



PLANNING YOUR START-UP

Once you have completed the Pre-Venture Assessment, determined your idea is feasible and you have what it takes to be an entrepreneur, you are ready to move forward in turning your idea into a reality. This guide will help you in your quest for a launching a successful business venture. You are also encouraged to utilize the free small business counseling services provided by the Small Business Development Centers and other similar agencies. You cannot be too knowledgeable or too prepared.

The following questions are grouped according to function. They are designed to help you prepare for "Opening Day."

NAME AND LEGAL STRUCTURE

1. Have you chosen a name for your business? Yes _____ No _____
2. Have you chosen the legal structure of your business (sole proprietorship, LLC, partnership or corporation)? Yes _____ No _____
3. Do you know which licenses and permits you may need to operate your business?
Yes _____ No _____
4. Do you know the business laws and regulations you will have to obey? Yes _____ No _____
5. Do you have a lawyer who can advise you and help you with legal papers? Yes _____ No _____

YOUR BUSINESS AND THE LAW

A person in business is not expected to be a lawyer but each business owner should have a basic knowledge of laws affecting the business. Here are some of the legal matters you should be acquainted with:

1. Occupational Safety and Health Administration (OSHA) requirements
2. Regulations covering hazardous material
3. Local ordinances covering signs, snow removal, etc.
4. Federal Tax Code provisions pertaining to small business?
5. Federal regulations on withholding taxes and Social Security?
6. State Workmen's Compensation laws?

PROTECTING YOUR BUSINESS

It is becoming increasingly important that attention be given to security and insurance protection for your business. There are several areas that should be covered. Have you examined the following categories of risk protection?

- Fire Yes _____ No _____
- Theft Yes _____ No _____
- Robbery Yes _____ No _____
- Vandalism Yes _____ No _____
- Accident/Liability Yes _____ No _____

BUSINESS PREMISES, LOCATION AND INVENTORY

1. Have you found a suitable building in a location convenient for your customers?
Yes _____ No _____
2. Can the building be modified for your needs at a reasonable cost? Yes _____ No _____
3. Will you have a lawyer check the zoning regulations and lease? Yes _____ No _____
4. Have you decided what items you will sell or produce or what service(s) you will provide?
Yes _____ No _____
5. Have you made a merchandise plan based upon estimated sales to determine the amount of inventory you will need to control purchases? Yes _____ No _____
6. Have you found reliable suppliers who will assist you in the start-up? Yes _____ No _____
7. Have you compared the prices quality and credit terms of suppliers? Yes _____ No _____

BUSINESS RECORD KEEPING

1. Are you prepared to maintain complete records of sales income and expenses accounts payable and receivables? Yes _____ No _____
2. Have you determined how to handle payroll records tax reports and payments?
Yes _____ No _____
3. Do you know what financial reports should be prepared and how to prepare them?
Yes _____ No _____

FINANCE

A large number of small businesses fail each year. There are a number of reasons for these failures but one of the main reasons is insufficient funds. Too many entrepreneurs try to start and operate a business without sufficient capital (money). To avoid this dilemma you can review your situation by analyzing these questions:

1. How much money do you have?
2. How much money will you need to start your business?
3. How much money will you need to stay in business?

4. How do you plan to finance your business?
5. If you need to borrow money from a lender, do you know the basic qualifications required?

Use the following chart to help you answer question 1:

Chart 1

PERSONAL FINANCIAL STATEMENT _____, 20__ ASSETS

Cash on hand _____

Savings account _____

Stocks, bonds, securities _____

Accounts/notes receivable _____

Real estate _____

Life insurance (cash value) _____

Automobile/other vehicles _____

Other liquid assets _____

TOTAL ASSETS _____

Accounts payable _____

Notes payable _____

Contracts payable _____

Taxes _____

Real estate loans _____

Other liabilities _____

TOTAL LIABILITIES _____

NET WORTH _____

(Assets minus Liabilities)

The next chart will help you answer question two: How much money will you need to start your business? (The chart is for a retail business; items will vary for different types of businesses so be sure to adjust the worksheet as necessary for your business.)

Chart 2
START-UP COST ESTIMATES

Decorating, construction, remodeling	_____
Fixtures, equipment	_____
Installing fixtures, equipment	_____
Services, supplies	_____
Beginning inventory cost	_____
Legal, professional fees	_____
Licenses, permits	_____
Telephone utility deposits	_____
Insurance	_____
Signs	_____
Advertising for opening	_____
Other	_____
Other	_____
Unanticipated costs	_____
TOTAL START-UP COSTS	_____

From the moment the door to your new business opens a certain amount of income will undoubtedly come in. However this income should not be projected in your operating expenses. You will need enough money available to cover costs for at least the first three months of operation. Chart 3 will help you project your operating expenses on a monthly basis. The answer to the third question (How much money will you need to stay in business?) must be divided into two parts: immediate costs and future costs

Chart 3

EXPENSES FOR ONE MONTH

Your living costs	_____
Employee wages	_____
Rent	_____
Advertising	_____
Supplies	_____
Utilities /Phone /Internet	_____
Insurance	_____
Taxes	_____
Maintenance	_____
Delivery/transportation	_____
Miscellaneous	_____
Other	_____
TOTAL EXPENSES	_____

Now multiply the total of Chart 3 by three. This is the amount of cash you will need to cover operating expenses for three months. Deposit this amount in a savings account before opening your business. Use it only for those purposes listed in the above chart because this money will ensure that you will be able to continue in business during the crucial early stages.

By adding the total start-up costs (Chart 2) to the total expenses for three months (three times the total cost on Chart 3) you can learn what the estimated costs will be to start and operate your business for three months. By subtracting the totals of Charts 2 and 3 from the cash available (Chart 1) you can determine the amount of additional financing you may need if any. Now you will need to estimate your operating expenses for the first year after start-up. Use the Income Projection Statement (Appendix A) for this estimate.

The first step in determining your annual expenses is to estimate your sales volume month by month. Be sure to consider seasonal trends that may affect your business. Information on seasonal sales patterns and typical operating ratios can be secured from your trade associations.

(NOTE: The relationships among amounts of capital that you invest, levels of sales, each of the cost categories, the number of times that you will sell your inventory (turnover), and many other items form financial ratios. These ratios provide you with extremely valuable checkpoints before it is too late to make adjustments. In the reference section of your local library are publications such as The Almanac of Business and Industrial Financial Ratios to compare your performance with that of other similar businesses. For thorough explanations of these ratios and how to use them follow up on the sources of help and information mentioned at the end of this publication.)

Next determine the cost of sales. The cost of sales is expressed in dollars. Fill out each month's column in dollars total them in the annual total column and then divide each item into the total net sales to produce the annual percentages. Examples of operating ratios include cost of sales to sales and rent to sales.

AFTER START-UP

The primary source of revenue in your business will be from sales but your sales will vary from month to month because of seasonal patterns and other factors. It is important to determine if your monthly sales will produce enough income to pay each month's bills.

An estimated cash flow projection (Chart 4) will show if the monthly cash balance is going to be subject to such factors as:

- Failure to recognize seasonal trends.
- Excessive cash taken from the business for living expenses.
- Too rapid expansion.
- Slow collection of accounts if credit is extended to customers.

Use chart 4 to assist you in creating a worksheet to help you with this problem. (In this example all sales are made for cash.) Please note: This is a modified, very simple cash flow projection to be used as a starting point only. Typically 12-24 months of cash flow forecasting is recommended.

Chart 4

ESTIMATED CASH FLOW FORECAST

	Jan	Feb	Mar	Apr
Cash in bank (1st of month)	_____	_____	_____	_____
Petty cash (1st of month)	_____	_____	_____	_____
Anticipated cash sales	_____	_____	_____	_____

Total receipts	_____	_____	_____	_____
Total cash & receipts	_____	_____	_____	_____
Disbursements/Expenses (rent, loans, utilities, wages, etc)	_____	_____	_____	_____
Cash balance (end of month)	_____	_____	_____	_____

CONCLUSION

Beyond a doubt preparing an adequate business plan is the most important step in starting a new business. A comprehensive business plan will be your guide to managing a successful business. The business plan is paramount to your success. It must contain all the pertinent information about your business; it must be well written factual and organized in a logical sequence. Moreover it should not contain any statements that cannot be supported.

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If you have carefully answered all the questions on this checklist and completed all the worksheets you have seriously thought about your goal. But . . . there may be some things you may feel you need to know more about. Owning and running a business is a continuous learning process.

Research your idea and do as much as you can yourself but don't hesitate to seek help from people who can tell you what you need to know.

Operating a successful small business will depend on

1. A practical plan with a solid foundation
2. Dedication and willingness to sacrifice to reach your goal
3. Necessary skills to operate and manage the business
4. Basic knowledge of management, finance, record keeping and market analysis

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