

# Basic Business Start-Up

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### Objectives

This module is designed to provide an overview of the major issues that should be considered when starting a new business venture.

### Total Time Required

2 to 4 hours

### Materials Needed

- PowerPoint

### Audio/Visual Equipment

- Overhead projector

### Directions and Training Tips

Utilize expertise and supplement program with resource people from economic development agencies such as Small Business Development Centers, SCORE, Planning and Development Offices, Chambers of Commerce, Rural Development Groups, Community Colleges, and local businesses and industries. Often it is beneficial to co-sponsor workshops with these agencies. Expert panels are also a program addition to consider.

### Going Further

Depending on the interest of the audience, follow-up in-depth workshops could be offered on selected topics (such as Marketing Products and Services, Small Business Record Keeping and Taxes, or Writing a Business Plan). The *Ca\$hing in on Business Opportunities* curriculum is a resource for offering in-depth programs on business topics. It is designed to be used by educators who work with small businesses. The curriculum is comprehensive, covering a wide array of topics of interest to current or potential business owners. Each of the twenty-three chapters follows a basic format consisting of a leader's guide, narrative, hand-out(s), and transparency masters. Also included with the curriculum are computer generated graphic slide presentations. The curriculum is available through the Southern Rural Development Center.

### Additional Background Reading

*Ca\$hing in on Business Opportunities* curriculum  
<http://www.sba.gov> - U.S. Small Business Administration

## Basic Business Start-Up

Once the decision has been made to start a business, careful planning is critical. The more planning that goes in on the front end, the higher the chance of success. Lack of planning and insufficient financial backing join poor management as main reasons businesses fail. The majority of small businesses fail in the first few years of operation. Improve your chances of success by careful planning.

### DECISION TO BEGIN A BUSINESS

Do you have what it takes to own and operate a business? You must determine if your personal traits, skills and abilities are adequate for business ownership. Self-discipline is important. Working for others means many responsibilities are shared with other employees. Being in business for yourself means you carry the whole load. Some people don't want the responsibility of licenses, regulations, taxes, insurance, record keeping, advertising, and pricing. Do you? You may find a business confining, stressful and physically exhausting. On the other hand, being on your own can be stimulating, financially rewarding and satisfying.

### Other Factors To Consider

There are many issues to consider when you are thinking about starting a business. A new business venture will significantly impact both you and your family. It is important to analyze carefully your reasons for starting a business and how the business will fit your family lifestyle. Begin by answering the following questions:

- ❖ Do you have a marketable skill or product to sell?
  
- ❖ Do you need the money?
- ❖ Are you a self-starter?
- ❖ Do you want to be your own boss?
- ❖ Do you have the self-discipline to maintain a demanding work schedule?
- ❖ Do you want more flexibility in your work schedule?
- ❖ Can you take criticism and rejection?
- ❖ Have you discussed the business with your family?
- ❖ Is your family willing to support the business? To what level?
- ❖ Are you ready to treat your business as a business rather than as a hobby?
- ❖ Are you flexible when necessary?
- ❖ Do you have the money to cover a business start-up and initial operating costs?
- ❖ Are you ready for a challenge?

### FORMS OF BUSINESS OWNERSHIP

When starting a business, you must choose the best form of organization and ownership for you. The form of organization used depends on the type of business, how many owners or investors are involved, and how tax and liability issues will be handled.

#### Sole Proprietorship

The sole proprietorship form usually is advantageous to a new business because of its ease of organization. The business owner is responsible for all financing, management decisions and liabilities of the business.

#### Advantages

- ❖ The owner is in direct control (you are the boss).
- ❖ There are low start-up (organizational) costs.
- ❖ It's the form with the least government regulation.
- ❖ This form offers ease of formation and a simple structure.



- ❖ There is no double taxation.
- ❖ Business losses can offset personal income (for tax purposes).
- ❖ The owner receives all profits.

#### Disadvantages

- ❖ The owner has total (unlimited) personal liability.
- ❖ The business has limited financial resources (capital).
- ❖ There is a lack of continuity if the owner is disabled or dies.
- ❖ The owner may have limited managerial expertise.
- ❖ All profit is taxed as personal income.
- ❖ The business can expand only with after-tax dollars.

Most small businesses are sole proprietorships. It is simple, inexpensive and requires less complex record keeping methods than the other forms of ownership.

### **Partnership**

A partnership provides the opportunity to pool the capital and management resources of two or more individuals to conduct business. Two types of partnerships are the general and the limited. A general partnership is fairly easy to establish. A written partnership agreement drawn up by an attorney should be used to clarify business arrangements and to avoid misunderstandings. The general partnership agreement should include the following: a list of the rights and responsibilities of each partner and their heirs; the management and continuity arrangements for the business in the event of the death or disability of one of the partners; the profit and loss distribution plan; and any special conditions or arrangements that may affect any of the partners through operation of the business. When signed by all partners, the agreement is an enforceable contract.

#### Advantages

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

#### Disadvantages

- ❖ Unlimited liability for partnership obligations
- ❖ Lack of continuity when one partner dies or is disabled
- ❖ Sharing of profits
- ❖ All profits taxed as personal income
- ❖ Difficult to raise additional capital
- ❖ Hard to find suitable partners
- ❖ Divided authority (limited decision making)

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



### Advantages

- ❖ The general partner maintains control of the business.
- ❖ The limited partner can invest with a limit on personal liability.
- ❖ It is an easy way to secure capital.
- ❖ The business is not taxed directly.

### Disadvantages

- ❖ This structure is complex to organize.
- ❖ The limited partner has no control over the business.
- ❖ The general partner has unlimited personal liability for the obligations of the business.
- ❖ There is a lack of continuity in the event of the death or disability of the general partner.

## Corporation

A “C” corporation is a separate legal entity from its owners, the shareholders. It can enter into contracts, can be liable for any obligations, and must pay taxes on income as well as dividends distributed to shareholders. A corporation attracts capital investment funds by selling shares of stock in the company to investors or by trading stocks for assets. Generally, stockholders are not liable for claims in excess of the current value of their shares. Corporate officers may be required personally to guarantee bank notes or loans; they are then personally liable for the obligation. Other creditors generally can lay claim only to the assets of the corporation.

### Advantages

- ❖ Limited personal liability
- ❖ Separate legal entity
- ❖ Specialized management
- ❖ Transferable ownership
- ❖ Perpetual life
- ❖ Easier to raise capital

### Disadvantages

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

One corporate form that small businesses may consider is the “S” corporation (Subchapter S Corporation). The “S” corporate structure should be considered for the following situations:

- ❖ The owners expect operating losses.
- ❖ Large dividends are anticipated.
- ❖ The owner’s individual tax rates are lower than the corporate tax rates.
- ❖ There are 75 or fewer stockholders.
- ❖ The corporation has only one class of stocks.

The “S” corporate structure allows a tax burden shift to shareholders. The election is made formally on Form 2553 filed with the Internal Revenue Service. The election can be made at any time during the previous year or up to March 15 of the year of election. By April 15, the “S” corporation also must file an informational return allocating profits or losses to shareholders.



Before deciding on a form of business ownership, consult an attorney and a certified public accountant (CPA). Their expertise can help you avoid making costly mistakes. The final decision should be based on what is best for your individual situation and business needs.

### **Limited Liability Company (LLC)**

A limited liability company (LLC) is a business entity created by statute. It has some characteristics of a partnership and some characteristics of a corporation. A LLC has the tax advantages of a partnership and the limited liability advantages of a corporation. Properly structured, it is taxed as a partnership or an “S” corporation. If the LLC is not properly structured, it is taxed as a “C” corporation.

Forming a LLC is more complex than forming a partnership, but it is less complex than forming and operating a corporation. Forming a LLC is a formal process that is a relatively new form of business. It should be noted that the lack of precedent adds some uncertainty to adopting this form of business. Experts predict, however, that the LLC will quickly become the form of choice for many small businesses.



## **OBTAINING FINANCING**

Most businesses require start-up funds. Begin by making an inventory of necessary equipment and items needed to start your business. Indicate whether each item is to be purchased or whether it is something you already have. If it will be purchased, will there be an advantage buying it new or buying it used?

Don't make the mistake of buying a piece of new equipment that fails to provide you with all the features necessary for your business with the thought of upgrading it in a couple of years. On the other hand, do not pay for expensive features that you will not use.

How much money do you have to invest in your business? Look at your savings, stocks, bonds, cash value of life insurance, and equity in real property. How much of your assets are you willing to commit to your business? Although this is a personal decision, you should be prepared to finance between 20 to 50 percent of your expenses. Anything less than 50 percent may be viewed as "too risky" for lender involvement. A lender wants to know you have something at risk so you will put forth the extra effort to make the business successful.

If you do not have enough start-up money, you will have to borrow. Getting someone else involved financially is a decision you must carefully consider.

If you decide to borrow money, you need to develop a written plan to submit to the lender. The steps for planning and developing your business for loan consideration may look something like the following:

- ❖ Develop a Business Plan
- ❖ Analyze Sources of Capital
- ❖ Prepare Loan Proposal
- ❖ Present Proposal

### **Step 1: Develop a Business Plan**

Every business needs a plan, even if the business does not need financing. The better the planning, the higher are your chances of business success. In the financial community, a business plan is an essential tool. The plan should be a typewritten report showing the lender you have planned your business. It is designed to give them confidence in you. If you don't need much money, about \$10,000 or less, you will not need a complicated plan.

Usually, the business plan is put together in the following order:

- Part I. Business Organization
  - A. Business name/address
  - B. Form of business ownership
  
- Part II. Business Purpose and Function
  - A. Product/service description
  - B. Initial start-up
  - C. Reasons for success
  - D. Background/experience
  
- Part III. Marketing Plan
  - A. Customer profile



- B. Geographic description of trading area
- C. Economic description of trading area
- D. Size of market
- E. Competition
- F. Pricing strategy
- G. Sales plan
- H. Advertising plan

Part IV. Management Plan

- A. Personnel plan
- B. Banking plan

Part V. Financial Plan

- A. Source of funds schedule
- B. Cash flow projections

**Step 2: Investigate Potential Sources of Capital**

*Local financial institutions* (banks, savings and loan associations, credit unions) – Financial institutions generally are conservative and want to know your ability to repay. They thoroughly examine a loan request and the monetary amount you are willing to put at risk. For start-up expenses, loans generally are limited to 50 percent of the money needed. Loan officers look for borrowers with good credit ratings and sound business plans. Interest rates and repayment plans vary from institution to institution, so comparison shop for the loan that best suits your circumstances.

*Friends and relatives* – You may choose to borrow money from friends and relatives to start the business. However, many friendships and family relations have been severed by “family borrowing.” If you decide to borrow within the friend or relative group, do it on a business basis. You may want to ask an attorney to develop a binding contract. Then repay the loan as agreed, just as though your friend or relative were a traditional lending agency.

*Life insurance policies* – Most life insurance policies (except term insurance) have a cash value amount to borrow against. The owner borrows against the cash value. The interest rate varies by company and the policy. In some cases, the interest can be deferred indefinitely. The policy loan will reduce the dollar value of the policy. In case of death, the loan is repaid first, with the remainder given to the beneficiaries. Does this jeopardize your family’s security? Should you purchase term insurance in the interim?

*Finance companies* – Finance companies are concerned about a person’s ability to repay a loan and generally are more interested in the quality of the collateral put up for the loan than in a person’s history or business projections. Usually, the cost of borrowing from a finance company is several percentage points higher than the cost of borrowing from bank, a savings and loan association, or a credit union.

*Credit cards* – Although not considered a traditional source of money, bank credit cards are sometimes the only source for a small business. Many small businesses have gotten started by purchasing needed equipment and supplies by borrowing cash with personal bankcards. Keep in mind that interest rates can be high.

*Government sponsored business loan programs* – Federal and state business loan programs are available to entrepreneurs in most states. Contact the appropriate agencies in your state for specifics about the program available.



### **Step 3: Prepare a Loan Proposal**

A loan proposal is necessary and often required for business loans. It becomes the “backbone” in your negotiations for money. It should include a brief summary of your business, the service or product you plan to market, and a realistic view of your competition.

A brief personal history, including your skills, prepares the reader for your business ideas. It outlines sources of funds to be invested in your business, including funds requested from the lending agency. The proposal also should outline the repayment plan and list references.

### **Step 4: Present the Loan Proposal**

The formality of the presentation will depend on the audience for proposal. If you have done your homework, regardless of the situation, there will be no surprises. Your well-outlined plan speaks for you, whether it is formally referred to a loan committee or whether it is informally discussed over a cup of coffee.

Regardless of who you include in the financing of your business — a bank, a friend or a relative — insist that all details be put in writing. This agreement protects you and the lender and can eliminate future misunderstandings that may cause permanent rifts.

### **Credit Evaluation**

Lenders usually use the five C’s of credit when evaluating loan proposals: character, capacity, capital, collateral and conditions.

- ❖ Character centers on the loan applicant’s integrity, trustworthiness and attitude toward honoring outstanding credit obligations. Is he or she honest? Does he or she intend to pay?
- ❖ Capacity deals with the individual’s or business’s repayment ability. This factor is frequently evaluated on the basis of history, income and credit analysis.
- ❖ Capital refers to the general financial position of the borrower, with emphasis on tangible net worth. A lender needs to know what is owned (assets) and what is owed (liabilities).
- ❖ Collateral is represented by assets the borrower can pledge as security for the loan.
- ❖ Conditions refer to how dependent a particular borrower’s situation is on general economic trends and special developments. The higher the dependence on these external factors, the higher the associated credit risk is.

### **LICENSES, PERMITS AND REGULATIONS**

Federal, state and local governments regulate and tax businesses for several reasons such as raising revenues, protecting the public from dangerous substances and fraud, and protecting businesses from unfair or illegal competition. If you are starting a business, you will want to determine in advance the licenses, permits and filing requirements required by various agencies. Also, you may need some type of business permit or identification number to purchase supplies wholesale.

### **WORK AGREEMENTS**

A work agreement can be a help in your business. It doesn’t have to be formal with a lot of legal terms, but it is binding and it protects you and your customers. It also projects a business-like image. A work agreement states the terms under which the work will be done and the method of payment. It can be on a special



printed form, handwritten or written on a sales ticket. Make duplicate copies so you and the customer will have a copy of the agreement. You will want to include the following items on the work agreement:

- ❖ Business name, address and telephone number.
- ❖ Date of agreement.
- ❖ Customer's name, address and telephone number.
- ❖ Description of work to be done.
- ❖ Supplies provided by the customer.
- ❖ Supplies provided by the professional.
- ❖ Cost estimate.
- ❖ Method of payment (cash, check or credit card).
- ❖ Completion date.
- ❖ Return clause (You may want a time limit when work may be returned for changes and adjustments).
- ❖ A clause providing for sale of unclaimed work.
- ❖ A disclaimer for loss or damage resulting from theft or fire (unless covered by insurance).

Because a work agreement is designed to protect both you and the customer, it should be signed by both of you. Specific legal questions about work agreements should always be directed to an attorney.

## **COPYRIGHTS, TRADEMARKS AND PATENTS**

**Copyrights** — Copyright is a form of protection provided by U.S. laws to the authors of original works of authorship, including literary, dramatic, musical, artistic, and certain other intellectual works. Copyright protection begins from the time the work is created in a fixed form. The copyright immediately and automatically becomes the property of the author who created it.

Copyright registration is optional and generally is not a requirement for protection. However, registration provides several advantages to copyright owners. It establishes a public record of the copyright claim and is necessary before an infringement suit may be filed in court. Registration may be made at any time within the life of the copyright.

Go to the U.S. Copyright Office web site at [www.loc.gov/copyright](http://www.loc.gov/copyright) or contact the Public Information Office at 202-707-3000 or the Forms and Publications Hotline at 202-707-9100. These numbers may be used for general copyright information for questions relating to copyright registration.

**Trademarks** — A trademark or service mark is a word, name, symbol, design, phrase or slogan (or a combination of these items) used by individuals, groups or organizations to identify goods or services and to distinguish them from others. Trademark registration is handled by the U.S. Patent and Trademark Office. The Copyright Office has no authority in trademark matters.

For additional information and an application form, visit the U.S. Patent and Trademark Office web site at [www.uspto.gov](http://www.uspto.gov) or call 800-786-9199. Some states also provide for state registration and certificates of registration of service marks or trademarks. Contact the Secretary of State in your state for information.

**Patents** — A patent for an invention is a grant of a property right by the government to the inventor. The right conferred by the patent grant is “the right to exclude others from making, using or selling” the invention. A patent is given only to the first inventor. If one innocently “invents” something already patented, no second patent is granted. Patents are granted for a “new and useful” process, machine, manufacture, composition of matter, or ornamental design for an article of manufacture.



For more information on patents, visit the U.S. Patent and Trademark Office web site at [www.uspto.gov](http://www.uspto.gov) or call 800-786-9199.

## **INSURANCE**

As the owner and operator of a business, you have exposure to liability and property loss, especially if the business is in your home. Most homeowner's insurance will not cover claims related to a business in your home. Consult your insurance agent to determine the most appropriate coverage for your business.

Consider the following insurance coverages when exploring your business insurance needs with your agent:

- ❖ Liability insurance to cover the property of others, bodily injury, damages such as libel and slander, and operations of hired independent contractors for which you are held liable. Be sure you have a policy that covers all risks that could happen.
- ❖ Extended coverage rider for windstorm, hail, smoke, explosion or vandalism protection.
- ❖ Special protection to cover loss by fire or theft of business records, cash and property, including tools and inventory.
- ❖ Product liability insurance.
- ❖ An endorsement or rider to your personal automobile policy for business use if the vehicle is used to make deliveries or for other business purposes.
- ❖ Other types of insurance, including sign coverage, life insurance, disability insurance, health insurance, and a retirement plan.

Remember, the main purpose of insurance is to enable you to continue your business and lifestyle if misfortune occurs. Identify and prioritize your risks to avoid being underinsured or over insured. Consult with more than one insurance agent and compare the coverages to determine what is adequate for you and your business. Always have something in writing stating what your business coverage is. This is especially important if your business liability is being insured under a personal homeowner's or automobile policy. Insurance risks change. Review your insurance coverage annually with your agent and identify the risks you face.

## **PRICING**

Pricing products and services is a challenging process for most new business owners. Often entrepreneurs will underestimate the value of their time and expertise and find it difficult to believe that customers will actually pay the price they need to charge to make a profit. The bottom line of any business is profit. If a business is going to be successful and maximize profits, accurate pricing is critical. Prices must be high enough to cover costs and earn a reasonable return, yet attractive enough so customers will purchase the product or service. Many factors must be considered when developing a pricing strategy. Pricing decisions should be based on an orderly analysis rather than on an educated guess. By taking a systematic, step-by-step approach, you can make pricing a simple task.

### **Costs**

The prevailing element when setting prices is costs. An accurate accounting of all the costs that go into a business is necessary. In a business, the total costs to be considered include three factors: direct costs, labor and overhead expenses.



$$\text{Direct Costs} + \text{Labor} + \text{Overhead Expenses} = \text{Total Costs}$$

These are the three basic or minimum factors that should be used for setting prices. The more exact the figures used for setting prices, the greater the chance for success.

*Direct Costs* – Include all the materials, parts and supplies that go into the actual production of the product or service. Direct costs should be exact, figured to the penny.

*Labor* – Includes all wages paid to employees. Many times, new business owners make the mistake of not paying themselves. Be careful not to fall into this trap. Labor costs are calculated by multiplying the number of hours worked by the hourly wage. Be sure to include fringe benefits either in the hourly wage calculation or in overhead expenses. Fringe benefits can range from 15 percent on up, depending on the benefits included.

*Overhead Expenses* – Include all the business costs not directly related to the actual production of the product or service. Overhead expenses include taxes, advertising, rent, office supplies/equipment, business-related travel, insurance, business permits, maintenance and repair of equipment, utilities (electricity, telephone, etc.), professional assistance (accountant, attorney, etc.), and any other costs related to the overall operation of the business.

Overhead expenses can be determined as a percentage of direct costs plus labor. To determine the overhead percentage for the business, add up the total overhead expenses for a year. Next, divide the total amount of direct costs plus labor for the year into the first figure.

$$\text{Overhead Expenses} / (\text{Direct costs} + \text{Labor}) = \text{Overhead Percent}$$

For example, if direct costs plus labor for a year added up to be \$10,000 and overhead expenses for the year added up to \$2,000, that would be \$2,000 divided by \$10,000 for an overhead of 20 percent. Once you determine the overhead percentage for the business, you can use it in calculating prices for the business. The overhead percentage should be re-evaluated on an annual basis.

A key concept to remember is that it is impossible to stay in business if prices are set lower than the “cost of doing business.” Direct costs, labor and overhead expenses are the bare minimum that must be reflected in the pricing strategy of any business.

### **Profit**

Profit is the income left after all direct costs, labor and overhead expenses have been paid. For there to be money left over, a profit factor or profit margin must be calculated in initial pricing. After the total costs are calculated, the profit factor is added to get the final price.

$$\text{Total Costs} + \text{Profit} = \text{Price}$$

or

$$(\text{Direct Costs} + \text{Labor} + \text{Overhead Expenses}) + \text{Profit} = \text{Price}$$

An initial mistake many business owners make is not adding in a profit margin to their pricing strategy. If this is not done, there will be no money for growth or expansion of the business.



## Retail Pricing

While the basic principles for pricing a product or a service are essentially the same, there are some differences that should be considered when you are wholesaling a product to a retailer. Up to this point, when pricing a product the pricing formula results in the wholesale price. To arrive at the retail price for a product, a retail margin must be added, which is usually two to three times the wholesale price.

$$\text{Wholesale Price} \times \text{Retail Margin} = \text{Retail Price}$$

or

$$(\text{Direct Costs} + \text{Labor} + \text{Overhead Expenses} + \text{Profit}) \times \text{Retail Margin} = \text{Retail Price}$$

The percentage a retailer adds to the wholesale price it pays for an item is called the markup. For example, a product that is wholesaled for \$10 (Direct Costs + Labor + Overhead Expenses + Profit = \$10), will be marked up at least 100 percent or two times to a retail price of \$20 (Wholesale Price x Retail Margin or \$10 x 2 = \$20). A retailer will mark up items using the best pricing strategy developed for that business.

A wholesaler also may cross over and be a retailer at times. When this happens, the wholesaler must be careful not to compete with or undercut his or her wholesale customers. An example is an artisan who wholesales pottery to gift shops and also sells pottery directly to customers at art shows or craft fairs must be careful when it comes to pricing. The artisan should sell the pottery at retail prices at the art shows and craft fairs — the same prices the gift shops charge. If the artisan retails directly to customers at a substantially lower price than the gift shops, the artisan will lose the wholesale accounts.

A word of caution to small businesses that are wholesaling to retailers or selling to retailers through a distributor or “sales rep.” Many times a retailer will ask for discounts when buying in bulk, and distributors will ask for a percentage of what they sell. Both of these are overhead “costs” that must be incorporated into the original pricing formula.

## Breakeven Analysis

Prices charged must exceed total costs or there is no reason to be in business. A method business owners use to look at the big picture for pricing is breakeven analysis. Defined in its simplest form, the breakeven point is the point at which sales (revenues) are exactly equal to costs (expenses). At this point, zero profit is made and zero losses are incurred. This approach is helpful in determining the number of units of a product or the dollar amount of sales necessary to cover all costs. This makes it possible to determine how much of a product must be sold to cover costs. The basic equation used for determining the breakeven point is:

$$\text{Sales} = \text{Variable Expenses} + \text{Fixed Expenses}$$

Since profit is defined as zero at the breakeven point, sales must, by definition, be equal to total expenses. For example, let X represent the number of units to be sold to break even (zero profit). Suppose the cost per unit of X is \$.45, the selling price per unit is \$1.00, and there is a fixed cost of \$275 to manufacture product X. How many units of X must be sold to break even? Going back to the equation and listing the known values results in:

$$1.00X = .45X + 275$$

$$1.00X - .45X = 275$$

$$.55X = 275$$

$$X = 500$$



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

Using the same example, suppose you want a profit of 20 percent of sales. What effect would this have on the breakeven volume? Since profit is defined as a percentage of sale, the initial equation changes to include the profit calculation:

$$\begin{aligned} \text{Sales} &= \text{Variable Expenses} + \text{Fixed Expenses} + \text{Profit} \\ \text{or} \\ 1.00X &= .45X + 275 + .20(1.00X), \end{aligned}$$

where  $.20(1.00X)$  is the profit term, since profit is defined as 20 percent of sales (1.00 per unit times the number of units). The equation then becomes:

$$\begin{aligned} 1.00X - .45X - .20X &= 275 \\ .35X &= 275 \\ X &= 786 \end{aligned}$$

To cover all costs associated with product X and to make a 20 percent profit on sales, 786 units must be sold. Total sales volume in this case will now be \$786 (\$1.00 times 786).

Breakeven analysis permits the business owner to look at the pricing strategy using different combinations and variations of variables to determine necessary productions levels, unit pricing, costs and desired profit.

### **Other Pricing Strategy Considerations**

*Competition* – Determine what the competition is charging for its product or service. The prices charged may be lower, higher or about the same. If customers question a price by drawing comparisons to the competition, point out the quality of the work, the uniqueness of the product or service, and other features or selling points. Do not let customers change prices that are based on sound pricing strategy.

*Discounts/Markdowns* – Discount prices only when necessary to generate business to increase cash flow. Limit discounts for family and friends.

*Estimates* – Provide the customer with a written estimate to help avoid possible misunderstandings later. The estimate should reflect the maximum charges. Final charges to the customer may be less but should not be more unless there are circumstances explained to and accepted by the customer.

*Exclusivity* – Custom, original or one-of-a-kind products or services can command higher prices. Customers are willing to pay more for items or services that are limited in availability and less for items and services that are readily available.

*Expertise* – In general, the higher the skill level or level of expertise, the more willing customers are to pay higher prices. Those with better skills can often produce more or provide more services in less time without sacrificing quality, and time is money.

*Inflation* – Prices must adjust as the cost of doing business rises. It is best to anticipate rising costs when setting prices so that frequent price changes are not necessary.



*Itemizing* – Sometimes, itemizing the final bill may help customers understand the amount charged. Frequently customers do not realize the amount of time involved and costs of materials.

*Location* – Regional differences can affect prices. Generally, prices in urban, suburban and high-income areas can be higher than prices in rural and low-income areas.

*Professionalism* – Businesses that look and act professional are usually worth it to the customer.

*Quality* – In most cases, the higher the quality, the more customers are willing to pay for a product or service. Top-of-the-line products and services can command top-of-the-line prices.

*Seasonality* – Some products or services sell better at certain times of the year (for example, holiday items).

*Volume* – Increased sales volume may or may not warrant lower prices. Sometimes it is more economically efficient to produce multiples of the same product. Any added savings gained through efficiency must be weighed against the expense of selling more items (for example, extra employees may be needed as volume increases).

*What The Market Will Bear* – What the market will bear for price can be critical. In some cases, the cost of producing the product or service is too high. No matter how great it is, the market is not willing to pay the price a business needs to charge to make a profit. On the other hand, there are times when the market will pay a much higher price than the actual cost of producing the product or service. Understanding the market and what customers will or will not pay directly impacts pricing.

The primary purpose in operating a business is to make a profit. Prices should be established from an accurate accounting of direct costs, labor, overhead expenses and profit margin. In addition, careful thought of all factors that may have an impact on the business should be considered as a pricing strategy is established. Pricing is a skill that must be developed and continuously monitored for a business to be successful and profitable.

## **RECORD KEEPING AND TAXES**

Accurate financial records are essential to the smooth operation of any business. It is important for the record-keeping system to be user-friendly so that the “health” of the business can be checked at any time. The key to an effective and efficient record-keeping system is to set it up correctly initially. If you are unsure how to do this, it may be worth seeking advice from an accountant. Seek an accountant who is familiar with and appreciates small businesses.

Begin with a separate bank account for the business. Do not combine personal and business receipts and expenses. The combination causes confusion and the inability to account properly for the business operations.

Pay all business expenses by check and keep all receipts of business expenditures, noting on the receipt the check number and the date paid. If you wish to use business funds for personal expenses, make a “withdrawal”(write a check payable to you) and deposit it in your personal account, then pay the personal expense from your personal account. Do not pay personal expenses directly from the business account. Deposit all business receipts intact.



In your record-keeping system, maintain a cash receipts journal and a cash disbursements journal. Inexpensive journals and business forms are sold in a variety of places. There are also several good accounting and record keeping software packages available at reasonable prices if you choose to maintain records on your computer.

### **Cash Receipts Journal**

The cash receipts journal has columns for various categories of receipts with separate lines for each entry to record the date, the source of cash and the total amount. All columns of the cash receipts journal should be totaled each month, followed with year-to-date totals.

### **Cash Disbursements Journal**

A cash disbursements journal has columns for various categories of expenditures with a line for each expenditure and space to record the date, the check number, the payee, a description of the expense or purchase, and the total amount. The column categories may be merchandise for resale, supplies, interest, utilities, taxes, wage or salary expenses, owner's withdrawals, and other common purchases or expenditures. All columns of the cash disbursements journal should be totaled each month, with a year-to-date total for each month.

### **Taxes**

As a professional business person, you must take responsibility for paying all federal, state and local taxes required by law. Take advantage of all tax deductions allowed for businesses. The cash receipts journal and the cash disbursements journal provide convenient means of collecting required tax information for all cash transactions.

### **Self-Employment Taxes**

You are a self-employed person if you have a trade or business as a sole proprietor, are a member of a partnership or an independent contractor, or you are otherwise in business for yourself.

You do not have to carry on regular full-time business activities to be self-employed. Part-time work, including work you do on the side in addition to your regular job, may also be self-employment. If you are self-employed, you must file a return if you had net earnings of \$400 or more from self-employment. Net earning from self-employment generally is the net income from your business or profession. For more information, see IRS Publication 533, Self-Employment Tax.

The \$400 net earnings figure applies to self-employed persons of any age. If you must file a return because you meet the gross income requirements for taxpayers in general, you must include your net self-employment income in your gross income even if your net self-employment income is less than \$400.

You must pay self-employment tax on your net earnings from self-employment. This tax is comparable to the social security tax withheld from an employee's wages.

A full-time employee who earns \$400 or more from self-employment normally has to pay self-employment tax. The self-employed tax rate for 2002 is 12.4 percent of the first \$84,900 of net business income and an additional 2.9 percent of net business income, with no ceiling on earnings subject to the tax. Thus, the total tax is usually 15.3 percent of net business income. However, a self-employed person can claim one half of the self-employment tax as an income tax deduction. Use Schedule SE (Form 1040), Computation of Social Security Self-Employment Tax, to figure your tax. The amount of earnings subject to the tax and the rate of the tax are subject to periodic increases.



## Estimated Tax

Estimated tax is the method you use to pay taxes on income not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rent, capital gains, and prizes. You may also have to pay estimated tax if enough tax is not being withheld from your salary, pension or other income. Estimated tax is used to pay income tax and self-employment tax (as well as other taxes reported on Form 1040). If you do not pay enough of these taxes through withholding or by making estimated tax payments, you may be charged a penalty.

For tax years beginning after December 31, 1997, you generally have to make estimated tax payments if you expect to owe taxes, including self-employment tax, of \$1,000 or more when you file your return. For more information about estimated tax, refer to IRS Publication 334, Tax Guide For Small Business. Form 1040-ES includes a worksheet to help you figure your estimated tax. Keep the worksheet for your records. For estimated tax purposes, the year is broken down into four payment periods. Each period has a specific payment due date. The following chart gives the payment periods and due dates.

For the Period:

January 1 - March 31	Due date: April 15
April 1 - May 31	Due date: June 15
June 1 - August 31	Due date: September 15
September 1 - December 31	Due date: January 15 next year

If you are making federal estimated tax payments, you also may need to make tax payments for Mississippi income tax to avoid a possible state underpayment penalty.

## Sales Tax

Initially, many businesses are interested in obtaining their “tax number” in order to purchase supplies and materials wholesale. This is the “tax number” most wholesalers will require from businesses in order to purchase from them. In many states you may be required to collect and report sales tax on products and services you sell. It is the responsibility of the business owner to register with the appropriate entities and follow state law regarding sales tax.

## MARKETING

Marketing is the process of determining what customers want or need and providing it at a profit to the seller. Marketing includes all activities involved in getting goods and services from the producer to the customer, including market research, advertising, promotion, pricing, customer relations and professional image.

### Target Your Market

Successful businesses “target their markets.” They aim their product message toward a certain “type” of person. All advertising, promotions and public relations are devoted to attracting that type. A classic error commonly made when starting a business is trying to make your business appeal to everyone – to be all things to all people. Typically, new businesses think appealing to the widest range of consumers assures success. However, the best is to narrow your focus and target your market.

The first step in targeting your market is to know your product and its potential audience. Nothing can kill a business faster than marketing the wrong product to the wrong target audience. Some examples are marketing career clothing to women who do not work or sewing pageant gowns in an area where no one competes in pageants. Successful marketing is a combination of aiming the right product at the right market.



The basic principles of targeting your market are simple. Surprisingly, these techniques are the same whether you run a multi-million dollar corporation or a home-based business. Successful marketing consists of the following:

- ❖ Researching, analyzing and evaluating your potential market.
- ❖ Relating and communicating your products or services to a target audience.
- ❖ Efficiently producing and delivering marketable products or services.

### **Analyze Yourself**

Before you begin analyzing your potential market—analyze yourself. Ask the following questions:

- ❖ What knowledge or skills do I have that others need or want?
- ❖ What experiences do I have to offer others, and can they benefit from them?
- ❖ Are my knowledge and experience put to use outside my business, and are they visible in my market place?
- ❖ How is my service or product different from my competition's?
- ❖ What are my strengths? At what am I best?
- ❖ What are my weaknesses? At what am I not good?
- ❖ What tangible results or benefits do my products or services produce for potential customers?

Note the word benefit – anytime someone pays money for a product or service, he or she really is buying benefits. As a customer of a professional, the benefits might be a superbly fitting dress that is unique. Remember a customer always pays for benefits, whether tangible or intangible.

Analyzing yourself brings into focus your strengths and your weaknesses. Begin now to emphasize what you do best and improve or eliminate your weaknesses.

### **Analyze Your Market**

Once you've decided on a product or service, what you are good at, and what you would like to do, analyze your market:

- ❖ Who are your potential customers? (Are they male or female? How old are they? Where do they live?)
- ❖ What benefits are they looking for? Do they match the benefits you have to offer?
- ❖ Where are they located - urban or rural?
- ❖ What are their income levels?
- ❖ What price will they pay?
- ❖ How can you reach them?
- ❖ Are their needs being met successfully by an existing business?
- ❖ How many different types of potential customers do you have?
- ❖ Why will they buy what you have for sale?

Each type of potential customer is a target market with distinct needs you can address. Some examples of target markets are housewives, corporate vice presidents, young married couples and retirees. Learn everything you can about each market's buying motives – what do they buy? why do they buy? how do they buy? where do they buy? A successful marketing campaign strives to meet the needs of its target market.



One aspect of determining the market for your product or service is to identify your competition, if any. Are similar products or services already being offered? Compare the quality, features and value of your product or service to the competition's. Identify the attributes you should emphasize to create a unique need or to be most appealing to the customer. You may have to offer special services, such as delivery, to increase the appeal of your product.

Determine what share of the market is realistic for you to reach. Would that market share be worth all the effort required to attain it? Determine if there is room for you and your competitors, as well as the potential for expanding the market. If there is no competition, find out whether your product or service can be promoted successfully to create a demand for it.

Marketing is a continuous process, and you should not neglect it once your business is launched. You need to be aware of trends and changes in your market so you can respond to them. If your product or service is not selling, consider changing it, the price, the name, or its function. You may also want to change the materials you use, the customers you sell to, and your advertising methods. You may need to update your skills. Remember, perseverance and flexibility can keep you in business when your competitors fail. If you establish the fact that people need and will pay for your product or service, if you identify the appropriate market, and if you appeal to those customers' particular needs, then you should have a successful business.

## **ADVERTISING AND PROMOTION**

Advertising communicates and relates your products or services to potential customers so they will want or need what you have to offer. Advertising is not difficult once you have identified your customers and targeted your market. This helps you determine when, where, what and how to advertise. Advertising lets your prospective customers (target market) know about your product and makes them want to buy from you. The advertising you choose should project the kind of image you want for your business. Choose the forms of advertising that work best for your business.

### **Word of Mouth**

Word-of-mouth advertising is the best advertising because it is free, sincere, believable and unsolicited. Be sure the "word" is favorable by building a good reputation. Be professional, meet deadlines, keep appointments, and do not accept more work than you can deliver. Good business practices and friendliness will enhance your business and make people want to return. Building a reputation takes time, so you will have to use other forms of advertising as well.

### **Business Cards**

A professionally printed card is an asset to almost any business. Include your name, business name, address, phone number, products or services you provide, and an attractive logo, if you have one. Give cards to interested people you meet. They may not buy your product or service now, but they may refer someone to you at a later time.

### **Letterhead and Envelopes**

Printed letterhead shows your customers you are a professional business person. You may want to announce the opening of your business by mailing notices to prospective customers. Letterhead stationery is often necessary when purchasing materials and equipment from wholesalers and suppliers for your business.

### **Brochures**

A brochure can be small, inexpensive and attractive. Get advice from a printer. You may want to hire a graphic designer to help with the layout of pictures, text, and lettering. Even though brochures can be moderately expensive, they may be a good choice for marketing your particular business.



### **Direct Mail**

Mailing brochures or letters to businesses or people likely to become customers may be helpful when you first open your business. Mailing again at regular intervals throughout the year may also help. Mailing can be expensive and should be weighed with the other options when you decide on your advertising campaign.

### **Bulletin Boards**

Post professional-looking brochures, flyers or business cards on public bulletin boards in restaurants, grocery stores, laundromats, apartment complexes, schools or anywhere visible to your target market.

### **Newspapers**

Contact local editors and tell them about your new service or product. An editor may want to do a feature story, especially about your grand opening. An article can be free advertising and may be more effective than a large, paid ad. Be sure to thank the editor if he or she runs the story. Getting space in a newspaper may be easier if you can tie into the activities of a charitable organization or a community activity. Include a black-and-white picture and news release.

### **Classified Ads**

Ads in local newspapers and shoppers guides are appropriate for many businesses.

### **Portfolio**

Put together a collection of your best work. Many people take photographs of every project. You may want to include a resume and list the advantages or special features of your business. Include letters from satisfied customers, and be prepared to suggest several past customers as references.

### **Shows or Displays**

Displaying some of your work in a public library or bank may be appropriate. Have business cards available for people to take. Be sure the display is secure so you do not lose valuable merchandise.

### **Other Businesses**

You may want to advertise in a business that compliments yours. Cooperative advertising usually benefits both businesses.

### **Telephone Book**

Check with the phone company for the time of printing for the next book. Be sure to get your business name in the white pages. A listing in the Yellow Pages may also be helpful, especially for service businesses.

### **Local Radio and Television Stations**

Some radio stations have local talk shows. Call the directors to see if they are interested in discussing your business. A purchased radio or television ad may be expensive, but it is worth looking into when tied into some news feature or special event.

### **Local Organizations**

Joining local organizations provides a good opportunity to make valuable contacts. By participating in community activities, you increase the visibility of your business.

### **Networking**

A network is a collection of acquaintances and business peers you depend on for information, services, support and access. Network relationships are based on mutual and professional respect for the other's ability to help when needed.



## **World Wide Web**

Small businesses are using the Internet to create new markets, provide information about products and services 24 hours a day, service customers, get customer feedback, and sell products. Sites that create a presence on the web and are what some term a “brochure” site. They serve as an advertising/promotional tool for the business, providing information about the business but not actually selling products online. The Internet has significantly reduced the cost associated with obtaining information about products, and many people use the Internet to research products and then purchase them off line. A web site may provide a telephone number and/or fax number for actual ordering.

## **CUSTOMER RELATIONS**

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

Before you open for business, establish policies on dealing with customers. Try to anticipate problems, objections or special situations that may occur, and determine how you want to deal with them. Business owners should strive to convince the customer they are genuinely interested in them. Providing a good product or service reinforces this confidence. Work that fails to satisfy either you or the customer is a poor advertisement for your business. According to consumer surveys, a person who has had an unpleasant experience with a business will tell nine to ten other people. Some may tell as many as 20 others. By solving complaints promptly, you may regain these customers who will then have something positive to talk about. Customers who have had a good experience with a business will tell an average of five other people, some of whom may become new customers.

## **PROFESSIONAL IMAGE**

Projecting a business like image is an important part of building credibility with your customers. It also contributes to your professional self-image.

First, assess your personal appearance. Be neat and well groomed. As a professional, your clothes should look professional and set an example. Spend ten minutes a day tidying up and your rooms will look neat, giving customers a positive impression. Cluttered areas can be unattractive and hazardous.

Subscribe to professional and trade publications to stay up-to-date. Build a small reference library with good, basic references.

Enroll in update classes, seminars and workshops to learn what’s new. Always be aware of new opportunities which will make you feel more confident and competent. You’ll be able to offer a better service to your clients. Being a professional is also knowing what is fresh and new in the areas related to your business.

## **TIME MANAGEMENT**

A major challenge for many business owners is managing time. In some businesses, work can be performed when time permits or during brief periods of time despite recurrent interruptions.

Some tips for wiser use of time include the following:

- ❖ Arrange storage areas and work centers so items used frequently are at your fingertips.
- ❖ Do more than one thing at a time. Some tasks require minimal concentration, and this time can be used to plan other activities.



- ❖ Use bits and pieces of time for tasks that can be done in only a few minutes.
- ❖ Learn to say “no” if your involvement in too many activities becomes a problem. Don’t spread yourself too thin.
- ❖ Recognize the time of day when you are most productive. Perform your most important tasks during this prime time.
- ❖ Delegate as many tasks as you can. Identify certain jobs (home or business) that can be handled by other family members.
- ❖ Reduce clutter. If too much clutter is allowed to build up, tension may develop from feelings of being “snowed under.”
- ❖ Try to eliminate heavy work periods. Shift some of the work to earlier or later periods to free time for other things.
- ❖ Prevent a crisis. Don’t procrastinate and let a failure to act become an urgent matter. If you tend to put off major tasks, divide them into many small, manageable tasks. Indecision is nearly always a mistake. Avoid worrying by choosing the alternative that seems better and follow through with it.
- ❖ Look at ways to improve every task. Try to find ways to make them quicker, easier, simpler, and less tiring.
- ❖ Learn to plan ahead and anticipate problems before they occur.
- ❖ Think through your jobs so you can work efficiently. Careful organization can prevent the loss of valuable time in preparing for them. Time means money for a businessperson. Use it carefully and spend it wisely.

## **EMPLOYEE RELATIONS**

Many businesses start with only one person. Gradually, family members may become responsible for certain duties. As the business grows and becomes more successful, you may be faced with hiring additional help.

The people you hire represent your business to the public. Sloppy workmanship and lack of pride in the product or service can make a potentially good product or service unacceptable in the marketplace. The image portrayed and the ultimate success of the business depend on the people working for you. The key to running your business smoothly is finding and hiring employees that are a good match for the job. The other key is to reward good employees and treat them right if you want to keep them.

### **Writing a Job Description**

A job description (including all duties assigned to the position) should be clearly outlined in writing before an employee is hired. An individual’s skills should fit the job to be performed. Although friends and acquaintances of present employees are considered one of the best sources of new labor, they can create real problems. Caution is also advised in hiring your friends. Let the applicant’s qualifications be the deciding factor.

Communicate clearly and accurately exactly what you are looking for in an employee. A job description should include the following:

- ❖ Duties and Responsibilities - A detailed list of tasks such as answering telephone, greeting customers, maintaining records, etc.
- ❖ Requirements - Include expectations such as punctuality, accuracy in typing and record keeping, neat personal appearance, and ability to work well with people.
- ❖ Special Qualifications - Education, special skills and work experience.
- ❖ Hours - Part-time or full-time, specific hours of the day if different from usual work day, and weekend schedule, if that is a factor.
- ❖ Pay Scale or Salary Range - Especially if you will have more than one employee, consider establishing a pay that will give you the flexibility to vary pay among employees.



## **Securing Employees**

- ❖ Classified ads
- ❖ Private employment agencies
- ❖ Temporary agencies
- ❖ State employment agencies
- ❖ Unions
- ❖ Schools
- ❖ Community organizations
- ❖ Friends and relatives
- ❖ Signs and bulletin boards
- ❖ Current employees
- ❖ Walk-ins

## **Training Employees**

Don't expect someone to walk on the job and know exactly how you want things done. A little extra time and effort on the front end often pays off in the long run. Employees beginning a new job need:

- ❖ to be trained as soon as possible;
- ❖ a thorough understanding of job responsibilities and the standards for accountability;
- ❖ to know policies, rules and regulations;
- ❖ product and service knowledge;
- ❖ to know what is considered good job performance;
- ❖ to understand the importance of good customer relations;
- ❖ to understand the importance of good co-worker relations;
- ❖ training in job skills, and
- ❖ to be given an opportunity to ask questions and make comments.

## **Maintaining Excellent Employees**

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

Agree upon wages and benefits before an employee starts work. Put this agreement in writing. Employee expectations that are not met (for example, part-time, supplemental income vs. full-time employment) often stand in the way of productivity.

Communicating clearly with the employee is important if the employee is to understand the duties, goals and objectives of the business. Likewise, your understanding of employee needs, goals and desires helps you motivate them to become productive and to take pride in their work.

Keep good communication channels open by:

- ❖ being honest and consistent;
- ❖ giving and asking for feedback;
- ❖ giving positive reinforcement as they are learning to perform the job and continuing throughout their tenure;
- ❖ letting them know when they make mistakes so they can correct them immediately and letting them



- know mistakes are performance related and not personal;
- ❖ keeping employees informed about the business and any big changes forthcoming, and
- ❖ helping them set both short term and long-term goals.

Reward excellent employees by:

- ❖ showing genuine concern and respect for each individual, and
- ❖ offering financial rewards such as raises, paid time off, benefits, incentives and training opportunities.

### **Terminating a Problem Employee**

Employee problems or problem employees need to be dealt with quickly — this is especially critical in a small business where some situations can put you out-of-business before you know it. When it becomes necessary to terminate an employee, do so by:

- ❖ handling the situation in a positive way, if possible;
- ❖ maintaining accurate files on all employees;
- ❖ keeping a record of all communications with and about the employee that concern performance, using as many facts as possible, dating memos; and
- ❖ documenting events leading up to the dismissal.

### **THE INTERNET**

**E-Commerce** — Internet sales continue to soar. People are listening, buying, selling, trading, designing, watching, dating, mailing, creating, ordering over the Internet, and most important to businesses, people are purchasing products via the Internet. Products of any kind are literally available at the fingertips of anyone with access to the Internet and can be purchased in seconds.

Selling online can range in cost from nothing for local bulletin boards to sizable monthly fees and hourly surcharges for sophisticated electronic retail sites or web stores. Selling products via the Internet is a very effective and often low-cost way of reaching customers that previously might have been unreachable; this is especially true for some businesses located in rural areas, who now have access to a worldwide market.

**Resources** — There is a tremendous amount of information available on the Internet. Sifting through all of the sites on the World Wide Web (WWW) can literally take hours, days, months or even years. Determining what information is factual and what information is not can prolong the process, making it a tedious task.

The following is a short list of relevant sites on the WWW that provide information and resources to small businesses. These sites are maintained by educational institutions, non-profit organizations or government agencies; none are commercial in nature.

#### **Better Business Bureau (BBB) - [www.bbb.org](http://www.bbb.org)**

Information about BBB (a non-profit organization) programs and services, including publications for consumers and businesses.

#### **Bureau of Labor Statistics - [www.bls.gov](http://www.bls.gov)**

The Bureau of Labor Statistics (BLS) is the principal fact-finding agency for the Federal Government in the broad field of labor economics and statistics. The BLS is an independent national statistical agency that collects, processes, analyzes and disseminates essential statistical data to the American public, the U.S. Congress, other federal agencies, state and local governments, business, and labor.



**Department of Labor (DOL) - [www.dol.gov](http://www.dol.gov)**

Information about programs and the laws and regulations it administers relating to workplace activities.

**EntreWorld - [www.EntreWorld.org](http://www.EntreWorld.org)**

Information and resources for entrepreneurs from the Kauffman Center for Entrepreneurial Leadership.

**Federal Trade Commission (FTC) - [www.ftc.gov](http://www.ftc.gov)**

Current information relating to FTC activities, including updates regarding deceptive and illegal business opportunities in the marketplace.

**Internal Revenue Service (IRS) - [www.irs.ustreas.gov](http://www.irs.ustreas.gov)**

Comprehensive tax information including tax stats, tax information for business, electronic services, taxpayer help and education, tax regulations, and tax forms and publications.

**Mississippi Development Authority - [www.mississippi.org](http://www.mississippi.org)**

Mississippi business information maintained by the Mississippi Development Authority.

**Secretary of State - Mississippi - [www.sos.state.ms.us](http://www.sos.state.ms.us)**

Information directly from the office of the Mississippi Secretary of State.

**SmallbizNet - [www.lowe.org](http://www.lowe.org)**

Information on running, starting and growing a small business from the Edward Lowe Foundation.

**Small Business Primer on Legal Issues - [www.ces.ncsu.edu/business/welcome.html](http://www.ces.ncsu.edu/business/welcome.html)**

Written by an attorney, the information is a primer for current and prospective small business owners. It gives a quick overview of the legal issues and concerns faced by a small business.

**SOHO - Small Office Home Office Knowledge Center - [www.so-ho.org](http://www.so-ho.org)**

Comprehensive sourcebook and information center for small office - home office technologies and small business issues.

**Stat-USA - [www.stat-usa.gov](http://www.stat-usa.gov)**

Economic, trade and business information (including export and international trade, domestic economic news, and business leads and procurement opportunities.)

**Thomas Register - [www.thomasregister.com](http://www.thomasregister.com)**

Comprehensive listing of manufacturers of all types of products and services.

**U.S. Census Bureau - [www.census.gov](http://www.census.gov)**

Official source for social, demographic and economic statistics and information.

**U.S. Patent and Trademark Office - [www.uspto.gov](http://www.uspto.gov)**

Complete information about copyrights, trademarks and patents.

**U.S. Postal Service - [www.usps.gov/busctr/busctr.htm](http://www.usps.gov/busctr/busctr.htm)**

Helpful information for businesses that depend on mail as a big part of business (including services and products, current postage rates, business forms, postal business centers, and business publications).



### **U.S. Small Business Administration (SBA) - [www.sbaonline.sba.gov](http://www.sbaonline.sba.gov)**

Comprehensive information for small businesses including business start-ups, financing and expansion. Also contains a shareware of library programs to run a business, information about SBA programs and publications, business hot-links, and business special interests.

### **U.S. Small Business Advisor - [www.business.gov](http://www.business.gov)**

Provides one-stop access to federal government information, services and transactions in an effort to make the relationship between business and government more productive.

### **WATCH OUT FOR SCAMS!**

Throughout the United States thousands of individuals are starting legitimate home-based businesses every day. In today's workplace, many individuals are interested in working for themselves, working from home, and making additional income. Estimates of home-based businesses in the United States today range from 25 to 45 million businesses.

Because of this growing interest in home-based businesses, a large number of individuals and companies have organized to meet the needs of these budding entrepreneurs. Many of these companies, however, are more interested in selling a worthless business idea instead of helping someone develop a real small business opportunity.

The main targets of work-at-home scams are people with young children staying at home, the elderly, unemployed, and individuals with disabilities. Fees for work-at-home schemes range from \$5 to \$30 on the low side to more than \$30,000 on the high side.

In the past several years the Federal Trade Commission (FTC) has taken law enforcement actions against more than 200 business opportunity schemes. The FTC ([www.ftc.gov](http://www.ftc.gov)) states that losses due to these scams are conservatively estimated at \$200 billion per year. While business opportunity scams are not new, the use of telecommunications has allowed business opportunity scams to increase at a rapid rate in the past few years.

Types of business opportunities range from fraudulent 900-numbers to selling college financial-aid information to students. In 1996, at least eight cases concerning high tech investment fraud were brought against companies trying to sell FCC paging licensing. Other cases investigated by the U.S. Postal Inspection Service range from chain letters to home assembly of crafts and other items.

A project by the U.S. Postal Inspectors Office shows how large the problem is: "In May 1993 the U.S. Postal Inspection Service took unusual steps to educate the public about an increasingly common scam: fraudulent sweepstakes or prize offer mailings. Aimed mostly at elderly and low-income people, typical mailings guarantee that you've already won a luxury car, vacation cruise for two, or a big cash prize. All you have to do to claim the prize is to call 1-800-448-5656." Within a few weeks, more than 55,000 individuals called the number, but instead of receiving information on how to receive their prize, they were greeted with a recorded message warning them about the sort of scam usually involved in this type of mailing.

The following list is an overview of the types of illegal activities taking place in the small business opportunity area today:

*Traveling Sales Seminars Selling Home-based Opportunities.* A number of companies travel throughout the United States selling home-based business opportunities. These companies focus on selling consumers these opportunities at the time of the seminar. They offer projections that are too good to be true, a special price



for a limited period of time, and these companies are almost always from out of state. According to the FTC, these companies promote and sell home-based business opportunities, such as the resale of distressed merchandise, vending machines, color-change T-shirts, the sale of discount travel memberships, vitamins, scholarship search services, and estate planning through their infomercials, print advertisements, mail pieces, telephone solicitations, and/or seminars.

The FTC investigations suggest that “few, if any, consumers who purchased the business ventures made any substantial money.” Companies misrepresent testimonials, develop false case histories of individuals who have purchased their products, and provide no foundation for the huge incomes they suggest their clients can make.

*Distributorship and Franchise Fraud.* Companies selling these offers are more interested in selling the distributorship or franchise than they are in selling the product. They will offer unrealistic profits, a “protected territory,” and a money-back guarantee as long as the customer “operates according to instructions.” These companies will usually not suggest you contact other investors or will provide you with only a couple of names to contact (many times employees of the company or “singers”).

*Envelope Stuffing or Other Mailing Schemes.* This type of small business offer is one of the most common. Usually ads are placed in local newspapers or magazines offering lots of money, a salary or a per envelope fee. The ads stress no experience, work from your home, and in your spare time. An address is provided to send for more information or a small fee requested for more information. Dollar amounts in this type of operation are low, but profits to the unscrupulous promoter are high.

*Pyramid Marketing Programs.* Multi-level marketing is a system of selling where an individual signs up other people to assist him, and they recruit individuals to help them. However, in a legal multi-level marketing company, the main focus is related to product and product sales. A genuine multi-level marketing business has an end user, or a person who will actually buy the product.

Pyramid marketing programs differ from legal multi-level marketing companies because their major goal is to sign up more distributors, not sell the product. They stress that distributors can “get rich quick” by recruiting more and more distributors. The major problem with this type of scheme is that to make any large amounts of money in this program, the distributor needs to be at the top of the pyramid. The major money made by companies developing pyramid-marketing programs is from signing up new distributors, not from the sale of the product.

Fraudulent pyramid schemes violate the Postal Lottery Statute. They contain all three elements of a lottery: prize (expectation of financial gain), chance (the money received is based entirely on chance, since you cannot control individuals below you in the pyramid), and consideration (the fee you pay to be involved in the scheme is usually quite high).

New pyramid scams are now seen on the Internet in the form of cyberspace chain letters. People pay to join programs with promise of big profits from membership fees paid by new recruits or false representations that the money made by recruiting others will go to charities. Sometimes products are offered as part of membership, such as prepaid phone cards, but no money is earned for simply selling products or services to consumers, as in legitimate multilevel marketing plans.

*Vending Machine, Fax Machine and Pay Telephone Scams.* Companies advertise this equipment with the promise of high income. They promise to help you place the equipment, provide training for you, and tell you that you will be selling nationally known products. Since legitimate companies usually already take the best locations, many times the client is left with the equipment and no profit at all.



*Cyberspace Business Opportunities and Franchises.* Investments in “Internet malls” that advertise goods or services in cyberspace; purchases of ATM machines that will supposedly be leased back to seller and generate profits for buyers; potential earnings misrepresented or unsubstantiated; and promised business assistance never provided.

*Other Home-Based Business Opportunities.* Numerous other types of home-based business opportunities that have been uncovered by the FTC include:

- ❖ 900-number lines
- ❖ home-based travel agencies
- ❖ licenses to sell college financial-aid information
- ❖ computer shareware distributorships
- ❖ computer and software business opportunities from the home
- ❖ fire extinguisher franchise
- ❖ coffee display racks
- ❖ sobriety pill vending machines
- ❖ reading books from the home
- ❖ assembly work at home
- ❖ home sewing craft kits
- ❖ raising rabbits
- ❖ newspaper clipping service

These are just a few of the many fraudulent activities developed by scam artists. Estimates from the National Consumer League suggest a \$200 billion is lost to scams and fraud each year. The FTC estimates each investor loses between \$5,000 and \$10,000. So be careful out there, and watch out for those scams!

## SUMMARY

If you have decided to start a business, you’ve chosen a challenging adventure. It may be a risky one, at least for a time, with pitfalls along the way. But sound planning and careful management will help you minimize risks and make your experience in business a pleasant and profitable one.

Remember, you must be willing to devote extra time and effort to your business, especially as you’re getting established. With a strong commitment to success, you will be better equipped to make your business financially and personally rewarding.

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