, you don't need to worry about closing according to the requirements of business organizational documents. If your business is a general partnership that doesn't have a written partnership agreement, then you need to give notice to your partner of your express desire to withdraw from the partnership. On the other hand, if your business is a partnership with a written partnership agreement, a limited liability company (LLC), or a corporation, you will need to follow the rules of dissolution contained in the partnership agreement, articles of incorporation, or applicable state laws.

File Dissolution Documents with the State

All limited and general partnerships that filed with a state at the inception of the partnership must file dissolution papers with the state. Once you have voted to dissolve an LLC or corporation, you file paperwork with the state, certifying the decision to terminate the business. Filing a certificate of dissolution (also known as articles of dissolution) is a process that varies from state to state.

Sell Business Assets

If you have business assets, equipment, inventory, and real estate, you will likely want to sell your assets before closing the business.

Cancel Permits, Licenses, and Lease Agreements

Review all the registrations, licenses, and permits you obtained to open and run your business. Contact licensing and permitting agencies and follow their cancellation processes. If you are leasing office space or equipment, you will need to terminate your leases—review your lease agreement for the details, including what penalties you may incur.

Comply with Tax Laws

When you end a business, the company is still liable for taxes in the prior and the current year. This means that you must continue making deductions from paychecks and continue payroll reporting obligations. You should continue to file your quarterly or annual taxes, and your capital gains and liquidation forms. You will also be responsible for all final tax forms that need to be filed, including forms for income tax, sales tax (that has been collected), and payroll taxes.

Resolve Outstanding Issues with Customers, Creditors, and Suppliers

Pay all of your debts, collect balances due from customers (receivables), and close all of your accounts.

Maintain Records

Although you've closed the doors, continue to maintain and retain business records. You will need to file income taxes, answer inquiries, and respond to agencies seeking information. You could still be audited and may need to answer questions from those with whom you have done business.

Get Help

Seek help from your accountant and attorney to review the closing process.

Resources for your Journey

For more information, contact your local Small Business Development Center

Our Services

Confidential, in-depth counseling using comprehensive consumer, market, and industry data to help guide your business to success. The services are free and confidential, made possible by support from the US Small Business Administration, Longwood University, and local organizations.

Established businesses can benefit from:

- Financial analysis and profitability
- Competitive strategies
- Government regulations and taxes
- Marketing plan
- Hiring and managing employees
- Understanding and securing capital
- Utilizing current technology
- Research supplier & customer leads
- Securing credit for expansion

Training

- Routine training on general business topics
- Professional speakers for expert advice

Longwood SBDC Service Areas

CENTRAL REGION

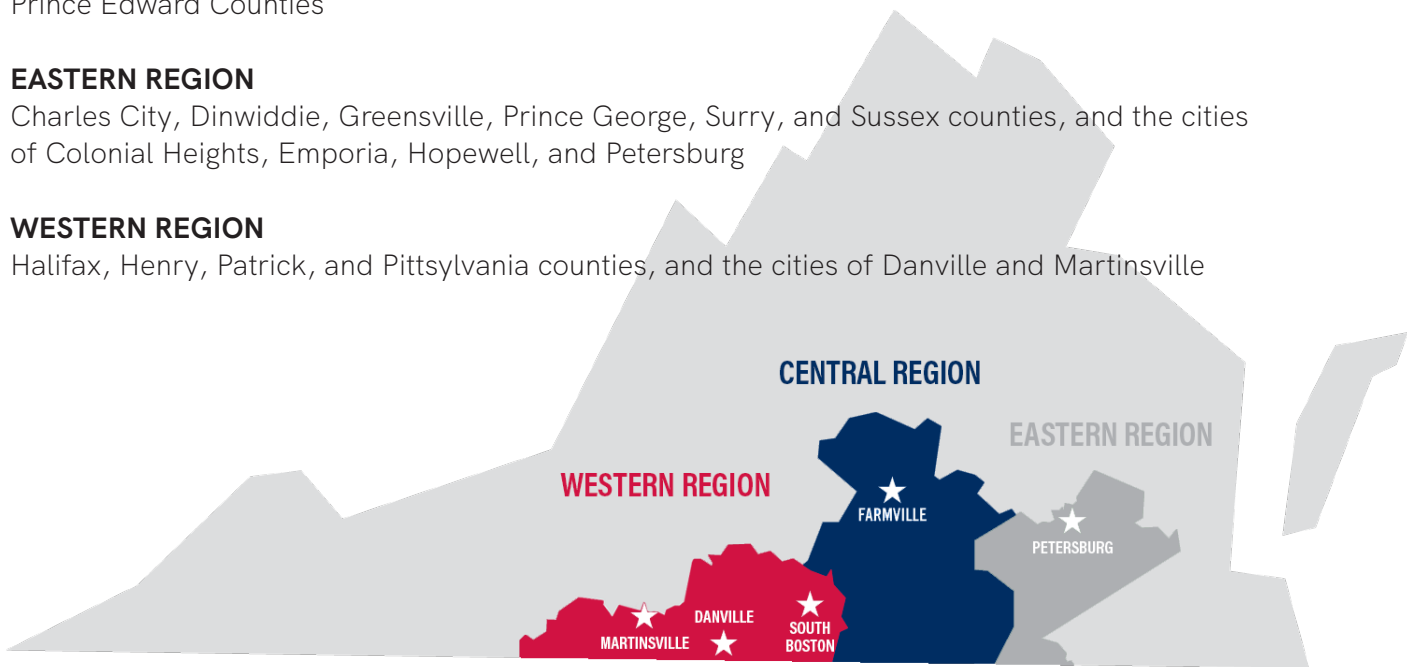
Amelia, Brunswick, Buckingham, Charlotte, Cumberland, Lunenburg, Mecklenburg, Nottoway, and Prince Edward Counties

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Halifax, Henry, Patrick, and Pittsylvania counties, and the cities of Danville and Martinsville





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