

# Special Report

## Small Business Start-up Tips

---

A Guide for Those Taking The Leap of Faith



# Small Business Start-up Tips

## Introduction

Are you looking for something more out of life? Maybe you have worked for someone else for twenty years and desire to go into business for yourself. In today's society, it is more affordable and possible to start a business of your own.

Many people start out with a side business. It could be a hobby. Making furniture in your spare time for friends or creating crafts and selling them at flea markets and craft shows is considered a hobby. Entrepreneurs on eBay got started with a hobby or out of necessity and their products took off and made a lot of money.

There comes a point when each person must decide to turn that hobby or freelance work into a legitimate business. Going into business for yourself can seem scary at first, but if you have been selling products and services as a side job to your regular work, the ball has already started rolling. In order to get out from under working for another company and becoming the boss, the business needs to go one step further.

In this report, we will talk about taking the next step in the life of your hobby turned business venture. To begin the correct way and realize a profit, there are a few things to consider.

We will discuss:

- Where to start turning that side cash into steady income
- The basics of doing business
- Taxes and paying Uncle Sam

## **Where Do I Start?**

The first steps to finding out if you are cut out for business is to dip that toe into the water. A little bit of that has already been done with the hobby. People have bought items from you, paid you for repairing their refrigerator, or performing a leadership seminar for their church staff. These opportunities show that your product or service has a potential to meet a bigger need.

This is where business begins—with an idea. Fleshing out that idea is the differing factor between a hobby and a full fledged business.

## **Cash is King... You Need To Save Some**

While you are making some change from that hobby, put it aside for startup costs when you make the transition to a larger official business enterprise. Right now you are in your garage, and when the business gets going you may still be in the garage. Small businesses out of the home are on the rise. They do well because of the lower overhead costs and the many tax deductions that aim at giving the small business owner a chance to succeed.

Place the money in an interest bearing account so that it is gaining some added money even if it is a few cents. It can take years to earn tens of thousands of dollars. Start small and the egg will grow. So as not to discourage you, many businesses start on a shoestring budget; the amount of startup money needed just got quite a bit less. Saving even \$1,000 can get the ball rolling on your new business venture.

For an individual working a steady job and cultivating a business on the side, the biggest obstacle will be time. Time management plays a significant role here. To keep the family afloat a regular job is maintained with weekends and nights devoted to the business.

### **Rid Yourself of Debt**

Depending on the kind of business you want to start, a separate facility may be needed right away or in the future. Furniture making can begin in the garage, but will eventually require a workshop with more space. Zoning laws may demand it.

To get that type of capital for buying or renting a space, you'll want to consider the option of a business loan. A loan officer at a bank or credit union will take a look at your credit report but also the income to debt ratio. This is standard for mortgages and loans. The lending institution wants to know that you will be able to pay the money back on time and consistently.

Adding new debt to existing debt is not a good idea. At the beginning at least, the money that finances your household could also be financing the business. Too much debt is seen as a liability and can result in a denial of your loan application.

Determine that outstanding debt will be paid off before pursuing the business venture. This does not include your mortgage or utility bills. Those bills are expected. What you are trying to do is increase your savings and the amount of disposable income that can be used to help repay a debt if it came to that.

Once extra debt is paid off, it will also be easier to save money towards startup costs. The more money that you can save will mean fewer dollars borrowed from the bank. Smaller loans can be paid off in a shorter time which increased your credibility with the banking institution. This clout comes in handy when it is time to open business lines of credit, but more about that later.

## **Give Your Business a Name**

How will you do business? What will you call the enterprise? A name is very important. It says something about you and the company you want to build. Good names go a long way to branding the business. This is a marketing strategy that labels the business in a way that will be remembered by the public.

Choose a name that is catchy, without complicated words. The name that you choose will also be incorporated into a website component and hard to pronounce or hard to spell names can be misspelled in website address searches. Keep it simple but unique. "Harold's Fine Furniture" is better than "Wood Creations." Both have potential, but wood creations can be thought up by anyone or everyone. Adding the personal name makes the title more unique.

While you are considering names, do a name search on the Internet to see if anyone has a domain name similar to the business name. If one is available, purchase it. Domain

names cost a few dollars a year. You'll have to renew each year to keep your name from being plucked up by someone else.

Check on the domain name before registering your business. Be sure that you can find the right domain name first so both names will match. It makes life easier for you and the business in the long run.

## **Registering your Business**

Now that you have a name and the domain name of your choice is available, let the world know that you exist by registering the business legally. The name of your business is called the DBA, Doing Business As. You are the legal owner of the business but the actual name you choose is your DBA.

There are different procedures for registering a business depending on your local and state regulations. Some require that the business be registered with the state and others with local officials in the county clerk's office. Be sure to ask for forms to register a business under a name other than your own. Some states call that a "fictitious" name which simply means that the legal business owner is using another name to file the business under. This registered name will go on all forms and correspondence pertaining to the business and its affairs.

The website for your state government should be able to provide the necessary information and forms to use for registering the business. There may be a fee involved in the registration so prepare for that. In many states, home businesses aren't required to be registered. It is always best to register a business name in case of other issues such as zoning.

Most home businesses go unnoticed especially if they are run totally online or it doesn't require clients to visit you at your home. Larger home businesses can be subject to find an offsite place to business if the neighborhood doesn't allow such enterprises. No one wants to run afoul of the law so it is best to be safe rather than receive a fine.

Besides, with a registered name you can begin branding your business. Logos, business cards, stationery and the like are all necessary tools to get the word out about your new business.

## **You Need a Plan Stan**

What is a business plan? It is a blueprint for the success of your business. A business plan defines how you will start and where you want to eventually go with the business. The plan can be a simple outline of major points that can be fleshed out as you go along.

The plan includes the name of the business and the type of business. We will discuss the different business choices in another section. How the business is set up determines the choices you have for accounting method and business banking.

Financial figures are included in the business plan. Any starting cash and other assets that you have available are mentioned here. If the business plan is used to acquire a bank loan, the bank will want to know how you are looking financially. Monthly expenses and income averages are recorded.

Details of the handling of the business go into the business plan. It can be a statement of intent to sell a product or service. Why the world needs your services is stated as well. For a business to be a success, the product must have a purpose.

Business plans break down the financial expenses of the business. For startup costs, a list of what needs to be purchased and the prices are listed. Marketing plans and costs are included.

What about projected growth? Considering the initial investment and monthly expenses, determine when the business will turn a profit. It is not unusual for it to take a few years for a business to solidly be on its feet. The business plan will flesh out how the business will stay afloat until it does go into the black.

Sample business plans can be found online. Use them as guidelines for completing your own business plan.

## **Consider a Home Office**

A new business needs a place to be stationed. For small businesses that are trying to lower costs, the home business office is perfect. As you are working to determine the exact location of the office, consider home business deductions. For the home business owner, the government allows a portion of the household bills to be deducted as a business expense. Check out the IRS website for more information about small business deductions. We will discuss the home business deductions in general in another section.

Being that the business began as a hobby, much of the equipment needed to operate the business has already been purchased. This further adds to a lower overhead cost. Computers, printers, copiers, scanners, and software need to be kept separate from the household equipment.

A separate telephone line for business calls is prudent so the lines won't get crossed and your child hangs up on a client. With a business telephone, the answering message can be tailored to the business so clients won't think they have the wrong number. It is a sign of professionalism to have a separate answering machine or to utilize an answering service.

## **The Serious Step (gulp)**

### **- Doing Business**

#### **Deciding on a Suitable Business Structure**

There are several types of business organizations. For a small business you have several options. The business can be classified as: sole proprietorship, partnership, limited liability company, or a corporation. Here are the differences.

A sole proprietorship is where you are the only owner of the business. It is the easiest business organization to set up. You have the final say on all business decisions. Because your name is on the business, personal assets can be seized to pay business debts. Anyone not planning on incurring large debts through their business can survive as a sole proprietorship just fine.

A partnership is pretty self explanatory. The business is in the name of two or more people. Each has a stake in the loss and profit of the business. For partnerships, agreements are drawn up that legally state the responsibilities of each partner and the

sharing of the profits. The agreements can go as far as discussing how to dissolve the partnership and divide up the assets in the event of irreconcilable differences or death.

A limited liability company is one way that a business owner can protect its personal assets from seizure. You may be the only employee of the company but, in order to keep any disagreements from becoming a big mess, purchasing liability insurance protects your assets. The business will take a hit if a lawsuit is brought and has to be settled, but the family finances will be secure.

A corporation is a larger entity that is governed not by one person but by a board of directors. They decide policy for the company. There are different variations on the corporation theme, like the S-corporation but each is more complicated than the next.

## **Finance & Accounting**

A new business needs a separate bank account. As a hobby, your work money meshed into the family finances. It was extra money that you made to supplement income. As a legitimate business, any money funneled into the business will need to be kept separate from finances.

Go to your local bank or credit union and inquire about opening a business account. The account will be in the business name and your name as you will be the one writing checks off of the account. Any startup cash for the business is added to this account as the starting balance.

Business bank accounts will need a debit card to use for online transactions and purchases at stores of business supplies. A separate account lets you keep track of

monthly expenses and income. It creates a paper trail so you don't have to hold on to a shoebox full of crumpled receipts.

Online businesses deal with business through PayPal. It is the easiest system and most website businesses use it as well as those buying online. PayPal takes you through a step by step process of setting up a business account through them. The site offers its members the option of creating custom invoices and reports for their business records and to track business trends.

While you are at it, establish a business line of credit with the bank. To do this, your credit needs to be at a certain level. Check your personal credit report for any discrepancies and incorrect data before applying so that you can readily explain any entries on the report. It is a good rule of thumb to check credit reports once a year for accuracy.

There are two methods of business accounting: cash versus accrual method. Each has its benefits and drawbacks. It is up to the business owner to decide which is best for their business. The only stipulation is for businesses that carry inventory of products that are intended for sale. Their accounting method has to be the accrual method.

Cash accounting involves literal accounting methods. In the business ledger, money for a product or service is recorded when the money is received by the business. The sale may have been transacted a month before, but it is not official in the ledger until the check is in hand. This also goes for expenses. When the checks for bills are written, that is the transaction date recorded in the ledger.

Accrual accounting is an estimated method of accounting. Transactions are recorded in the ledger at the time that they are entered into regardless of the fact that no money has

changed hands. This goes for expenses as well. When an item is purchased for the business, the transaction date is the date that the contract was entered into.

## **The Internet... Way Too Big To Ignore**

With around 1 billion people online at anytime, your business needs a web presence if you want it to grow. The website doesn't have to be for the purpose of an online store. Brick and mortar businesses can use it to conduct surveys, offer coupons, feature information on new products, or to allow customers to provide feedback. The first thing that a customer asks when they want to contact you is what is your website address not your telephone number.

Website setup can be tricky. For the computer savvy individual, designing your own website can be more cost effective if you have the expertise. Some website hosts will also offer website templates to build your site. Hosting doesn't have to be from the same person who designs your site. It is easier for some to find a webhost who does it all instead of purchasing from different entities and putting the whole thing together.

A busy business owner with no website expertise in the design department can hire a website designer to do the hard part. With you as the person overseeing the development of the site, it will get built to your specifications. There are several website choices. For one stop blog and website shopping consider WordPress.

The website lets people in the cyber world know that you exist. It is not enough to create the site; you also have to promote it much like the physical portion of your business. Without marketing no one will find where you are in the world or on the Internet.

Regardless of whether you want the website to contain a store or not, it has to have a way of being recognized. This is where content comes in. Website content is articles of at least 400 words that can be featured on different pages of the site and indexed by major search engines. Most people search for information on the Internet using Google, Yahoo, Ask.com, and MSN. To be picked up by these search engines, you can register your website with them.

The articles that you write need to be search engine optimized to be ranked high. Many website business owners use keyword analyzers and density tools to determine the most popular keywords for searches concerning their type of business. Density tools analyze the occurrences of specified keywords in the text on the page. The optimum keyword density of an article is three to eight percent. Stay within those parameters and the content has a chance of being ranked high.

Content on the website is relevant to your business. As an entrepreneur, you can impart your knowledge to other small business owners. Talk about how to use different marketing tools effectively or how to start a business on very little cash. The best articles are those that talk about what you know and are familiar with. This makes the content easier to write.

An online store is up to you. It adds another component to the business. For someone who has an Internet business, an online store is a must to sell products to the public. Keep the checkout process simple with easy to follow instructions so customers don't get lost as they try to buy from you.

Websites themselves can add revenue to the business with affiliate programs. Joining a program like Google AdWords pays money to the website owner for each ad that is clicked on by a visitor. Position the ads where they will be seen the easiest and get the most clicks.

## How Do I Get Some Customers

Here is the meat of a business. If there are no customers, there is no business. A marketing plan is a part of the business plan. How will you start? There are several marketing strategies and all are viable but not necessarily for your business. Choose one and add more as needed.

1. Email marketing: Purchasing a list of possible customers and using their email address to contact them about your business. Email campaigns can also be conducted using email addresses gathered on your website through a sign in page.
2. Direct marketing: Using mailings like brochures and postcards to advertise your business and find new customers.
3. Viral marketing: This is also known as “word of mouth” marketing. Getting your product on the minds of as many people as possible is the goal.
4. Affiliate marketing: companies partner with other websites to bring more traffic to their sites. Joining another website’s affiliate program creates passive income for your website. Beginning your own affiliate program using high traffic compatible websites means more sales leads for you to work with.
5. Content marketing: Use articles on your website and submissions to article directories to drive traffic to your website and create passive income.

6. Niche marketing: The way to survive in business is to grow and evolve. Niche marketing narrows the focus of your business to one area and works to build around that.

## **Taxation Responsibilities**

It is a necessary evil in everyone's life. We give back a part of our earnings through taxes. For the self employed person this means keeping track of your own taxes. On the positive side, if your business operates in your home, the government has several deductions that can be used to lower the taxable income when determining your tax payments. Even small businesses that operate outside of the home can benefit from tax breaks.

First, all businesses need a tax ID number. For sole proprietorships, that number is the same as your social security number. Corporations and partnerships can apply for this number on the IRS website. Businesses that have employees and/or a self employed retirement plan (Keogh) need a tax ID number also known as an EIN number. The IRS website has a complete listing of all who require this number.

After determining your tax ID, there are the business forms. Self employment taxes are required for anyone operating their own business. It is Form 1040SE. For the sole proprietor this form is filled out if you are paid over \$400 to the business during the tax year.

This doesn't necessarily mean that you will have to pay taxes. That still remains to be seen when total expenses and income are calculated and subtracted. Businesses that have operated at a loss may receive a refund.

For businesses that do not operate at a loss, taxes can be paid quarterly to avoid a big tax bill at tax time the following April. A tax advisor can give you information on estimating the total yearly tax, when to pay it, and what form to use.

Businesses responsible for employees have a lot more taxes to worry about. Employment taxes, income tax, and social security are all required by businesses for their employees. This process is complicated so consult a business advisor to be sure nothing is missed.

## **Home Business Deductions**

The government has specific criteria for taking advantage of the home business deduction. No longer can a person work from a laptop in their bedroom and claim a portion of their expenses on their business tax forms. If they were ever audited, it would be a nightmare.

The area of your home devoted to the business must be exclusively used for that purpose. Exclusive means that the area cannot double as a dining room at dinner time or on holidays. An exception to this rule is a home day care center. For those who qualify, a portion of the utility and other household bills can be deducted dependent on the square footage of the home office in relation to the entire square footage of the house.

you don't qualify, it is not the end of the world. Any expenses that you incurred for equipment, supplies, and other viable business expenses can be deducted on your tax form to lower taxable income.

## **Small Business Deductions**

Even small businesses outside the home can claim deductions. In fact, there are plenty of ways to lower the taxable income. Mileage and gas can be claimed for a vehicle that is used for business. If a personal vehicle is used at least a percentage of the time for business, that percentage is eligible for tax deduction.

Business meetings and business travel also qualify for deductions according to the IRS. This equals rental car fees, airline travel, dinners, hotel stays, and more. To get the total benefit of these deductions, keep your receipts. This point can't be stressed enough. Without receipts and mileage logs some expenses claimed as deductions can be disputed and you may have to pay back money or pay more to the IRS.

Getting in the habit of staying organized and keeping track of expenses is important to a legitimate business. For small businesses it is necessary to receive all of the deductions and refunds that are due to you from the federal government.

## **Conclusion**

Turn that hobby into a viable business entity by going the extra step. Legitimize your business with the information in this report. It can be scary to step out into the light, but you won't regret taking the chance.

To your credit, you have been test marketing your product without even knowing it. People have shown an interest in your product and provided feedback on the performance. Now, open that product or service up to a wider audience.