

Texas Roadmap to Starting a Business



The Feasibility Study

The Business Plan

Cash Flow Requirements

Legal Issues

Permits

Employee & Contract Labor

Financing Options

Tax Responsibilities



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TEXAS ROAD MAP TO STARTING A BUSINESS

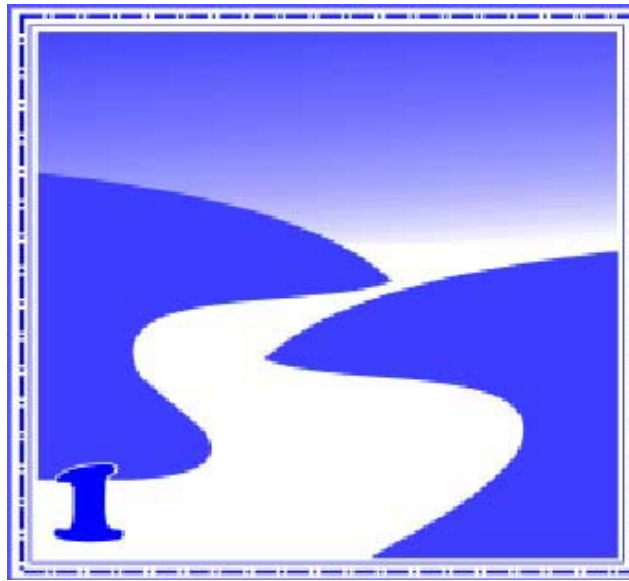
The Texas Road Map to Starting a Business contains directions to get your business off the ground and help strengthen our state economy along the way. This booklet covers eight steps to starting a new business:

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It is important that you follow the directions found on the first page. Start at the beginning and work your way from chapter to chapter. Do not jump ahead or skip chapters. When you finish, you will have completed the background work necessary for starting a business.

While every effort has been made to ensure the reliability of the information presented in this publication, the publisher does not guarantee the accuracy of the data contained herein. Errors brought to the attention of the publisher and verified to the satisfaction of the publisher will be corrected in the future editions.



Chapter 1: The Feasibility Study

The first step on your road to starting a business is the feasibility study. This first step helps you, the prospective business owner, determine the practicality and viability of your business idea. After completing the feasibility study, you will have an indication of market opportunity and growth potential. You want this information now, before you risk valuable time and money.

The feasibility study can help you analyze the possible risks and rewards of your concept and increase the probability of your success. During this exercise you will gather information on current economic conditions and the state of the industry in which you want to start a business. You will conduct a detailed analysis of your competitors and potential customers. After you have gathered this

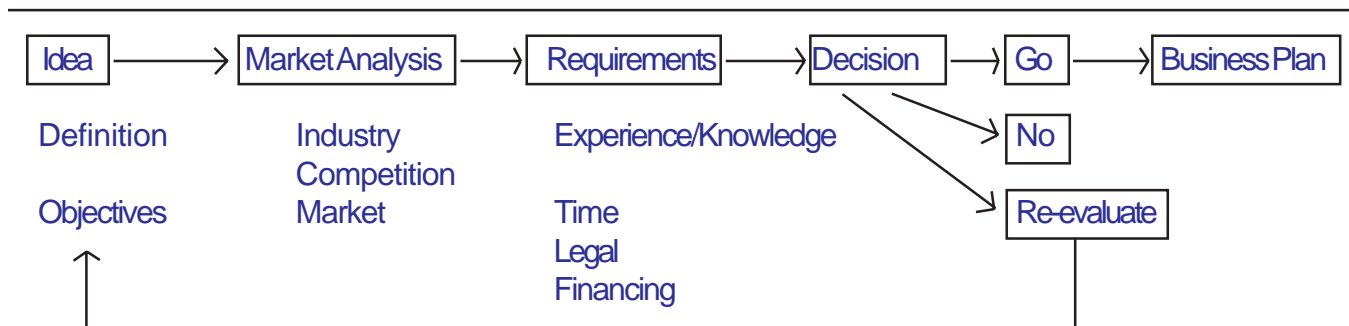
information, you will be able to decide if your idea is worthy of more time and money.

Overview—The Feasibility Study

The feasibility study helps you examine your ideas objectively from several viewpoints. The flow chart below indicates the process you will follow.

Every feasibility study begins with an idea. This idea can be for a product or service. A market analysis, which thoroughly investigates the industry, competition, economic environment and target markets, will help you decide if the idea can become a profitable business. This exercise also helps you make an informed decision by identifying the requirements for starting a particular

The Feasibility Process



business, such as experience, time, and legal and funding issues.

A feasibility study can take weeks or even months to complete, but the process puts you at an advantage and increases your chances for success. If you move forward and start your business, the feasibility study will serve as the basis from which to develop a comprehensive business plan. If you decide to put your venture plans on hold, you can apply the knowledge to other possible ventures, or it could prompt you to adjust or re-evaluate your original idea.

Your Idea: Defining Your Business

Your first step is to define your business idea and the opportunity you envision. Include a description of the product or service you will provide, your reasons for starting the venture and the type of business you plan to establish (for example, manufacturing, wholesaling, retailing, exporting/importing or service). Consider these areas, when writing a working definition of your business.

Customer Viewpoint: You must adopt your customers' viewpoint because if you fail to satisfy your customers' needs, your business will fail. Briefly describe the products/services you will sell and how customers will use them.

Ask potential customers, how they would define your product or service. Their perspective can give you important insight into how your product or service will actually be used. Keep an open mind. If someone uses your product/service in a new way, it may be a benefit you can add to your marketing strategy.

Product/Service: Specify the line of product or service you will offer and look for secondary opportunities. For example, are there services you can provide in association with your product, or are there products that result from the service you will provide?

Customers: Describe your typical customer in terms such as age, sex, income, education,

occupation, marital status and lifestyle. What needs will your product or service satisfy? What benefits will your customers gain from using your product or service? What results will your customers achieve from having purchased your product or service?

Remember, customers buy based on benefits and results, not product specifications—for example, a specification of a life insurance policy is that it is term or whole life. A benefit is that it pays a sum of money upon your death, but you purchase life insurance for the results—peace of mind that your survivors will be taken care of financially.

Competitive Edge: Define your product's or service's unique qualities. What stands out about your product or service to entice buyers to buy from you? Is it quality, price, convenience or expertise that makes your product or service preferred by consumers?

Personal and Business Objectives

Defining your short- and long-term business and personal goals establishes the criteria for judging the feasibility of your idea. Ultimately, your decision to start a business should be based on whether it can achieve your business and personal goals.

Personal Goals: List the goals that satisfy your personal needs. Why are you starting this business? What motivates you? What do you want to accomplish? Are you more interested in a lifestyle change than in monetary reward? A person starting a part-time business may have different personal goals than someone who views the business venture as a primary income source.

Business Objectives: Where do you want your business to be in the next few years? What are your financial objectives? State these goals in such terms as annual sales volume, market share, growth rate, personal income, etc.

Now review the two lists and describe in 25 words or less how your business will satisfy your

business and personal goals. This becomes your mission statement. Do your personal and business objectives match? Is there a good fit with your business idea? If not, you may need to re-evaluate your venture. Otherwise, you're ready to start your market analysis.

Market Analysis: Is Your Idea a Market Opportunity?

Begin your market analysis by examining trends in your industry and collecting information about the size of your market segment and target market. Your research can help you identify and learn about your primary customers and major competitors. Analysis of the information you gather will reveal marketing strategies for successfully selling your product or service.

Your business will exist in a world constantly reshaped by changing social and cultural values, economic conditions, political and legal restrictions, competitive strategies and advances in technology. You must keep alert to these trends and determine how they influence your business.

Your research will also lend a more complete understanding of established business practices, competitive developments and industry performance standards.

Here are some questions to consider as you conduct your industry analysis.

What is your industry, type of business and general product or service category?

Is your industry growing? Maturing? Declining? Stable?

What are the current trends and outlook for your industry?

Does your industry have any special characteristics? Is it seasonal? Is it cyclical?

Who are the key players in the industry?

Where are you positioned in the distribution

channel? For example, are you a manufacturer selling to a wholesaler, to a retailer, or to the enduser?

Who holds the power in the distribution channel?

Identify and evaluate how significant changes in the following conditions could affect your business:

Social or lifestyle changes

Economic changes

Political and/or legal changes

Technological changes

Population (demographic) changes

Any other change in the business environment

Conducting Your Research

You can gather your information from existing data (*secondary sources*) or from new data (*primary research*).

To access *secondary sources*, start at your local library. Many public and private organizations collect and publish data on population and industries, which is often available at public or college libraries. For example, trade associations maintain industry statistics and projections. Federal, state, county and city governments also gather data. Just about every regulated industry has an agency that collects data on it. Don't forget that the Internet is also a good source.

Another resource is real estate agents—they can supply information for specific locations in terms of competitors, suppliers, demographics, zoning regulations, local economic outlook, rental space and costs. Banking and financial offices can sometimes provide relevant financial data about your industry. Additionally, local radio and television stations can provide valuable information about the average customer, purchasing patterns and use of media.

Be inquisitive. Investigate any resource that might offer pertinent information. You'd be surprised at the information you can gather by talking with former employees of competitors, consulting

firms, market research firms and labor unions. You can also gain insight by inspecting public filings, classified ads and buyers guides.

Secondary Research Sources

Libraries

- Public
- Colleges/Universities

Trade Associations

- Industry information, statistics, projection
- Trade publications
- Trade shows

Chambers of Commerce and Area Economic

- Development Organizations
- Associations
- Businesses
- Resources

Federal Departments and Agencies

- Small Business Administration
- Service Corps of Retired Executives
- Congressional offices
- Regulatory agencies: FDA, OSHA, EPA, etc.

State Departments and Agencies

- Texas Department of Economic Development
- Congressional offices
- State Comptroller's office
- State regulatory agencies: Texas Railroad Commission, Texas Employment Commission, Texas Education Agency, etc.

City and County Government

- City, county and regional planning commissions
- Regional information and communication exchanges
- County Clerk's office

Banks and Financial Institutions

Realtors

Local and Regional Utility Commissions

Small Business Development Centers

Local radio and television stations and newspapers

Sources of Business and Marketing Information

Books on How to Conduct Research

Competitor Intelligence—How to Get It, How to Use It by Leonard M. Fuld. Deals with ways to gather information on competition. Covers secondary sources, corporate intelligence, statistical sources, trade and business magazines and databases. Also includes a section on gaining access to foreign intelligence from U.S. sources and provides listings of many directories and source books. Published by John Wiley & Sons, 1994

How You Can Buy a Business Without Overpaying by Eugene Merfield and Gary Schine. Published by Consultant Press, 1991

Your Texas Business by Richard Alderman and Tom Oldham. Published by Gulf Publishing, 1993.

The Start-up Guide by David Bangs. Published by Upstart Publishing, 1998

Starting and Operating a Business in Texas by Michael Jenkins and Donald Sexton. Published by Oasis Press, 1991

Demographic Know-How edited by Penelope Wickham. Covers how to find, analyze and use demographic information. Details approximately 600 resources. Authorities in the market research field discuss how demographic information can impact a business' bottom line. Published by American Demographics, 1988.

Guides and Company Information

Business Information, by Michael Lavin
Business Information Sources, by Lorna Daniels
Directory of Corporate Affiliations
Directory of Industry Data Sources, by Harfax
Directory of U.S. Exporters
Dun & Bradstreet Billion Dollar Directory;
America's Corporate Families
Dun & Bradstreet Business Information Reports
Dun & Bradstreet Million Dollar Directory
Dun & Bradstreet Principal International
Businesses
Encyclopedia of Business Information Sources,
edited by Paul Wasserman
Encyclopedia of Small Business Resources, by David
E. Gumpert and Jeffrey A. Timmons
Financial Analyst's Handbook, by Sumner Levine
*MacMillan Directory of Leading Private Compa-
nies*
Moody's Manuals, such as *Moody's Industrial
Manual*
Standard & Poor's Corporation Records
Standard & Poor's Register of Corporations,
Directors and Executives
Thomas Register of American Manufacturers
Value Line Investment Survey
Ward's Business Directory of U.S. Private and
Public Companies
World Almanac
Overviews and General Industry Information
Census Information, U.S. Department of
Commerce
County Business Patterns, U.S. Department of
Commerce
Current Industrial Reports, U.S. Department of
Commerce
Forbes Annual Report on American Industry
Industry Surveys, Standard & Poor's Corp.
Inside U.S. Business, by Philip Mattera
Moody's Investors Industrial Review
Standard & Poor's Industry Surveys
U.S. Industrial Outlook, U.S. Department of
Commerce
The Wall Street Transcript

Statistics and Financial and Operating Ratios.

Industry statistics are listed under the subject, statistics, in library catalogs, and under Standard Industrial Classification (SIC) code numbers in publications (see the Standard Industrial Classification Manual). Such information can also be obtained from trade associations. There are also guides to statistics, general collections of industry statistics, and sources of composite financial and operating ratios such as:

Almanac of Business and Industrial Financial Ratios, published by Prentice-Hall
American Statistics Index
Analysts Handbook, Standard & Poor's Corp.
Annual Statement Studies, Robert Morris Associates
Predicasts Basebook
Competitive assessments of certain industries in the United States by the U.S. International Trade Administration
County Business Patterns, U.S. Bureau of the Census
Economic Indicators
Encyclopedia of Business Information Sources, edited by Paul Wasserman
Index to International Statistics
Industry Norms and Key Business Ratios, Dun & Bradstreet Corp.
Market Share Reporter
Statistical Abstract of the United States, U.S. Bureau of the Census
Statistical Reference Index
Statistical Service, Standard & Poor's Corp.
Statistics Sources
Studies of media and markets
by Simmons Market Research Bureau Inc. (New York, N.Y.)
Summary of Trade and Tariff Information, U.S. International Trade Administration
U.S. Bureau of the Census publications on certain industries

Projections and Forecasts. Listed under the subject in library catalogs and publications, such as:
Predicasts F&S Index

Market Data. An overall guide to sources of data on consumer and industrial markets can be found in such publications as:

Predicasts Basebook
Data Sources for Business & Market Analysis,
Scarecrow Press
Findex (Cambridge Information Gap)

Consumer Expenditures Data

Editor & Publisher Market Guide
Survey of Buying Power, published by Sales
Management Inc.
U.S. Census Reports (Business, Housing, etc.)

Market Studies of particular industries and products available from such companies as:

Arthur D. Little Inc. (Cambridge, Mass.)
Business Communications Co. (Stamford,
Conn.)
Frost & Sullivan Inc. (New York, N.Y.)
Morton Research Corp. (Merrick, N.Y.)
Predicasts (Cleveland, Ohio)
Simmons Market Research Bureau (New York,
N.Y.)
Theta Technology Corp. (Wethersfield, Conn.)

Data Services and Databases

CompuServe Information Service Co. (Columbus, Ohio)
Dialog Information Service Inc. (Knight-Ridder Inc.)
Dow Jones News/Retrieval Service (Dow Jones & Co.)
Lexis, Nexis, Mesis (Reed Elsevier)
AOL (Vienna, VA)
Newsnet (Bryn Maw, PA)
Prodigy (Medford, MA)
Data Star (Knight Ridder, Inc.)
Internet

Magazine and Newspaper Articles published by trade associations, government agencies and commercial publishers. Lists can be found by consulting periodical indexes and directories, such

as
Applied Science and Technology Index
Business Periodicals Index
The Directory of Directories
Encyclopedia of Business Information Sources
Guide to Special Issues and Indexes of Periodicals
New York Times Index
Predicasts F&S Index
Public Affairs Information Service Bulletin
Standard Periodical Directory
The Wall Street Journal Index

Internet Resources

www.biztalk.com

www.businessstown.com

www.onlinesoho.com/soho_links.htm

[www.businessownersideacafe.com/
starting_business/index/php](http://www.businessownersideacafe.com/starting_business/index/php)

www.powerhomebiz.com/vol18/scratch/htm

www.RhondaWorks.com

www.inc.com

www.entrepreneurmag.com

www.tded.state.tx.us

www.bcentral.com

www.morebusiness.com

Other Sources

Ayer Directory of Newspapers, Magazines and Trade Publications

Books and other material listed in library catalogues under the industry name

Brokerage house reports

CIRR: Company & Industry Research Reports

Congressional Information Service

Encyclopedia of Trade Associations

Financial Studies of the Small Business

Library of Congress—suggested headings: small business management, new business enterprise, entrepreneurship, entrepreneurs, management, marketing strategy, business ethics, and corporations.

NASA Industrial Applications Centers and several universities, such as Southeastern Oklahoma State University, the University of New Mexico, the University of Southern California, and the University of Pittsburgh provide technically oriented reports, studies and literature searches

National Trade and Professional Associations of the United States and Canada and Labor Unions

Small Business Sourcebook

The Source Book of Demographics and Buying Power for Every Zip Code in the U.S.A.

The Sourcebook of Zip Code Demographics

Yellow Pages

Biographical

Dun & Bradstreet Reference Book of Corporation Managements

Standard & Poor's Register of Corporations, Directors and Executives

Who's Who directories

Source: *New Venture Creation, Entrepreneurship in the 1990s*, by Jeffrey A. Timmons with Leonard E. Smollen and Alexander L.M. Dingee Jr. Published by Irwin.

Generally, secondary research sources do not provide all the information you need, and you will have to collect new data. *Primary sources* range from networking to formal surveys. They include customer and supplier surveys, networking, focus group discussions and interviews with customers, competitors and suppliers. Talking to competitors, suppliers, and customers also constitutes primary research. Primary research is particularly necessary when trying to determine your target market and in developing client profiles. Also, primary research helps you learn about your customers' buying habits and opinions of your product or service.

You don't need a degree in market research to succeed in collecting primary data. Consult these recommended publications for information on conducting primary research.

Practical Marketing Research by Jeffrey Pope. An excellent introductory resource for conducting primary research. Discusses various research methods, writing a questionnaire and interviewing guidelines. Also includes a section on solving specific marketing problems, including new product research, advertising research, simulated sales testing and product positioning research.

Published by AMA COM, a division of the American Management Association, 1993.

Mail and Telephone Surveys—The Total Design Method by Don A. Dillman.

Provides step-by-step instructions to conducting and implementing mail and telephone surveys. Also includes a section on developing effective cover letters and increasing response rates. Published by John Wiley & Sons, 1978.

Your Competitors

The next step in your market analysis is to identify your direct competition. Describe the differences and similarities between your operations and theirs. Discuss their business concept.

What are their target markets? How do they reach these markets? Describe their strengths and weaknesses, and rate their performance in critical competitive categories. Is their business growing or declining?

Learn all you can about your competition. You can use many of the same secondary resources listed on page 5 - 9. Review financial ratios for the industry as discussed in *Robert Morris Associates Annual Statement Studies*, pricing strategies and revenues of similar businesses. Assume the role of a potential customer and "shop" your competition. If this is difficult for you, send a friend. Interview the owner of a similar business in another city or trade area. Talk to your competitors' customers and suppliers.

Compile a competitor profile using the information you've gathered. Who are they? How long have they been in business? Where are they located? What is their product or service? What are their prices? What is the quality level of their product or service? When are they open?

You also want to investigate significant substitutes for your product or service. Customers may prefer to satisfy their needs in other ways with other types of products.

Use the grid on the following page to help you organize your data.

Your Competitive Strategy

Now that you've learned about your competition, compare how your operation differs from theirs. Develop strategies for gaining your share of the existing market by answering the following questions.

What market niche will you fill?

How will your product or service be different and better than your competition?

How do you plan to compete? How will you defend against your competitors' strengths?

How are you going to price your product or service compared to your competitors?

How will you gain market share?

How will you take advantage of your competitors' weaknesses?

Your Suppliers

Knowing your suppliers and how they can deliver is critical to your competitive strategy. If one or two suppliers dominate the market it may affect your ability to negotiate favorable terms. It is important to know about unreliable suppliers or those that face a financially precarious situation.

You can investigate your future suppliers by calling the Better Business Bureau, performing a credit check, collecting information sheets from such companies as Dun & Bradstreet, or asking other entrepreneurs who have used them how they would rate the supplier. By performing this due diligence on your supplier, you will be able to answer the following questions.

How big are they?

How long have they been in business?

Where are they located?

What are their hours?

What is the company's reputation? Who are their customers?

Do they work with small businesses? Are they interested in working with you?

Your Market

To be successful, your business cannot be everything to all consumers. You must identify those markets that can most value your products or services. Your market can be segmented based on demographics, geographics, buying history, personal characteristics, or almost anything that ties a group together.

Your first step is to define your *trade area*, the geographic area that your business will serve. Is yours a neighborhood business that operates in a local area with one or a few zip codes? Or do you plan to service a city, county or several counties? Do you require a statewide or national market?

Describe the current business conditions in your trade area. Is your trade area in a growth pattern with existing businesses expanding, new businesses growing, and commercial and residential construction booming? Or is your trade area experiencing a contraction with employees losing jobs and construction equipment idle?

A key question is whether or not your product or service is already available in your trade area. This could signify a good market opportunity, or it could be a warning flag that others have tried your idea and found the area unsuitable for lack of market demand, political reasons or legal issues.

Your next step is to define your *target market*, the market segment that offers the most opportunity for your product or service.

A typical business makes 80 percent of its sales to 20 percent of its customers. By identifying that critical 20 percent, you can focus your efforts and expenditures on the consumer group that will give you the most return on your investment. In researching this target market, you will learn about your primary customers' needs and how to satisfy them. You should also study this group's buying habits to learn how to reach them with your promotional message.

Customer profile. Describe your selected customer market in terms of physical characteristics, needs and lifestyle. Place a face on your typical customer. What specific benefits does he or she seek? What personal needs or results will your product satisfy?

You also need to know about the individuals who make buying decisions. The person who buys your product and the one who uses it may be different. A good example: Adults buy breakfast

Comparative Competitor Analysis

	Product/ Service	Quality	Price	Service	Location	Marketing Program	Other
Your Business							
Competitor #1							
Competitor #2							
Competitor #3							

cereal, but children eat it and thereby may control the buying decision.

If you are selling a product or service to a consumer, the following are typical questions to ask in developing a customer profile.

Who is your primary customer? Male? Female?
Both? Business? Government Agency? etc.

Why do they buy?

How do they buy? Cash? Credit? Charge?

When do they buy? Daily? Weekly? Monthly?
Occasionally?

What customer services do they value most?

How much do they buy?

Why will they buy from you?

What is their income or revenue?

What is their age range?

Where are they located?

What is their profession or industry?

Target Market Preferences. Most consumers make purchasing decisions based on how they value convenience, service, quality, price or expertise.

Most small businesses stand out because the owner gives personal service. Customers value someone who makes a courteous and personal effort to provide special items or timely service. Small businesses have an advantage here because often they can provide this more efficiently than large companies.

It may be difficult for small businesses to compete on price because larger, established competitors usually have economies of scale and deeper pockets. Large businesses can typically outlast the

new entrant in a price war. It is also hard for a new business to successfully offer products or services at the highest price levels because this requires an established reputation to qualify the “status” or “value” of the offering. Most small business owners find it easier to compete on a medium price level. Look at your situation carefully and select the preference that your potential clients consider the most important.

Market Demand. Determining market demand is critical because if demand is lacking, you need to reevaluate your business idea. To estimate the total demand for your product or service, consider the current sales volume and growth potential for your product or service. Knowing the answers to the following questions will help you determine market demand for your product or service.

How many competing firms are located in your trade area and how much business do they do?

What are their sizes?

Are these businesses stable? Growing? Shrinking?

What are the population characteristics of your designated trade area?

How many consumers are there?

What is their buying capacity?

What is their need for your product or service?

What percent of the market will you have?

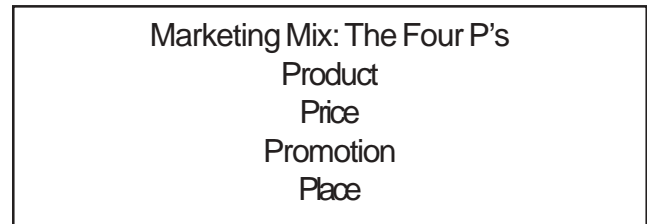
What is your market’s growth potential?

Your research may show that the market is too small to support another business or it is shrinking or growing faster than you thought. You may need to readjust your strategies.

The Marketing Mix

From time to time, review your original business definition. It may need refining based on the

information you’ve gathered and the marketing mix framework.



These elements must be “right” for your business to be successful. That is, you *must offer the right product or service at the right price using the right promotional efforts at the right place and time.*

Price. To pinpoint the *right* price, you need a combination of experience, market knowledge and good judgment. Study your competitors’ pricing and estimate your costs. Can you price your product or service competitively and still cover costs?

Consider the following factors to determine the best price for your product or service.

Are prices in your industry stable or do they fluctuate?

Must your clients buy from you or is it just as easy to buy from your competitors?

How much are your potential customers willing to pay?

Remember, your customers ultimately determine pricing. They will be willing to buy from you within a specific price range. If your costs exceed this price range, don’t assume that you can pass the difference onto your customers.

Place. How will you distribute your product or service? Will it be direct or through wholesalers or other intermediaries? Where will your business be located? What are the traffic counts at the location, and is this important for your business?

For some businesses, location is all-important, and the wrong location can undermine an otherwise sound business. On the other hand some

businesses don't need a fancy, expensive location if customers buy from distributors or other outlets and never see the office. If location is critical to your business, invest the time and effort to find the best location you can afford. Realtors know about commercial property, but they may be unfamiliar with your business needs, so don't rely on their recommendations alone. Talk to other advisors. Consider these questions: Where are your customers located? How will they get to your place of business? What are the traffic and pedestrian counts for the location?

Promotional Strategy. Your advertising and promotional strategy affects both your ability to sell and your business or cost structure. You don't need a full blown promotional plan now, but it would be helpful to review the following questions.

How will you tell your customers about your product or service?

Will you need to educate your customers about the benefits of your product or service?

Based on your target market's demographics and buying habits, what are the best ways to reach them?

What will gain your customers' interest and hold their attention?

Which advertising media will maximize the return per dollar spent?

How do your competitors promote their product or service?

What are the pros and cons of their methods?

How much promotion can you afford and for how long?

Key Success Factors. Many businesses, although founded on good ideas and sound objectives, fail because they lack critical success factors necessary to survive in their market segment. These factors vary in each industry and market segment. What does it take to make it in your market? Some key

factors might be:

Quality	Capital	Precise product or
Service	Technology	service identification
Price	Advertising	Precise market
Expertise	Suppliers	identification
Location	Distribution	

Personal Skills Analysis

Your next task is to define the many resources you may need to start your venture. These range from particular technical skills or management experience to legal requirements and start-up costs to sources of funding.

Technical Skills. These skills are unique to each type of business. For example, printers need to know how to operate a printing press, and oil well drillers need to understand geology. Do you have the skills to produce the product or render the service? Businesses are often founded on an entrepreneur's technical strengths.

Experience and Knowledge. Describe three critical skills or knowledge areas necessary to run your business. How much experience do you have in this type of venture? Do you have the experience and ability necessary to make good operating decisions?

Every successful business needs a complex mix of management skills in many business areas, including marketing, financial analysis, operations, purchasing and personnel. Do you have the management skills to successfully lead a business venture? Keep in mind that no one can be a perfect manager, but most new businesses fail because of poor management so it's important to be honest with yourself. Consider your management strengths and weaknesses, then decide if you need to gain additional experience or knowledge or should hire someone whose strengths balance your weaknesses.

People make the difference in a company's performance. Good employees can make a marginal business better, and poor employees can

destroy an excellent business.

Time Commitment. Owning a business can be a wonderful opportunity to be your own boss, to take charge of your financial future and to work seven days-a-week for nearly 24-hours-a-day with no one to hand you a paycheck at the end of the week. Are you prepared for the personal demands and sacrifices of running your own business? Use the following questions to decide if this is a good time to become a business owner.

Are you willing to work long hours and sacrifice leisure time?

How much time will the business require? (Most business owners work at least 60 hours a week.)

How much time can you spend on your business?

How long before you make a profit?

How long before you draw a salary?

Do you have personal family circumstances that would prevent you from totally focusing on your business now?

In answering these questions, you might find that you're not ready to start a business. Don't be discouraged. Although the time may be wrong now, you might be prepared in six months or a year.

Legal Issues. You must consider numerous legal issues when starting a business. You may need licenses, permits or certifications. Do you have what you need? If not, can you meet the requirements to get them?

You'll have to decide how to structure your business (sole proprietorship, partnership, corporation, etc.). Additionally, you should secure protection for proprietary products or services, such as patents, trademarks and copyrights. For detailed information about legal issues, see Chapter 4 of this workbook.

Financing Needs

Your next task in the feasibility study is to determine how much money you will need to start and operate your business until it is profitable. Begin by estimating your start-up costs and how much money you need to operate your business for a year. Make a list of special equipment needed and the cost to buy or lease it. Also list one-time start-up costs, including real estate purchase, furniture, fixtures, equipment, starting inventory, utility and lease deposits, equipment installation charges and grand opening promotions. Don't forget to include your insurance expenses as well. Insurance needs to be discussed with an insurance professional with specific industry knowledge.

Insurance Options

Mandatory: Automobile

Essential: Liability, fire, product liability, and workers compensation

Desirable: Crime, health, business interruption, key personnel, disability and bonding

Consider the pros and cons of purchasing all or part of an existing business. Sometimes, this alternative can make some aspects of starting a business easier or less expensive.

Sales/Revenues. Forecast your estimated sales/revenues for each month during the first year. You must forecast sales, costs and profits using assumptions drawn from your market research. Put these assumptions in writing.

Break-Even Analysis. Use the following formula to calculate the amount of sales and/or revenue needed to cover your business' total fixed and variable costs for the first year. The break-even point is where there is no profit *and* no loss.

$$\text{Break Even} = \frac{\text{Fixed Costs}}{\text{Selling Price} - \text{Variable Costs (per unit)}} \\ \text{or} \\ \text{Revenue} - \text{Costs \& Expenses} = \$0$$

Fixed costs are those costs that must be met regardless of the sales level. They include such items as rent or mortgage payments and maintenance expenses; utilities and telephone; salaries, benefits and payroll taxes; insurance payments; licenses; legal and accounting fees; office supplies; and depreciation and interest payments.

Variable costs fluctuate with sales and include such costs as sales commissions, advertising and marketing expenses, and raw materials.

Using the figures you've gathered, calculate your company's break-even point and when it will be reached.

Cash Flow Analysis. A schedule showing receipts, disbursements and net cash for your company over a specified period of time could be helpful at this point. A cash flow analysis estimates by month how much cash your business will need for expenses (when you pay your bills) and forecasts when cash will come into your business (payments from customers). Keep in mind, more businesses fail because of poor cash flow than for lack of sales. For detailed instructions on preparing a cash flow analysis see Chapter 3.

Financing Your Business. Finding funding is a challenge for every new business owner, but there are several sources to consider.

Personal Savings: Most new businesses get 90 to 95 percent of their cash from personal savings and family and friends.

Continued Employment. Some businesses start on a part-time basis, permitting the owner to continue working full-time for another company until the new business becomes profitable.

Friends and Relatives. Many entrepreneurs look to private sources such as friends and family when starting a business. The money is often loaned at low interest, which can be beneficial when getting started.

Banks and Credit Unions. Most commercial

banks are cautious and consider start-up ventures risky. Others usually require at least one-third equity investment plus additional collateral to cover the loan balance. If you have the required equity, some banks may consider offering you a loan guaranteed by the U.S. Small Business Administration.

Venture Capital Firms. These firms are usually not interested in start-up situations. However, start-ups that have the market potential to grow to \$25 million to \$50 million in five to seven years have been known to receive venture capital financing. Such arrangements will normally require you to give up an ownership percentage to the venture capital firm.

Private investors. Some individuals will invest in start-up businesses, especially if they are knowledgeable about the industry.

Your Decision

It's now time for you to examine your completed feasibility study to determine if this business venture can be profitable. Review your mission statement. Does your market analysis, competitive analysis, personal skills analysis and financing needs indicate that your idea could be profitable? Will these analysis factors allow you to achieve your mission statement?

A "Go" Decision. If all these analyses are positive, then start organizing your business. Turn to Chapter 2 and begin by compiling your market and industry information into a business plan.

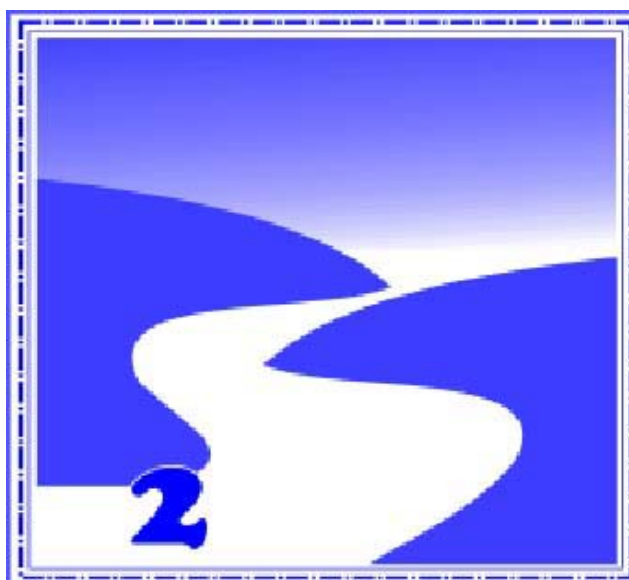
A "No" Decision. If one or more of your analyses displays negative results, your idea is not feasible at this time. Various conditions cause a negative decision. For example, a market may not exist or is too small. Perhaps the costs are greater than projected revenues. It is also possible that there is too much competition for your product or service or that profitability may be difficult to accomplish.

You might feel disappointed with a "no" decision

but it is much better to learn this now before you spend additional money and time on an idea that won't be profitable for you.

Time to reevaluate. Your analysis might show that your idea is not feasible, but only temporarily. Perhaps you don't qualify for a needed license, but you could get the permit with additional specialized training.

Be careful when you reevaluate. It's your money at risk. If the projected financial picture looks bleak, the real one won't be any better. Successful business people know when to walk away. Look for other opportunities or modify your current idea.



Chapter 2: The Business Plan

After you complete your feasibility study and decide to proceed with your business opportunity, your next step is to develop a sound business plan. Before you start, however, keep in mind the following general principles.

First, your goal in writing a business plan is to create an organized view of your business ideas—a road map to follow. The length of your business plan itself is inconsequential. The key is quality, not quantity. By formalizing your ideas on paper, you often identify weaknesses to be considered and anticipated. Most important, the business plan guides you to your company's future and lends focus and direction to your ideas.

Second, although the final document can be used to generate investment interest and financing, the business planning process is primarily an exercise to help you conceptualize your business and set reasonable and achievable goals and objectives. Theodore Roosevelt once said, "If you aim at nothing, you'll hit it every time." The business plan helps you visualize your target and guides you in hitting your mark.

Third, allocate time to think about the various issues you should consider during the planning process. Ask others to brainstorm with you, too. If you have a management team, get them involved.

Keep in mind, a small business owner's planning responsibility is to maintain control over the direction of the plan and, ultimately, the business. A business plan should reflect your vision of a market opportunity and serve as a blueprint for the future.

Fourth, consider these guidelines for brainstorming sessions.

- Follow an agenda with time constraints, and limit interruptions.
- Don't grasp the first idea that comes to mind, but generate a long list of possibilities.
- Don't let anyone dominate the planning session. Involve the entire management team and create an environment for the free exchange of ideas.
- Conduct the sessions in an informal, relaxed setting.
- Don't rely solely on past experiences for ideas. Stretch your imagination.
- Don't be timid or self-conscious about your ideas. Encourage spontaneity and withhold judgment or criticism of ideas until later.

Fifth, don't be discouraged if you meet unexpected obstacles. In fact, obstacles are the one thing to count on. Put yourself and your business at an advantage by anticipating and planning for diversions. When outsiders like prospective bankers and private investors read your plan, they consider your aptitude as a small business owner. You will earn credibility by candidly identifying obstacles and your strategies for overcoming them.

Finally, your business plan is a dynamic document that you should review regularly to determine whether or not you are meeting your goals and objectives. It should be adjusted as market conditions change. The plan is not something you write once and file away. Follow market conditions and revise your business plan accordingly.

Content

The length of a business plan varies from company to company depending on the type of business and market it serves. What is more important than length is the clarity and substance of the ideas set down on the pages. Your business plan must express various issues in a relatively straightforward and logical manner. Use the following components as a guide.

I. Table of Contents

II. Executive Summary

III. Introduction

IV. Environmental Analysis

V. Market Analysis

VI. Marketing Strategy

VII. Operations

VIII. Management Plan

IX. Financial Data

Remember, you are the business owner and the plan must reflect your ideas and goals. By thor-

oughly stepping through the planning process, you can identify the strengths and weaknesses of your operation. This should allow you to take advantage of your strong points, while giving you the opportunity to gather resources to counterbalance your weak areas.

With all this in mind, let's get started.

Section I: Table of Contents

A table of contents is essential if you intend to use your business plan to seek financing. Each investor or banker will read the text from the perspective of their background and experience. Number the pages of your business plan and include a table of contents to make it easier for readers to find what interests them. This will increase the chance that they will read your plan.

Section II: Executive Summary

The Executive Summary should capture the reader's attention and entice them to read further. It should be limited to two pages and summarize the business plan's key points. Although the Executive Summary appears at the front of your business plan, it should be the last section you write. The Executive Summary must reflect your complete understanding of your business idea. You won't achieve this understanding until you've written the document's main body. If the reader questions a broad statement made within this summary, the detail of subsequent sections should provide the necessary support.

Your summary should include, but not be limited to, the following components.

- Description of your business idea and product or service, explaining how it stands out from the competition.
- Generic discussion of the target market and the competitive environment.
- Review of the management team and key personnel, emphasizing their credentials and specific functions.

- Identification of capital requirements needed and the general use of these funds.
- Summary of potential financial results.

Section III: Introduction

The introduction should give a detailed description of your product or service. The information you developed and refined during your feasibility study will be useful as you write this section.

In the introduction bring up any distinctions or unique qualities of your product or service, such as a more convenient location or better service. Additionally, outline any proprietary positions that give you a competitive edge. These can be patents, copyrights or trademarks. If your product has any sensitive or critical characteristics—such as fire resistant treatment—list these attributes. Your readers will also be interested in learning about features that can positively influence the results of your marketing strategy. Be sure to also include your experience, special expertise or knowledge of the product or service.

Section IV: Environmental Analysis

The environmental analysis should include three key components: 1) a discussion of current business conditions in the area where you plan to do business, 2) an industry analysis, and 3) an evaluation of your competitors.

Economic Conditions—International, National, Regional, Local. You don't have to be an economist to run a business, but you should be mindful of key economic indicators that can affect your company's ability to conduct business. Recession trends, high interest rates, declines in retail sales and high unemployment are a few of the factors to consider when starting a new business.

Examine the economy to spot events or trends that could influence your business decisions. Concentrate on local business conditions and identify key opportunities and threats to your company. For instance, a large skilled local labor pool could provide you with high quality personnel

at reasonable wages. On the other hand, low unemployment could make it difficult to attract personnel. A new business owner may have trouble competing against larger, established firms that have the financial resources to compensate their employees.

Do not overlook international market trends that might affect your industry. For example, although you plan to sell your product or service locally, you could encounter competition from international sources. Be aware of these factors and plan for them.

Several resources could help you identify and follow these trends. The National Trade Data Bank of the Bureau of Census lists all overseas imports by commodity. Individual competitors can be investigated by reviewing annual reports or checking with such firms as Dun & Bradstreet.

Industry Analysis. By completing the feasibility study in Chapter 1, you gained an in depth understanding of your industry and market. This section of your business plan should focus on the results of your investigative efforts. Your research and analysis will provide you with the necessary tools to make informed decisions on market opportunity, to analyze industry trends and to understand their influence on your business.

Competition. During your feasibility study, you conducted a thorough examination of your competition. You learned about their strengths, weaknesses and performance in competitive categories. You identified their target markets, market share and strategies, and prepared a comparative competitive appraisal using key characteristics. Recount your findings in this section of your business plan.

Identify your key direct competitors and provide a profile of each. The goal is to demonstrate that you analyzed the competitive environment and have developed defensive strategies. Explain your market niche, your competitive strategies and the tactics you will use to capture market share.

Additionally, you must address your competitors' reaction to your entry into the market. You also should consider how other entrants could affect your business.

Section V: Market Analysis

This section should provide a description of the current market and future opportunities. Your research during the feasibility study phase should have provided you with the data to support your business endeavor. Include this information as well as a discussion of the following.

Geographical Trade Area. Discuss your primary trade area. State whether you will operate locally or plan to compete within your state, nationally or internationally.

Customer Identification. This section should describe your selected customer market. Who are you targeting? Develop a customer profile that illustrates their physical characteristics, needs and lifestyle. What is their buying capacity, habits and decisions for buying? What do they value? Discuss the need for your product or service. In this section you must prove that a market exists in your selected geographic area and show the number of people in the area that match your customer profile.

Competitive Position. Discuss your competitive advantage. Why will customers buy from you? What is unique about your product or service? List at least three key advantages you have over your competitors and describe how you plan to capitalize on them. You must also recognize your weaknesses and how to compensate for them. List three disadvantages and discuss the strategies to secure your company's competitive position.

Section VI: Marketing Strategy

The marketing plan is one of the most important sections of the business plan. It outlines strategies for selling your product or service. Your goals and benchmarks for the operation should reflect a realistic, credible guide supported by your marketing analysis.

Target Market. Review your market analysis performed in Section V. Your target market will consist of those individuals who will most likely buy your product or service. Keep in mind—you can't be all things to all people. This translates into focus. Your marketing plan must focus on your target market and the strategies you will use to reach these potential customers.

These strategies should reflect the habits and lifestyle of your customers.

Sales Organization. Outline your sales strategy. Do you plan to use a professional sales force? Will you use internal sales, outside sales or both? Will you sell through a retail operation, a wholesale operation or through mail order catalogs?

Design your compensation scheme. Will you pay commissions, salary or a combination of both? Or will you utilize bonuses or some other form of incentive compensation?

Promotion. Discuss how you will generate potential customers' attention. What will capture their interest? What benefits does the customer gain from buying from you? What attractive customer service or conveniences will you offer? For example, you might offer free delivery, free alterations or discounts on first purchases or certain dollar amounts.

Marketing/Advertising. As part of your marketing efforts, you can implement various advertising activities. Advertising consists of any activity that attracts attention for your product, service or company.

There are a range of advertising options to consider. Some advertising has direct costs, such as printing or production costs, postage or the cost to purchase space in a magazine. The most common forms of advertising include:

- Direct mail, such as flyers
- Brochures, handbills
- Ads in magazines, newspapers, yellow pages,

trade publications or on radio and television.

- Trade shows, exhibitions
- Sample giveaways

You should also consider other public relations activities. These include:

- Publicity, such as press releases and articles sent to newspapers, radio and television, trade journals or magazines
- Networking
- Seminars, speeches, classes
- Civic involvement
- Contacts/referrals

Advertising activities can offer short- and long-term benefits. Discuss your advertising approach and strategies to achieve specific marketing objectives. You want to confine your efforts to your target market. Select media that will most likely reach your target markets. These could be newspapers, trade journals, television or radio. Set an advertising budget based on how much you can afford and how much income you expect the ads to generate.

To decide which medium to use, compare the cost to use a specific medium with the sales results you expect it to generate. Keep your target market in mind and how often that target market uses that particular medium.

An advertising plan should be developed within your budget constraints. For an existing business, this amount can be a percentage of sales—for example, five to 10 percent of sales. If you are a start-up business, your advertising dollars will be a combination of a percent of potential sales and earmarked start-up capital.

You must commit to some form of advertising when introducing a new product or attracting the customer's attention. To develop a position in the

customer's mind you should address customer needs with consistency and frequency. Check industry norms for averages and use the data as a foundation. You may have to do a great deal of estimating in this part, and it's not unusual for you to change your strategy often, especially in the beginning.

Keep in mind that the easiest and most recognizable forms of advertising—television, newspaper and radio—are the most expensive. Select these media only if it's appropriate for your product/service and your target market. If you are competing with existing successful companies, you must make up in elbow grease what they can do with money.

When preparing a marketing/advertising plan, list the various activities you plan to use and estimate their costs for the next 12 months. Again, the cost of the plan must be reasonable compared to the income it produces. For example, it is seldom reasonable to spend \$10,000 on an ad that generates \$5,000 in sales.

When you're ready to implement your marketing/advertising plan, purchase a notebook or organizer to hold a calendar. Chart your marketing/advertising schedule, list the chosen medium and note how, when and where you plan to advertise. Include information about every ad you intend to place, speeches you will give or networking events you will attend. Keep daily statistics of your sales by product line, the number of customers that walk through your doors and other relevant information. Track customer response to ads and promotional activities by asking them where they learned about your company, product or service. These accumulated facts will help you make effective decisions for your future marketing/advertising plans.

Pricing Strategy and Sales Terms. As discussed in the feasibility study, correct pricing is essential. How do you plan to price your products or services? Your strategy should reflect the cost to produce your products or to provide your services as well as your overall financial goals and objectives.

What industry markup, discounts or other methods will you use? How will your price structure compare to the market? Why is it different? Will you give trade credit or any other inducements to attract new customers? Will you accept customer credit cards?

Your business' revenue equals the unit price multiplied by the unit volume of products sold or services provided (Revenue = Price x Volume). Price, particularly the "right price," is therefore an essential component of your financial strategy.

To arrive at the "right price," you need a combination of experience, market knowledge and good judgment. As a starting point, calculate the cost to produce your product or service. This is your minimum price. To calculate your maximum price, add an amount to the minimum price that reflects consumer demand and your competition's pricing. The "right price" falls between your minimum and maximum price.

Prices for most products and services are *market driven*. That is, the maximum price you can charge is determined by what typical buyers might pay for a like product or service at that time and place and under similar circumstances. Prices are said to be market driven because the market for products or services is based on the amount potential customers are willing to pay, not necessarily the price that you might like to set.

To determine the right price, you must consider various characteristics related to your product/service and your business and personal goals as outlined during the feasibility study. These factors can relate to your target market position and way of doing business, your competitors, your clients, the current and forecast market, distribution channels, regulations and state of the economy.

You should also consider how your answers to the following questions could affect the price you establish.

Does your firm lead pricing decisions or follow competitors?

Are prices in your industry stable or erratic?

How do your sales policies and terms compare to industry practices? For example, do you deliver?

How do the features and benefits of your products/services compare to those offered by your competitors?

Can you reduce unit costs as unit volume increases, or are your costs fixed?

Do your clients have to buy from you or could they just as easily buy from one of your competitors?

Who needs your product or service? How many potential customers? Who are they? Where are they located?

How much are these potential customers willing to pay?

Are these customers generally aware of the "going prices" for products and services such as yours?

Is there a distinctive aspect of your product or service that will induce customers to pay a higher price?

Are these customers motivated by price, product quality, service, a combination of each or by price alone?

How do these customers view your firm compared with your competitors? What might cause them to shift their loyalties?

What size quantities or contracts do these customers usually purchase? What are the average annual purchases of these customers?

Do these customers commonly "shop" or request bids to find the best price?

How do you sell your products or services? What distribution channels do you use?

Do you incur different costs for different customers because of their size, type or location?

Do you have a single product/service or do you offer a range of complementary or allied products or other inducements to attract buyers?

How will your competition react to changes in prices?

What is the general availability of similar products or services from your competitors?

Are there any unique factors in the market? For example, must you provide delivery or is credit expected?

Your answers to these questions can help you identify some of the internal and external forces that could affect the prices you establish.

Characteristics related specifically to your products or services can also help you pinpoint the right price.

Product type. Consider a lower price if you are selling a commodity readily available from your competitors. Charge a higher price only if your product is patented, unique or custom designed.

Production type. If your product is mass-produced with lower costs for higher volumes, you might charge a lower price than for products that are individually custom-built or require a great deal of special expertise.

Product Life. Products with a short life may sell at a lower price than a similar product with a longer life.

Distribution Channel. Products or services sold directly to the end user or consumer could have a lower price than the same product or service sold through distributors.

Market Coverage. Products or services with broad

applications and used in a range of circumstances usually hold a lower unit price than products that cover narrow areas and have less competition.

Desired Market Share. Selling at a lower price than competitors is one way to increase overall market share, but at the expense of a lower margin. On the other hand, you could charge a higher unit price if market share is not a concern and you're targeting a larger margin.

Stage of Market Development. Prices tend to be lower in a mature market with established competition and maximum economies of scale. Prices tend to be higher in a new or declining market where volumes are not established or are declining.

Related Services. Product prices tend to be lower if sold without any additional services, such as delivery, training, installation, maintenance and repair.

Product Turnover. Products with a fast turnover can be sold at a lower price, compared with products with a low turnover.

Marketing Expense. Some products and services require a high degree of advertising, sales promotion and other marketing expenses. These could warrant a high price.

Profit Potential. Prices tend to be lower if the product or service brings a short-term profit or if the profit can be made over a long period of time.

How do you know if your price is too high or too low? Prices may be too high if:

- No one buys the product or service and the sales volume is low or nonexistent.
- Your competition offers comparable goods or services (based on an objective opinion) at a lower price.

- A *slight* price reduction significantly increases sales.

Prices may be too low if:

- You're easily selling 100 percent of your capacity or output and your clients/customers would pay more.
- Your price is below your cost. An exception to this is when you have deliberately priced low as a loss leader to attract more people and expose them to your other products.

New products or services can bring up another set of considerations. When pinpointing a price for new products or services, ask yourself the following questions. Is this a totally unique product or service for which there is no current competition? Is the product or service new to you, but similar to something already offered by others? Is it identical to products or services already on the market?

New or unique products and services are difficult to price for several reasons. No competitive information is generally available for price comparison. There may be no industry information, trade association, established terms of sale or established market. In a situation like this, determine how consumers currently achieve the results of the new product or service. Then, determine what it costs them to achieve these results now. Can you provide consumers with the same results at a competitive price?

When introducing new products, you may incur higher marketing and promotional costs and may want to set a higher price to allow you to rapidly recover those costs. If this strategy doesn't work, you can easily and rapidly lower prices.

Another school of thought suggests that you can set a lower price to gain rapid attention for a new product or service, then raise the price as market share grows.

Some products or services might be new to you or to a market but compete with similar items. You could use the similar product/service as a guide for

setting your price, either adding or subtracting from theirs based on any differences in product/service characteristics or functions.

For identical products/services the price should be close to those of competitive products or services. The exception is if there is something special about your product that supports a higher price.

Discounts

Business owners often use discounts to induce customers to buy. For example, some sellers base discounts on cost savings they realized on high volume purchases. Others may offer a discount for early payment. In some industries, discounts are common and it would obviously hurt sales if other sellers did not follow suit.

Cash Discounts. Cash discounts are most often given to customers who pay within a certain period of time—a savings of two percent, for example, for payments made within 10 days. The discount should be large enough to encourage buyers to pay early or at least earlier than payables without a discount.

Cash discounts could bring about two results. First, the average customer might not take advantage of the discount. In these cases, the discount may not be effective or is set too low to encourage payment. Second, some customers may take the discount, even if they don't pay within the qualifying payment period. For example, you decide to offer a two percent savings on payments received in 10 days. The customer, however, pays in 30 days and takes the discount anyway. If this happens, you must decide to either allow the discount or ask the customer for full payment.

Volume Discounts. Volume discounts are based on the unit quantity purchased and are offered to encourage larger purchases. For example, a tire supplier may choose to sell two tires at \$50 each or four tires at \$40 each. Volume discounts can be offered as a normal business practice or for limited periods.

Volume discounts have several advantages. First, large orders can reduce associated marketing costs for selling, shipping, packaging and delivery. These costs can then be passed on or shared with the customer. Second, if a seller offers a range of products, discounts on the entire range can encourage sale and turnover of less popular products. Third, special discounts can reduce stocks of slow moving, low turnover inventory. Fourth, sellers may take advantage of the discount and purchase larger quantities.

Volume discounts can present problems, which can be remedied with advance planning. For instance, customers may ask for a discount even though their purchase falls below the qualifying discount level. Another situation may arise where customers purchase a large quantity at the last minute, which causes inventory shortages or production scheduling problems.

Trade Discounts. Trade discounts also may be common in some industries. For example, distributors may receive five percent off a manufacturer's list price or some other published price list. Trade discounts also may be combined with volume discounts.

Advertising Allowances. Advertising allowances are promotional discounts that suppliers offer in return for some action by the buyer. An example of this is when a manufacturer offers a retailer a five percent discount in exchange for a specified type and amount of advertising.

Section VII: Operations

Discuss operational activities in this section of the business plan. Address these key points if they apply to your particular business.

Plan Capacity and Production Scheduling. In this section, manufacturing concerns should discuss the range of their facilities, including production strengths and weaknesses. Also, include a diagram of the shop floor, develop a production schedule and identify capacity on a unit basis. Indicate if you plan to subcontract any portion or all of your work and describe how you will select

subcontractors. Additionally, include a complete list of necessary equipment and the cost of each.

Cost and Inventory Controls. Develop and explain inventory control procedures in this section. How will you track the flow of goods from raw materials to finished product? Have you clearly identified the costs associated with your inventory levels? Do you have alternative suppliers for critical materials? If some materials are price sensitive, what is the projected impact on costs to produce the goods?

Invoicing and Collections. Produce a policies and procedures manual for invoicing customers and collecting payments. Outline methods for establishing the credit worthiness of customers, invoicing for goods delivered or services rendered, and collecting payments.

Personnel Requirements. Discuss your staffing requirements. Clearly outline job descriptions, specific training needs, salary schedules and performance evaluations. Develop a personnel policies manual that clearly addresses issues related to your business' daily operations, such as absenteeism, overtime, vacation and smoking.

Section VIII: Management Plan

A management plan is critical to your business plan because it gives you a clear understanding of your management team's strengths and weaknesses. The bottom line is that "people make the difference." Your management team needs the skills, experience and chemistry to successfully and profitably guide your business. Review your team's expertise. Determine if they lack key management traits and outline plans to acquire the missing expertise.

Organizational Structure. Draw an organization chart outlining all full-time personnel and their job titles. This section should also include job descriptions, qualifications and compensation for all positions.

Key Managers and Functions. Describe the duties and responsibilities of key personnel and

management executives. Include detailed resumes that explain pertinent business experience and expertise. Also include a salary schedule and pay periods. Summarize the strengths and weaknesses of the management team. If appropriate, list the board of directors and explain their level of involvement and contribution.

Section IX: Financial Data

The final section of your business plan will be financial statements for your business. These financial statements integrate all your research into reasonable, realistic numbers. You must demonstrate that you have fully tested the numbers based on the assumptions and data you've collected. The statements you develop will demonstrate how thoroughly you have examined and researched your ideas. The focus of this section is to put together pro forma numbers (*projections*) that directly reflect the market demands for your product or service and your costs to deliver it to the market.

You may want to develop three different financial statement scenarios to illustrate your forecast performance: the best case, worst case and mostly likely case. Follow these guidelines to compose each scenario (see *Chapter 3: Cash Flow Requirements* for more information on calculating financial data):

- Prepare your financial projections based on realistic and credible assumptions. These could include sales forecasts based on your marketing plan and materials costs and expenses, such as advertising, taxes and insurance.
- Discuss funding requirements to start your business, the sources of these funds and how the proceeds will be used. These costs are in addition to operating costs. They are not deductible but are usually amortized over a five year period.
- List the equipment you plan to purchase and the cost for each.

- Develop pro forma financial statements and prepare balance sheets for at least three years. Complete income statements (also known as profit and loss statements) operating and cash flow projections on a monthly basis for the first year, quarterly for the next two years and annually thereafter.
- Review the break-even analysis you conducted in your feasibility study to determine how much you must sell to cover your expenses or costs with no profit or loss.
- Calculate key business ratios based on expected performance.

To develop your scenarios, you need to understand income statements, cash flow statements and breakeven analyses (also discussed in *Chapter 1: The Feasibility Study*). Each serves a different purpose.

An *income statement* shows money transactions over a definite period of time, one month or one year for example. It shows how much money came in (*revenues*) and how much money was paid out (*expenses*).

A *cash flow statement* presents a business' cash position by showing when money is collected and spent. The form *Monthly Cash Flow Projection*, produced by the U.S. Small Business Administration (SBA Form 1100, 3-93), is an excellent tool. A copy of this form is included in the back of the book.

A *break-even analysis* determines the point where sales and expenses are equal. It identifies the sales level or the volume of units you must sell to cover your fixed and variable costs. If you exceed your break-even point, then you are "in the money," whereas if you fall below your forecast break-even, you are in a loss position.

The *balance sheet* gives a snapshot of the firm's financial position. It shows your assets (what you own), your liabilities (what you owe) and your

owner's equity (your investment in the business). At any given time, your total assets should equal the sum of the total liabilities and owners' equity. That is:

Total Assets = Total Liabilities + Owner's Equity

Key business ratios give insight into the company's financial health. Ratios provide you with data to evaluate your business' liquidity or solvency, activity efficiency and profitability. The *current ratio* measures the business' ability to meet its current obligations. It is calculated by dividing current assets by current liabilities. For example, a current ratio of 2.0 means that there is \$2 in current assets for every \$1 in current liabilities—or to say it another way, you have \$2 available for every \$1 you owe.

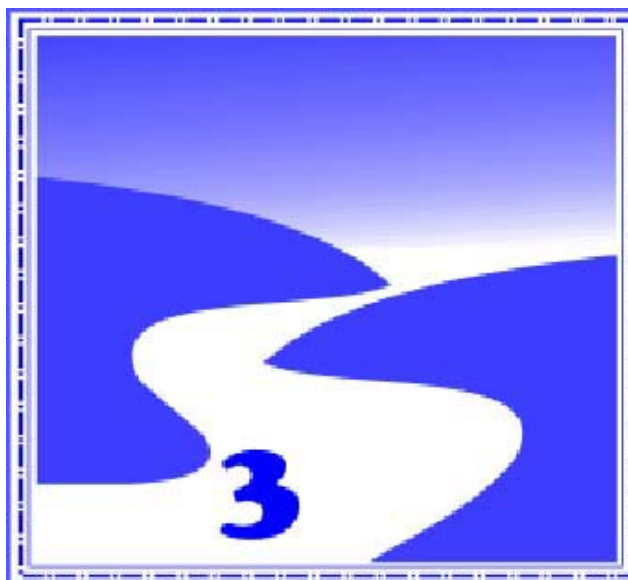
Key business ratios also can be used for comparison. You can evaluate the financial performance of your firm against its past performance, compare your financial data with that of similar firms or measure your company's performance against industry norms.

If you have thoroughly estimated your sales and expenses, you should be comfortable with the results derived from your scenarios. If your bottom line says that your business will be unprofitable, then re-check your figures. If, after re-evaluating them, the numbers still reflect problems, then consider this a warning signal. Remember, it's your money at stake. If the projected financial picture doesn't make sense on paper, more than likely the real one won't be any better. That doesn't mean you should abandon your quest to run your own business, but you ought to back away from the current idea and look for other opportunities. Remember these words from the wise and experienced: *To be successful, new entrepreneurs must develop one essential skill—knowing when to walk away.*

Final Considerations

When packaging your business plan, you may want to include a cover sheet and cover letter. Every business plan should begin with the business' and owner's name, address and telephone number. If you intend to mail the plan to someone—to a prospective investor, for example—prepare an accompanying cover letter. The letter should be short, state your purpose and identify the results you desire.

You should also consider visual aids. Charts and graphs will make your business plan visually appealing and easier to read.



Chapter 3: Cash Flow Requirements

Now that you've identified your product or service, assessed your customers and competition, and established sales goals using a marketing/advertising plan, it's time to test these ideas by converting them into numbers. The test is called a *cash flow analysis*.

The cash flow analysis helps you determine whether your business will generate enough cash to pay its daily, monthly and yearly expenses. It's important for this exercise to produce a positive financial outlook. If your planned numbers don't present a favorable outlook, most likely the actual ones won't either.

The cash flow analysis is a planning tool. It helps you decide how much capital you need to launch, expand and maintain your business. The *cash flow analysis* is commonly used to take snapshots of where a business is headed financially. Even the smallest business needs to know how well it is faring at any given moment. Many businesses have a great deal of cash, yet may still be in financial trouble. Others may be making a terrific profit, but can be cash poor. The cash flow analysis alerts you to these and other financial conditions.

To see how a cash flow analysis can work as a planning tool for your business, pull out the copy

of the cash flow form in the back of the book. It will be your guide.

This form, SBA Form 1100 (3-93) *Monthly Cash Flow Projection* is handy because it has a spreadsheet on one side and a complete set of guidelines for completing the form on the reverse side. You can get additional copies from your local Small Business Administration office.

Cash as used here refers to actual currency or money in your bank account on which you can write a check. It does not include *accounts receivable* (products or services sold, but unpaid).

Your first task is to identify all your sources of cash. For a start-up business, this usually includes sales, the owners' investment (*equity*), bank loans and loans from owners or lenders. For existing businesses, funding sources may also include collection of accounts receivable, sales of assets and refunds from suppliers or vendors.

Completing the Form

Find line 1 under *Pre-Start-Up* and enter any cash your business has on hand. Now, in either the PreStart-Up position or under the appropriate month, enter the amount of cash you think you

will receive on lines 1, 2(a), 2(b) or 2(c).

For instance, if you plan to invest \$20,000 in your business and make this money available to your business in the first month of operation, then put \$20,000 under month 1 on line 2(c). If you plan to have cash sales in the second month of \$8,000, then put \$8,000 under month 2 on line 2(a), and so on.

Note: The first time you perform this exercise, don't include the money you plan to borrow. This exercise helps you determine what amount, if any, you should borrow.

After you have identified all sources of existing and incoming cash and placed the amount in the appropriate columns, add and complete lines 3 and 4 to show *Total Cash Receipts* and *Total Cash Available*. At this point, you should know how much cash you plan to have in each of the 12 months from all sources. You'll also know the total receipts expected from each source.

The next job is to identify how you plan to spend this money. Under *Cash Paid Out* (Item 5 in the description area), write each category of expenditure on the appropriate lines. Start with the items that remain the same each month. These are your *fixed expenses* and should be entered in Items 5(a) through (q). Fixed expenses include rent, wages, loan payments and insurance.

Next fill in the expenses that will vary directly with sales revenues (variable expenses). For a retail, manufacturing, or wholesale company, inventory planning is most important. For service companies, payroll expenses, payroll tax expenses, and employee benefits are most important. Consider contacting numerous suppliers of your inventory. Discuss payment terms (accounts payable), early payment discounts, and volume discounts. For example, 2% discount before 10 days; net 30 days discount can substantially lower your cost of inventory, thus increasing your bottom line profitability. 2/10 N 30 means that if you pay your suppliers within 10 days, you save 2% of the cost of the inventory, but if you pay between 11 and 30

days, you must pay full price. Managing accounts payable is extremely important in order to receive quality merchandise in a timely way. Planning for your inventory needs also allows you to obtain volume discounts. For example, you can achieve a \$15.25 cost savings by purchasing 100 units at \$10 each versus purchasing 101 units at \$9.75 each. If you are selling services to the public, planning your time and developing a personnel schedule allows you to minimize payroll expenses and taxes, while still having the ability to generate sales. For each type of service your company offers, estimate how many man-hours are required to perform quality work. Multiply man-hours by hourly wage or salary to calculate gross payroll. Payroll taxes are calculated based on federal and state percentages of gross payroll. Variable expenses like cost of inventory and payroll expenses are the largest cost of doing business, therefore estimating carefully will increase your chances of profitability and success.

Other expenditures are your final type of cash outlay for consideration. These occur on a more infrequent basis than fixed or variable expenses and should be entered on lines 5(s) through 5(w). Other expenditures include such items as deposits, installation charges, leasehold improvements, office furniture and equipment.

Monthly fixed and variable expenses can offer clues to many of these other expenses. As an example, think about your office or store front. Although there is a monthly rent or lease associated with occupying this space, you will probably be charged a deposit and may need some additional money for leasehold improvements.

The telephone is another example of how one item carries many cash requirements. There are seven basic costs associated with using this required business tool:

- 1) Line costs (fixed monthly cost)
- 2) Long-distance costs (variable monthly cost)
- 3) Telephone equipment rental, lease or purchase (could be a fixed monthly cost or a one-time expenditure)

- 4) Initial service deposit (one-time expenditure)
- 5) Line installation costs (one-time expenditure)
- 6) Wiring costs (one-time expenditure)
- 7) Name listing costs in yellow pages, etc. (fixed monthly cost)

The cash flow analysis helps you examine your business idea and determine associated costs. Most people can identify the cash that comes into the business, but some people overlook the many ways cash is spent. To make the cash flow statement a useful management tool, be thorough in gathering this information.

If you don't know what to expect, call a few people. For example, call the telephone company and ask what costs you can expect. From this conversation, you can easily determine the line costs, required deposits, an estimate of your installation and wiring costs, your listings and yellow pages costs, and the various options available regarding telephone equipment. Once you have this information, you can decide to either rent, lease or purchase the telephone equipment.

Finally, some guesswork is necessary to estimate your monthly variable costs, such as long distance charges. Remember, as your business grows, some of your expenses will also grow. Don't estimate that your business will double its volume while keeping variable expenses constant. This not only constitutes poor planning, but doesn't reflect well when someone—like a banker—reviews your cash flow statement.

After you've identified your cash outlays (fixed, variable and other expenditures) and placed the amounts in the appropriate columns, complete Item 6 *Total Cash Paid Out*. Add your expenditures for each month, and don't forget the 14th column *Total*. Add the numbers in each row to create a total for each expense type.

Next, subtract the *Total Cash Paid Out* (Item 6) from *Total Cash Available* (Item 4) to arrive at *Cash Position* (Item 7). Do this from left to right because

the ending cash position of one month becomes the *Cash-On-Hand* (Item 1) for the following month.

After you calculate the amount for each column, look at the line titled *Cash Position* (Item 7). If the numbers are all positive, then you'll have enough cash on hand to pay your expected obligations for the year. If any of the numbers are negative, then you plan to spend cash you don't have, and you'll need additional capital to stay open for business. Consider this negative number as the minimum funding amount, because rarely are reality and your cash flow statement identical. Additionally, many businesses cannot sustain a cash flow great enough to pay their own way within the first year, so it would be wise to evaluate years two and three as well.

Next, build a reasonable cushion of funds in case your plan doesn't work as expected. By combining this cushion—the minimum funding amount and any cash shortfall in years two and three—you can identify the additional investment or borrowed finances you need to give your business a fighting chance. Most banks will allow you to add a 3% to 5% cushion to your minimum funding requirement.

This exercise may seem complicated, but you need to work through it alone. If you need some help, contact your local Small Business Development Center or see a certified public accountant. But do the work yourself.

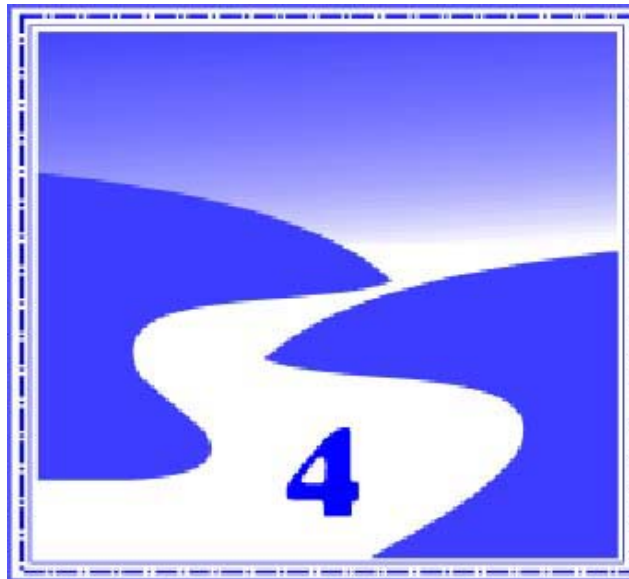
Why is it important for you to complete the cash flow statement on your own? First, it's your business and this tool helps you better understand your financial position. You need to learn the cash flow statement inside and out. Review the cash flow statement at least twice each month. It should be reviewed at the beginning of each month to see the goal. Then it should be reviewed at mid-month to determine if you are on target with the projection. Update and use it constantly. It allows you to see your business' future while you still have time to change it.

Second, as a small business owner, you need to get used to doing things on your own. Until your business becomes profitable, you must be conservative about how you spend your money. This means, at least for a while, you'll have to wear the hat of president, planner, accountant, operations manager, sales executive, delivery person and almost every other job in your company.

The cash flow statement can also be converted into a break-even analysis by playing some *what if* games with the revenues and variable expenses. By manipulating these numbers to make your year-end additional cash required total close to zero, you can define your company's minimum survival level.

The cash flow statement can also double as a budget. By continually comparing what actually happened to what you expected, you not only improve your ability to predict the future, but you also gain insight into those areas that are "out of control."

If you have additional questions about the cash flow statement, check the guidelines on the reverse side of the SBA Form 1100. If you need extra copies, check the *Miscellaneous* section at the end of this booklet for the SBA office nearest you.



Chapter 4: Legal Issues

The next step in starting your business is to select the best legal form for your new business venture. The choices include *sole proprietorship*, *partnership*, *limited liability partnership*, *C Corporation*, *S Corporation* and *limited liability company*.

Sole Proprietorship

Most new businesses are *sole proprietorships* for several reasons: 1) It's normally the easiest and least costly way to organize, 2) It does not require formal legal papers, and 3) It does not require a separate tax return (profit and loss are reported on a separate schedule within your personal tax return).

In many cases, a sole proprietorship is a good way to get started—but this business form has serious drawbacks. Under a sole proprietorship, business ownership is nontransferable and the life of the proprietorship is limited to the lifetime of the proprietor. Additionally, this business form makes no legal distinction between your personal and business debts.

The latter point can be financially devastating. Without legal separation, the business' assets and liabilities are also the proprietor's personal assets and liabilities. Consequently, anything the propri-

etor owns of value (with some exceptions) is up for grabs against outstanding debts and other liabilities.

Partnership

The next step up the ladder of complexity and expense is the *partnership* or *general partnership*. A partnership can exist when two or more people or businesses join together to operate a business. This business form may be more costly than a sole proprietorship if the partners require a written partnership agreement.

The partnership agreement's sole purpose is to establish the rules and regulations by which the partners can conduct business. Although it is not mandatory, an attorney's help in this endeavor may be useful. The agreement does not determine whether a partnership actually exists, but common law and the IRS asserts that if a business looks, smells and feels like a partnership, then it probably is one.

Besides the additional costs of establishing a partnership, you should carefully consider the concern of unlimited liability. Under the general partnership a separate business entity does exist, but creditors can still look to the general partners'

personal assets for satisfaction. And even worse, in some cases, a claim against one general partner may be satisfied with the personal assets of the other general partner.

Limited Liability Partnership

The *limited liability partnership* is an alternative business form. It is attractive for certain professional businesses because of the concern over unlimited liability for all partners in a general partnership. The limited liability partnership is similar to the general partnership, but each partner's unlimited liability may exclude obligations resulting from the professional mistakes made by or malpractice actions against the partners. The partners are generally responsible for all claims and liabilities resulting from all other partnership activities.

To ensure that all legal requirements are satisfied, it's a good idea to consult an attorney to organize this type of partnership and prepare the appropriate documents.

Corporation

The corporation is the most complicated and costly business form. Yet, the expense, complexity and extra work are often well worth the effort. The primary advantage of incorporating lies in the area of liability—*a corporation has its own legal identity—one completely separate from its owners*. The corporation safeguards the business owner's personal assets, and this protection alone justifies the additional expense and paperwork.

The corporation does have some negative aspects, however. First, it is more costly, partially because it is wise to seek guidance from an attorney. Second, you must obtain a charter (approval) from your state to operate a corporation. Additionally, the owners must deal with numerous local, state and federal regulations and reports during daily business operations.

An attorney normally files the forms required by the state to obtain your charter. Your attorney can

also provide other necessary documentation.

Remember, you must keep a corporation in good standing every year by submitting the required minimum documentation and fees. If not, your *corporate shield* can be stripped away, leaving you individually vulnerable.

From a taxation standpoint, you need to consider several points regarding corporations. There are two corporate forms to consider: 1) C Corporations and 2) S Corporations.

The original corporation business form is a *Corporation*. A few of its characteristics are:

- Its maximum tax rate is significantly lower than for an individual.
- The shareholders (owners) are not taxed personally for profits, nor do they benefit from any losses.
- The owners pay personal taxes on any salaries and dividends. The bad news is that dividends are taxed twice—once to the corporation and again to the individual.

Many small businesses solve this dividend problem by electing to be an *S Corporation*. The characteristics of this business form include:

- Profits and losses are treated as if it were a partnership.
- Distributions to share holders are generally free of tax.
- There is no added cost to the incorporation process or filing of Tax Form 2553.

The S Corporation allows you the protection of a corporation with some of the financial flexibility of a partnership. The election is relatively simple to make, but it needs to be timely, otherwise your pocketbook may be hit seriously. If you think someone is handling this for you, here are a few words of warning: Don't rest easy until you actually see both the election request and a letter from the

IRS authorizing the S Corporation. And don't forget to include both your signature and that of your spouses' on the election form.

In the long run, the key to your decision is the additional cost and paperwork burden of incorporating in comparison to the liability and separate entity issues of other business forms.

Limited Liability Company

The Texas Legislature recently created a new legal form, the *Limited Liability Company* (LLC). This business form provides owners with the liability protection of a corporation and, if properly established and operated, the federal income tax benefits of a partnership.

The LLC is formed in a similar manner as a corporation. The owners must file articles of organization with the Texas Secretary of State and pay the required filing fee. The name of the company must include the words *Limited, L.C., LLC,* or *Ltd.* The company's owners are called members, not shareholders, and the directors are called managers.

The major advantage of the LLC is that the individual member or manager is usually not personally liable for the LLC's debts, obligations or liabilities. The LLC, like the corporation, is always subject to attempts to pierce the liability shield and hold the individual member or manager personally liable.

To ensure that you satisfy all legal requirements, hire an attorney to organize the LLC and prepare the appropriate documents.

Additional Legal Paperwork

Regardless of the legal business form you select, you must complete and file IRS Form SS-4.

The Assumed Name Certificate legally permits you to conduct business under a unique name other than your birth name or your corporate name. To obtain the certificate, go to your county

clerk's office and ask for *How to Register Your Business Name in Texas*, produced by the Texas Department of Commerce. It not only tells you how to proceed, but also answers many commonly asked questions.

The IRS requires an SS-4 form, which issues your business a tax identification number. You will find an explanation of the requirements and the use of this form in IRS Publication 583. After completing the form, you can expedite the process by calling the IRS in Austin. An IRS agent will ask for the information over the phone. If the information is complete and you are an authorized agent of the business, an identification number will be issued immediately.

Note: If you need a copy of other IRS forms, call 800/829-3676 or drop by any IRS location.

License and Permits

Your business may also require certain professional or occupational licenses to operate. For information on those that may apply to your business, contact the Texas Marketplace, Business Information and Referral Specialists at 800/888-0511. Ask for a free copy of *A Guide to Texas Business Licenses and Permits*.

Patents

A patent is a right of ownership granted by a government to an inventor. In the United States, it excludes others from making, using or selling the patented invention or name for a limited period of time. Existing patents may restrict those rights. If patent protection is desired in other countries, the invention must be patented in each of those countries.

Besides having the right to exclude others from making, using or selling the invention, the U.S. patent owner has other rights, such as granting licenses of the patent right to others, filing a lawsuit to enforce the patent rights, assigning or selling the patent and transferring the patent to a beneficiary under a will.

In the U.S., there are three different types of patents: utility, design and plant patents. The most common is the utility patent, which grants a 17-year exclusionary right for new and useful inventions. Design patents cover new, original and ornamental designs. Plant patents are directed toward distinct and new plant varieties. Any person who invents or discovers any new and useful products, machine or composition of matter, or any new and useful improvements thereof, may obtain a U.S. utility patent. A patent may also be obtained for the conception of an invention.

Obtaining a U.S. patent is a two-step process. First, a search should be made to see if the invention is patentable. Second, a formal patent application must be submitted. The search, if performed well, will indicate patentability, reveal conflicting situations, help plan the scope of the patent protection sought and, in general, be critical to drafting the patent application itself. This need for an expertly done search suggests the inventor should seek a patent attorney.

Some inventors may wish to make a preliminary search of patents already granted to see if someone else has patented what they are considering before seeking expert legal advice. A system of Patent Depository libraries throughout the U.S. facilitates such searches. Information, forms and fees related to the submittal of a patent application and other information about patents and patent publications can be obtained by writing the U.S. Department of Commerce, Patent and Trademark Office, Washington, D.C. 20231.

There is filing fee for a basic utility patent application. Additional charges are made for claims, depending on the number in the application, and for patent application revisions. A utility patent issuing fee is required when the patent is granted. In addition, maintenance fees are due in 3 1/2, 7 1/2 and 11 1/2 years, respectively, after the utility patent is issued to keep it in force. Nearly all these fees are reduced by 50 percent when the application is a small entity, such as an independent inventor or a small business.

Trademarks and Service Marks

The field of trademarks and service marks is a narrow area of the law that is frequently overlooked and often plagued by popular misconceptions.

It is commonly believed that filing an “assumed name” or “d/b/a” with the county clerk will reserve and protect a trademark or a service mark. It is also generally assumed that incorporation of a business with the secretary of state protects a trade name. These acts performed by the county clerk and secretary of state are irrelevant to the trademark protection. A trademark cannot be reserved; trademark rights can only be acquired through actual use.

Without exception, every business uses some kind of brand name or logo design as a means of identification, even though these words and symbols may not be formally recognized as a trademark or service mark. Trademarks, also called brand names, are used by merchants and manufacturers to identify goods.

Service marks identify services rather than goods. If a business is not manufacturing a product, it will typically be offering some type of service.

The law that protects trademarks and service marks is designed to prevent customer confusion, and to prevent unfair competition by a competitor who capitalizes on the goodwill and reputation of another.

If a federal registration has been issued by the United States Patent and Trademark Office, the letter R enclosed-within-a-circle should appear as a superscript adjacent to the mark to obtain the full measure of federal protection. It is possible to register a mark under the trademark laws of each of the 50 states. However, state registration alone does not confer the right to use the R-within-a-circle symbol. The superscripts TM and SM serves as a warning to others that the user considers the mark to be exclusively his or hers.

A Texas trademark registration and a federal registration are constructive notice of the registrant's claim of ownership. A federal registration provides coast-to-coast protection. A Texas registration only provides protection within the state. Federal registration improves with age; if a trademark has been in continuous use for five consecutive years after issuance and if the appropriate affidavits have been filed, the mark becomes incontestable as a matter of law.

If a mark is registered and a third party is thinking of using a similar mark, the third party will typically locate the registered mark during its initial trademark search. Selection of a new trademark is an exciting, but sometimes frustrating, experience. In most situations, several potential marks will be under consideration for ultimate selection as the new trademark.

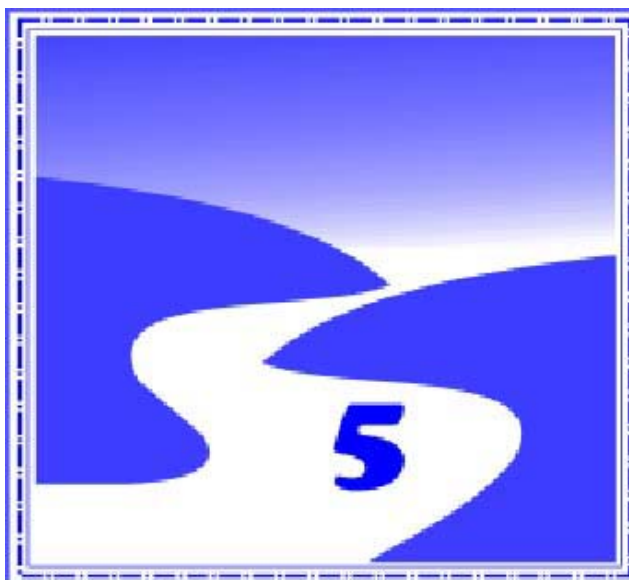
In Texas, a trademark application will typically be examined within 30-90 days after it is received in the secretary of state's office. The examiner will conduct their own search to determine if there is any conflict. It currently takes an average of 13 months to get a federal registration.

For more information on trademarks in Texas, contact:

Secretary of State
State of Texas
Corporate Section
P.O. Box 13697
Austin, TX 78711
Phone 512/463-5770
www.sos.state.tx.us

For more information on federal trademark registration, contact:

The Public Service Center at the Patent and
Trademark Office
Phone 800/786-9199
www.uspto.gov



Chapter 5: Permits

During your feasibility study you considered the various licenses and permits you may require to operate your business. The Texas Marketplace, Business Information and Referral Specialists at the Texas Department of Economic Development can assist you in obtaining the appropriate permits to operate within Texas.

The State of Texas defines a permit as “any license, certificate, registration, permit or other form of authorization required by law or by state agency rules to be obtained by a person in order to engage in a particular business but does not include a permit or license issued in connection with any form of gaming or gambling.”

Specifically, the Business Information and Referral Specialists:

- Refer you to appropriate federal, state and local agencies. It can also facilitate contact between you and state agencies responsible for processing and awarding permits.
- Provide a research library of resources on state agency regulatory procedures.
- Furnish a 25-day turnaround permit package through the comprehensive application. This

is designed for businesses requiring multiple applications for Texas licenses or permits. It targets the agencies the applicant needs to contact and the type of information required to process the application.

Operating in Texas

A non-Texas company currently doing business in other states may obtain the right to transact business in Texas by contacting the Office of the Secretary of State. Companies have the option of filing domestic incorporation papers or obtaining a Certificate of Authority. For more information contact:

Office of the Secretary of State
 P.O. Box 12697
 Austin, Texas 78711-2697
 Phone 512/463-5770
 Fax 512/475-2761
www.sos.state.tx.us

A Texas business that chooses not to incorporate must file a fictitious name statement or doing-business form with the county of record where the business is conducted.

Here are some of the other available permits,

examples of their applications and offices to contact.

Agricultural Permits

These vary depending on each specific business activity and industry. If you plan to produce seed, contact:

Texas Department of Agriculture
Seed Quality Office
P.O. Box 629
Giddings, Texas 78942
Phone 409/542-3691
www.agr.state.tx.us

Business Permits

If you are in the debt collection business, contact

Federal Trade Commission
Dallas Regional Office
1999 Bryan St. Suite 2150
Dallas, Texas 75201-6808
Phone 214/979-0213
<http://www.ftc.gov>

If you need to register your weight or measuring device, contact:

Texas Department of Agriculture
Metrology Labs /Weights and Measures
119 Cumberland Rd.
Austin, Texas 78704
Phone 512/462-1441
Fax 512/475-1642

A Guide to Texas Business Licenses and Permits produced by the Texas Department of Economic Development offers detailed information about business permits.

Environmental, Industrial, Manufacturing and Commercial Permits

There are certain permits necessary to operate manufacturing, industrial and commercial businesses. For instance, to obtain a registration for a recycling facility contact:

Texas Natural Resource Conservation
Commission

Municipal Solid Waste Div.
12100 Park 35 Circle
Austin, Texas 78753
Mailing Address:
P.O. Box 13087
Austin, TX 78711-3087
Phone 512/239-1000
Fax 512/239-6717
<http://www.tnrcc.state.tx.us>

If you need a construction permit for a facility that emits air contaminants, contact:

Texas Natural Resource Conservation Commission
Operating Permit Division

12100 Park 35 Circle
Austin, Texas 78753
Mailing Address:
P.O. Box 13087
Austin, TX 78711-3087
Phone 512/239-1334
Fax 512/239-1070
<http://www.tnrcc.state.tx.us>

For a brewer's permit, distiller's license for alcoholic beverages, rectifier's permit or manufacturer's permit, contact:

Texas Alcoholic Beverage Commission
Licensing Permits Division
P.O. Box 13127
Austin, Texas 78711-3127
Phone 512/206-3333
Fax 512/206-3399
www.tabc.state.tx.us

Professional Permits

There are a large number of professional permits issued by an equally large number of agencies. For example, to obtain a permit as a licensed dietitian, contact:

Texas State Board of Examiners of Dietitians
Texas Dept. of Health Dietitians Licensing
1100 W. 49th St.
Austin, Texas 78756-3183
Phone 512/834-6601

Fax 512/834-6677
www.tdh.state.tx.us/yellow/d.htm

To obtain a social worker certificate, you can apply by first contacting:

Texas State Board of Social Workers Examiners
1100 West 49th Street
Austin, Texas 78756-3183
Phone 512/719-3521
Fax 512/834-6677
www.tdh.state.tx.us/yellow/s.htm

Business Information and Referral Specialists
P.O. Box 12728
Austin, Texas 78711
Phone 512/936-0082
Fax 512/936-0440
Phone 800/888-0511
www.tded.state.tx.us

Transportation Permits

There are numerous offices to contact for transportation permits, depending on the specific permit you need. For a specialized motor carrier certificate, a commercial vehicle registration (including all tow trucks) or a broker's license, contact:

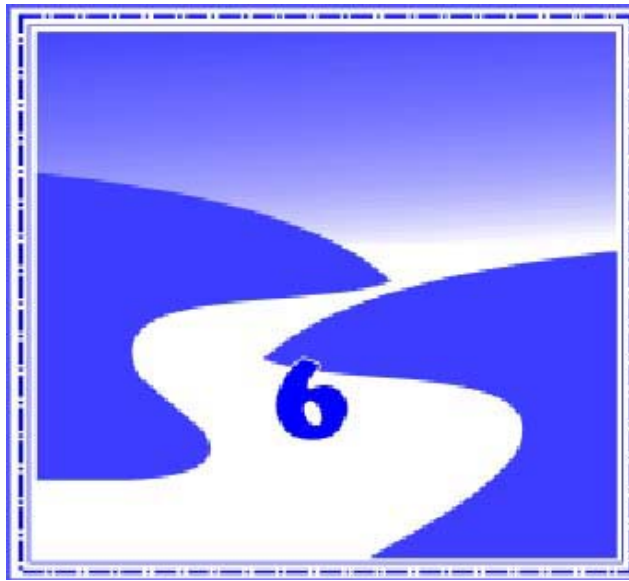
Texas Department of Transportation
Motor Carrier Division
P.O. Box 12984
Austin, TX 78711-2984
Phone 512/463-8585
Fax 512/465-3521
<http://www.dot.state.tx.us>

For a permit to transport used and scrap tire contact:

TNRCC
Municipal Solid Waste Management Div.
12015 Park 35 Circle
Austin, TX 78753
Mailing Address:
P.O. Box 13087
Austin, Texas 78711 -3087
Phone 512/239-1000
Fax 512/239-6717

There are many more permits required for businesses. Refer to Texas Department of Economic Development, or Business Information and Referral Specialists at:

Texas Department of Economic Development



Chapter 6: Employee and Contract Labor

When your business begins to grow, you may need to expand your staff. Your first questions will be: Do you hire full- or part-time employees or do you hire subcontractors to perform specific projects on an as-needed basis?

Contract labor requires less paperwork, but keep in mind, there are important distinctions between contract labor and employees. If you incorrectly classify your workers, you may end up paying some big dollars to the IRS and the Texas Workforce Commission (TWC).

Employee/employer relations typically display one or more of these traits:

- Job training is necessary
- Employer holds supervision and payroll responsibilities
- Employer sets work hours
- Workplace is restricted (that is, employee must work on site)
- Employer defines employee's work priorities
- Wages are paid by the hour or some type of salary arrangement

- Employer pays expenses incurred on the job
- No risk of loss is applicable to the worker. (This refers to the recourse an employer has regarding work performance. While an employer can fire an employee for inadequate work performance, an employer can't legally force an employee to work without pay. With a contractor, if the work is not performed according to specification, the contractor could face legal action for breach of contract.)

Most jobs are categorized as employer/employee relationships. From TWC's perspective, anyone who provides services for a business is *presumed* to be an employee until proven otherwise. Therefore, when you classify someone as contract labor, you are almost guilty of misclassification until proven innocent. The following guidelines can help you substantiate that your workers are independent contractors.

A contractor usually:

- works by the project
- determines the tasks to be accomplished and the order in which they will be accomplished

- establishes work hours
- also works for others
- has own trade or business name
- is responsible for paying taxes resulting from compensation.

Besides these rules, answering this question should help you distinguish a contract laborer: *Does an employee within the company perform the same job?* If the answer is yes, then the worker is most likely an employee. It is irrelevant that someone only works part-time or that the job only lasts for a specific period (such as six weeks). For example, if a female employee is on maternity leave and someone is hired to fill-in during her absence, that person is an employee, not a contract worker. You can't have two people doing the same work and classify them differently.

As you can see, the distinction between being an employee or a contractor is not black or white. Additionally, it's not the theoretical relationship described on paper that determines the correct status (employee or contractor), but the actual day-to-day practice of the work.

It's not a good idea to classify independent contractors as employees to avoid risk. And it's an equally bad idea to classify employees as independent contractors to avoid paperwork. If the TWC and IRS determine that your contractors are employees, both agencies will quickly beat a path to your door to assess applicable back taxes, penalties and interest.

You can file Form SS-8 with the IRS, and they will classify the individuals in question.

Forms

For contract labor you must complete IRS Form 1099-MISC. Refer to IRS Form XX for a description of contract labor.

If you decide to hire full- or part-time employee the forms you will complete and file include:

- TWC Forms C-1 and C-3
- IRS Form W-4 for each employee
- INS Form I-9
- IRS Forms 941, 8109, 940 and W-2

TWC Form C-1

TWC uses the Employer Status Report to determine if your business has incurred liability under the Texas Unemployment Compensation Act. Every person or employing unit that operates a business organization in Texas must file an initial C-1. TEC requires subsequent filings if the business entity significantly changes its legal structure. It is a fairly easy form to complete. Keep a copy handy because much of the information will be requested on other forms.

TWC Form C-3

This quarterly report notifies TWC of the amount of taxable wages for each employee and the total state unemployment taxes due. This tax payment is made payable to TWC and is sent with the completed form. To fill out the form, you will need each employee's name, social security number and total wages paid during the quarter.

Form W-4

Ask all your employees to sign a completed and dated W-4. Keep these with your personnel files as a record of each employee's proper name, address and social security number. The W-4 also tells the employer how many exemptions to consider when withholding federal income tax. This form is also helpful should there be a dispute with the IRS or the employee.

INS Form I-9

Another item for the personnel file is the Immigration and Naturalization Services Form I-9. This paperwork ensures that employers do not hire illegal aliens. The form is not difficult to fill out, but it must be completed within three working days after the employee begins work. Additionally, if you cannot obtain all the necessary documentation on the hire date, it must be submitted within

21 days. This information can include any one of the following.

INS Support Documentation

U.S. Citizen

United States Passport

OR

Certificate of citizenship

OR

Certificate of Naturalization

OR

State issued driver's license, ID or other official document with a photo

PLUS

—original social security card

OR

—birth certificate with seal.

Foreign Nationals

Alien Registration card with photo

OR

Unexpired foreign passport with attached authorization

OR

Unexpired INS Employment Authorization, *PLUS*

—a state issued driver's license

OR

—ID or other official document with photo.

The penalties for failing to comply with this requirement are high. The possibility of incurring thousands of dollars in fines certainly justifies the extra trouble of compliance.

IRS Form 941

This quarterly report details the wages, federal income tax and social security tax applicable to your company's payroll. It tells the IRS what your payroll tax liability was for the quarter and when it was due for payment.

NOTE: Your payroll deposits should be made payable to your bank using IRS Form 8109. You will find the schedule for making these deposits on the back of IRS Form 941.

IRS Form 940

This annual report to the IRS computes the

total year's federal unemployment tax (FUTA) liability for your company's payroll. It differs from the TWC report in that wages are submitted in total, not per employee. Payment for FUTA is made to your bank using IRS Form 8109. Generally, you can take a credit against the FUTA tax for amounts you have paid into the state unemployment fund, but this credit is limited to 5.4 percent of taxable wages.

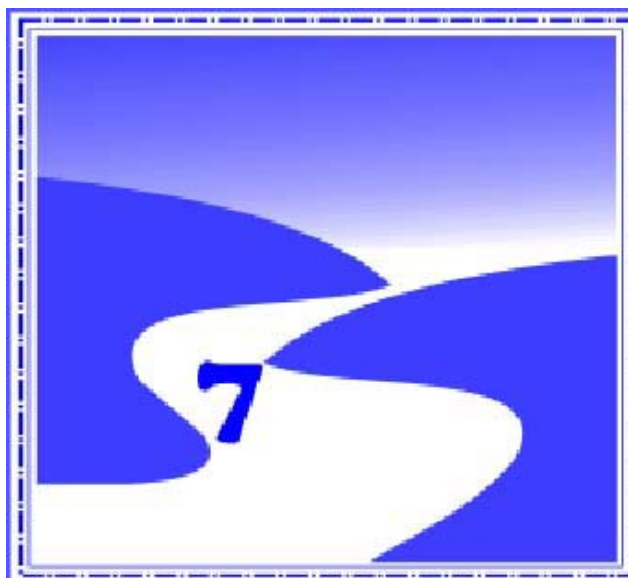
IRS Form W-2

You've probably been on the receiving end of this form. As an employer it is now your responsibility to report payroll information annually to the Social Security Administration and to your employees.

NOTE: Owners of sole proprietorships and partnerships cannot be classified as employees. Owners of corporations can, however, and you should send these forms at the end of the year to the Social Security Administration, not the IRS.

Other IRS Forms

If you need copies of other IRS forms, call 800/829-3676 or visit the IRS website at <http://www.irs.ustreas.gov> and if you need tax assistance call 800/829-1040. For hearing impaired call 800/829-4059. To order a CD ROM with current year and prior year tax forms call 212/512-1800 or visit http://www.access.gpo.gov/su_docs



Chapter 7: Financing Options

As discussed in Chapter 2, after preparing a pro forma income statement and filling out a cash flow statement, you should know if you need additional funding to pay your business bills.

Additional capital can come from private investors or loans. Friends and relatives are also a possible source for funding because they know and believe in you and can be convinced of the worthiness of your idea. If you still need money after exhausting this avenue, the two possible sources of capital are:

- A traditional commercial loan, or
- A bank loan guaranteed by the Small Business Administration.

Working with your Financial Institution

Before you get excited about borrowing money, realize that financial institutions are not in the business of taking risks; consequently, they have some conservative and basic guidelines. For example, a general rule about how much money a financial institution lends is: *the owners/investors must supply one-half of the needed capital.*

What this means is that if your business needs \$50,000 in start-up capital, a financial institution expects you to invest at least \$25,000. That way the lender knows that you have a great deal to lose if the business fails.

Assuming that you and your investors/partners can come up with at least 50 percent of the money, you must then satisfy some common loan criteria. They are known as the *Five C's*: Capacity, Collateral, Credit, Character and Conditions.

Capacity represents the customer's ability to repay the loan based on the business' cash flow. Capacity should be demonstrated on a historical (financial statements, tax returns, etc.) and prospective (projections) basis. (Start-up businesses obviously don't have historical information to consider.) Other areas can influence capacity as well, such as the state of the current economy, industry trends and any anticipated industry growth. These factors give credence or add skepticism to the projection viability.

Collateral is a familiar term. As defined by Webster's, it is "property pledged by a borrower to protect the interests of the lender." This covers the gamut from your business' operational assets (such as accounts receivable, inventory and equipment)

to certificates of deposit (CDs)—all of which may be used as security against borrowed money.

Credit answers the question: Does and will the customer pay bills on time. Lenders normally investigate both the company's and the owner's past credit history. Both need to be spotless. If there are blemishes, lessen the impact by warning the loan officer and giving a logical, defensible explanation up-front. No one likes to be surprised with this kind of information.

Character may be the most subjective ingredient within the formula. It encompasses the lender's perceptions and analysis of the borrower's reputation and integrity, background and experience, and financial sophistication, involvement and persistence.

Here's one formula you can count on: Loans are more likely to be made even on marginal transactions if the lender believes in the customer.

Conditions are the terms of the loan and include:

- loan amount, amortization and renewal date if you are seeking a revolving or short-term loan
- interest rate (if floating, based on what and adjusted when)
- credit policies established by the financial institution. For example, advances on accounts receivable may not exceed 75 percent of the current amount receivables balance (those less than 60 days old).

To help the lender evaluate your Five C's, you should prepare a loan request that builds an objective case as to why your business will succeed. It should also offer a logical reason as to why the lender should make the loan.

Your business plan is a good starting place. It gives an in-depth explanation of your business and why it will be successful. Discuss the type or types of financing you need. Assets such as cash, accounts receivable, and inventory should be fi-

nanced with short term debt. Assets such as equipment, vehicles, and real estate should be financed with long term debt. A term note is most often 1 to 7 years of length and requires monthly payments of principle and interest. Financing cash and inventory with long term debt increases your interest expense, and financing high dollar amount equipment on a line of credit makes your monthly payments of principle and interest very large. To give a logical reason for making the loan, describe how you will use the loan proceeds.

The Loan Request Package

Your loan request should also describe how you will repay the lender. This is best illustrated with current financial statements and projections. Your loan request package should include balance sheets and income statements for the past three years, company tax returns and your personal financial statement.

If you are starting a business, you should create pro forma financial statements (projected balance sheet and income statements) for at least three full years of operation. When forecasting a pro forma financial statement for an existing company or a projection for a new company, you should show the business' breakeven point (as discussed in Chapter 2).

Your request can also gain credibility if you prepare best- and worst-case scenarios. This shows the lender that you have considered all aspects of your loan request. Supporting documentation for the pro forma financial statement or projections will also help.

Your loan request should also include:

- articles of incorporation, bylaws, corporate resolutions, partnership agreements and/or assumed name certificates
- resumes of business' owners and managers
- business plan
- current financial statements for the past 90

days and the past three fiscal years

- tax returns for the past three years
- a clear description of the loan's intended purpose
- a list of the company's assets and debts and a list of assets that can be used as collateral
- current financial statements of any related businesses in which the business owners are involved
- owner's financial statements and those of anyone who is guaranteeing the loan
- list of the top three major customers or prospective customers
- list of at least three current suppliers and three current creditors or credit references
- appraisals on fixed assets and real estate
- photographs of the operating facility and major equipment
- copies of current contracts
- accounts receivable aging for all accounts receivable, noting any potential bad debts
- listing and valuation of any inventory listed on financial statements.

NOTE: The less information the lender must ask for, the more "character" (Five C's) you earn.

Environmental issues are a growing concern, and many financial institutions expect you to address the disposal of environmentally sensitive products or waste. This is especially true when real estate is involved. If you default on the loan and the lender takes over property, the lender may not only become responsible for its clean-up, but also may be held liable for damages associated with the contamination.

After you assemble the supporting paperwork, tie the loan package together with a cover letter. This letter should be a synopsis of the loan request and basically propose the transaction to the lender. Clearly state your plans and how this loan will allow you to succeed.

Now you are ready to make appointments with financial institutions. Don't choose just one lender. Talk to several. Remember, when selecting your lender, you are also selecting your banker. You want to choose a banker you are comfortable with and who has the products and services you need for your business.

Don't be discouraged if the first banker turns you down. If you have a start-up business or a young company, many lenders may be uncomfortable with your loan proposal. Most likely, you will have to contact several lenders before you find one that meets your needs.

SBA Guaranteed Loans

A bank loan guaranteed by the U.S. Small Business Administration is similar to a traditional commercial loan. Both loans are processed and funded by and repaid to financial institutions, but they differ in that the government guarantees repayment of some percentage of an SBA loan. If the debtor defaults on an SBA loan, the government pays the guaranteed portion after liquidating the assets you pledged.

An SBA loan gives the bank a second source of repayment. However, the financial institution often uses the same or similar loan criteria for both SBA loans and traditional commercial bank loans.

A financial institution avoids making loans without collateral. The borrower must have a good idea, good credit and a demonstrated ability to repay the loan. With an SBA loan, however, a financial institution may relax some portion of its lending criteria. For example, the financial institution may offer a longer term for an SBA guaranteed loan.

A financial institution may recommend a loan to the SBA if the business has had an irregular earning pattern. An SBA loan may also be recommended when a business' collateral differs from what the institution normally lends against or if the amount of equity in the company is less than the lending institution's typical criteria for granting the requested loan amount.

An SBA guaranteed loan is advantageous for the financial institution because it does not count against its reserve requirement. As a result, the financial institution can make more SBA loans than traditional commercial loans.

It is important to understand, SBA guaranteed loans are not government grants or giveaway programs. Financial institutions recommend the loans and the SBA approves them. Two approvals must be received before the SBA loan can close—one from the financial institution and one from the SBA.

Other Financing Resources

Many counties and cities in Texas have funding sources that may be available to you. Your eligibility for these funds depends on many variables, such as your business' size, industry and the products you produce or services you provide. For more information, contact your local county or city officials or the local chamber of commerce.

Lists of sources of capital

U.S. Small Business Administration
Regional Office Phone: 800/827-5722

Department of Agriculture
Phone: 202/720/2791
1400 Independence Ave. SW
Washington, DC 20250
www.usda.gov
www.rerdev.usda.gov
www.usda.gov/mission.rd.htm

Texas Department of Agriculture
Texas Agricultural Finance Authority
Phone 877/428/7848

Mailing Address:

P.O. Box 12847
Austin, TX 78711

<http://www.agr.state.tx.us>

Type of Program: Linked Deposit Program, Young Farmer Loan Guarantee Program, Farm and Ranch Program, Rural Development Finance Program and the Rural Development Finance Program: Municipal Finance Option.

EX-IM BANK

Southwest

1880 South Dairy Ashford II, Suite 585

Houston, TX 77077

Phone 281/721-0465

Fax 281/679-0156

www.exim.gov

Type of Program: Export-related working capital loans

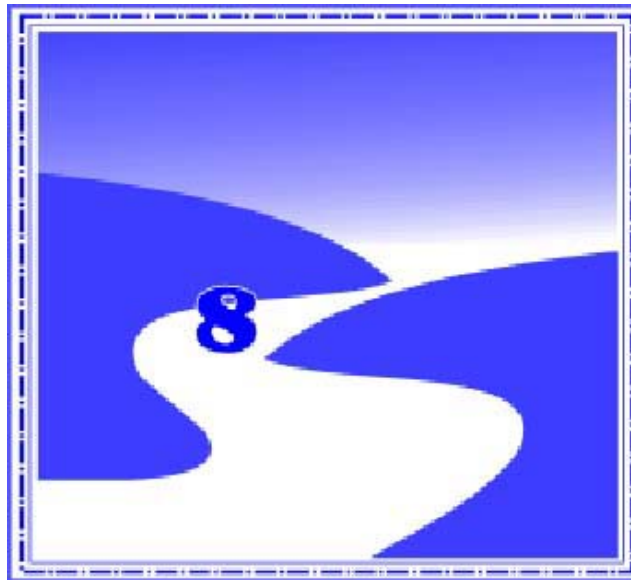
Venture Capital

There are several directories of institutional venture capital firms in the United States and the types of investments they seek. One or more of these may be available at your local library. Examples of these are *Pratt's Venture Capital Guide* published by Venture Economics Inc. and the *Venture Capital Directory* published by Online Publishing.

Private Investors

The network listed below provides a cost-effective method for small businesses to gain exposure for their business investment opportunities. It is composed of investors seeking opportunities in small businesses in Texas.

The Capital Network
3925 West Braker Ln., Suite 406
Austin, Texas 78759
Phone 512/305-0826
Fax 512/305-0826
www.thecapitalnetwork.com



Chapter 8: Tax Responsibilities

One of the responsibilities of starting or operating a business is determining the type of taxes your business should pay. Many federal, state and local taxing authorities exist and you should consult with several agencies to obtain complete information. This booklet cannot present an entire list of potential taxes, but a summary of major state and federal organizations and key taxes is presented below. Local taxes are not addressed because each locale holds different taxing requirements. To clearly understand your tax liabilities, call taxing authorities in your area.

Federal

Federal Income Tax. Every business must file an annual return with the Internal Revenue Service. Separate forms or schedules apply depending on the type of business. The IRS has excellent, easy to read publications to help you understand the tax system. For more information call the local offices listed in your phone book or 800/829-1040.

Federal Self-Employment Tax. This tax applies to self-employed workers and is their contribution to Social Security. It is generally paid by sole proprietors, self-employed farmers and members of a partnership. Explanatory publications are available from the IRS.

Federal Employment Taxes. Any business that has employees usually pays these taxes. They include federal income tax withholding, social security (FICA), Medicare taxes and federal unemployment taxes (FUTA). The IRS has specific rules, regulations and guidelines regarding the collection and payment of these taxes. When contacting the IRS, ask for Publication 15, *Circular E (Employer's Tax Guide)* and Publication 15-A Employer's Supplemental Tax Guide.

Federal Excise Taxes. These taxes are collected from manufacturers and sellers of certain products. Several common taxes include environmental taxes on crude, petroleum products and certain chemicals; taxes on telephone communications and air transportation; fuel taxes on gasoline, diesel and gasohol; and taxes on certain luxury items, alcohol, tobacco and guns. Ask the IRS for a complete list of excise taxes and specific information and literature.

Tax identification number. Each business requires a tax identification number. This number should appear on all federal business tax returns. Instructions for acquiring a tax identification number are given in Chapter 4 under the heading of "Additional Legal Paperwork."

State

State Sales Tax. Most products and many services are subject to sales tax. Each business must collect the tax and file a sales tax return on a regular basis. To obtain a sales tax permit and filing information, contact:

Comptroller of Public Accounts
LBJ State Office Building
111 East 17th Street
Austin, Texas 78714

The comptroller also has offices in major cities
Call 800/ 252-5555 for more information.

State Franchise Tax. A state franchise tax applies to all corporations with representation in Texas. The tax is calculated based on taxable capital assets and taxable earned surplus, paying the greater of the two. To obtain information, contact the comptroller of public accounts listed above.

Unemployment Tax. Most businesses in Texas are liable for state and federal unemployment tax based on a formula that uses employee wages as a key factor. Start-up entrepreneurs should contact the TWC for state reporting requirements and the Internal Revenue Service for federal information.

Local

All business owners, regardless of the company's legal form, should contact their local County Appraisal District soon after beginning operations. Most businesses will be liable for taxes on both personal and real property. The taxes are assessed by individual taxing units (county, city, school district, etc.) based on information maintained by the appraisal district. If your county does not have an appraisal district, contact various local taxing units.

Independent Certified Public Accountants Assistance A certified public accountant can be a great resource to the small business person. CPA's can prepare all federal, state, and local tax returns required by the government. CPA's can also help

with bookkeeping services to ensure that you pay the lowest required income and payroll taxes. Businesses that have difficulties paying taxes can receive expert, professional advice on how to become current on tax liabilities. Based on your business plan, CPA's can estimate your future payroll and income taxes, as well as your personal tax liability. Taxes affect your cash flow significantly and thus to truly control your business finances, tax planning is very important.

IRS Workshops

In addition to assistance from its local office, the IRS sponsors tax workshops to help the self-employed and the small business owner. The workshops explain how federal taxes relate to individual businesses.

Topics include:

- an overview of the IRS and the kinds of information and help it provides small businesses.
- an orientation to business taxes and how to identify the relationship between business organizations and federal taxes.
- a discussion of record keeping with an emphasis on the importance of tracing business income and expenses.
- an in-depth review of the employer's responsibility for withholding income, social security and federal unemployment taxes, and a discussion of the appropriate tax returns.
- how to deposit federal taxes using Federal Tax Deposit Coupons.
- employer-employee relationship.

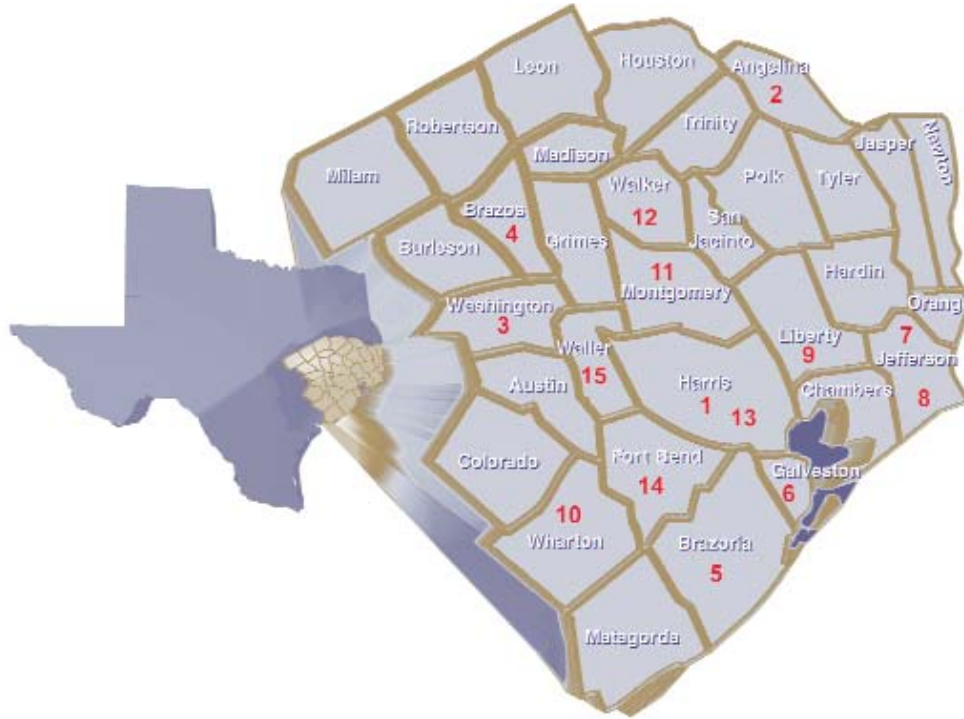
For more information regarding these workshops, call or write the office below:

Houston
8701 S. Gessner
Stop 6610H-AL
Houston, Texas 77074
Phone 281/721-7070
or 800/829-3676



UNIVERSITY of HOUSTON
SMALL BUSINESS
 DEVELOPMENT CENTER NETWORK

Consulting ★ Training ★ Solutions



Directory of Services

- 1 University of Houston
Small Business
Development Center
713/752-8400
www.sbdc.uh.edu

SPECIALTY ASSISTANCE

Government Procurement
 Procurement Technical Assistance Center
 713/752-8477

SBDC Network

- 2 Angelina College SBDC,
Lufkin
936/633-5400
www.angelina.edu/sbdc/cs
- 3 Blinn College SBDC, Brenham
979/830-4137
www.blinn.edu/sbdc
- 4 Brazos Valley SBDC, Bryan/
College Station
979/260-5222
www.bvsbdc.org
- 5 Brazosport College SBDC,
Lake Jackson
979/230-3380
www.brazosportcollegesbdc.com
- 6 Galveston County SBDC
409/933-1414
www.gcsbdc.com
- 7 Lamar University SBDC, Beaumont
409/880-2367
www.lamar.edu/sbdc
- 8 Lamar State College SBDC,
Port Arthur
409/984-6531
www.portarthur.com/sbdc
- 9 Lee College SBDC, Baytown
281/425-6309
www.lee.edu/sbdc
- 10 University of Houston
Coastal Plains SBDC
Matagorda and Wharton Counties
979/244-8466
- 11 Lone Star College System SBDC
832/813-6673
www.sbdc.lonestar.edu
- 12 Sam Houston State University
SBDC, Huntsville
936/294-3737
www.shsu.edu/~sbd_www/
- 13 San Jacinto College SBDC,
East Harris and Northern
Brazoria Counties
281/485-5214
www.sanjac.edu/sbdc
- 14 University of Houston
Fort Bend SBDC
281/499-9787
- 15 Prairie View A&M University
SBDC
936/261-9242
www.wallercountysbdc.org



The UH SBDC Network serves 32 counties in Southeast Texas. The UH SBDC Network is a program of the UH CT Bauer College of Business and a resource partner of the US Small Business Administration. Funded in part through a cooperative agreement with the U.S. Small Business Administration. All opinions, conclusions or recommendations expressed are those of the author(s) and do not necessarily reflect the views of the SBA. SBDC programs are nondiscriminatory and available to individuals with disabilities. The University of Houston is an EEO/AA institution. Reasonable accommodations for persons with disabilities will be made if requested at least two weeks in advance.

