

## **CONGRATULATIONS!**

The rewards and satisfactions of starting your own business offer a stimulating challenge, unlimited potential for growth, and an exciting, but sometimes disturbing, adventure. Congratulations on accepting the challenge!

The Union and Anson County area is an outstanding place to start a new business. As you will see in this booklet, there are a variety of opportunities for entrepreneurs willing to dream, plan, make the type of difficult decisions necessary to start a business, and then work to make their dreams come true. Good luck!

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## **INTRODUCTION**

GETTING STARTED has been developed to help you start your business. This book will:

- Dramatically decrease the amount of time you might spend seeking out the basic information needed to start your venture.
  - Give you a business overview of the region.
  - Offer tips on planning
  - Introduce you to a variety of professionals who will be glad to help you get started.
  - Provide information about licenses, taxes, accreditation procedures and other step-by-step essentials.
  - Provide demographics for use when developing your client base.
  - Suggest a variety of information resources that will help you operate your business more efficiently.
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## **SO, YOU HAVE A GREAT IDEA?**

There are only three kinds of business ideas:

- An idea that addresses an existing need that has previously gone unsatisfied.
- An idea that addresses an existing need better than the alternatives.
- An idea that is so revolutionary that it creates its own demand.

If you believe you have a great idea, into which category does it fall? Depending on the category there will be unique opportunities, advantages, and challenges to consider.

In the first category, the key is to determine if there really is a need. Simply inventing something or creating an idea isn't enough; someone has to want to buy it. And enough people have to want to buy it to allow you to stay in business. Inventing an electric dog polisher is an interesting concept, but the market would be extremely limited.

In the second category, ideas that address needs don't have to be original. If you can develop a way to make a product or deliver a service faster, cheaper, bigger, smaller, prettier, tastier, sleeker, better, than the current alternatives, you may have a winner. There is absolutely nothing wrong with elaborating on or improving someone else's idea. Remember, Ray Kroc, the founder of the McDonald's Corporation, did not invent the McDonald's hamburger or the process of speedy service. However, he created the clean, All-American atmosphere of McDonald's and the system of franchising that is the basis of the company's success.

Finally, some ideas are so revolutionary that they create their own need. Fifteen years ago computers were a rarity in the workplace. Today it is hard to find a business or a home that doesn't depend on a PC. Unfortunately, few entrepreneurs reap the benefits of the revolutionary idea. In order to create need, enormous expenditures, advertising, and marketing are necessary before any revenues are realized.

The great thing about ideas is that they are available to anyone. Almost any reasonably intelligent person who is aware of what is going on in their society, community, and industry, and is willing to immerse themselves in study, thought, and contemplation can generate a workable idea.

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## **PLANNING: THE FIRST KEY TO BUSINESS SUCCESS**

It is well known that small businesses have a high rate of failure, especially within the first three years of existence. Dun and Bradstreet, Inc., reports that nine out of 10 business failures can be traced to a lack of management experience or ineptitude. This was evidenced by such things as:

- Inadequate sales
- Competitive weakness
- Heavy operating expenses
- Receivable difficulties
- Inventory difficulties
- Excessive fixed expenses
- Poor location

Many of the problems encountered by small business owners are surprises. The entrepreneurs had no idea - or a vague idea at best -- that the difficulties might arise.

Whether you are a business novice or highly trained in your area of expertise, looking ahead and anticipating needs and potential difficulties is a sure way to improve your chances of success. In fact, taking a critical look at your idea may convince you that starting this specific venture is not a viable idea after all.

Working through the next section, "YOUR ORGANIZATION," will allow you to make initial decisions and gather information needed to develop a business plan. As you work through the material try to play the child's game, "What if?" As in, "What if sales double in the first six months? How will I meet supply, manpower and financial needs?" However, it is more likely to ask the question, "What if sales are half what I projected for the first three months or first year? Where will I get funds and marketing support to continue operating?"

Asking "What if?" questions, especially the negative ones, will provide a more realistic outlook for your planning.

## **YOUR ORGANIZATION**

### **Forms of Business Structure**

At this point you would be well advised to give some consideration to the legal form of business under which you wish to operate. Basically, a business operates as a proprietorship, partnership, S or C corporation, and LLC. The selection of a form of business is an important one, in which the advice of an attorney and/or accountant may be especially valuable. This selection should be based not only on the immediate needs of the business but what is anticipated for the future. The form of business is also important from the tax and personal liability standpoint. Generally, the three principal forms of business structure are:

#### **Sole Proprietorship**

You are the sole owner taking all the profits, and responsible for all the losses. Sole proprietorship is the easiest kind of business structure to form and it needs no government approval; you simply obtain the appropriate licenses and start doing business. Profits are taxed as personal income, and you are personally liable for all debt and taxes. Personal assets can be taken by creditors to satisfy business debts.

#### **Partnership**

Two Types: General Partnership Limited Partnership

A General Partnership is a flexible and simple structure allowing the association of two or more people who share in the profits and liabilities of a business. General partners are fully liable for partnership debts, not only with business assets, but also with personal assets. Creditors can take personal assets to satisfy partnership debt, and each partner may be liable for the entire debt of the partnership.

A Limited Partnership differs from a General partnership in that it allows you to limit the liabilities of the limited partners to the amount of their investment. However, there must always be at least one general partner.

#### **Corporation**

The corporate form of business organization is the most formal of the three principal business structures. It is given its existence under state law and is established by the filing of "Articles of Incorporation" with the office of the Secretary of State of North Carolina.

However, although your corporation exists, there are a variety of legal requirements and procedures that must be followed before you are able to begin conducting business. The procedures will depend on the industry in which you will do business and the type of firm you are starting. Corporations also require significantly more accounting and reporting than either a proprietorship or a partnership.

The major reasons for incorporating a business are the legal and financial flexibilities of operating as a corporation and the limits on the personal liability of the shareholders who own the business. However, these advantages may often be reputed by lender's requirements for personal indemnification from all principal owners.

Businesses in North Carolina can opt to declare as "Subchapter S" corporations. Subchapter S status combines many of the legal benefits of operating as a corporation with the reporting and paperwork simplicity enjoyed by proprietorships or partnerships. Recent legislation also introduced the LLC - Limited Liability Corporation, which has become very popular.

To receive a free copy of "Guidelines for Incorporation," a free publication offered by the Secretary of State's office, Contact "Guidelines for Incorporation" 300 N. Salisbury St., Raleigh NC 27603-5909; telephone 919-733-4201.

## Need Some Advice?

By now you may have a clear idea of what type of legal structure you want your business to take; or, you may be thoroughly confused. You would be well advised to seek the advice of a corporate attorney before making a final decision. The Lawyers Referral List refers clients to a local attorney who will grant an initial half-hour consultation for a reduced fee. You may not get all your questions answered in the half-hour, but it should give you a good idea of the complexity of your particular situation. Contact the service at: East Central Community Legal Services, 5 West Hargett Street, Suite 600, P.O. Box 1731, Raleigh, N.C. 27602; telephone 919-828-4647. Also, you may contact the N.C. Bar Association's Referral Service.

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## MARKETING

There is an old saying, "Nothing happens until someone sells something." That is never truer than in small business. Unfortunately, marketing is often overlooked. Many entrepreneurs fail to realize that without a market for their product or service there will be no need for the business to exist. To be successful a small business owner must know the market.

Marketing is determining if there are enough potential buyers for your product or service, looking for the most effective way to help clients learn about your product or business, distributing your product or service, and following through with constant attention.

Before starting a business, the following marketing questions should be given careful consideration:

A. Market

1. Is there a market for my product/service?
2. How large is the potential market for my product?
3. How large is "my" target segment of this potential market?
4. What trends have an impact on the market?

B. Customers

1. Who are they? What sex, age, income, occupation, etc.?
2. What are their needs and wants pertaining to my product?
3. When do they buy?
4. Where are they located and where do they buy?
5. Why do they buy?
6. How much does the average customer spend in one year (or at one time) on my type of product/service?
7. How do they spend it? All in one place? All at one time?
8. How will I reach my customers and how will they buy (all cash, check, credit card, contract and time payments)?

C. Competitors

1. How many competitors will I have?
2. Who will my competitors be and where are they located in relation to my business?
3. What types of advertising are my competitors doing?
4. Is my competitor offering services, products, payment terms, etc., that I can not offer?
5. How will I compete against those advantages?

## **FINANCIAL**

One of the most crucial stages of beginning or acquiring a business is determining your capital investment needs. Sound financial planning is a proven method for insuring a reasonable return on your initial investment. Some financial considerations are:

- A. Financial Plans
  1. Projected cash requirements for start-up
  2. Projected income and expenses
  3. Amount likely to be tied up in receivables, where applicable
  4. Capital needed for growth and a source of reinvestment capital
- B. Short-range plans - credit lines
- C. Long-range plans including seasonal needs
- D. Business plan including financial forecast
- E. Advertising and marketing requirements
- F. Site selection -- codes, regulations, easements, etc.
- G. Insurance considerations -- property, casualty, worker's compensation, key person, etc.

Working closely with your banker and an accountant during this phase of the planning process will help you develop a realistic outlook about the financial possibilities and challenges of your venture. Professionals can also aid in looking ahead to dealing with accounts receivables, financing, future credit needs, and retirement plans.

### **Where Will You Get The Money?**

At the end of the planning process you should have a very good idea of how much money you will need to start and operate your enterprise. If you are not independently wealthy the next question is, "Where will I get the money?"

Studies show that the majority of new small businesses are capitalized by their owners' savings and salaries; loans from families and friends; and loans using automobiles, homes or other assets as collateral. Some entrepreneurs are using credit cards to finance the early months of start-up, but that strategy is risky and costly due to high credit card interest rates.

There are some low-interest loans available for small businesses. But the competition is keen and the requirements are strict. The U.S. Small Business Administration guarantees certain loans with variable interest rates above the prime rate set by the Federal Reserve Board. Those loans are negotiated between participating banks and the businesses borrowing the money. For more information, visit [www.sba.gov](http://www.sba.gov).

State agencies have stopped making loans to small businesses in general, although there are still some programs for high-tech and biotechnology businesses. Information about these programs is available through the state Small Business Bureau 919-733-7980.

## **APPLYING FOR A U.S. SMALL BUSINESS ADMINISTRATION LOAN**

### **A. For New Businesses**

1. Describe in detail the type of business to be established.
2. List your business education, experience and management capabilities.
3. Prepare an estimate of how much you or others have to invest in the business and how much you need to borrow.
4. Prepare a current, signed, personal financial statement of the owner(s).
4. Prepare a projected profit and loss statement and a cash flow analysis for the first year the business will operate.
6. List collateral to be offered as security for the loan.
7. Take this material with you and see your banker. Ask for a direct bank loan; and if declined, ask the bank to make the loan under SBA's loan guaranty plan. If the bank is interested in an SBA guaranty loan, ask the banker to contact SBA for discussion of your application. In most cases for guaranty loans, SBA will deal directly with the bank.

### **B. For Established Businesses**

1. Prepare a currently dated, signed balance sheet listing all assets and all liabilities of the business - do not include personal items.
2. Prepare a signed profit and loss statement for the previous full year and for the current period to the date of the balance sheet.
3. Prepare a current, signed, personal financial statement of the owner(s).
4. List collateral to be offered as security for the loan. List the market value of each item.
5. State amount of loan requested and explain exact purposes for which it will be used.
6. Take this material with you and see your banker. Ask for a direct bank loan; and if declined, ask the bank to make the loan under SBA's loan guaranty plan. If the bank is interested in an SBA guaranty loan, ask the banker to contact SBA for discussion of your application. In most cases for guaranty loans, SBA will deal directly with the bank.

### **C. Insurance**

The purpose of an insurance program is to protect the assets of your company from losses. Further, it is to insure that losses do not interrupt the overall objective of your company, which is to make a profit.

As you set up your new business you acquire new assets such as automobiles, buildings, equipment, stock, customers, and employees. Each of these assets create a possibility of a need for protection from some type of potential loss.

Some coverages are required, either by law or perhaps by a bank or other lending institution. Some coverages are recommended because the chance of loss in those areas is great. Some coverages are optional, you can possibly get along without them. However, if you have the type of loss they are designed to cover -- without protection, the loss could interrupt your business. In the long run you want an insurance program that, pre-loss, is reasonable in cost, and post-loss, provides adequate coverage.

Here is an outline that some of the assets you may require as you open your business and some of the insurance coverages that can be used to protect them. The list is not intended to be complete since any insurance program needs to be tailored to your specific needs. You should seek the help of a good business insurance professional to insure that you have adequate coverage for protection, but do not buy coverage that you do not need.

## Insurance Checklist

| Insured Items | Required                                | Recommended  | Optional   |
|---------------|---|--|--|
| Automobiles   | Liability<br>Collision<br>Comprehensive |  |  |
| Buildings     | Fire Insurance<br>Boiler Replacement    | All Risk   | Glass Ins  |
| Customers     |   | Liability  | Medical Pay.<br>(Merchandise)<br>Insurance<br>Umbrella |
| Employees     | Workers'<br>Compensation                | Life Ins.<br>Group Hosp.   | Major Med.<br>Crime Ins.                               |
| Merchandise   | Property Insurance                      | All Risk Replacement<br>Business Interruption<br>Transportation<br>Insurance | Burglary or Robbery                                    |

## **CREDIT**

Establishing and maintaining a good credit record in the community is essential. By maintaining good credit you will be better prepared for opportunities to invest in and expand your business. Some considerations are:

- Determining your current credit status
- Establishing credit with suppliers
- Determining your future credit needs
- Staffing

In most businesses you can not do everything yourself. Even if you start out as a one-person enterprise you will soon realize that you need assistance. Before bringing another person into your business you should decide.

- What you want the person to do.
- Where they will work.
- How much authority to make decisions they will have.
- How long they will work for you.

Deciding how long your new employee will work for you is a crucial decision. If you have a short term need, such as stuffing envelopes, answering the telephone during short periods of time, or even making sales presentations, you may not need to hire a full-time employee. Private contractors, temporary agency employees, students, friends, or family members may fill your needs.

If you will need full-time employees the following questions should be answered:

- A. Staffing needs -- Number of employees, specific job titles and descriptions, hours worked, training needs.
- B. Salaries
- C. Benefits:
  - 1. Group Health Insurance
  - 2. Retirement Program
  - 3. Cost of Benefits
  - 4. Government Requirements:
    - a. Social Security
    - b. Unemployment Compensation
    - c. Medicare
  - 5. Vacation, Holiday, and Sick Leave Policies
- D. Employee turnover expected
- E. Planned growth and future staffing needs
- F. Overtime requirements
- G. Safety factors



## ADMINISTRATIVE

Almost everything connected with running a business involves: creating and maintaining records, correspondence, government regulations, taxes, insurance, financial transactions, banking, etc. The list seems endless.

The following is a checklist of some of the types of records that must be created and maintained:

- Accounting Records
- Banking Records
- Employee Records
- Purchasing and Sales Records
- Mortgages and Notes
- Insurance Records
- Tax Records
- Business organization Records
- Correspondence Records

## Record Retention

The question is frequently asked, "How long must business records be kept?"

| Records   | Years Retained |
|---|----------------|
| General Ledger  | 3              |
| Bank Deposit Slips  | 3              |
| Bank Statements   | 3              |
| Bills of Lading   | 3              |
| Canceled Checks:  |                |
| General   | 3              |
| Payroll   | 3              |
| Taxes (payroll related)   | 4              |
| Taxes (income)  | Permanent      |
| Employee expense reports  | 3              |
| Employee payroll records  | 4              |
| Invoices  | 3              |
| Purchase journal  | Permanent      |
| Subsidiary ledgers (Accounts Receivables<br>Accounts Payable, etc.) | 6              |
| Timecards and daily time reports                                    | 3              |
| Mortgages and note agreements                                       | 6              |
| Personnel files   | 3              |
| Insurance policies  | 6              |
| Tax returns   | Permanent      |
| Sales and use tax returns   | Permanent      |
| Payroll tax returns   | 4              |