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New Business Guideline

Starting a business and being your own boss can be exciting, and for many it is the professional goal of a lifetime. Thousands of new businesses are started everyday, yet history shows that a majority of them fail because of a flawed business concept, inadequate financing or poor management. Starting a new business can be risky and here are some issues to consider before taking that big step.

Do you have the psychological make-up to start a business?

Risk of failure – Starting a business is risky, both from a financial and mental point of view. Do not let the excitement and thoughts of success blind you to the facts that you may lose money or your business may fail despite a lot of hard work. If you cannot accept these risks, you will probably be better off continuing to work for someone else.

Risk of rejection – Every business must generate sales, and during that sales process, it is inevitable that some (or most) potential customers will not buy your product or service. You must be able to deal with others not wanting what you are offering. If rejection will cause extreme mental anxiety or deter you from making the next sales call, working for yourself may not be right for you.

Risk to your lifestyle – Starting a business involves long hours, constant distractions, choices of how you focus your attention and sacrifices. These things will affect you and those around you. Be sure to consider the impact of your actions on your family and others.

What type of business makes sense for you?

Hundreds of thousands of ventures are started each year in all lines of business. Starting a business from scratch, buying an existing business or entering into a franchise arrangement all present opportunities and potential pitfalls.

Be sure to do your homework. Consider the current and potential markets for whatever business you are considering. Examine the strengths and weaknesses of competitors. The Internet and trade associations can be great sources of valuable information. You may be surprised what you can find readily available.

Find a line of business that matches your skills, experience and interests. If you are considering starting a personal service business, it can be nice to start off with at least one existing customer. Whatever type of business it is, be sure you like it. If you are successful, you may spend many years or several decades in that business. There are few things worse than not liking your job.

If you are considering purchasing an existing business investigate it thoroughly. While it may be attractive to step into a business that already has existing operations, learn why the current owner wants to sell. Buying someone else's failing business is significantly different than buying a successful business from an owner that is retiring. Have a professional look at the financial statements and any contracts you may be signing.

Are you starting alone or should you have a partner?

This can be one of the most challenging issues you face. Running the business yourself gives you the opportunity to make all the decisions, but you must live with the results. A partner can bring skills, experience and capital, however, you should be confident that you work with that person for an extended period of time.

If you choose to have a partner, be sure to define the responsibilities and authorities of each party. How will decisions be made regarding capital contributions, spending, operations, hiring of personnel and all the hundreds of other issues that will arise. The more you can structure the decision-making process, the more you reduce the risk of having major operational problems as the business faces difficulties or grows.

If you choose to have a partner, you may also want to discuss how your relationship can be ended. While everyone has good intentions at the beginning, things can and often do change. Having a buy/sell agreement or a contractual agreement may avoid difficulties and hard feelings later.

Where will you get the financing you need?

Starting and growing a business takes money. Consider the funds you may need for office space, equipment, inventory, marketing and working capital. You will need funds for your normal living expenses as well and remember that not all customers pay quickly. One of the most common causes of business failures is inadequate capital. Create a spending plan that covers everything you think you may need and then build in a contingency amount.

Arranging that needed capital should be undertaken early in the start-up process. Once the business is operational, you will probably want to focus on running it and not have to constantly be looking for funds. Be sure to speak with your financial institution about what they may be looking for before they would be willing to lend to a new business. You may also want to explore a loan through the Small Business Administration. The SBA programs offer a number of types of loans, but can be time consuming and frustrating.

The final observation on needed capital is to consider setting a limit on how much you are willing to risk or lose before shutting the business down and accepting failure. While this may be difficult to consider when starting out, having a contingency plan for failure is prudent.

What are some of the other legal, financial and tax issues to consider?

After addressing all the other aspects, these will probably seem easy. You need to choose a business form (sole proprietorship, partnership, corporation, sub-chapter S corporation, limited liability company). Here is a chart that provides some details on various types of business structures.

Business Structure Alternatives						
Issues to consider	**Sole proprietorship**	**C Corporation (Regular corporation)**	**S Corporation (Sub-chapter S corporation)**	**General partnership**	**Limited partnership**	**Limited-liability company (LLC)**
Ownership rules	One owner.	Unlimited number of shareholders with no limit on the classes of stock.	Up to 75 shareholders are allowed. Only one class of stock is allowed.	Unlimited number of general partners.	Unlimited numbers of general and limited partners are allowed.	Unlimited numbers of "members" are allowed.
Liability of owners	Unlimited liability for obligations of the business.	Generally, no personal liability for obligations of the corporation.	Generally, no personal liability for obligations of the corporation.	All general partners are fully liable for obligations of the business.	Unlimited liability for the general partners and no personal liability for the limited partners.	Generally, no personal liability for obligations of the entity.
Tax treatment	Entity is not taxed, all income and losses passed through to owner.	Corporation is taxed at the corporate level. Shareholders are taxed on any dividends received.	Entity is not taxed; profits and losses are passed through to the shareholders.	Entity is not taxed, all income and losses passed through to partners.	Entity is not taxed; profits and losses are passed through to the general and limited partners.	Entity is not taxed; profits and losses are passed through to the members.
Control and management	Sole proprietor manages the business.	Board of Directors has overall management responsibility with officers having day-to-day responsibility.	Board of Directors has overall management responsibility with officers having day-to-day responsibility.	General partners have equal management rights unless they decide otherwise.	General partner manages the business subject to the Limited Partnership Agreement.	The Operating Agreement describes how it to be managed. A Manager is usually designated to manage the business.
Capital contributions	Sole proprietor makes any capital contributions as needed. Easiest.	Shareholders usually buy stock in the corporation. Corporation can issue common and preferred stock.	Shareholders usually buy stock in the one class of stock issued by the corporation.	General partners contribute money or services to business and receive interests in profits and losses.	Both general and limited partners contribute money or services and receive interests in the profits and losses.	The members typically contribute money or services to the LLC and receive an interest in the profits and losses.

Ease of establishing	Easiest.	Must file Articles of Incorporation with the Secretary of State.	Must file Articles of Incorporation with the Secretary of State.	No filing. But a partnership agreement is needed.	File an application with the Secretary of State.	File Articles of Organization with the Secretary of State.

While this may sound complicated, it is much easier to decide upon than issues discussed above. Each business form has attractions and drawbacks. Your attorney can be very helpful in evaluating the options and drafting any documents you need.

Your personal financial and tax situations may also change when you become a business owner. You may lose the predictability of a monthly paycheck and the other benefits found with a larger company. You may have to pay for your medical insurance and fund your retirement account.

Summary

The entrepreneurial spirit is alive and well in America. As you consider your future, remember that being in business for yourself can be risky as well as rewarding. Taking some key steps early in the process, hard work, a good idea, using sound business practices and maybe a little luck can make all the difference.