

 Fit Small Business

How To Start Your Business



Table of Contents

 Click the title below to jump straight to that specific section

CHAPTER 1 COME UP WITH A BUSINESS IDEA

Topic 1 Look at Your Skills, Knowledge & Experiences

Topic 2 Follow the Trends

Topic 3 Scratch Your Own Itch

Topic 4 Conduct Market Research

CHAPTER 2 RESEARCH YOUR MARKET & COMPETITORS

Topic 1 Validate Your Business Idea

Topic 2 Research Your Competitors

Topic 3 Conduct an Industry Analysis

Topic 4 Identify Your Target Demographic (Customer Research)

Topic 5 Perform a SWOT Analysis

Topic 6 Research a Location

Topic 7 Find Your Competitive Advantages

CHAPTER 3 WRITE A BUSINESS PLAN

Topic 1 Opening Organizational & Legal Pages

Topic 2 Executive Summary

Topic 3 Company Summary

Topic 4 Products & Services

Topic 5 Market & Industry Analysis

Topic 6 Marketing Strategy & Implementation Summary

Topic 7 Management & Organization Summary

Topic 8 Financial Data & Analysis

Appendix

CHAPTER 4 ACQUIRE FUNDING

Topic 1 Best Startup Business Loans for Small Businesses

Topic 2 Alternatives to Startup Business Loans

Topic 3 How We Evaluated for the Best Options for Startup Business Loans

Table of Contents

 Click the title below to jump straight to that specific section

CHAPTER 5 CHOOSE A BUSINESS STRUCTURE & REGISTER YOUR BUSINESS

Topic 1 Prepare to Register the Business

Topic 2 Choose a Business Structure

Topic 3 Register Your Business With the State

Topic 4 Get State Licenses & Local Permits

Topic 5 Secure Your Intellectual Property

CHAPTER 6 GET YOUR BUSINESS INSURED

Topic 1 Who Needs Small Business Insurance

Topic 2 Common Types of Small Business Insurance Policies

Topic 3 How to Get Business Insurance

CHAPTER 7 BUILD YOUR BUSINESS TEAM

Topic 1 Connect With a Business Attorney

Topic 2 Meet With a No-cost Business Adviser

Topic 3 Hire Your First Employee

Topic 4 Hire a Bookkeeper or Accountant

CHAPTER 8 SET UP YOUR BUSINESS SYSTEMS & SOFTWARE

Topic 1 Must-have Systems & Software

Topic 2 Additional Systems & Software to Consider

CHAPTER 9 MARKET YOUR BUSINESS

Topic 1 Write a Marketing Plan

Topic 2 Create Marketing Materials

Topic 3 Market Online

Topic 4 Network With Local Businesses

Topic 5 Pay for Advertising

Topic 6 Media Package

CHAPTER 10 STARTING A BUSINESS FAQ

How to Start Your Business

9 Steps to Launch a Business From Idea to Reality



1

**Come Up With
a Business Idea**



2

**Research Your
Market and Competitors**



3

**Write a
Business Plan**



6

**Get Your
Business Insured**



5

**Choose a Business Structure
and Register Your Business**



4

Acquire Funding



7

Build Your Business Team



8

**Set Up Your Business
Systems and Software**



9

Market Your Business



CHAPTER 1

Come Up With a Business Idea



All businesses start with the same first step—an idea. When coming up with an idea for your business, consider your own skills and experiences, as well as business trends and problems or pain points your business could help address.

It's important to consider your personality when choosing a business idea:

- Would you like to work at home in silence or talk with customers in a store?
- Would you like to have a lifestyle business, which caps your income, or an eight-figure business with employees?
- Would you like to start from scratch or purchase an existing business like a franchise?
- Would you like to work 80-hour weeks and grow a business fast or keep a more balanced life and grow the business slowly?
- Would you like to create products and have other people sell them or sell products that other people have created?

Think about these questions to help you begin with the end in mind. Another personality-based test is to notice your energy levels when doing tasks at work and home. What tasks give you energy, and what depletes your energy? Running a business that gives you energy will be much more likely to succeed.

Read our guide on how to [determine if you should start a business](#).

Look at Your Skills, Knowledge & Experiences

Most businesses start with the business owner's existing skills and experiences. For example, if you've spent 20 years in the marketing industry building relationships, creating marketing plans, and mastering marketing pitches, you might consider opening your own marketing agency.

Or maybe you served years as a plumber—learning the ins and outs of the industry and handling customers—before deciding to open your own plumbing business.

What type of business could you create with the knowledge you have? What product could you create? What service could you provide?

Follow the Trends

Think of a trend or quickly growing customer need. For example, now that solar panel installation costs are low, there is a large demand from homeowners who want to save money on electricity costs. Business trends also depend on the area you live in. For example, cannabis farms and retail stores are growing quickly in states that have legalized marijuana.

COVID-19 has flipped the economy on its head. New trends may arise that weren't considered in early 2020. For example, both residential and commercial cleaning companies may continue to see a spike in demand for deep disinfectant cleaning. The best way to spot trends is to think about problems you may have (which we discuss further below) or ask about the problems of your family and friends.

Scratch Your Own Itch

Scratching your own itch—common lingo with startup businesses—is when you solve a problem for yourself. If you watch the show *Shark Tank*, you'll see many people who create a product that was inspired by a problem they experienced.

Scratching your own itch is a great way to test a product and improve it before attempting to sell to the public. Ultimately, the public will let you know if your product is a solution they need by purchasing it.

Also, consider this: The experience of solving your own problem makes for a compelling story of why you started the business. A compelling story helps attract investors and wholesalers (retail businesses willing to sell your product).

Conduct Market Research

Initially, broad research can help with coming up with a business idea. More substantial research, however, should be done after you have zeroed in on your chosen business idea (we'll cover this in Chapter 2).

Analyst firm [IBIS World](#) provides reports that are updated quarterly on hundreds of specific industries. The reports discuss if the overall industries in question are expected to grow or shrink. The cost of a report is around \$1,095. Your local [Small Business Development Center \(SBDC\)](#) may be able to pull an IBIS World report and discuss it with you for free, so that's a good place to start.

If you're still unsure about what type of business to start, browse our list of business ideas for inspiration:

- [Best Business Ideas to Make Money](#)
- [Best Business to Start](#)
- [Best Businesses to Start With Less Than \\$500](#)
- [Momprenuer Business Ideas](#)
- [Home-based Business Ideas](#)
- [Small Farm Business Ideas](#)
- [Low-cost Franchises](#)
- [Creative Business Ideas Started During the Pandemic](#)

Additionally, you may want to browse “how-to start a business” guides to learn more about a specific business idea:

- [Cleaning business](#)
- Clothing boutique or a [consignment store](#)
- [Coffee shop](#)
- [Dropshipping business](#)
- [Farm-to-table restaurant](#)
- [FedEx routes](#)
- [Food truck](#)
- [Ghost kitchen](#)
- [Juice bar](#)
- [Lawn care](#)
- [Lifestyle blog](#)
- [Online store](#)
- [Online T-shirt business](#)
- [Personal training](#)
- [Retail store](#)
- Sell [stock photography or art](#)

Now that you've settled on an idea, it is time to really dive into the market.



CHAPTER 2

Research Your Market & Competitors



Once you have chosen a business idea, you need to do additional steps to validate that it will be profitable or, at the very least, stands a better chance against its potential competitors. This chapter covers research, validation, and analysis. Do not skip this step. It makes for a strong foundation for your business.

Validate Your Business Idea

Validating your business idea involves making efforts to ensure the solution you want to sell is something customers will pay for. True validation comes when someone spends their money on your product or service. However, you may not be able to figure out with certainty how well your product will do in the market until it's created, or your business is open.

This is where research becomes crucial. Consider creating a few focus groups and surveys to gather feedback. Building an audience online is a great way to elicit feedback for your idea. Additionally, starting a [crowdfunding campaign](#) is one of the best ways to ensure your business idea is a good one.

Research Your Competitors

Evaluate your competitors. Consider your top five potential competitors and list their strengths and weaknesses. For example, a strength of a competitor may be a large marketing budget or a partnership with another local business. A weakness may be poor customer service reviews online or an older storefront. What strengths do your competitors have that you cannot beat? What weaknesses do they have that you can improve upon?

If you have no competitors, that is not always a good sign. Ask yourself why there are no competitors in your area. There may be a reason. For example, the market may be too small to support your idea or people are not willing to pay for your product or service.

Conduct an Industry Analysis

Analyzing your industry and its growth trends can help determine if you have a viable business idea. As discussed in Chapter 1, the [IBISWorld Report](#) contains a recently researched industry analysis with growth forecasts. To avoid the IBIS World Report cost, you can contact your local Small Business Development Center (SBDC) and ask if they have a subscription you can use.

Manual analysis is an option, but it will take more time. In a manual analysis, you will find yourself analyzing free sources like government industry data, consumer statistics, economic indicators, and employment statistics. This type of research will appeal to certain personalities over others.

Identify Your Target Demographic (Customer Research)

Identifying potential customers is key in deciding whether or not the business will work. There must be people willing to pay for your product or service in your area. Saying your customer is “everyone” is not a wise strategy. It’s difficult to market the business to “everyone” because that type of marketing equates to “no one.” To narrow down your customers, consider creating customer profiles for each type of customer you will have. Once you are clear on your customers, you want to determine how many of them are in your area. [ReferenceUSA](#) is a database you can use to do this research. ReferenceUSA is a powerful tool that allows you to research customers based on demographics. Tens of thousands of local libraries provide free access to ReferenceUSA.

Perform a SWOT Analysis

A SWOT (strengths, weaknesses, opportunities, threats) analysis is an exercise that helps you think critically about your business idea. It will work great if you have a business partner; assessing it together will ensure you’re on the same page in regards to the future of the business.

SWOT Analysis

S	W	O	T
STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
			
<ul style="list-style-type: none"> • Things your company does well • Qualities that separate you from our competitors • Internal resources such as skilled knowledgeable staff • Tangible assets such as intellectual property, capital, proprietary, technologies etc. 	<ul style="list-style-type: none"> • Things your company lacks • Things your competitors do better than you • Resource limitations • Unclear unique selling proposition 	<ul style="list-style-type: none"> • Underserved markets for specific products • Few competitors in your area • Emerging need for your products or services • Press/media coverage of your company 	<ul style="list-style-type: none"> • Emerging competitors • Changing regulatory environment • Negative press/ media coverage • Changing customer attitudes toward your company

SOURCE Template from WordStream

SWOT analysis may reveal certain aspects of your business you have not considered—both positive and negative.

It's easy to do a SWOT analysis. Go through each section and list your ideas:

- **Strengths:** What will the business do well?
- **Weaknesses:** What may the business not do well?
- **Opportunities:** What external market opportunities are there—such as less competition and underserved segments?
- **Threats:** What external factors may make success difficult—such as regulations?

Research a Location

If you're considering an office or store front, start your research into the location now. You want to start early to make sure you can afford it.

Many entrepreneurs get excited about their first business. They spend a lot of time researching the idea and writing a business plan. This is great, except when they start researching the location, they learn they can't afford it and have to start over.

Look into potential locations to develop a rough estimate of the build-out cost (renovations) and monthly rent. The information you collect will go into your business plan and financial projections.

Find Your Competitive Advantages

You have already identified your competitors' strengths. Now, you need to identify your own competitive advantages. Many new businesses rely on their flexibility as a competitive advantage—you can adjust your strategy or change direction entirely if necessary since you are just starting out. Additionally, if the business owner is going to be the face of the business, the owner's personality is a competitive advantage. If those apply to your business, you will want to go more in-depth on why that is true.

A question to ask yourself is: "*What is my advantage that the competition will struggle to match?*" Is it your quality of product or service, customer service, or knowledge? This question will help you determine if you can be the best at something. Being the best in a certain area of a business makes it more likely that the business will succeed.

Once you have validated your idea, performed in-depth research, identified target demographics and possible locations, and performed competitive analysis, you are ready for the next step. So far, you have put together informal pieces of a business plan. Now, it's time to write down information in a document as part of a formal business plan.

CHAPTER 3

Write a Business Plan

When you're just starting your business, a business plan can help you plot your future. Additionally, a business plan is an opportunity to show why and how your business will become a success. All businesses need to create a business plan or a strategic roadmap to guide their business decisions.

The business plan contains several elements, including market analysis, competitor analysis, and financial projections. If you're seeking funding from a bank or investor, you will need a business plan. The plan shows on paper how you will start your own business. After you open, the document keeps you focused and on track with your goals.

A typical business plan may contain over 40 pages of info about your business. You should plan on spending at least 30 hours creating a well-researched business plan. In addition to writing the plan, you will also spend time doing market research and creating financial projections.

Most business owners can easily do the research and write the plan. Where most have difficulty are the financial projections, which require creating several financial documents. If you don't have a financial analysis background or interest, it's a wise strategy to purchase business plan software that walks you through the financial projection process.

9 Sections to Include in Your Business Plan

Opening Organizational and Legal Pages	Cover page, nondisclosure agreement, and a table of contents
Executive Summary	A summary of the entire business plan in fewer than two pages; <i>Complete this section last</i>
Company Summary	Basics of the company, such as its history, location, facilities, company ownership, and competitive advantage
Products and Services	How your business makes money (business model), the products or services it provides, and future products or services
Market and Industry Analysis	Analysis of potential customers and industry. Include any data here about your current (or ideal) customers, business industry, and competitors
Marketing Strategy and Implementation Summary	Discussion of marketing, sales, and pricing strategies
Management and Organization Summary	Business ownership and operation. (If your business isn't open yet, give a compelling reason why your background will make it a success. Include information on any managers in the business as well.)
Financial Data and Analysis	Financial projections such as a profit and loss statement, projected cash flow, and business ratios
Appendix	Any documents or information that doesn't fit in the above categories goes in the appendix. You may want to include documents such as a floor plan, trademark, or marketing materials.

Planning to launch a very small business such as a side business? Creating a one-page business plan might be better. With this plan, you'll write a couple of sentences for important business concepts. It should include items such as the business model (how will it make money?) and competitive advantage (what will it do better than competitors?).

You should plan on spending around an hour to write out a one-page business plan. The simplified financial projections will be the most challenging and time-consuming. You most likely will need to do research online to get accurate income and expense estimates.

[Download our one-page business plan template to start your business planning today.](#)

1. Opening Organizational & Legal Pages

The business plan's first pages help organize the rest of the business plan and legally protect your business idea. A cover page provides important information about the business. A non-disclosure agreement (NDA) is optional but may be necessary if you believe someone could steal your business idea or take strategies within your plan. The table of contents helps organize the entire business plan.

Cover Page

The cover page simply provides contact information about the business and its owner. On the cover page, include the business name and who prepared it, including your name, address, phone number, and email address. Additionally, if the registered company name with the state is different from the business name, you may want to add that as a "company name."

Non-disclosure Agreement

A [non-disclosure agreement](#) (also called a confidentiality agreement) is a legal document that safeguards business information. You'd want someone to sign it before reading your business plan if you believe they could use the information to their advantage and your disadvantage, such as to steal your business idea or something more focused like a particular marketing strategy.

[Download an NDA template from Fit Small Business.](#)

[Download Template](#)

Table of Contents

The table of contents lists the sections and subsections of your business plan. All of the headers below (Executive Summary, Company Summary, Products and Services, and so on) are considered sections of a business plan. You can number the sections for additional organization. For example, 1.0 is the executive summary, 1.1 is business objectives, and 1.2 is the mission statement.

2. Executive Summary

The executive summary is an overview of the business plan and should be no more than one to two pages in length. You may find that investors request only the executive summary. Make it an informative, persuasive, and concise version of your business plan. We recommend you complete the executive summary last. Waiting to do this section last makes it easier to understand which sections of your business plan are the most important to highlight.

In the opening paragraphs of the executive summary, consider including the following:

- **Business description:** This is similar to a 30-second pitch describing your business and what makes it unique.
- **Products and services:** Mention the type of products and services you're providing customers and their costs.
- **Competitors:** Briefly describe your biggest competitors and why your business will succeed despite them.
- **Management and organization:** Discuss the owners' backgrounds and emphasize how it will help the business succeed. Also, if needed, discuss the management structure within the business.
- **Business location (or facility):** If the business' location is important to its success, consider discussing the location benefits and the surrounding area.
- **Target market and ideal customer:** Outline who your ideal customers are and why they are going to purchase your products or services.
- **Financial data and projections:** Provide brief financial data and projections relevant to your business, such as startup costs, when the business will be profitable, and forecasted sales data.
- **Financing needed:** Wrap up the opening paragraphs with an explanation of the startup funding sources and the amount of financing being requested.

The bullets above can be combined into several paragraphs. Additionally, you can add or remove sections based on your business' needs. For example, if you don't have a physical location, remove that piece of information, or, if a web presence is crucial to your success, include two to three sentences on your online strategy. Remember, keep the executive summary, including the three headers below (business objectives, mission statement, and keys to success), to less than two pages in length.

Business Objectives

Your business objectives are specific and attainable goals for your business. For example, “Attract at least 80 customers per day within the first year in business” or “Generate a positive cash flow from operations with at least 15% net profit to sales.” You can include business financial goals as well. Create at least four goals or business objectives organized by bullet point. You can look at several examples of SMART (specific, measurable, achievable, relevant, time-bound) goals in our [article](#).

What Are SMART Business Objectives?



[Download SMART Goals Template & Worksheet](#)

[Download Template](#)

Mission Statement

The [mission statement](#) discusses the aim, purpose, and values of your business. It's typically a short statement from one sentence to several sentences in length. You may find that your mission statement evolves as your business grows.

For example, Airbnb's mission statement is "To live in the world where one day you can feel like you're home anywhere and not in a home, but truly home, where you belong." Additionally, Outback Steakhouse's mission statement is "We're the leader of the pack by emphasizing consistently high-quality delicious food delivering a warm, welcoming environment. Our generous portions are moderately priced. Our casual atmosphere couldn't be more transporting—it's like you're right there in the Australian Outback."



Here's an example of a mission statement. Facebook's mission statement focuses on the end result of its social media platform. ([Source](#)) You can find more sample mission statements [here](#).

[Download Mission Statement Template](#)

[Download Template](#)

Keys to Success

Your keys to success are the specific advantages your business will have. For example, if your location is a huge advantage for your business, you should be more specific than simply saying “location,” and describe what about your location makes it a key to success, such as visibility, parking spots, drive-thru, or proximity to housing. Your competitors may have similar keys to success as your business.

Keys to success are different from competitive advantages because typically, the competitive advantage is something your competitors cannot replicate. It is a unique advantage or proprietary information, such as a patent. The competitive advantage can be added as a key to success. List two to three keys to success as bullet points.

3. Company Summary

Overall, the company summary section highlights your company successes or why it will be successful (if you're a startup). In the opening paragraph or paragraphs, provide facts about the business such as location, owners, hours, products, and services.

Startup Summary (or Company History)

How you structure this section depends on whether you're a startup or an established business. A startup will discuss the general expenses and steps needed to open the business, such as permits, build-outs, rent, and marketing. An established business will briefly discuss the company's financial performance over the past three years.

Startup Funding Table

If you're writing a business plan for the purpose of raising capital from an investor or bank, include a chart listing the items that will be purchased with the capital. For example, if you're purchasing equipment with additional funding, list each piece of equipment and the associated cost. At the bottom of the chart, show the total of all expenses, which should be the requested amount of funding.

Startup Funding Table Sample

Business Name Startup

START-UP EXPENSES		START-UP ASSETS	
Legal	\$1,200	Cash Required	\$10,000
Kitchen Inventory	\$6,000	Start-up Inventory	\$15,000
Packing Materials	\$1,500	Other Current Assets	\$9,000
Kitchen Equipment	\$20,000	Long-term Assets	\$50,000
Insurance	\$1,500	Total Assets	\$84,000
Rent	\$2,000	TOTAL REQUIREMENTS	
Promotion	\$1,800	\$131,500	
Other Expensed Equipment	\$5,000		
Business Sign	\$3,000		
Permits	\$1,500		
Office Supplies	\$1,000		
Others	\$3,000		
Total Start-up Expenses	\$47,500		

An example of a chart outlining separating startup expenses from startup assets.

Location & Facilities

If you have a brick-and-mortar location or a facility, like a warehouse, describe it here. Go into detail about the benefits of your location and the surrounding areas. For example, write about square footage, leases or ownership, the surrounding area, and a brief description of the population.

Company Ownership

Briefly mention the company ownership team and its members' backgrounds. Show why these owners are likely to be successful in operating this business by providing information such as each owner's industry experience, previous employers, education, and awards won. The owners' backgrounds will be discussed in depth in the management and organization section below.

Competitive Advantage

Ideally, your competitive advantage is what your business can do that your competitors cannot. It's the one big feature that will make your company successful. Many investors are looking for specific competitive advantages, such as patents, proprietary tech, data, and industry relationships. However, if you don't have these, describe the number one thing your business will do better than competitors, such as quality of products, quality of services, relationships with vendors, or marketing strategy.

4. Products & Services

The products and services section is the most flexible section because its structure depends on what your business sells. Regardless of what you're selling, include a business model, which describes how your business makes money. Also include future products or services that the business may provide one, two, or five years down the road.

Business Model

The business model is essentially how the business makes money. If you have a new type of business or a novel way to produce a product or service, this section is important and needs to be detailed. For example, if you own a pizza restaurant, you should discuss all the ways your business will earn money. Customers can order at a table inside your restaurant, over the phone, on your website, and using an app like Uber Eats. You may even be able to sell your homemade ranch bottles as well.

Products

If you have physical products you're selling, describe them in this section. Remember to place an emphasis on both product features and benefits. For example, if you're selling umbrellas, you could describe that they're made of nylon, metal, and plastic. A benefit is that they keep you dry from rain while being small.

Services

Here you'll discuss services that the business provides. If your business provides both products and services, have both sections. Remember, services don't have to be sold for a cost. For example, entertainment like live music or bar games may be a free service your business provides.

Fulfillment

Whether you're selling products, services, or both, it's important to discuss how each will be delivered. Describe how a service, such as a window installation, will be implemented. Where will the glass be purchased from and how will the window be installed? If you're selling products, how will the products be assembled, packed, and shipped?

Future Products & Services

If you plan to provide additional products and services after the initial launch, outline that here. Don't limit yourself to providing more of the same product or service. For example, if you have a commercial photography company, you might make plans to hire a graphic designer to provide a different service. Additionally, you can describe how you'd like to expand your business, such as renting out the unit next door to provide additional services or sell additional products.

5. Market & Industry Analysis

The market and industry analysis section is where you analyze your potential customers and industry. This section is where you make the case as to why your business should succeed, ideally backed by data. You'll want to do a deep dive into your competitors and discuss their challenges and successes. Remember, this section should be persuasive and make the case as to why your business will be successful.

You have done this thoroughly in the [last chapter](#). Include market segmentation, target market segment strategy, and industry analysis in this section.

6. Marketing Strategy & Implementation Summary

The marketing strategy and implementation section is where you outline your marketing strategy and how it will be carried out. In the opening paragraphs, give an overview of the subsections below. For some businesses, this section may be longer than others. For example, a business relying on ecommerce for sales may outline the website, social media strategy, online advertising, and email marketing strategy. For a company relying on government contracts that won't do a lot of marketing, this will be a shorter section.

Marketing Strategy

Discuss the overall marketing strategy for the business. Include any trends within the industry you may take advantage of, such as video or Facebook ads. If applicable, include the advertising strategy and budget, stating specific channels. Mention who in the business will be responsible for overseeing the marketing. We'll cover marketing your business in more detail in [Chapter 9](#).

Traditional Marketing Plan

Within the marketing strategy, you may want to include a subsection that includes the business' traditional marketing plan. Traditional marketing includes anything not online-related, such as business cards, flyers, local media, direct mail, magazine advertising, and signage. For example, if you own a retail business, like a dog groomer, traditional marketing will most likely be a strong component of your business.

Online Marketing Plan

An online marketing plan (also called a web plan) includes using tools like the business' website, social media, email marketing, and video and may require several pages. If you're hiring a company to do any online work, like creating a website or managing social media, briefly describe it and the overall cost (you can elaborate more on costs in the financial data section).

Sales Strategy

If sales are an important component of your business, include a section about your strategy. Include the role of the salesperson (or persons), strategies they will use to close the deal with clients, lead follow-up procedures, and networking events they will attend. Additionally, discuss any training your sales staff will receive.

Sales Forecast Table

A sales forecast table gives a high-level summary of where you expect your sales and expenses to occur for each of the next three years in business. In the paragraph before the table, state where you expect growth to come from and include a growth percentage rate.

Annual Sales Forecast

START-UP EXPENSES	YEAR 1	YEAR 2	YEAR 3
Sales			
Food and Beverage Revenues	\$1,028,422	\$1,079,843	\$1,133,835
Additional Revenues	\$0	\$81,600	\$102,000
Total Sales	\$1,028,422	\$1,161,443	\$1,235,835
Controllable Costs			
COGS	\$402,113	\$414,176	\$426,602
Payroll	\$269,987	\$323,057	\$340,027
Total Prime Cost	\$672,100	\$737,234	\$766,628
Controllable Profit	\$356,322	\$424,209	\$469,207

This annual sales forecast summarizes sales, cost, and profit for the first three years in business.

Pricing Strategy

In the pricing strategy section, discuss the product (or service) pricing, competitor pricing, sales promotions, and discounts—basically anything related to the pricing of what you sell. You should discuss pricing in relation to product and service quality as well. Consider including an overview of pricing for specific products, e.g., pizza price discounts when ordering a specific number of pizzas for catering.

Milestones

Milestones in a business plan are typically displayed on a table. They outline important tasks to do before the business opens (or expands, if already in business). For each milestone, include the name, estimated start and completion date, cost, the person responsible, and the department responsible (or outside company responsible). List at least seven milestones.

Smile Photo Studio Milestones

Milestones for this commercial photography business include hiring staff and completing marketing campaigns.



MILESTONE	START DATE	END DATE	BUDGET	MANAGER	DEPARTMENT
Sign Lease on Studio	9/30/2009	9/30/2009	\$0	GC	Operations
Hire Part-Time Staff	11/1/2009	11/1/2009	\$0	GC	Operations
Train Part-Time Staff	11/1/2009	12/31/2009	\$0	GC	Operations
Open Studio For Business	1/1/2010	1/1/2010	\$0	GC	Operations
Web Marketing Campaign	11/1/2009	12/31/2009	\$8,000	GC	Marketing
Email Marketing Campaign	11/23/2009	12/23/2009	\$1,000	GC	Marketing
Rental Studio Marketing	11/15/2009	12/31/2009	\$1,000	GC	Marketing
TOTALS			\$10,000		

Milestones for this commercial photography business include hiring staff and completing marketing campaigns.

7. Management & Organization Summary

The management and organization summary discusses the ownership background and the personnel plan in depth. This is an important section because many investors say they don't invest in companies, but rather invest in people. In this section, make the case why you and your team have the experience and knowledge to make this business a success.

Ownership Background

Discuss the owners' backgrounds and place an emphasis on why that background will ensure the business succeeds. For example, if you would like to open a sports store, discuss your retail management experience. If you don't have experience managing a retail business, consider finding a co-owner who does. Typically, banks won't lend to someone who doesn't have experience in the type of business they're trying to open.

Management Team Gaps

If there are any experience or knowledge gaps within the management team, state them. List the consultants or employees you will hire to cover the gaps. Investors who know your industry well may recognize gaps within your business plan, and it's important to state the gaps without having the investor bring them up. Recognizing any experience gaps makes it appear that you know the industry well.

Personnel Plan

The personnel plan outlines every position within your business for at least the next three years. In the opening paragraph, discuss the roles within the company and who will report to whom. Include a table with at least three years of salary projections for each employee in your business. Include a total salary figure at the bottom. This table may be broken down further into salaries for each month in the financial projections or appendix.

Smile Photo Studio Personnel Plan

This commercial photography business has the CEO at the same salary every year, with their employees' salaries increasing year over year.



	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CEO	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
Assistant Photographer	\$33,736	\$48,000	\$49,920	\$51,917	\$53,993
Administrative Assistant	\$19,019	\$28,344	\$40,000	\$45,000	\$50,000
Assistant Photographer 2	\$0	\$13,942	\$15,000	\$30,000	\$31,200
Assistant Photographer 3	\$0	\$0	\$0	\$15,000	\$35,000
Assistant Photographer 4	\$0	\$0	\$0	\$0	\$15,000
TOTAL PEOPLE	3	3	4	6	7
TOTALS	\$112,755	\$150,286	\$164,920	\$201,921	\$245,193

This commercial photography business has the CEO at the same salary every year, with its employees' salaries increasing year over year.

8. Financial Data & Analysis

The financial data and analysis section is the most difficult part of a business plan. This section requires you to forecast income and expenses for the next three years. Additionally, it requires a working knowledge of common financial statements, like the profit and loss statement, balance sheet, and cash flow statement.

As you read through the financial data sections below, use the free [financial projections template](#) from the Service Corp of Retired Executives (SCORE) to fill in your business' information. If this is too challenging, we recommend using a business plan and financial projections software, like LivePlan, to assist with the forecasting.

In the opening paragraphs of the financial data and analysis section, give an overview of the sections below. Discuss the break-even point and the projected profit at the first, second, and third years in business. State the assets and liabilities from the projected balance sheet as well.

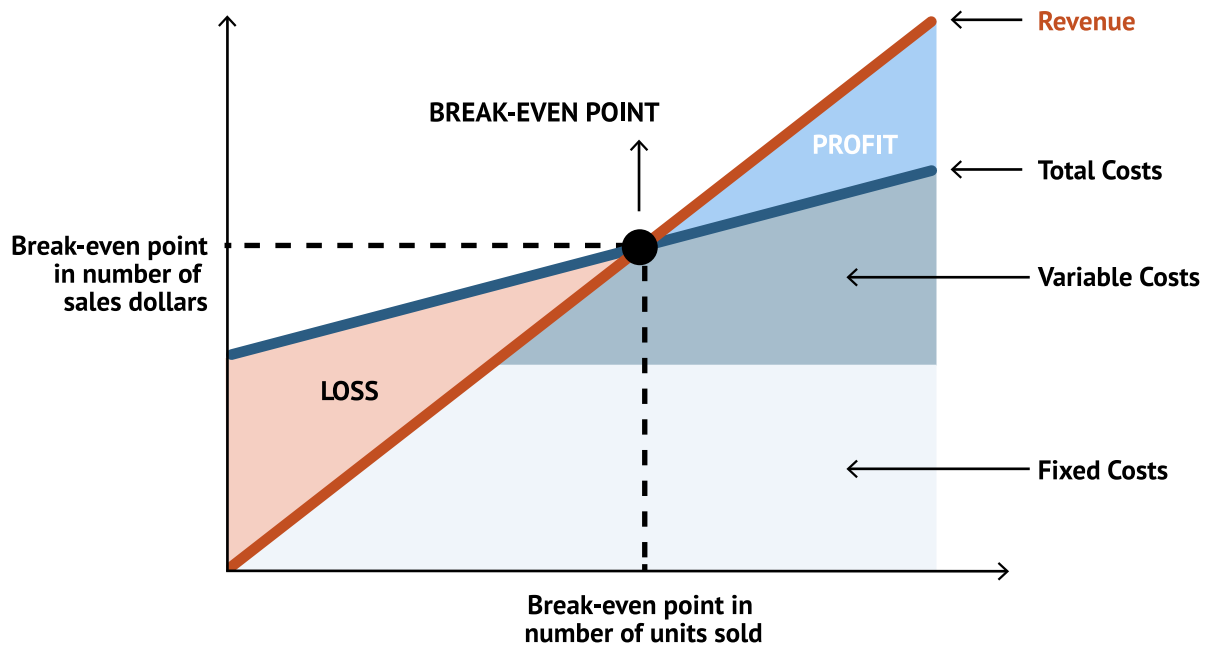
If you're getting a loan from a bank, say how long and from what source the loan will be repaid. One of the main pieces of information bankers want to ascertain from financial forecasting is if they will be paid back and how likely that is to happen.

Break-even Analysis

The break-even analysis is the point at which revenue exceeds expenses and profit occurs. In this section's opening paragraph, state what the monthly fixed costs will be and what the average percent variable cost is, which is the cost that changes with output.

Break-even Analysis

Using and understanding the break-even point lets you measure how profitable your present product line is, how far sales drop before you start to make a loss, and how much of an increase in price or volume of sales you will need to meet the rise in fixed cost.



Source: [Deskera](#)

A visual explanation where you hit the break-even point in your business.

Projected Profit & Loss

The [profit and loss](#) table is a month-by-month breakdown of income and expenses (including startup expenses). The profit and loss table shows the month during which the business will earn a profit. Typically, you should expect your business to show a profit within the first year of operating and increase in years two and three. Be sure to show income and expenses month by month for the first two years in operation. Create a separate chart that shows income and expenses year by year for the first three years.

Projected Profit and Loss Table Sample

EBITDA: earnings before interest, taxes, depreciation, and amortization

PROFIT AND LOSS	JAN	FEB	MARCH	
Sales	\$26,300	\$29,410	\$30,950	— Sales and direct costs from sales forecast
Direct Costs	\$14,860	\$16,775	\$17,725	
Gross Margin	\$11,440	\$12,635	\$13,225	— Calculate gross margin
Gross Margin %	43%	43%	43%	
OPERATING EXPENSES	JAN	FEB	MARCH	
Payroll	\$6,266	\$6,966	\$7,666	} Operating expenses from spending budget
Rent	\$2,000	\$2,000	\$2,000	
Marketing	\$1,000	\$1,000	\$1,500	
Leased Equipment	\$150	\$150	\$150	
Utilities	\$125	\$125	\$125	
Insurance	\$75	\$75	\$75	
Benefits	\$1,567	\$1,742	\$1,917	
Other	\$0	\$0	\$0	
Total Operating Expenses	\$11,183	\$12,058	\$13,433	
EBIT	-\$768	-\$448	-\$1,233	— Add depreciation and calculate EBITDA and profits
EBITDA	\$258	\$578	-\$208	
Depreciation	\$1,025	\$1,025	\$1,025	
Interest	\$182	\$181	\$180	
Taxes	\$0	\$0	\$0	
Net Profit	-\$950	-\$629	-\$1,413	
Profit/Sales	N.A.	N.A.	N.A.	

Source: [LeanPlan.com](https://leanplan.com)

Projected Cash Flow

The cash flow section shows the business' incoming and outgoing cash. This is broken down in a month-by-month table and should cover the first two years in business. Projected cash flow is different from the profit and loss projection because it focuses specifically on cash within the business. Cash flow is important because you want cash on hand to meet repayment obligations and unexpected cash needs.

In this section's introductory paragraph (before the projected cash flow table), mention what you plan to do with the excess cash. For example, will you pay down long-term debt, build cash contingency reserves, or reinvest in certificates of deposit or US Treasuries?

Projected Cash Flow Table Sample

Money Received	JAN	FEB	MAR	APR	MAY	JUN
Cash Sales	\$23,670	\$26,469	\$27,855	\$31,464	\$38,961	\$34,236
Received from AR	\$0	\$2,630	\$2,941	\$3,095	\$3,496	\$4,329
Subtotal from Operations	\$23,670	\$29,099	\$30,796	\$34,559	\$42,457	\$38,565
New current notes	\$0	\$0	\$0	\$0	\$0	\$0
New current other	\$0	\$0	\$0	\$0	\$0	\$0
New long-term liabilities	\$0	\$0	\$0	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0	\$0	\$0	\$0
New Investment	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Money Received	\$23,670	\$29,099	\$30,796	\$34,559	\$42,457	\$38,565
Money Spent	JAN	FEB	MAR	APR	MAY	JUN
Cash spending	\$6,266	\$6,966	\$7,666	\$8,366	\$8,367	\$8,367
Payment of AP	\$17,650	\$18,099	\$24,273	\$24,947	\$28,620	\$36,877
Subtotal from Operations	\$23,916	\$25,065	\$31,939	\$33,313	\$36,987	\$45,244
Principal Repayment						
Current Notes	\$0	\$0	\$0	\$0	\$0	\$0
Current Other	\$0	\$0	\$0	\$0	\$0	\$0
Long-term liabilities	\$429	\$442	\$455	\$469	\$483	\$498
Purchase Current Assets	\$0	\$0	\$0	\$0	\$0	\$0
Purchase Long-term Assets	\$0	\$0	\$0	\$0	\$0	\$0
Dividends	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Money Spent	\$24,345	\$25,507	\$32,394	\$33,782	\$37,471	\$45,741
Cash Flow	-\$675	\$3,592	-\$1,598	\$777	\$4,986	-\$7,176
Cash Balance	\$34,325	\$37,917	\$36,319	\$37,096	\$42,082	\$34,906

Source: [LeanPlan.com](https://leanplan.com)

Projected Balance Sheet

The balance sheet shows the net worth of the business and the financial position of the company on a specific date. The balance sheet is different from the profit and loss statement because it focuses on the assets and liabilities of the business. The profit and loss statement focuses on income and expenses. Ideally, the balance sheet should show that the net worth of your business increases. Prepare a projected year-by-year balance sheet for the first three years.

Projected Balance Sheet Sample

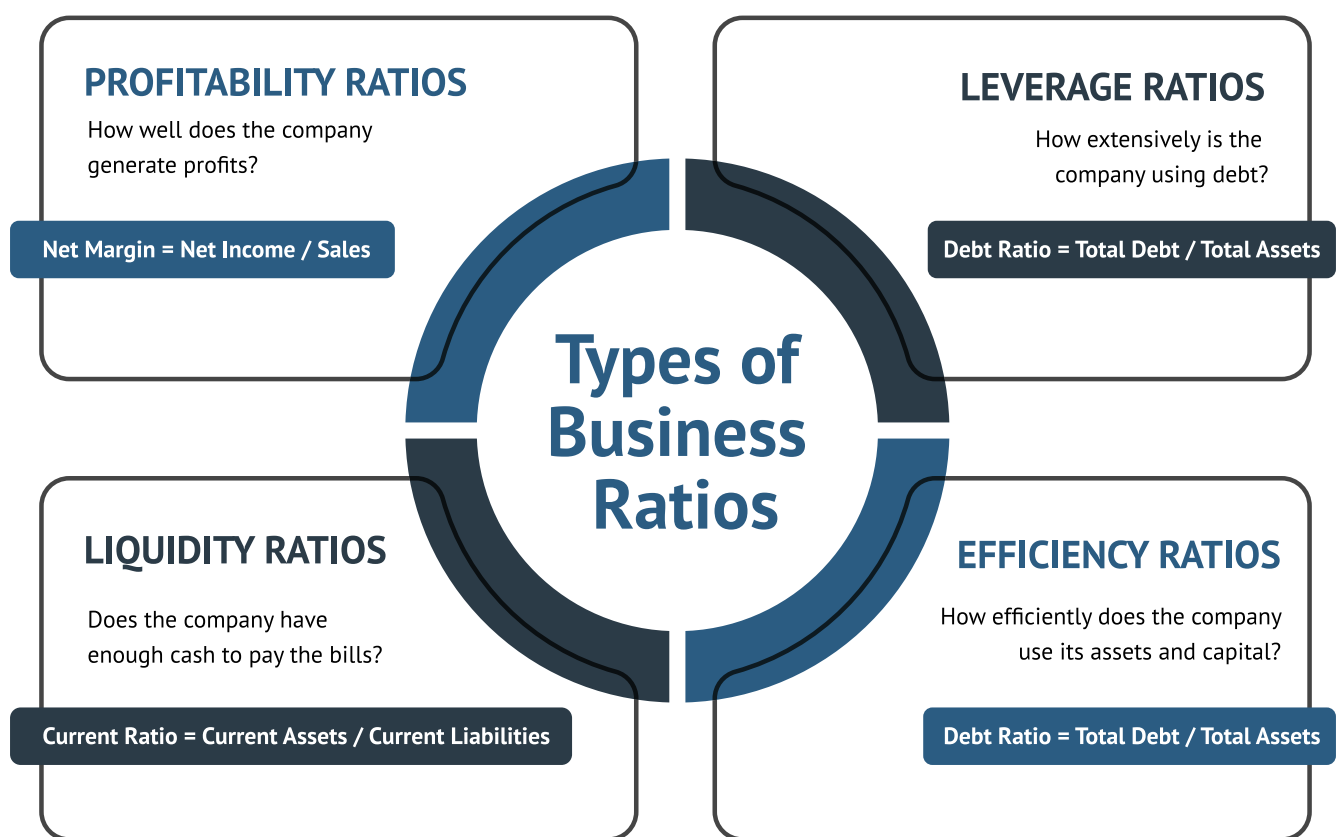
AS OF PERIOD'S END	Starting Balances	FY2019	FY2020	FY2021
Cash	\$14,150	\$19,241	\$29,173	\$49,772
Accounts Receivable	\$6,500	\$14,535	\$15,002	\$15,814
Inventory	\$17,000	\$24,375	\$26,245	\$26,660
Other Current Assets	\$8,000	\$8,000	\$8,000	\$8,000
Total Current Assets	\$45,650	\$66,151	\$78,420	\$100,246
Long-Term Assets	\$61,500	\$86,500	\$86,500	\$86,500
Accumulated Depreciation	(\$11,500)	(\$26,500)	(\$41,500)	(\$56,500)
Total Long-Term Assets	\$50,000	\$60,000	\$45,000	\$30,000
Total Assets	\$95,650	\$126,151	\$123,420	\$130,246
Accounts Payable	\$27,800	\$68,442	\$70,879	\$72,928
Sales Taxes Payable	\$0	\$0	\$0	\$0
Short-Term Debt	\$2,000	\$0	\$0	\$0
Total Current Liabilities	\$29,800	\$68,442	\$70,879	\$72,928
Long-Term Debt	\$70,000	\$56,966	\$43,468	\$29,490
Total Liabilities	\$99,800	\$125,408	\$114,347	\$102,418
Paid-In Capital	\$50,000	\$50,000	\$50,000	\$50,000
Retained Earnings	(\$3,150)	(\$3,150)	\$1,743	\$10,073
Earnings	\$0	\$4,893	\$8,330	\$18,755
Total Owner's Equity	\$46,850	\$51,743	\$60,073	\$78,828
Total Liabilities & Equity	\$146,650	\$177,151	\$174,420	\$181,246

Source: [LeanPlan.com](https://leanplan.com)

Business Ratios

Business ratios (also called financial ratios) are a way to evaluate the performance of your business. These ratios function as key performance indicators (KPI) and they only include data from your financial statements. Business ratios help you diagnose your financial health, and subsequently help you focus and treat inefficiencies in cash flow, efficiency, and profit. Use them to analyze trends, compare your business to competitors and measure progress toward goals.

There are many types of business ratios you can track but we recommend you start with this shortlist:



a. Cash Flow to Debt

$$(\text{Net Income} + \text{Depreciation}) \div \text{Total Debt} = \text{Cash Flow to Debt Ratio}$$

Use the cash flow to debt ratio to keep an eye on cash flow. A cash flow to debt ratio of less than one is a red-flag predictor—you cannot cover your bills without securing additional funds.

b. Net Profit to Margin

$$\text{(Total Revenue - Total Expenses)} \div \text{Total Revenue} = \text{Net Profit Margin}$$

Net profit margin is the percentage of your revenue remaining after deducting all operating expenses, interest and taxes. Investors want to check a business' net profit margin because it shows how efficient a business is at managing costs and converting revenue into profits.

c. Gross Margin Ratio

$$\text{(Sales - Cost of Goods Sold)} \div \text{Total Sales} = \text{Gross Margin Ratio}$$

If your business sells products, pay attention to this ratio. This tells you how much money remains after you pay for your operating expenses (like marketing, salaries and rent) AND after you pay for the product that you sell. A low gross margin signals that you may have trouble paying your operating expenses.

d. Quick Ratio

$$\text{(Cash + Marketable Securities + Net Accounts Receivable)} \div \text{Current Liabilities} = \text{Quick Ratio}$$

Known as the acid test, this ratio is recommended for businesses that have current liabilities—such as accounts payable, short-term loans, payroll taxes payable, income taxes payable, credit card debt and other accrued expenses—because it measures liquidity.

It helps you to know whether you have enough current assets (cash, liquid investments and accounts receivable) to cover your current liabilities. For example, can your business stay afloat in case of a temporary setback? The higher the quick ratio, the better your position.

It also can help tell whether you can afford to invest cash in business expansion. If your quick ratio is less than 1.0, your debts are greater than your assets. You should probably work on paying down debt and saving more cash first.

Note: This ratio does not include inventory in your current assets, as inventory may not be readily converted to cash.

e. Account Receivable Turnover

$$\text{(Total A/R Outstanding} \div \text{Total Sales)} \times \text{Number of days} = \text{A/R Turnover}$$

A/R turnover is also known as days sales outstanding (DSO) and it measures how long it takes for a company to be paid once a sale has been made. Basically, it tells you how efficient your business is at getting paid.

If your A/R turnover is increasing, it's a sign that you should spend time working on your receivables process.

f. Inventory Turnover Ratio

$$\text{Cost of Goods Sold} \div \text{Average Inventory} = \text{Inventory Turnover Ratio}$$

If your business carries inventory, this ratio tells you how many times inventory was converted to sales during a time period—by month, quarter, or year. Investors often refer to this ratio to determine how liquid a company's inventory is because it is often one of the biggest assets reported on the business' balance sheet. It also helps creditors determine if your business will have collateral in case you apply for a loan.

Calculating your inventory turnover ratio can help determine if you are wasting resources on storage costs or tying up cash on slow-moving or non-sellable inventory.

g. Sales per Employee

$$\text{Annual revenue} \div \text{Number of employees} = \text{Sales per Employee}$$

The sales-per-employee ratio serves as a good estimate for businesses that need a lot of employees, like service-based businesses. If your sales-per-employee ratio is high, it means your business is managing its human resources well.

It's helpful to compare your projected business ratios to the industry standard. LivePlan provides business ratios for over 1,000 industries with its paid plan. Project your business ratios by year for the first three years.

The financial projections in the previous section are typically a year-by-year breakdown for three years in the future. However, bankers and investors want to see the first two years broken down month-by-month for at least the profit and loss statement, balance sheet, cash flow, and personnel plan. Put the more detailed projections in the appendix. Typically, you can simply print out the Excel sheet in smaller font and include it in the appendix. You don't need to create additional charts for the appendix.

Appendix

The appendix is where you put information about a business that doesn't fit in the above categories. What you put here largely depends on the type of business you're creating. A good recommendation is to put any visual components in the appendix. For example, if you are opening a restaurant, consider adding a menu and an artist rendering of the interior and exterior.

Consider including the following items in your business plan appendix:

- Building permits
- Artist mock-up of interior
- Floor plan
- Leases and agreements
- Equipment documentation
- Supplier agreements
- Incorporation documents
- Licenses and permits
- Trademarks
- Media coverage
- Marketing materials
- Letters of recommendation

An appendix is not required in a business plan but is highly recommended for additional persuasion. Often, documents like media coverage, agreements, and equipment documentation show the investor and banker you're serious about the business. If your appendix becomes too long, more than 10 pages, consider creating a second table of contents placed before the appendix.

Every type of business needs to have a business plan. Remember to get feedback on your business plan from business employees and associates. If necessary, have them sign an NDA before they review the plan.

CHAPTER 4

Acquire Funding

It can be challenging for a startup business to qualify for a loan. Without the lengthy financial and credit history required by many banks, startups often get denied funding by traditional lenders. Startup loans work in the same manner as other business loans; the primary difference is that the qualification requirements are less restrictive, allowing startups to be eligible. There are various types of startup financing available, and each operates differently. In general, startup loans are given to a business, and the business repays the debt over a specified term.

Best Startup Business Loans for Small Businesses

Startup Loans	Best For
Rollover for Business Startups (ROBS)	Business owners willing to invest retirement funds of \$50,000 or more
SBA Loan	Businesses with good credit and a solid business plan that don't need funds quickly
Home Equity Loan (HEL) or Line of Credit (HELOC)	Borrowers willing to use their home equity for startup funding
Business Credit Cards	Business owners good at repaying debt that want quick access to funds
Personal Loan	Business owners with good personal credit needing up to \$50,000 in funding
Equipment Financing	Businesses where a major startup cost is purchasing equipment with a long life
Microloans	Businesses in small, niche, or underserved industries who may be underserved by traditional lenders

1. Rollover for Business Startups (ROBS)

A [ROBS](#) allows a business owner to invest funds from a personal retirement account in a new business without paying early withdrawal penalties or income taxes. It's not a business loan or a 401(k) loan, which means there's no interest or debt to repay.

A ROBS can be an excellent option to fund a small business. If you have sufficient funds in a retirement plan and feel that the potential rewards outweigh the risks, it may make sense to consider using a ROBS to help finance the start or acquisition of a small business.

To qualify for and use a ROBS, you must:

- Contribute \$50,000 or more from your retirement savings
- Be an employee of the business
- Structure your business as a [C corporation \(C-corp\)](#)
- Be able to fund the setup costs of \$5,000 from outside the deferred retirement account

Setting up a ROBS can be very complicated. For more information on ROBS financing, check out our article on the [best rollover for business startup financing providers](#). We recommend Guidant Financial to assist with the proper setup and execution of a ROBS account.

2. SBA Loans for Startup Businesses

The Small Business Administration (SBA) assists [startup businesses with financing](#). All SBA loan types can be used for startup financing, although some types are more challenging to qualify for due to the time-in-business [requirements](#).

There are many [types of SBA loans](#); qualification for some of them can be difficult. For example, a business owner will need to have a credit score of at least 680 and potentially pledge collateral for the loan. Two types of SBA loans that can be used for startup financing are the Community Advantage program and the [SBA Microloan](#) program. Both programs target new or underserved businesses. All SBA loan types can be used for startups, but some are more difficult to qualify for if you don't have an existing business.

In addition, both ROBS financing and SBA Loans are excellent options for business owners looking [to get a loan to buy a business](#).

3. Home Equity Loan or Line of Credit

If you own a home that has equity available, you could have the option to take out a low-interest-rate [home equity line of credit \(HELOC\)](#) or a [home equity loan \(HEL\)](#).

A home equity loan is a lump sum loan against the equity of a property. It's also usually a second lien on the property. This type of loan often has fixed payments with repayment complete at maturity.

A HELOC is a revolving line of credit with your home held as collateral against the loan. It's often a second lien on the property behind the primary mortgage. Money can be drawn and repaid as long as the line of credit remains open. At maturity, the line of credit can be renewed, paid off, or extended.

HEL or HELOC Costs, Terms & Qualifications

Both types of funding require equity in the property being held as collateral. The typical requirements for a home equity loan or line of credit are:

- **Closing costs:** 2% to 5%
- **Annual interest rate:** 3% to 6%
- **Equity:** At least 20% equity in your home (rule of thumb is between 30% and 40% minimum)
- **Maximum loan-to-value (LTV):** 80%—based on the appraised value of your home

Where to Find a HELOC

The best place to look for a HELOC would be the local bank where you have your first mortgage. However, if you don't have a bank of choice, a marketplace like LendingTree is an excellent resource for shopping around with multiple lenders to find the best offers.

4. Small Business Credit Cards

Small business credit cards are suitable for small and midsize business (SMB) expenses. It isn't advisable to put significant capital expenses on a credit card due to the higher interest rate. However, business credit cards can help businesses manage cash flow by allowing them to make purchases as needed and pay them off when funds are received.

Small business credit cards have several benefits for your startup business, including:

- Many have 0% introductory rates
- You only pay interest on the balance you're carrying at the end of the billing cycle
- Cashback and rewards programs let you earn extra money for your business by charging purchases to your card
- Employee cards that allow you to restrict what the card can be used for, such as gas or office supplies, mean more independence for trusted employees, less busywork approving purchases, and more rewards for your business

Because business credit cards have APRs between 10% and 30%, it makes sense to use them for [short-term financing](#). However, if the cardholder's credit score drops, the limit can be lowered or the card can be closed. Interest rates on credit cards are typically lower than large [unsecured business loans](#).

While there's no shortage of [business credit cards for startups](#), we chose the Chase Ink Business CashSM card as best overall for startup businesses, with an introductory 0% APR for 12 months and 5% cashback on the first \$25,000 spent. However, different small business credit cards offer additional perks and rewards that might benefit an individual company. Therefore, you should compare the various benefits of each before choosing which one to pursue.

5. Personal Loan for Business

Startup businesses often struggle to qualify for financing due to limited time in business and little revenue. This makes a personal loan for business purposes a viable option for financing a startup. Because qualification is based on your personal credit and income, the qualification challenges presented by a startup business won't prevent approval. However, if your business cannot repay the loan, you're personally liable.

Personal Business Loan Costs, Terms & Qualifications

A personal loan can range between \$1,000 and \$100,000. The amount offered by a lender will depend on your qualifications, including credit score, income, and debt-to-income ratio. Repayment terms usually range between one and five years.

The basic costs, terms, and qualifications for a personal loan are:

- **Origination fee:** 1% to 6%
- **Interest rate:** 5% to 36%
- **Loan amount:** Up to \$100,000
- **Minimum credit score:** 600
- **Repayment term:** One to five years

A personal loan may require personal collateral to be held to secure the loan. Unsecured loans will have higher interest rates due to the increased risk. Like a business loan, a personal loan involves receiving a lump sum that's amortized over a period of time.

Where to Find Personal Business Loans

If the bank has a relationship with the business owner, it'll be more likely to give favorable terms to the borrower. The [best personal loans for business funding](#) should provide the lowest rates and most flexible terms, and borrowers with lower credit scores should expect higher interest rates. Keep in mind that personal loans use the business owner's credit and income to determine qualification, and the business owner is personally liable for the debt.

Online marketplaces, such as LendingTree, are also excellent choices for personal loans as the application will be shopped around to find the best available terms.

6. Equipment Financing

If a startup needs equipment rather than cash, [equipment financing](#) is a good option. It allows the business to finance the purchase of a new or used piece of equipment needed to generate revenue. Existing equipment can also be refinanced through equipment financing loans.

The two most common methods of equipment financing are:

- **Equipment loans:** With an [equipment loan](#), the borrower pays the loan back in equal installments, and the borrower gains ownership of the equipment upon satisfaction of the loan. Terms can be as long as five years.
- **Equipment leases:** There are many types of [equipment leases](#). Leases allow you to pay to use equipment and then choose to purchase the equipment or return it at the end of the lease.

Smarter Finance USA is an excellent choice for startups looking for equipment financing. In addition to being open to working with startups, it offers flexible lending options and competitive rates. Startup businesses that can put at least 5% down on the purchase of their equipment and have a personal credit score of at least 600 should choose Smarter Finance.

7. Microloans

A microloan is provided to businesses in small or niche industries or to groups of people that traditional lenders might under serve. Microloans are often provided by individuals through peer-to-peer financing. Microlenders provide borrowers in specific industries, such as farming, or groups of people banks have traditionally underserved due to race or gender, with much-needed funding.

Kiva is an excellent example of an organization that provides crowdfunded, interest-free microloans for up to \$15,000. Check out its website for more information.

How We Evaluated for the Best Options for Startup Business Loans

In evaluating the best small business startup loans, our goal was to provide you with as many options as possible. No two businesses are alike, so the best startup business financing option for your business will be the one that best suits your individual situation. Understanding your funding options is a great place to start when investigating new business loans.

Some of the factors to consider when deciding among startup business loan options are:

- **Upfront cash required:** Your initial outlay of cash is important. If you don't have much cash, you might want to find an option that doesn't require a down payment or include upfront expenses.
- **Long-term cost:** You need to consider not only the interest rate but also how much the financing will cost you in the long term. A loan that's paid off quickly with a higher rate may cost less than a loan with a lower rate and a longer-term.
- **Amount of equity you need to give up:** Some startup funding options require you to give up equity in an asset (e.g., your home, your business) as part of the financing agreement.
- **Personal guarantees:** It's important to know if you'll be required to sign a personal guarantee, which is a promise that you'll pay if your business cannot.

Alternatives to Startup Business Loans

In addition to considering a startup business loan, you may want to consider [alternative funding methods](#) to get your business started. Alternative methods include borrowing from friends and family, applying for a [small business grant](#), [crowdfunding](#), [angel funding](#), and [venture capital](#).

No matter which type of startup financing your business applies for, you can increase the chances of [getting a small business loan](#) by preparing a solid business plan, improving your personal [credit score](#), saving up personal capital, building your business' customer base, and maintaining updated [financial projections](#).

Obtaining financing for your startup business may be the biggest challenge you face in your company's infancy. The options listed above give you many ways to obtain financing for your startup, with ROBS financing and SBA loans being two of the best options. Make sure to consult your financial advisor and your legal expert when considering options for startup financing.



CHAPTER 5

Choose a Business Structure & Register Your Business



After acquiring funding, it is time to file the necessary legal paperwork and register your business. You want to take the steps below to comply with city, state, and federal laws. You also want to protect your personal assets if something happens in your business that results in a lawsuit. Additionally, if you have a unique business idea, you want to protect that from competitors.

The cost of registering a business varies between \$40 to \$500, depending on the state in which you choose to register. You can register through the state's official business registration website. If you find the website challenging to navigate, use an online legal service such as Rocket Lawyer to assist with the process.

Use this [checklist](#) to register your business.

How to Register a Business in 5 Steps

STEP 1 Prepare to Register the Business

Decide on a business name (or settle on a DBA), choose a location to receive important documents, get your EIN, and open a business bank account.



STEP 2 Choose a Business Structure

Choose between the following: sole proprietorship, general partnership, limited partnership, LLC, C-corp, and S-corp.



STEP 3 Register Your Business With the State

You can do this on your own through the state website or use an online legal service. Choose a registered agent and obtain a state sales tax identification number (STIN) if your business has a sales tax.



STEP 4 Get State Licenses & Local Permits

Depending on your type of business, you may need a professional license issued by the state or a local permit. If you work from home and receive customers or employees, you may need to obtain a work-from-home license.

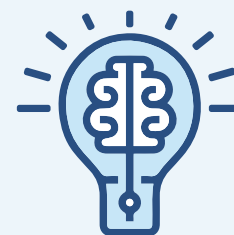
**STEP 5** Secure Your Intellectual Property

Although it's not necessary to start your business, you may want to register a trademark, copyright, or patent.

A trademark ensures no other business uses your logo, business name, or tagline.

A copyright gives you increased legal protection over your creative work.

A patent ensures no one can take your product idea.



1. Prepare to Register the Business

This may only include obtaining an employment identification number (EIN), opening a business bank account, and registering the business as a legal entity in the state in which it operates.

Or registering your business can be several tasks including those above in addition to obtaining a professional business license, getting a State Taxpayer Identification Number, and passing a city health inspection. It's best to prepare for these tasks in advance to ensure they go smoothly.

Decide on a Business Name

Before taking any legal steps below, you need to decide on your business name. This is important to do first because your business name will be on all of your legal documents.

Know that you don't have to stick with this name forever. If you'd like to change the public-facing name of your business, you can always file a [DBA \(doing business as\)](#) registration with the state in which your business is primarily located.

What is a DBA?

The DBA is the public-facing name of a business. For a sole proprietor, a DBA allows them to market a business other than their legal name. For an LLC, a DBA allows the owner to market a business with a name other than the registered name. Several states and counties use the term “fictitious name” or “trade name” instead of “doing business as.” Expect to spend anywhere from \$10 to \$150 a year to register your DBA.

Need help coming up with a business name? Try our [business name generator](#).

Choose a Location To Receive Important Documents

You need to choose a reliable address to receive important documents in the mail. Your city or state may require certain documents to be signed and will mail them to you. Additionally, your state will mail documents to your address every year to remind you to re-register your business. It's important to re-register on time because the late fee is often higher than the initial registration cost.

Obtain Your Employment Identification Number

Your [Employment Identification Number \(EIN\)](#) is a federal business number provided by the Internal Revenue Service (IRS) to primarily identify your business for tax purposes. It's [free to obtain your EIN](#) and you will use it on several documents. Many banks require an EIN before opening a business bank account.

Open a Business Bank Account

It's important to [open a business bank account](#) before incurring any business expenses. This ensures you're not mixing personal and business expenses. Many banks require a balance of at least \$1,500 or they deduct a monthly fee. Novo is an online bank that specializes in accounts for entrepreneurs and freelancers. Novo doesn't require a minimum balance and they also provide free invoicing software.

2. Choose a Business Structure

We recommend all businesses register as a legal entity, such as a limited liability company (LLC), S corporation, or C corporation. Registering your business as a legal entity protects your personal assets if a lawsuit were to ever occur against the business.

Research and determine the right type of legal entity for your business. While these legal entities have [different pros and cons](#), they all achieve the vital goal of separating the business owner from personal financial liability if the business were sued or went bankrupt.

That being said, some individuals choose not to register their business as a legal entity because of the cost. In some states, such as Massachusetts, it can cost \$500 to register as an LLC. Someone with a low-risk side business that only earns a couple of thousand dollars a year may choose not to register and stay a sole proprietor.

Business Structure Advantages & Disadvantages

Here is a snapshot of the different business structures you can consider and their key advantages and disadvantages.

Business Structure Comparison Table		
Business Structure	Advantages	Disadvantages
<p>Sole Proprietorship</p> <p>Best For: Low liability businesses, one-person online businesses, freelancers, small businesses that are just a hobby or part-time job for the owner</p>	<ul style="list-style-type: none"> ● Default setup for single owner business which requires little or no paperwork ● Owner has total control ● Profits pass through to personal tax return 	<ul style="list-style-type: none"> ● No separation between business and personal liability ● Poor vehicle for raising money from investors
<p>General Partnership</p> <p>Best For: Starting a low liability business with an equal partner or partners that you know well and trust</p>	<ul style="list-style-type: none"> ● Default setup for multi-owner business which requires little or no paperwork ● Owners can divide control as they see fit ● Business profits pass through to owners' personal tax returns 	<ul style="list-style-type: none"> ● No separation between business and personal liability ● Possibility of partner conflicts ● Poor vehicle for raising money from investors

Business Structure Comparison Table

Business Structure	Advantages	Disadvantages
<p><u>Limited Partnership</u></p> <p>Best For: Larger companies with investors that do not want day-to-day involvement</p>	<ul style="list-style-type: none"> ● Provides partnership structure but also makes it easier to raise external capital 	<ul style="list-style-type: none"> ● Limited partners have no control in the management of the business ● General partners have personal liability
<p><u>Limited Liability Company (LLC)</u></p> <p>Best For: Small businesses that need liability protections, don't need to raise a lot of money from investors, and want flexibility in how the business is managed and taxed</p>	<ul style="list-style-type: none"> ● Protection from personal liability ● Less recordkeeping than corp ● Profits and responsibilities can be easily divided among members 	<ul style="list-style-type: none"> ● Not appropriate if you want to raise venture capital or investor money ● Entire income of LLC members are subject to self-employment tax contributions, which you can avoid with a corp
<p><u>S corporation (S-corp)</u></p> <p>Best For: Freelancers, consultants, retail business owners, seasoned professional-based business, and corporations with under 100 shareholders</p>	<ul style="list-style-type: none"> ● Protection from personal liability ● Profits pass through to owners' personal tax returns 	<ul style="list-style-type: none"> ● Only some companies eligible ● More limits on issuing shares
<p><u>C corporation (C-corp)</u></p> <p>Best For: Larger companies, business with foreign owners, owners by another corporation, LLC, or trust, or several types of shareholders, companies going public, or those seeking venture capital or equity investors</p>	<ul style="list-style-type: none"> ● Protection from personal liability ● Easy to raise capital ● Seen as an established entity 	<ul style="list-style-type: none"> ● Costly to form ● Double taxation ● Extensive paperwork requirements

Sole Proprietorship

Pros	Cons
+ Easy Setup and Low Cost	- Unlimited Liability
+ No Corporate Business Taxes	- No Ongoing Business Life
+ No Annual Reports/Filings	- Difficult to Raise Money
+ Not Restricted by Formal Business Structure	- Inability to Take on Business Debt
+ Easy Recordkeeping	- Can be Seen as Unprofessional

The sole proprietorship is the most common business structure. It is run by one individual who is responsible for all the operations, assets, and liabilities. The profits of the business pass through to the owner's personal tax return and are taxed at the personal tax rate. If you are providing a product or service to the public, do not have business partners, and have not set up any other legal entity for the business, then you are automatically a sole proprietorship.

To do business as a sole proprietorship, all you need to do is get any required local licenses for your type of business (e.g., restaurant or construction permits, zoning or selling permits, etc.). You also need to [register your trade name](#) (i.e., Anne's Cupcakery) with the county clerk if you're going to do business under a name other than your legal name. Registering a trade name costs around \$100 in most states; the cost of local licenses varies pretty widely.

General Partnership

Pros	Cons
+ Easy to form and low cost	- No personal liability protection
+ Tax flexibility	- Partners are liable for each other's actions
+ Corporate partners: Like an LLC and LP, general partnerships can be owned by both individuals and corporations.	

A general partnership is similar to a sole proprietorship but with two or more partners running the business together. It's also very easy to start—if two people verbally agree to form a business, you have a general partnership.

In a general partnership, partners get dual control over operational responsibilities. They also share in the profits, losses, and liabilities of the business. Your [partnership agreement](#) specifies how decisions will be shared and how the business will be run. The profits of the business pass through to the owners' personal tax returns and are taxed at their personal tax rates.

As with a sole proprietorship, you need to get local licenses and register your trade name (if applicable).

We also recommend that you take an extra step and formalize your partnership with a written partnership agreement to outline how the business will be run. While this isn't legally required, many businesses fall apart because of disputes among partners, and a written partnership agreement helps you avoid that. You can hire an attorney to draft a partnership agreement, depending on its complexity, or you can create one yourself [using a template](#).

A buy sell agreement also comes in handy should you decide to expand your pool of partners in the future. It specifies each owner's rights and responsibilities if they exit the business or want to sell their share in the business.

Limited Partnership

Pros	Cons
<ul style="list-style-type: none"> ⊕ Easy to form and low cost ⊕ Tax flexibility ⊕ Corporate partners: Like an LLC and LP, general partnerships can be owned by both individuals and corporations. 	<ul style="list-style-type: none"> ⊖ No personal liability protection ⊖ Partners are liable for each other's actions

The key difference between a limited partnership and a general partnership is that a limited partnership has a special class of partners called limited partners. Limited partners invest in the business but do not run or manage it. In limited partnerships, the decision-making authority lies with general partners.

It's even more important to have a [partnership agreement](#) with a limited partnership to distinguish the rights of general and limited partners. Taxation in a limited partnership is similar to a general partnership.

To form a limited partnership, in addition to obtaining local licenses and registering a trade name (if applicable), you must file a Certificate of Limited Partnership with the state. This costs around \$100 to \$200 depending on which state you're forming the business in.

Limited Liability Company (LLC)

	Pros	Cons
Formation	<p>+ Ease of Filing Straightforward, simple, unilateral filing paperwork</p>	<p>- Maintenance and Annual Fees LLCs can correspond with annual reports and fees of as much as hundreds of dollars</p>
Membership and Management	<p>+ Membership Flexibility, Ownership and Oversight Unlimited members and owners of any kind, plus management options</p>	<p>- Inflexibility of Member Turnover Rigid paperwork requirements and more are triggered with member change in the LLC</p>
Access to Capital	<p>+ Easy Cash Distribution Owners/Members can make “draws” on the company profit account rather than taking salaries</p>	<p>- Limited Investment Options Unlikely to gain outside investment in the business</p>
Taxation	<p>+ Pass-Through Taxation Simplified and (potentially) lower taxes</p>	<p>- Miscellaneous Taxes Misaligned Tax Burden Pass-through taxation doesn’t necessarily mean fewer taxes</p>
Formality	<p>+ Credibility Filing a formal business structure lends credibility to the business</p>	
Legal Liability	<p>+ Limited Personal Liability Owner/Member personal assets are protected in case of business loss</p>	

An [LLC](#) is a business structure that combines the features of a corporation (in terms of limited liability) and a partnership (in terms of tax efficiencies and business flexibility). The owners of an LLC (called members) aren't personally liable for business debts and obligations. The business itself isn't taxed; the profits pass through to the members' personal tax returns and are taxed at the members' personal tax rates. LLCs can also get [LLC insurance](#) to protect members' personal assets.

In the last decade, many small businesses have chosen to structure themselves as LLCs. An LLC is a bit easier to form than a corporation, but the state filing fees are usually about the same. You must file articles of organization with your state and publish notice of the LLC's formation in a local newspaper.

While not required, it's also a good idea to have an [LLC operating agreement](#) that includes a percentage of interests, information on profits and losses, and members' rights. While it is not required, it is highly recommended as it provides structures for your finances, and sets out regulations for operations. As with any business form, you must obtain local permits and register a trade name if you'll be doing business under a name that is not your official business name.

All states now allow single-member LLCs, so a one-person business can form an LLC. An online legal service like Rocket Lawyer will help you quickly form an LLC and take care of filing requirements for you.

GP vs LP vs LLC

Here's a quick chart that summarizes comparisons between the different types of partnerships. Keep in mind that rules may vary depending on your state.

	General Partnership	Limited Partnership	LLC
Number of Owners	2+	2+	1+
Type of Owner	Partner	General partner and limited partner. (You're required to have at least one of each.)	Member
Personal liability protection from business	No	For limited partners, yes. For general partners, no.	Yes
Liability protection from other partners' actions	No	General partners could be held liable for each other's actions. Limited partners are not liable.	Yes

	General Partnership	Limited Partnership	LLC
Default tax classification	Partnership	Partnership. (Only general partners pay self-employment tax. Limited partners are exempt.)	For single-members, sole proprietors. For multi-members, partnership.
Tax flexibility	Yes	Yes	Yes
Management structure	All partners can manage.	Only general partners can manage.	All members can manage.
Who can form one	Anyone	Anyone	Anyone
Required to register with the state	No	Yes	Yes

Source: [Gusto](#)

TIP: LLPs are only available in 40 states. If it is available, it's only for specific professions. For example, [California only allows](#) licensed lawyers, accountants, and architects to form an LLP.

C Corporation (C-corp)

Pros	Cons
+ Limited liability	- Double taxation
+ No limit on shareholders	- Expensive to set up
+ Open to international business owners	- Heavily regulated
+ Ability to take on investors	- No personal deduction of losses
+ Flexible shareholder voting	
+ Tax-deductible business expenses	

A [C Corporation](#) (C-corp) is a business that is owned by shareholders. The company, and not the shareholders who own it, is held liable financially and legally. With a C-corp, the business is taxed when the company makes profits, and could be taxed again when shareholders are given dividends.

This business structure is a good fit for startups that want to go public in the future, businesses that raise a lot of money from outside investors, or businesses where liability is a concern (e.g., construction or healthcare companies).

An online legal service like Rocket Lawyer will help you quickly form a corporation and take care of filing requirements for you. If you choose to do it yourself, you should visit the secretary of state website in the state where your business will be located to learn more about business formation.

Whether you use a service or do everything yourself, we recommend hiring a lawyer to help you customize corporate documents.

In most states, you will need to do the following to form a corporation:

- File Articles of Incorporation
- Create bylaws and organizational resolutions that specify the operating rules for the corporation
- Appoint a board of directors
- Issue stock certificates to your initial shareholders (this last step can be complicated because stock certificates must comply with federal securities laws)
- Appoint a [registered agent](#) to receive formal documents on behalf of your business (particularly important if you have several business locations)

Some lawyers recommend having a founders' agreement (similar to a partnership agreement) to prevent disputes among business owners. In addition, you must register a trade name (if applicable) and obtain local permits as you would need to do with any business form. Almost all states allow one-person corporations, where the business owner serves as an officer, director, and shareholder.

S Corporation (S-corp)

Pros	Cons
+ Save money on payroll taxes	- Payroll set up
+ Avoid double taxation	- Additional yearly documents
+ Less reporting	- Possibly more IRS scrutiny

An [S corporation \(S-corp\)](#) is a federal tax designation that Congress created so small businesses could receive favorable tax advantages. An LLC (limited liability company) or corporation can elect S corporation status with the IRS, but there are requirements. To become an S-corp, you must set up payroll, have fewer than 100 shareholders, and only issue one class of stock.

S corporations have an advantage over traditional C corporations in terms of taxation. There's no double taxation with an S-corp. The business itself is not taxed but the shareholders are, provided that they are paid fair market value.

Formation requirements for S-corps and C-corps are similar.

3. Register Your Business With the State

Now that you've done the research and chosen your business' legal entity, it's time to submit the entity registration to the state it's operating in. You can do this on your own by navigating to your state government's business registration website. Or you can use an online legal service to assist you in the process. Additionally, if your business has a sales tax, you'll want to obtain a state sales tax identification number (STIN).

Do It Yourself Through State Website

One way to register your business as a legal entity is through your state's official business registration website. With this option, you only pay state fees to register, which range from \$40 to \$500. It typically takes up to 30 days for the state to approve the business and get it registered.

Online Legal Service

Some business owners find registering through their state's website difficult and cumbersome. Another way to register your business is through an online legal service. They walk business owners step by step through the business registration process, collect the necessary information, and submit your business to the state for registration. IncFile is an online legal service that will register your business as an LLC for free, plus state fees.

Choose a Registered Agent

A [registered agent](#) is someone you'll designate to represent your business. This is the person the state will contact if a lawsuit or summons occurs against the business. They're also responsible for re-registering the business with the state every year. Typically, this is the business owner or someone in the business. If you want to avoid the risk of not re-registering the business, you can pay an online legal service, such as IncFile, to be your registered agent.

Get Your State Taxpayer Identification Number

If you're in one of the 45 states that collect state income tax, you'll need to register for a State Taxpayer Identification Number (STIN). If you're a sole proprietor, you'll need your Social Security number to register for this number. If you're a legal business entity, then you'll need your EIN. Visit your state's official department of revenue for more information on obtaining a STIN.

4. Get State Licenses & Local Permits

Depending on your type of business, you may need a professional license issued by the state or a local permit. Additionally, if you work from home and receive customers or employees, you may need to obtain a work-from-home license.

State Professional Licenses

State professional licenses are typically for businesses that may pose a public health risk. Each state may require different professions to obtain a professional license. For example, common licensed businesses include martial arts studios, cosmetology shops, physical therapists, and pawn shops. Visit your state and city's official business license website for more information.

Local Licenses & Permits

Local license and permit requirements vary by state; however, typically, before opening a physical location you'll need a local building inspection to ensure the facility is safe for the public. If you're opening a business that sells food, that will require a different health-code-related inspection. Additionally, if you are providing live music, that will require a special license as well.

Home-based Business License

Most businesses that operate from a home, won't need a license. However, if you're accepting employees, customers, or creating products from your home, it's likely you'll need a home-based business license. This license is to ensure the business isn't causing a public health risk. If a neighbor complains about your home-based business, and an inspector determines you're running a business from your home, you may have to pay a hefty fine.

5. Secure Your Intellectual Property

Although it's not necessary to start your business, you may want to register a trademark, copyright, or patent. A trademark ensures no other business uses your logo, business name, or tagline. A copyright gives you increased legal protection over your creative work. A patent ensures no one can take your product idea.

Register Trademark

A trademark is increased legal protection for a word, phrase, symbol, and/or design. It ensures no one in your industry will use your business' branding. You can attempt to register your trademark on your own from the United States Patent and Trademark Office ([USPTO](#)). Or you can use an affordable online service, like LegalZoom to assist. Depending on if you file the patent yourself or use a professional service, a trademark costs [between \\$225 and \\$2,000](#).

Ensure Your Copyright

Every piece of content you create has an automatic copyright. You should register your creative work with the [US Copyright Office](#) for additional legal protection. It's important to know that if you ever need to file a copyright infringement, you first need to register it with the US Copyright Office.

File For a Patent

A patent is required to keep others from making, using, and selling your invention for a limited number of years. It [can cost between \\$1,500 to more than \\$15,000](#) to file a patent. Filing a patent can be a complicated process and typically, a patent attorney is hired for the service. For example, you may use an attorney's expertise to decide if you should file a utility patent, design patent, or provisional patent.

Registering your business is a must do before taking on your first customer. You don't want to start your business and not be properly prepared to deal with something like a trademark infringement or a home-based business inspection from a city official. To ensure the business registration process doesn't become overwhelming, use [our checklist](#) to keep track of what has been accomplished and what needs to be completed.



CHAPTER 6

Get Your Business Insured



[Business insurance](#) is a form of protection small business owners can buy to safeguard their personal or business assets. Getting the appropriate coverage for your operations protects your assets by covering customer lawsuits, property damage, and other perils so the costs following a disaster don't put you out of business.

Most businesses deal with third parties who may claim your business caused their property damage, bodily harm, or financial loss. Different types of business insurance cover these accusations by paying the associated costs.

Who Needs Small Business Insurance

Any small business owner who wants to protect assets and increase their chances of surviving a catastrophe needs business insurance. Without coverage, the money for repairs, medical bills, and legal fees would be out of their pockets. Small business owners may even be required to carry insurance as a condition of financing for buildings, equipment, or inventory.

Small business owners need insurance even when they are freelancers, work out of their homes, or sell products or services via online platforms. These practices are still businesses, and home insurance policies do not typically cover them. Insurance is also a smart investment for owners looking to sign new clients. Many larger companies only work with owners who have business insurance because it shows they are financially stable.

Common Types of Small Business Insurance Policies

Certain [small business insurance](#) policies are considered fundamental because they protect against risks that most business owners face. General liability is a good example of this because it covers claims that your business is responsible for someone else's damages. Many business owners also get commercial property insurance because it pays for damages to their property.

Type of Business Insurance	Best For	What It Covers
General liability insurance	All types of businesses	Non-employee claims of bodily injury, property damage, and reputational harm
Commercial property insurance	Businesses that have business owned-properties	Damage to business-owned property, including buildings and their contents
Business owners' policy	Most low-risk small to midsize businesses	Combines commercial general liability and property coverage
Professional liability insurance	Service-based businesses and professionals (accountants, architects, doctors, lawyers, consultants, etc.)	Clients' accusations of financial losses due to your negligence, mistakes, or omissions

Type of Business Insurance	Best For	What It Covers
Commercial auto insurance	Any businesses that use vehicles for work	Costs associated with accidents involving vehicles owned or used by your business
Workers' compensation insurance	Businesses with employees	Employees' medical bills and lost wages resulting from a work-related injury

General Liability Insurance

[General liability insurance](#) covers the costs associated with third-party claims of physical injuries, damaged property, and reputational harm, such as defamation and copyright infringement. For business owners, third parties are essentially anyone who doesn't work for you. If a non-employee claims your business caused their damage, then general liability covers costs like repairs, medical bills, or your legal costs if the injured party sues.

Most small business owners can find general liability insurance that costs between \$400 and \$600 per year. Businesses that see more foot traffic or have employees often pay more because they face a greater risk of third-party lawsuits.

General liability covers some of the most common risks business owners face, so it's important to find quality coverage. Start with a [general liability insurance company](#) that knows your industry and can accurately evaluate your risks. You can also consider [less expensive insurance options](#) for your startup.

If you operate an LLC business, consider getting [LLC insurance coverage](#).

Commercial Property Insurance

[Commercial property insurance](#) is protection for your business' physical assets, including its facilities and their contents, such as office equipment, furniture, and fixtures. If these are damaged in a covered event, like a fire or burglary, then commercial property pays up to the insured amount minus your deductible.

Commercial property premiums typically start around \$750 per year for small business owners, but this depends on the amount and value of the property your business owns. You need sufficient coverage to repair and replace items if they are damaged, and that means increased costs. Insurers also consider your building structure and location as well as any security or sprinkler systems you have.

Business Owner's Policy

A [business owner's policy](#), or BOP, is a policy bundle designed specifically for small businesses. It combines general liability and commercial property insurance into a single product. Most BOPs also include business interruption coverage to pay for lost profits and ongoing expenses if a covered event causes you to pause operations. Some insurers also include other key coverages based on industry needs.

Because BOPs bundle policies, insurers can offer them at a rate lower than what they might cost individuals. Many businesses can find BOPs for between \$350 and \$3,000 annually, depending on the amount of coverage and whether additional policies are added in.

To qualify for a BOP, a business must be in a low-risk industry (e.g., accounting or consulting), have few employees, occupy a small workspace, and have low annual revenue. Requirements vary among insurers, so you should speak with an agent to find out how your business can qualify for a discounted BOP package.

Business Owner's Policy



General Liability Insurance

Third-party, or non-employee, claims of bodily injury, property damage, and reputational harm



Commercial Property Insurance

Damage to business-owned property, including buildings and their contents



Business Owner's Policy

- Third-party, or non-employee, claims of bodily injury, property damage, and reputational harm
- Damage to business-owned property, including buildings and their contents
- Business interruption coverage to pay for lost profits and ongoing expenses if a covered event causes you to pause operations

Professional Liability Insurance

Professional liability insurance, also called errors and omissions, covers clients' claims that they experienced financial losses due to your services. [Policies](#) typically pay for your legal defense plus settlements or court awards if a client says you made work mistakes, failed to deliver promised services, offered inaccurate advice, or were otherwise negligent in your performance. Professional liability is typically a policy included in [accountant's insurance](#) and architect's insurance because it's designed for professionals who have advanced certifications.

Business owners who need professional liability typically pay between \$400 and \$1,000 per year. This price is largely dependent upon industry, with architects and engineers often paying higher premiums. However, insurers also look at business size, location, and risk management practices when determining premiums.

Commercial Auto Insurance

[Commercial auto insurance](#) protects businesses that use vehicles in the course of their operations. Policies usually start with liability coverage for damages you or your insured drivers cause others, but can also include additional coverage for other events. For instance, business owners may want coverage for damage to their business-owned vehicles; damage to vehicles they rent, hire, or borrow; or medical expenses regardless of who is at fault.

Business owners generally pay between \$750 and \$1,200 for commercial auto. However, premiums are largely based on location because many states have minimum liability requirements. Business owners also pay more if they opt for additional coverages, such as collision or hired and non-owned auto coverage.

Workers' Compensation Insurance

[Workers' compensation insurance](#) pays for employees' medical bills and lost wages if they suffer a work-related illness or injury. Some policies also include coverage for your legal defense if an employee claims their injuries are the result of your negligence. Every state except Texas requires business owners to carry workers' comp, sometimes as soon as they have one employee. Policies can usually be purchased from [workers' compensation insurance companies](#), but some states require business owners to use a state fund.

[Workers' comp premiums vary greatly](#). Small business owners typically pay anywhere from \$500 to several thousand dollars, based largely on the number of employees and the types of risks those employees face in their work. [State law governs workers' comp](#), so location also plays a role in your overall costs.

How To Get Business Insurance

Small business owners can get business insurance online through brokers or directly from carriers. To get the appropriate coverage for your business, it's important to first assess your risks and then to find providers who offer coverage that protects against them.

Once you know your risks, you can start looking for a [small business insurance company](#) that has the policies you need. Most carriers specialize in certain industries, so you may want to check out online reviews or ask other business owners who they work with. Additionally, carriers receive ratings from third-party rating companies like A.M. Best and Moody's for their financial strength so ratings of A or better indicate the carrier is prepared to pay claims.

Because no business is immune to general liability claims, getting coverage should be a standard business practice. However, cash-strapped small business owners who are looking for inexpensive general liability insurance should remember that price shouldn't be the only consideration. Smart business owners evaluate coverage limits, additional fees, and the carrier's reputation as well.



CHAPTER 7

Build Your Business Team



After taking care of the necessary legal steps to get your business registered and protected, it is now time to make key hires. Your first employees will be vital to the success of your business. Additionally, many new business owners overlook the importance of hires outside of the business such as a bookkeeper, attorneys, and mentors.

Connect With a Business Attorney

A [business attorney](#) may help you form your new business, create custom forms or contracts, and provide legal advice. Even if you won't need an attorney for these activities, it's wise to connect with one before a legal matter occurs in your business. You don't want the stress of interviewing business attorneys after your company has been served.

Meet With a No-cost Business Adviser

The federal and state government funds several organizations that provide no-cost business consulting and mentoring. The [SBDC](#) has over 5,000 consultants across the United States that provide no-cost consulting in a variety of business areas. These consultants typically have advanced education or experience owning a business.

[SCORE](#) Advisers are volunteers who typically have previously owned a business. They serve as mentors to business owners. A SCORE Adviser can be a great asset to your business, especially if they have experience in your industry.

Hire Your First Employee

Hiring great employees is the key to growing your business. A thoughtful hiring process includes well-written job descriptions, effective recruitment ads, and strong interview processes, all of which should promote your values and culture and adhere to fair labor practices.



How to Find Employees



ADVERTISE



BUILD
RELATIONSHIPS



POST YOUR JOBS



USE AN APPLICANT
TRACKING SYSTEM



UTILIZE JOB BOARDS



NETWORK



ASK FOR REFERRALS

Many first-time business owners [find employees online these days](#)—through [job boards](#), [LinkedIn](#), Facebook, and Instagram. You will likely hire your first employee through word-of-mouth or from [one of your family members or friends](#).

How to Hire Employees in 5 Simple Steps

02 ADVERTISE AND RECRUIT

Post or advertise your job. Use online job boards or hire recruiters. Ask for referrals.

04 INTERVIEW CANDIDATES

Be certain you have a good interviewing process established, which should always include more than the hiring manager or the HR representative.



01 CREATE A JOB DESCRIPTION

A job description helps you connect with qualified applicants as well as clarify their work expectations once hired.

03 EVALUATE RESUMES

Screen your job applicants. Thoughtfully read and sort through resumes.

05 CRAFT A JOB OFFER

Your final step in hiring a new employee is to write a formal job offer letter. Be willing to negotiate unless you simply can't pay a penny more.

1. Create a Job Description

A [job description](#) helps you connect with qualified applicants as well as clarify their work expectations once hired. A great job description also includes the company culture and education and experience requirements and outlines the benefits provided.

Job Outline

Before the duties of the job are discussed, basic information is often shared at the top of the job description. For example:

- Company logo
- Job title
- Status (full-time, part-time, temporary)
- Job location (remote, city/state)
- Salary range

A summary can be added at the bottom of this section that gives a brief (four to six sentences) description of the position. This is where you let potential candidates know the basics of the position; greater detail can be given further down in the job description that outlines specific duties and responsibilities.

Detailed Position Information

This is the area of the job description where you define the job, its duties, and responsibilities in specific detail. It is not uncommon to highlight more than 10 primary features of the job, listed in order of importance or essential duties. The more detailed a picture you paint of the position, the more qualified candidates you will attract.

Essential Functions

Be sure to include all essential functions of the position. These are the duties that an employee must be able to perform, with or without reasonable accommodation. The US Equal Employment Opportunity Commission (EEOC) governs what is considered an essential function, partially through the [Americans with Disabilities Act Amendments Act of 2008](#) (ADAAA).

Some of these functions may include:

- Ability to sit or stand for long periods
- Ability to lift a certain amount (i.e., 50 lbs.)
- Languages required to be successful
- Required travel
- Ability to use general office equipment

Skills

When you create your job description, make sure you're describing the skills necessary for a candidate to be successful in the role. These may be learned skills, like proficiency in certain computer software, or soft skills like personal development.

Skills Examples

Required Skills

- Accounting software (QuickBooks)
- Microsoft Office (Word, Excel, PowerPoint)
- Customer service management software
- Communication proficiency

Soft Skills

- Good listening
- Organization
- Attention to detail
- Time Management

Education

Most business owners list a minimum educational requirement in their job description based on the job role when hiring employees. For example, a solar installation company may desire its workers to have at least a GED or high school degree to be able to read complex instructions. A CPA firm might prefer its associates to have a business or accounting degree (bachelor's or master's), and a biomed testing facility may need Ph.D. candidates for licensing purposes.

However, when you're thinking about how to hire employees, ask yourself whether a degree is really necessary. If not, skip the college degree requirement on the job description and focus instead on the skills and abilities you're looking for in an employee.

Experience

Think about the kinds of work experience you would like your new hire to have. In addition to education and training, many skills are learned on the job. For example, a top sales professional may never have graduated from college; a graphic designer, web developer, or line cook may be completely self-taught; and so on. Instead, think of the experience and skills you prefer they possess. Much of the time it is best to clarify what is "required" and what is "preferred" in experience, education, and skills.

Here are some examples of the kind of experience statements you might want to include in your job description:

- Four years of customer service experience in a fast-paced sales environment; two years in IT sales preferred
- Five years of diesel mechanic experience or two years' experience (if ASE certified)
- Ten years of multi-restaurant management or former GM managing at least \$100,000 in sales each month
- Three years of transportation dispatch experience with temperature-controlled carriers; foodservice transportation experience preferred
- Six years of technical or supervisory experience in any construction trade; three years of solar panel installation preferred

Company Culture

This is the section of your job description where you can let your business shine. Define the [cultural and management values](#) of your company. Explain how employees can benefit from working for you. Describe your company values and how you got your start in the business. Give details of your employer branding.

This highlights how your company is perceived by prospective and current employees both online and onsite.

And, positive [employer branding](#) can reduce hiring costs by attracting more candidates per job opening.

Federal labor laws enforced by the [EEOC](#) ensure fair labor practices across the employment spectrum, from job advertising, interviewing, and hiring to continued employment. Be sure to use language that is nondiscriminatory when creating your job descriptions.

2. Advertise & Recruit

Once you've created your job description, it's time to post or advertise your job. Many businesses use job boards for recruiting. Using a job board service like ZipRecruiter will not only increase visibility to attract top-tier candidates but offer templates to assist you with crafting a job advertisement.

Write a Compelling Job Ad

The difference between the job description and a job ad is subtle. A [job ad](#) starts with a job description's most critical details but it also adds marketing details and a call to action to entice job seekers to apply. For example, it might include a bit about your company culture, showcase the benefits you offer, or include a hiring bonus. However, it is not necessary to list every single duty the job requires—this can be discussed during the interview.

Post the Job Online

You can post a sign at your business to attract walk-in applicants, but the most common means of finding qualified job candidates is to use an online job board for hiring employees. Once you post a job, you can share it on social media or email individuals you hope will apply. In addition, some employers prefer to use a free [applicant tracking system](#) to keep track of where their jobs are posted and who has applied to each job.

Check out our [free resources for posting jobs online](#).

Ask Employees for Referrals

Employees are a great source for untapped job talent as they may know of individuals with just the right skills to join your company. If you post your job on an online job posting site, you can share the link and job description with existing employees and ask them to help you recruit their next co-worker.

Here are some tips on making the most of [employee referrals](#):

- **Be a company of choice:** That'll make your existing team members more likely to recommend jobs to people within their network.
- **Communicate your enthusiasm:** When talking about open roles and opportunities, share your enthusiasm, which can help engage and attract employees' friends and family to apply.
- **Focus on the opportunity:** Emphasize what a great opportunity the role is and the importance of the position to the company.
- **Reward employees:** When you hire an employee referred to you by an existing team member, consider offering your team member a referral bonus.

Hire a Recruiter

Another popular option for a small business is to [hire a recruitment firm](#) with expertise in sourcing candidates. Typically a recruiter will charge you a percentage (ranging anywhere from 20%–35%) of the new hire's first-year salary. For example, if you are looking to fill a position at a salary of \$40,000, it would typically cost around \$8,000 in fees. But, that may be worth it to get a top-notch candidate you may not have found on your own.

3. Evaluate Resumes

Once you begin receiving job applications, the process of [screening job applicants](#) begins. If you're using a job posting site, such as ZipRecruiter, it provides online tools to assess job applicant qualifications in advance. Otherwise, you'll start by [reading applications and resumes](#) to determine which candidates to interview.

Thoughtfully Read Through Resumes

Pick a time during the day when you can fully concentrate on the resumes. Give them a full read-through and look for any skills or experience the candidate has that aligns with your job description. You should be looking for past job experience that is similar to the role, skills the candidate possesses that can help them perform the job, and anything extra the candidate might bring to the table (i.e., certifications).

Sort Resumes

You'll find that a large percentage of job seekers fire off resumes with no regard for whether their skills match the ad posting. It's easiest to set those aside into a "no" or "not qualified" pile once you recognize that candidates do not qualify for your role.

Sorting your resumes into three groupings is a great way to get a handle on which candidates you may want to follow up with. Oftentimes you have a "yes" pile, a "maybe" pile, and a "no" pile. The "no" pile will typically be your largest, followed by your "maybe" pile and then your "yes" pile. Your end goal is to have a short stack of three to five individuals to interview.

4. Interview Candidates

Once you're done sorting, it's time to schedule interviews. Be certain you have a good [interviewing process](#) established, which should always include more than the hiring manager or the HR representative.

Additionally, knowing what you [can and cannot ask in interviews](#) is essential. Use caution when interviewing as there are [labor laws](#) at the federal and state level that may restrict the kind of questions you can ask, i.e., criminal background and salary history.

Schedule Interviews

Consider setting up a quick phone interview to assess each job seeker's interest in the role before committing yourself or your managers to the full interview process. Some applicants may have already accepted a job with another firm, while others may not be as good a fit as they appear to be on paper. The most common forms of interviews include:

- **Phone Interviews:** A phone interview is generally brief. You contact the candidate, thank them for applying and ask if they would mind answering a [few questions](#). How they react will tell you much about their true interest in the role.
- **Video Interviews:** Video interviews are great for team interviews (with more than one of your managers) or remote and work-from-home candidates. Don't worry if you don't already have [video conferencing software](#) (many are free).
- **In-person Interviews:** In-person interviews are the most common interview type managers think of when they imagine interviewing a new hire. Just be aware when selecting a candidate that you do not base your hiring judgment on how similar they are to you rather than how qualified they are.

Thank Candidates

A best business practice is to acknowledge those candidates that took the time to apply to your open position. Remember to communicate just as promptly with those who didn't make the cut as those who did. For those you're going to be turning down, you can send [rejection letters](#) or use a job board, like ZipRecruiter, that will allow you to send bulk emails to candidates, including interview requests and rejection letters.

Select the Best Person for the Job

The best person for the job is the individual who most closely fits the job requirements and has the highest likelihood to succeed in the role within your organization. If the candidate will be working in a specific department, it's a good idea to allow direct supervisors to have a say in which candidate is right for the job.

It's also a good idea to contact prior employers and check the candidate's [references](#) to get insight into the candidate's strengths. Take a look at your candidate's LinkedIn profile to be sure it matches the attributes listed in their resume. In some roles, like finance or childcare, it's also important to conduct a [background check](#) and/or a pre-employment [drug screen](#) once you choose which person to hire and after they have accepted in writing (via a signed offer letter).

5. Craft a Job Offer

Your final step in hiring a new employee is to write a [formal job offer letter](#). This letter should outline what the role is, when it starts, and what it pays. When describing your company and the position being offered, make sure the personality and culture of your company come through. Include benefits as well as your company's unique mission. It's also a good idea to make the job offer contingent upon a successful background check, required physicals, drug tests, or any other pre-hire requirements.

Don't be surprised if your job candidate doesn't accept your first job offer. Be willing to negotiate unless you simply can't pay a penny more. Many new hires are open to receiving offsite training, getting a few more days of paid time off (PTO), or working remotely in exchange for a lower-than-desired salary.

Post-hire Considerations

Once your new hire has agreed to your job offer, it's time to plan their [onboarding](#). Additionally, when you take into account recruiting expenses and new employee training costs, [retaining good employees](#) is the most profitable way to keep your business fully staffed.

Hire a Bookkeeper or Accountant

If you're starting a part-time business, [you can likely track your income and expenses](#) with software such as QuickBooks Online. However, if you have a full-time business with multiple products and services and have several expenses to track, you may want to hire a professional.

Many new business owners are unsure if they should [hire a bookkeeper](#) or accountant, but most people starting a small business only need a [bookkeeper](#). If you need complicated financial statements or business tax advice, it's wise to hire a certified public accountant (CPA).

Finding great employees to grow your business and promote your brand is a huge building block in your company's foundation for sustained success. Take your time to find the person most likely to be successful in the job based on the candidate's resume, interviews, and employment references. Maintain a clear vision when recruiting and selecting your new team member.



CHAPTER 8

Set Up Your Business Systems & Software



As you organize your business, you will find yourself creating systems to manage repeatable tasks. You'll often find software to assist with the tasks.

Below you'll find two lists—one with processes and systems that almost all new small businesses will need to implement. The second list includes several systems and software that—if they apply to you—are highly recommended.

Must-have Systems & Software

- **Payment processing:** You'll need this to [accept credit card payments](#). Sign up with a [merchant service provider](#) before setting this up.
- **Bookkeeping:** This is how you track income and expenses. If you are managing it yourself, you'll need [accounting software](#). If not managing yourself, consider [hiring a virtual bookkeeper](#).
- **Payroll processing:** If you have employees, you'll use this system to pay them. To make the process easier, consider [payroll processing software](#).
- **Business tax payments:** It's a best practice to make business tax payments to the IRS quarterly so you don't have a large tax bill at the end of the year. Aside from [tax software](#), you can often use your accounting and payroll software to submit early tax payments.
- **Business phone number:** You'll want to secure a business phone number so that you can separate personal calls from business calls. You can get a [virtual phone line](#) for [free](#) or for a [small fee](#).
- **Branded business email address:** You don't want potential customers to email a “@gmail,” “@yahoo,” or another alternative. It looks unprofessional. Get a [business email](#) that ends with “@yourcompanyname” so that it looks more [professional](#). Google Workspace provides this for \$6 a month.

Additional Systems & Software to Consider

- **Business website:** If potential customers are typing your business name into the search engines, you need a [business website](#). You can set one up yourself and pay around \$15 a month. Here are [small business website examples](#) you can use for inspiration.
- **Sell online:** Expand your products' or services' reach by [selling to customers online](#). You can [build an ecommerce website](#) or use a platform such as [Amazon](#), [Facebook Shop](#), [Instagram](#), or [Etsy](#).
- **Customer management:** If you have dozens of customers (or more), you'll need [customer relationship management \(CRM\) software](#). This software helps you keep track of customer information such as previous communications and contact info.

- **Appointment scheduling:** Don't schedule appointments by hand (unless you want to). Use free [appointment scheduling software](#) to store your appointments in the cloud. Also, allow clients to schedule online without communicating with you.
- **Work from home:** COVID-19 is forcing and encouraging many people to work from home for the first time. [Set up your home office](#) and manage it so that you can keep up productivity and enjoy your working environment.
- **Take video calls:** Video meetings and [calls](#) have skyrocketed since the pandemic arrived. Give your clients the option to meet through [video conferencing software](#).

Overwhelmed? Don't be. [Free business software](#) helps your company save money and become efficient. You can use free business tools to do accounting, accept payments, and pay employees.

If you're starting a business, going with free business tools is a great way to keep operating expenses at a minimum. Free business tools are a low-risk test as you figure out the best systems and software for you. If you like them, keep them and possibly expand their features with a paid version. If you don't like them, stop using the software with no-added costs to your business.

CHAPTER 9

Market Your Business

Your last step to starting your business is to get customers. You'll use your marketing strategy to get your new business in front of potential customers.

There are a lot of strategies you can implement to get your business noticed. Don't get overwhelmed! Remember, you don't have to implement—and pay for—all of these strategies. A few done well will get your business enough customers to make it a success.

Write a Marketing Plan

Before diving headfirst into any of the marketing strategies, take time to write a marketing plan. Think through and plan out how you want to market your business. In your plan, outline your brand, such as the logo, colors, font, and tagline.

Nail down the brand before creating any materials or online profiles. This will help ensure you send consistent messages about your company. You don't want potential customers going from a brochure or website to a social media profile and encounter different colors, fonts, and taglines. It should be a cohesive, seamless brand experience.

Create Marketing Materials

At a minimum, you'll want to create business cards to hand out to potential customers and vendors or while networking. Other [marketing materials](#) to consider are [brochures](#), [flyers](#), [cards](#), and branded apparel.

As a new business, you need material that potential customers can take home. Many new business owners make the mistake of relying too much on online marketing. Don't overlook the effectiveness of having physical business marketing materials in someone's home.

Market Online

- **Social media marketing:** Connect with your customers where they are spending their time online. Don't try to grow a following on all social media platforms. Choose one and spend the majority of your time growing your account there.
- **Email marketing:** Stay in touch with past customers by sending them valuable or [entertaining emails](#). Don't make your emails all about sales and discounts. You'll lose subscribers.
- **Content marketing:** Create and distribute articles, videos, case studies, and other forms of online content created to attract leads, create brand awareness, move prospects through the buying journey, or convert them to customers.

- **Google My Business (GMB) listing:** This listing is free for all businesses looking for local customers. Many marketers are calling GMB the new small business “homepage.” It’s what customers see on Google before your website when they search for your business.
- **Online directories:** It’s likely your business can be on several online directories such as [Yelp](#) and [Yellow Pages](#). Consider any industry-specific directories as well.

Network With Local Businesses

When you first open, explore networking groups available for local businesses. It’s always a good idea to meet and [network with other business owners](#). Word-of-mouth recommendations and referrals may lead to some of your first customers.

To get the most out of networking, choose one organization to get involved with instead of attending four different group meetings every month. Take positions and responsibilities in the group. The members will get to know you better and be more likely to send you referrals.

Pay for Advertising

You may want to pay to get your business in front of ideal customers. This paid marketing can give your brand recognition a jump-start. You can pay for advertising online or through traditional advertising channels.

Online advertising, such as [Facebook Ads](#), allows you to target audiences based on demographics, interest, and location. Traditional advertising, such as radio and billboards, reaches a broad audience and has the potential to spark a conversation among viewers.

- **Search engine ads:** Pay to get your business at the top of [Google](#) or [Microsoft](#). Typically, you will pay every time an interested searcher clicks on your ad. The cost of the click will depend on the number of businesses competing for the ad space.
- **Social media ads:** Get your social media ad in front of both followers and nonfollowers. Ad cost depends on the competitiveness of the audience you’re targeting.
- **Online directory leads:** Depending on the directory, you can pay for higher rankings or leads. [Yelp](#) provides both options.
- **Direct mail:** Create cards or brochures and send them to homes of potential customers near your business.
- **Radio ads:** This type of advertising is an excellent option if your business appeals to an audience in a broad industry such as retail or home improvement.
- **Billboards:** The cost of a billboard varies depending on location. Pay anywhere from \$250 per month for a rural area to over \$15,000 per month in a larger market.

Media Package

You want local media to know about your new business. Local media prefers information about your business submitted to them in a press release. A [press release](#) is a summary and story of your business. You also want to include owner headshots and photos of the business in the [press kit](#). It's important to include a hook, which is a way to present your business that creates interest so that the business journalist will cover the opening of your startup.

Learn More: [Strategies to Market a New Business](#)



CHAPTER 10

Frequently Asked Questions About Starting a Business



This section includes the most frequently asked questions about starting a business.

How much do business owners make?

You need to be prepared to make less money as a full-time business owner than you do at your current job. It may take several years to build the customer base that provides the income you desire.

Additionally, the amount of money you can make varies widely with the type of business you choose. For example, a company that scales easily, such as software or ecommerce, can make more money than a business that is tied to an hourly rate.

The real question you should ask yourself is, what are you comfortable earning? We have met several entrepreneurs who would rather earn half the income of their current job to be their own boss and have more freedom.

How do I start my business from home?

Starting a business from home requires either a strong network of potential customers or effective marketing skills. Since you do not have a storefront, it is important to know a lot of people who are interested in receiving the product or service you are providing. If you are not well networked, you need to have an additional skill like online marketing to reach customers.

How much does it cost to start my own business?

Starting a business does not need to cost a lot of money. If you're providing a service like resume writing, the only cost is registering the business in your state. As you add additional components to your business like a website, accounting software, and a branded email address, your business costs will increase. For example, adding a low-cost website is another \$100 or more per year. A branded email address will cost another \$100 or more per year.

How do I start a business with no money?

A business can be started with no money, but it is not recommended. You aren't required to spend money to register your business. When you don't register, it is called a sole proprietorship. The problem with not registering is that your personal assets are at risk. For example, if you're starting a lawn care business and something costly gets destroyed at a customer's property, that customer can sue you for damages, and your personal assets are at risk.

How hard is it to start your own business?

Generally speaking, the more earning potential the business has, the harder it is to start. This is because, typically, higher profit businesses are scarce. You will need a scarce resource like higher education or extensive expertise, equipment, inventory, or an in-demand location. If this is your first business, it's smart to start small and learn the basics like getting customers, contracts, managing customers, getting paid, and marketing.

What must an entrepreneur assume when starting a business?

When starting a business, an entrepreneur must assume some customers will be unhappy with your product or service. Hopefully, the unhappy customer is not your first sale. To avoid unhappy customers, it's important to have a quality product. If you are providing a service, make sure expectations of what you will do are made clear.

What are the most successful small businesses?

The most successful full-time small businesses are when people use the experience they've built up over the years and apply it. For example, let's say Jill worked at a gym for eight years. She gives several weekly classes and manages five personal trainers. Jill has experience providing an in-demand service and managing others. This experience helps her when she is ready to open a fitness business.

Another type of business that can have a high success rate is franchises. When you buy into a franchise, you are buying proven business systems.

Franchises don't guarantee you will be successful, but you have a higher likelihood of success with one than starting a similar business without any business systems in place.

What is the easiest business to start?

The easiest business to start is one that relies on your expertise. People pay you for your expertise because you know more than they do. For example, if you are a social media manager for a business, you can take your social media marketing expertise and charge local businesses to manage their accounts. There is little cost to this type of business because your time and expertise are the product.

What is business registration?

We are treating “business registration” as an umbrella term for everything you need to do to legally operate a business. This includes items like getting your EIN, bank account, legal entity registration, licenses, permits, and intellectual property. You may also find that people use the term “business registration” to be synonymous with “legal entity registration.” However, we believe they are two different processes.

Can I start a business without registering it?

Yes, you can. If you start a business without registering it, you’re a sole proprietor, which is technically anyone who has to file a schedule C for business income on their tax returns. We recommend creating a legal business entity with your state to ensure no personal financial risk if the business were to have a lawsuit against it. Additionally, check with your state, and local official government business websites to ensure you don’t have to obtain any professional licenses to operate your business.

Is a business license the same as a business registration?

A business license is not the same as business registration; however, some people use the terms interchangeably. We view business registration as all the steps required to legally operate a business while others may use the term to mean registering a business legal entity with the state, such as an LLC.

Certain types of businesses may be required by the state, city, or county to obtain a business license. These licenses are typically issued for public safety. For example, a boxing gym or cosmetology-based business may need to obtain a business license. It’s best to check with your state or city’s official business website to determine if your business needs a license.

Can I sell products without registering as a company?

Yes, you typically can sell products without registering as a company; however, it’s not recommended. We recommend registering the business as a legal entity, such as an LLC, to ensure the business owner’s personal financial assets are not at risk if a lawsuit were to occur against the business. Additionally, you may need a business license (issued by the state) to sell a product that a consumer puts in or on their body, such as handmade soap.

Do freelancers need an LLC?

Freelancers are not required to register their business as a legal entity, such as an LLC. However, it is recommended. Especially if you're a freelancer that is doing higher-priced projects.

For example, let's say you redesign a high-performing ecommerce website. When you launch the redesign of the website, it crashes off-and-on for five days, resulting in a \$30,000 drop in sales for your client. The client may sue your business for negligence. You want your business to be registered as a legal entity so that any funds awarded to the client or settled upon aren't required to come from your personal funds.