How To Start Your Business

Fit Small Business has partnerships with some of the companies featured in this eBook. When you click on links to those sites, we make money. These partnerships help support our site so we can keep bringing you the best answers to your questions.

Congrats on making the decision to start your own business! Here at Fit Small Business, we want you and your business to become a wild success. From finding your idea to receiving your first customer, we want to be your guide on this journey.

Whether you are starting a side business, becoming a freelancer, or opening a brick-and-mortar location, the information in this eBook will help make your dreams become a reality.

As a former small business consultant who has met with over 700 small business owners, I know it may take several months (or even several years) to open your first business. There's a lot to learn! I hope you save this eBook to your browser, revisit it often, and use it as your "starting a business" guide.

I know that armed with the right knowledge, you can succeed. Even if this is your second business because your first business failed, it's not your fault. Much to business success is timing and finding the right business for you. In fact, it takes on average three business failures before an entrepreneur succeeds long term.

Regardless of how many businesses you've started, you can lessen the risk of failure with better decision making. I hope that you follow the information in this eBook to make informed decisions on topics such as business planning, financing, and marketing.

Just remember to keep learning, keep hustling, and keep moving forward :)

Cheers,

Blake Stockton

Writer, Entrepreneur, & Small Business Consultant

How To Start Your Business

Before we dive into the Ebook, below are some helpful companies that can make starting your business a whole lot easier.

To Handle Your Legal Work, Use Rocket Lawyer

Whether you need individual legal documents for forming your business or for employment purposes like employee handbooks, Rocket Lawyer is your one-stop-shop for all of your Legal needs. They also offer 1:1 meetings with real attorneys. Check them out today on your journey to starting a business.

Visit Rocket Lawyer Here.

To Manage Your Bookkeeping, Use QuickBooks

If you're looking for an accounting software that can grow with you from a sole proprietor to an S corporation (S-corp) or C corporation (C-corp), choose QuickBooks Online.

All five QuickBooks Online plans include the following features:

- Ability to connect bank and credit card accounts
- Unlimited tech support via telephone or chat
- Ability to accept online payments from customers
- Access to key financial statements such as profit and loss and balance sheet

Try it free for 30 days.

To Organize and Build a Sales Funnel, Use Hubspot

Get Rid of Disorganization Once and For All (especially when starting a business). If you feel disorganized keeping track of deadlines, contacts, and other key details, try using a CRM like Hubspot. Hubspot offers a free plan, making it easy to get organized on a budget.

Click here to get started for free.

To Sell On The Web, Use Square Online Store

Set up an online shop: Small businesses can get an online store up and running quickly (and for free) using Square Online Store. Even if you're not able to sell products, get a website and sell digital gift cards. With a Square Online Store, you can:

- Sell and accept orders online: Ship items or take online orders for in-person pickup.
- Launch quickly: Start selling online with $0 monthly fee.
- Never close: Allow patrons to shop 24/7 from their homes.

Get Started with a free online store.

Table Of Contents

Click on the title below and jump straight to that specific section.

Click on the title below and jump straight to that specific section.

Click on the title below and jump straight to that specific section.

Click on the title below and jump straight to that specific section.

Chapter 1
Come Up With a Business Idea

Coming up with a business idea is the first step to starting a business. To begin, you can identify problems you or others are having. Some people take an unstructured approach to determining how to come up with a business idea. Others are more efficient when following a step-by-step process that guides their brainstorming sessions.

Look Inward for a Business Idea

The first and easiest place to come up with a business idea is through your own experiences. One day you may realize you have a problem that no one else can solve. Can you come up with a solution and solve it or a similar problem for others? Write down all problems like this, even if you can't solve it initially. Additionally, look to your strengths, skills, and interests for inspiration.

Analyze Your Own Problems

The best place to look for a business idea is inside of your own problems. What challenges are you running into in your day-to-day life? This doesn't have to be a brand new business idea. The problem can be as simple as firing your lawn care company and finding it difficult to find another quality company. That's a potential problem worth exploring.

Use Your Current Strengths

Many current business owners build a business around their strengths. Strengths may be skills or knowledge you've learned from experiences like working in the corporate world or through hobbies. A good example is if you've been in sales for 20 years and are looking to apply those skills to a certain industry, such as real estate, or you've learned a lot about cycling through your hobbies and are good at helping friends fix their road bicycles.

Niche Down Your Current Skills

Another way to come up with a business idea is to narrow down what you do at your current job and provide a very specific service or product. A well-known business saying that relates to this is "the riches are in the niches." That's because specific services connect well to solve people's problems.

For example, if you're a general digital marketer for businesses, you may be able to brand yourself as a marketer in a specific niche, such as email marketing or Instagram marketing. Branding yourself in a niche will make it easier to connect with the specific business owners looking for your services.

Cross-pollinate Your Skills and Interests

Cross-pollinating to come up with a business idea is when you mix two unrelated skills or interests. For example, if someone has a full-time job as a software engineer at a tech company and enjoys tinkering with drones during the night and on weekends, a possible business idea they could pursue is creating and selling custom drone monitoring software for farms and industrial businesses.

Look Toward Others for a Business Idea

If you're having trouble coming up with an idea from your own experiences, look to problems others are having. Friends and family are usually willing to talk about the regular challenges they run into. Maybe there's a business idea that can help them overcome their challenges. You can also do research on trends and the current market to discover a business concept that makes sense for consumers today.

Listen to Family and Friends

Make it a point to listen to family and friends when they're having issues. Maybe they can't find reliable movers in your local city that won't overcharge on a quote. Maybe they're complaining about a specific problem with their motorcycle. Write down all of the business ideas you can think of that relate to the problems they're struggling with, both product and service-based.

Turn to Social Media & Online Reviews

Social media is a great place to find family and friends complaining about the challenges they're having. Often, people will go online to make a complaint before they tell friends or family. Additionally, look at what industries near your residence consistently have negative reviews.

Do the three closest pest control companies near your house all have 3 out of 5-star Google reviews or below? That's an indication that a new pest control company with better customer service could take their customers.

Network With Other Business Owners

Many new businesses start when two people with different strengths come together to form a new type of company. A classic example is when Steve Jobs and Steve Wozniak created Apple. Wozniak had the experience and interest to build the computer. Jobs had experience in sales, marketing, and an interest in user experience. Wozniak couldn't have sold the first Apple computer alone, and Jobs couldn't have created it. Together, with their different strengths and skills, they were able to.

Follow the Trends

Another way to uncover a business idea is to spot and get ahead of a trend. Determine when a product is going to get big before it happens and start selling it on Amazon. The first movers on the fidget-spinner craze in 2017 made millions of dollars. Additionally, look nationally for trends and see if you can bring it locally to your city. For example, ramen restaurants started in large cities like Los Angeles, and now they're spreading quickly throughout the United States.

Conduct Market Research

You can look to market and industry research for direction on a business idea. IBIS World provides reports that are updated quarterly on hundreds of specific industries. In the reports, it discusses if the overall industry in question is 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 it's a good place to start.

The 10 Fastest Growing Industries in the US

	Industry	2018-2019 Revenue Growth
1.	Peer-to-Peer Lending Platforms	53.7%
2.	Wind Turbine Installation	53.5%
3.	Solar Power in the US	52.2%
4.	Automated Guided Vehicle Manufacturing	48.2%
5.	Telehealth Services	46.6%
6.	Social Networking Sites	38.2%
7.	Medical & Recreational Marijuana Growing	30.3%
8.	Massage Franchises	27.6%

According to IBIS World, a local solar power installation business or massage business may be a good idea in the US

Brainstorm Solutions for Your Idea

When you identify a problem to solve, you may think of the solution right away. However, if you're struggling to come up with a solution, there are strategies to help you think creatively. Create time during the day to think and make it easy to write record solutions. Additionally, look to others as a way to think creatively. Join local networking groups and entrepreneur networking websites.

Create Time to Think

Schedule time during the day to think through the problems you listed. Some people prefer to do this through meditation, where they sit and contemplate the problem anywhere from 10 minutes to more than an hour. Others go to float at a local sensory deprivation tank, which is a sealed chamber filled with 12-inches of room-temperature salt water for 30 to 120 minutes, to relax their brain and think more creatively. Consider spending time in nature and taking walks. The CEO of Facebook, Mark Zuckerberg, often has walking meetings in the hills around its headquarters in Menlo Park, California.

Make It Easy to Record Ideas

You may get an idea at any point during the day—while driving your car, in the shower, or eating lunch. When this happens, no matter how small the inspiration, write it down in a journal or on your phone. It's also a good idea to place the solution in a place where you can see it easily. Consider writing it on a sticky note to think through it at a later time. If the idea is bad, don't beat yourself up. During any creative process, it's helpful to be your own best friend.

Network With Peers

Talking with others about the problem you're seeking to solve, and possible solutions is a great way to think creatively. More extroverted personalities may prefer to talk to business peers than to write in a journal. If you don't have any family or friends to talk to, consider joining a local Meetup or business group, like the US Chamber of Commerce, to find like-minded entrepreneurial individuals.

Join A Website

There are several websites available to connect with other entrepreneurs. These websites may also connect you with co-founders for your business. If you have a problem that you believe needs a solution, but the solution is out of your expertise, consider joining a founders networking website. For example, CoFoundersLab is the world's largest network of entrepreneurs. Additionally, FounderDating allows you to connect with and get advice from like-minded entrepreneurs.

Select Your Business Idea

Before starting your business, you must select the idea. Many business owners overlook reflecting on themselves, but it's an important step to create a business that is right for you. During this step, you also want to research your idea briefly, and then get clear on how the business idea will make money.

Be Honest With Yourself

Potential business owners often get excited about being their own boss and overlook what being a business owner means. Before opening your business, it's important to reflect on your previous experience, skills, money saved, and network to ensure that you start a business that is right for you. You don't want to start a business and realize six months later that it doesn't match your skillset.

Do You Have the Right Motivations?

There are often two misconceptions around small business ownership: you'll get rich and you'll be your own boss. There is some truth to both, but mostly these are misjudgments for new small business owners. However, if these are your two motivating factors, it'll be hard to start and run a successful business in perpetuity.

For example, while it may seem like entrepreneurship comes with glitz and glamour, according to the U.S. Treasury's Office of Tax Analysis, 75% of small business owners make less than $200,000 per year. According to PayScale, small business owners make between $34,000 and $106,000 per year. If getting rich is your main motivation, you may be in for a shock.

When it comes to being your own boss, you can certainly choose the company direction, set your hours, decide on how to run the business, and more. However, small business owners find that they end up getting a different kind of boss: their business. As you hire people, get customers, wrestle with the finances and operations of your business, the demands of running a business actually mean you have less control over your schedule and life.

When you're looking for motivation, make sure it goes beyond money and time. You have to have a real passion for the product/service you're selling and the customers you're serving. Building a business isn't about you, and if you have selfish motivations, you won't be able to sustain your energy for the time it takes to become successful.

Do You Have the Right Capabilities?

According to a Harvard Business School study (image shown below), most entrepreneurial leaders display common capabilities, including the ability to identify opportunities, learn quickly, and manage risk, among others. Make sure that you cultivate these capabilities as you grow your business.

EL Differentiates between Founder and Non-Founder Business Leaders

	Founder	Non Founder
Identification of Opportunities	Significantly Higher	
Vision and Influence	Significantly Higher	
Comfort with Uncertainty	Significantly Higher	
Assembling and Motivating a Team	No Significant Difference	No Significant Difference
Efficient Decision Making	No Significant Difference	No Significant Difference
Building Networks	Significantly Higher	
Collaboration and Team Orientation	No Significant Difference	No Significant Difference
Management of Operations	No Significant Difference	No Significant Difference
Finance and Financial Management	Significantly Higher	
Sales	No Significant Difference	No Significant Difference
Preference for Established Structure	Significantly Lower	

Identifying Opportunities

If you're starting a business, a key capability is the ability to have a vision and identify a need in the marketplace. Successful entrepreneurs can assess the market, spot a consumer pain point, and solve that pain with a product or service.

"The first step that everyone should go through is to ask the question, Is the market real? In order to do so, the first thing you want to do is conduct what we call a customer analysis. You can do that perhaps in a very technical way, by conducting surveys. Or perhaps, in a less technical way, you can attempt to answer the question, Who is my customer? What does the customer want to buy? When does the customer want to buy? What price is the customer willing to pay? So, asking the 'W questions'—who, where, what, when—is the first step."

– Raffi Amit, Professor of Management, Wharton School of Business

Source: Wharton

Learning What You Don't Know

Starting your own business means you're going to have to do a lot of things that you may not be familiar with. It could be running a team, networking, managing business finances, sales, etc. For this reason, a key capability is the ability to teach yourself how to master new skills.

Accepting and Managing Risk

Starting a business is one of the riskiest things you can do, but the important part is not to just accept risk, but to be able to manage it. Risks can take a lot of forms: financial, product/market fit, the economy, competition, etc. A strong business founder is going to systematically reduce risk where she can. It could mean having multiple go-to market plans, laying off financial risk to investors or banks, hiring experienced personnel, etc. The key is not to just accept—but reduce—risk.

Do You Have the Right Personality?

Everyone knows that starting a business is hard work and a low success rate. In order to start a successful business, you're going to need to be tough as nails and have a bias for action.

Experience

Most small businesses start because the owner has experience in a specific industry. Knowing how an industry works before starting a business increases your likelihood of success. For example, someone working several years as a florist manager will gain customer and management experience to run a successful floral business of their own.

Skills

If you don't have experience in your industry, you need specific skills. For example, Karen has been creating quilts for her family and friends for years. In time, she has improved the quality and time it takes to make a quilt. Karen makes relationships with several local shops to start selling her quilts. She has used her skills creating quilts to earn an income.

Money Saved

You need to be honest with yourself when it comes to investing in the business. Getting a loan from a bank for a startup business is unlikely. You may need to use your own funds to start the business. However, there are other options for acquiring capital for your startup like family and friends, getting a loan from a bank, giving equity to an investor for capital, and crowdfunding.

Network

Having a strong network of people either as business mentors or potential customers increases the likelihood of business success. For example, opening a floral shop with connections to the best flower distributors is important. If you're trying to sell your quilts locally, it's important to have relationships with shop owners.

Consider Business Life Goals

In addition to being honest with yourself, consider the type of business you want to run. Many people start a business, only to realize several months later that they don't like the type of business they're running.

For example, a person enjoys and succeeds in selling high-end bicycles. They decide to purchase a local bicycle shop. Six months later and $50,000 in business debt, they realize they loved selling bicycles and not the operational tasks that come with being a business owner.

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 8-figure business with employees?
- Would you like to start from scratch or purchase an existing business like a franchise with systems to implement?
- 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.

Research the Idea

Once you reflect on yourself and the type of business you want to own, it's time to come up with the idea. There are many ways to come up with a business idea, including identifying a need in your community, solving a problem you have, or reviewing resources online. If you're coming up with an idea for your first business, you're more likely to succeed if the business model is proven and has guaranteed customers. You may be tempted to come up with a new business idea, but that is riskier because the idea has not been proven.

How Will It Make Money?

Predicting financials is one of the most difficult tasks of starting a new business. At this stage, it's important to do a rough outline of how the business will make money. If you are starting a new business model that is selling a unique product or service, how it will make money is crucial to think through. You don't want to invest time and money into your first business for it to not work out. Test the product or service at a small scale before opening a full-time, storefront business.

Chapter 2

Research Your Market and Competitors

Validate Your Business Idea

Once you select your idea, it's time to research your market and customers. Market research helps determine how competitive your type of business is and if there are customers for it. Unfortunately, getting positive feedback from friends and family about your business idea does not confirm it will be a success. Friends and family may support you whether they think the business idea is good or bad. You want to do additional research to confirm your business idea is solid.

Research Your Competitors

The first step is to evaluate your competitors. Consider your top five 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 determine if you have a viable business idea. To determine this, you can do manual research online or purchase an IBIS World Report. The 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.

A 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

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.

ReferenceUSA tracks 147 million United States resident's demographics and purchasing habits

Find Your Competitive Advantages

You have already identified your competitors' strengths. Now, you need to identify your own competitive advantages. Most new businesses rely on their flexibility as a competitive advantage. 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 unfair competitive advantage that the competition will never be able to beat me at?" Is it your quality of product or service, customer service, or knowledge? These questions will help you determine if you can be best at something. Being the best in a certain area of a business makes it more likely that the business will succeed.

Chapter 3
Write a Business Plan

Writing a business plan shows why you think the business will be successful. The plan also shows on paper how you will start your own business. After you open, the document keeps you focused and on track with your goals. So far, you have put together informal pieces of a business plan. Now, it's time to write down information in a document.

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 than 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. You can find a NDA template from Fit Small Business here .

Table of Contents

The table of contents lists the sections and subsections of your business plan. All of the headers below (Executive Summary, Business Objectives, 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.

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, after completing the other sections in the business plan. 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, at what month 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, to less than two pages in length.

Business Objectives

Your business objections 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 business objectives organized by bullet point.

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."

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 than 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.

Company Summary

Overall, the company summary section highlights your company successes (if you're already in business) 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 the 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. You can find an example of a chart outlining separating startup expenses from startup assets here .

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 their backgrounds. Show why these owners are likely to be successful operating this business by providing information such as each owner's industry experience, previous employers, education, and awards won. This owner's background will be discussed more 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.

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 in-depth. 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, acquired, 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.

Market & Industry Analysis

The market and industry analysis section is where you analyze your potential customers and your 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.

Market Segmentation

Market segmentation is also called your business' target market. It consists of the customers who are most likely to purchase your products or services. Describe these groups of customers based on demographics, such as age, income, location, and buying habits. Additionally, if you'll be operating business-to-business (B2B), use characteristics to describe the ideal businesses to which you'll be selling.

Once your target market is segmented into different groups, use market research data to show that those customers are physically located near your business (or are likely to do business with you if you're online). You can obtain this data from a free resource, like the U.S. Census and ReferenceUSA, which is free at thousands of libraries across the United States. For example, if you are opening a daycare, you will want to show the data on how many families are in a certain mile radius around your business.

Target Market Segment Strategy

Once you have at least three segments created, briefly outline the strategy you will use to reach them. Most likely it will be a marketing strategy, although it may be a pricing, networking, or sales strategy. Additionally, describe the general thinking of the segments (or inner workings of the businesses) that would cause them to do business with you. For example, if you owned a restaurant next to a theme park, describe how families will want to visit your family-friendly restaurant after a long day at the theme park.

Industry Analysis

In addition to the target segments, analyze the business' industry and explain why it's a great idea to start a business in that industry. If you're in a growing industry, a bank is more likely to lend your business capital because it's predicted to be in demand and have additional customers. Find industry statistics from a free tool, like the Bureau of Labor Statistics, or a paid tool like the Hoovers Industry Research, which provides professionally curated reports for over 1,000 industries.

Competitor Research

Wrap up the market and industry analysis section by analyzing at least five competitors within a five-mile radius (expand the radius, if needed). Create a table with the five competitors and mention their distance from your business (if applicable), challenges, and successes. During your analysis, you'll want to frame their challenges as something you can improve upon. Persuade your reader that your business will provide superior products and services than the competitors do.

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.

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 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 them and the overall cost (you can elaborate more on costs in the financial data section).

Sales Strategy

If sales is 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 they will attend. Additionally, discuss any training your sales staff will attend.

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. The annual sales forecast chart will be broken down further in the financial projections section below.

Table 5.6.1 Annual Sales Forecast

Annual Sales Forecast	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 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, person responsible, and department responsible (or outside company responsible). List at least seven milestones.

MILESTONES					
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.

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, they 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 and outdoors 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 it 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. You can find an example of a year-to-year personnel plan here on the Fit Small Business web site.

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 year 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 a 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. For example, variable costs for the example below increase 8% for every additional dollar made.

The break-even point for this document shredding business is $31,500 in a month.

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 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 than 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 U.S. Treasuries?

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 than 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.

Business Ratios

Business ratios (also called financial ratios) are a way to evaluate the performance of your business. 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.

For example, you should know your business' current ratio, which is the total current assets (cash and other assets that can be liquidated easily) to total current liabilities (short-term debts due in less than a year). If you have $2,000 in current assets and $2,000 in current liabilities, your current ratio would be 1:1.

A 1:1 current ratio means for every $1 of current assets on the books, your business has $1 of current liabilities. Anything below a 1:1 could indicate your business will not be able to pay its debts, which would be a red flag to lenders and investors.

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 it 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.

Detailed Financial Projections

The financial projections in the previous section is 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 in the appendix. You don't need to create additional charts for the appendix.

Chapter 4
Acquire Funding

Qualifying for a business loan as a startup can be difficult. Entrepreneurs often need to utilize multiple financing sources to get their new startup off the ground. Startup business loans can take many forms, including SBA loans, angel investment, or Rollovers for Business Startups (ROBS), and each is unique in what they offer to startups.

Best Startup Business Loans for Small Businesses

Startup Loans	Best For
Rollover for Business Startups (ROBS)	Owners willing to invest retirement funds of $50,000 or more
SBA Loan	Businesses with good credit and a solid business plan not needing funds quickly
Microloan	Minority, women, veteran-owned businesses, and others needing up to $50,000 for startup
Home Equity Loan or Line of Credit	Borrowers willing to use their home equity for startup funding
Business Credit Cards	Business owners good at repaying debt and wanting quick access to funds
Personal Loan	Business owners with good personal credit needing up to $50,000 in funding
Equipment Financing	Businesses where major startup costs are purchasing equipment with a long useful life

Friends & Family	Borrowers with wealthy friends and family interested in investing in their businesses
Crowdfunding	Startup businesses with a strong brand or dedicated customer following and little-to-no revenue
Angel Investors	Companies requiring funds for rapid growth and willing to take an equity partner
Venture Capital	Borrowers ready to scale their businesses immediately and willing to give up ownership
Government Grants	Small businesses willing to meet the requirements of free U.S. government grants

What a Startup Business Loan Is

Startup business loans are used by entrepreneurs as financing to open a new business, or to help a new business grow within the first year. Financing for startups does not have the lengthy time in business requirements of other small business financing methods, making it more attainable to new businesses.

How Startup Business Loans Work

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.

Some sources of startup financing do not require repayment, but instead offer funding in exchange for equity in the business or a reward of some nature. In the case of government grants, there is no repayment or exchange of equity or rewards; however, grants are often more difficult to obtain.

Choosing the 12 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, and 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.

1. Rollover for Business Startups (ROBS)

A rollover for business startups (ROBS) may be the best-kept secret in startup financing because it allows you to invest funds from your retirement account into your new business without paying early withdrawal penalties or income taxes. A ROBS is not a loan against your retirement account, and it's not a way of cashing out your retirement account. There are no loan payments and the business takes on no debt.

ROBS Costs

The typical costs of a ROBS are:

- **Setup fees:** $5,000
- **Monthly monitoring fees:** $140

ROBS Terms & Qualifications

A ROBS is a way to use 401(k) business funding to finance your business. It helps you invest your current deferred retirement account savings into your new company's 401(k) plan, which uses the money to buy shares in your business. The business can then use those funds for any business-related expenses, which can include startup costs. There are no terms after you get the money because it's not a loan, but rather an investment in your business.

To qualify for and use a ROBS, you must:

- **Contribute $50,000 or more from your retirement savings:** For a ROBS to make financial sense, you likely need to have at least $50,000 in a deferred retirement account. Further, you need to be willing to use your ROBS specifically to fund your business.
- **Be an employee of the business:** You must be a legitimate employee of the business you're rolling funds into. This makes a ROBS ideal for actively managed businesses, but not necessarily a good option for people pursuing absentee businesses, like some real estate investment companies.
- **Structure your business as a C corporation:** To set up a ROBS, your company must be structured as a C corporation.
- **Be able to fund the setup costs:** The setup costs of $5,000 must come from other means outside of your retirement funds, but the monthly costs can be paid for with any business, including the money you roll over.

Who a ROBS Is Right For

A rollover for business startups is flexible and can be used in conjunction with almost all other startup funding options. The funds from a ROBS can be used as a down payment for a startup business loan or an SBA loan. A ROBS works well as a financing option for business owners willing to contribute $50,000 or more from their deferred retirement account.

Where to Find a ROBS

For additional information on Rollover for Business Startups (ROBS) financing, you can get started today by signing up for a free consultation with a ROBS specialist. Our recommended ROBS provider, Guidant, will help you set up your ROBS correctly, and the process typically takes about three weeks.

2. SBA Loans for Startup Businesses

The Small Business Administration (SBA) is primarily known for its startup loan programs. Two SBA programs that are more startup-friendly are the Community Advantage Program and the 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.

SBA Startup Business Loan Costs

The typical costs associated with SBA startup business loans are:

- **SBA loan interest rates:** 7% to 11%
- **Origination fees:** 0.5% to 3.5%
- **Packaging fees:** $2,000 to $4,000
- **SBA guarantee fees:** 2% to 3.75%

SBA Startup Business Loan Terms & Qualifications

Qualifying for SBA loans can be difficult. You'll need to have a credit score of at least 680 and be able to pledge some collateral for the loan. There are a wide variety of SBA loans available, but the two programs most likely to help provide startup business financing are the Community Advantage Program and the SBA Microloan program.

The typical loan terms for the SBA's Community Advantage Program are:

- **Loan amount:** Up to $250,000
- **Repayment terms:** Up to 10 years for inventory, working capital, or equipment; up to 25 years for commercial real estate

SBA loans are not made directly through the SBA, but rather are loans made through an SBA approved lender and backed by a guarantee from the SBA. SBA lenders are typically community development corporations, banks, or nonprofit institutions. Applying for an SBA loan can be a complicated process and we recommend working with an experienced SBA lender.

Who SBA Startup Business Loans Are Right For

Generally, these loans are available to partially self-financed startups (the SBA likes to see that the owner invests at least 30% of their own money in the business) and startups where the owners have prior experience in the industry and in management. The primary benefits of an SBA loan are the low interest rate and long repayment term, making your monthly payments lower than they would be with other loan options.

Technically, SBA 7(a) loans are also available to small business startups. However, they are made by traditional lenders who have restrictive qualifications and underwriting standards. We recommend applying with a local lender who knows you and your community the best.

Where to Find SBA Startup Financing

Startups will generally be required to have a 20% to 30% down payment on SBA loans, which can be pretty high for most borrowers. One way people fund the down payment is by using retirement savings through a ROBS.

3. Microloans From a Nonprofit Lender

For startup business owners who don't have great credit, sufficient collateral, or a lot of other options, a nonprofit lender can be just the resource you need. These lenders have specific criteria they use when looking for borrowers. You will have to find one that matches who you are or what your business is (such as a lender looking for restaurants).

Microloan Costs

The typical costs associated with microloans are:

Annual interest rate:

5% to 20%

Microloan Terms & Qualifications

Accion is a nationwide nonprofit lender that provides microloans for startups. In most states, you can borrow up to $10,000 for a new startup. Kiva is another nonprofit that will also lend up to $10,000 in startup funding.

The typical loan terms for a microloan are:

- **Loan amount:** Up to $50,000
- **Repayment terms:** Up to seven years

Microloans are not grants or free money. Accion will only lend to startup business owners who have sufficient cash flow to make loan payments. Accordingly, you should be prepared to show a source of income independent of the business (e.g., a full-time job or spousal income) if your business isn't generating enough income yet. Having a co-signer with strong income and credit score can also help.

Tip: If your credit score is too low to get traditional business financing (under 640), consider working with a credit repair company to improve your credit score.

Who Microloans Are Right For

Microloans are good for businesses that need small amounts of funding to start their business. This is because with a microloan, you can typically get loans of up to $10,000 to start a new business. Microloans are often targeted at specific underserved demographics, and startup businesses often fall into these categories.

Where to Find a Microloan

Startups without great credit or other financing options may qualify for a microloan from a nonprofit organization. You can borrow up to $50,000 from Accion ($10,000 for a startup), with interest rates as low as 8%. You can apply online to see how much you may qualify for.

4. Home Equity Loan or Line of Credit

If you're a homeowner with some equity in your home, you may be able to get a low-rate home equity line of credit (HELOC) to fund your startup. A home equity loan (HEL) gives you a lump sum immediately with amortized repayments, while a home equity line of credit is a credit line that can be drawn against as you need funds. With a home equity line of credit, you pay interest only on the balance you currently owe.

Home Equity Loan or Line of Credit Costs

The typical costs associated with a HELOC or HEL are:

- **Closing costs:** 2% to 5%
- **Annual interest rate:** 3% to 6%

Home Equity Loan or Line of Credit Terms & Qualifications

A home equity loan provides you with a lump sum, which acts like a second mortgage, and a home equity line of credit works like a credit card or business line of credit. In either case, you'll need to have some equity in your property. You will be limited on the amount you can borrow, as your lender will want to ensure that an equity cushion remains.

The typical requirements for a home equity loan or line of credit are:

- **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

Who a Home Equity Loan or Line of Credit Is Right For

Both a home equity loan and line of credit require good credit and sufficient equity (20% to 30% or more) in your primary residence. Utilizing your home equity can provide your startup business with capital at a lower interest rate than many other kinds of startup financing by using your home as collateral.

Home equity loans and home equity lines of credit meet different borrower needs, for example:

Home Equity Loan

A home equity loan might be right for you if you need a large lump sum amount of money for upfront business expenses that are essential to your operations. You'll immediately begin making payments on the full loan after closing.

Home Equity Line of Credit

If you don't have an immediate use for all of the funds right away, then a home equity line of credit may save you money through a more affordable interest rate. Similar to a business line of credit, a home equity line of credit allows you to draw funds as you need them and you only have to pay interest on your current balance.

Where to Find a Home Equity Line of Credit

If you're shopping for a home equity loan or line of credit, you can visit an online marketplace, like LendingTree, and review offers from multiple lenders at once. Save time, shop smart, and find a HELOC that fits your needs.

5. Small Business Credit Cards

Both personal credit cards and business credit cards can be a relatively cost-effective way of financing your startup. Many come with 0% APR introductory periods and valuable cashback or rewards programs. This can result in good savings for your business if you use credit cards regularly, and should be a part of every business' financial toolkit.

Small Business Credit Card Costs

The typical costs of small business credit cards are:

- **Average annual interest rate:** 16%
- **Annual fee:** $50 to $100

Small Business Credit Card Terms & Qualifications

Small business credit cards aren't an ideal way to fund large capital investments for your business startup, but they can be an essential tool for cash flow management. You can cover expenses with your small business credit card while waiting for payments from your customers, preserving cash and earning rewards at the same time. In fact, 31% of small businesses use credit cards to finance business operations.

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

- 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 just by charging purchases to your card.
- Employee cards that allow you to restrict what the card can be used for (gas, office supplies, and so on) mean more independence for trusted employees, less busy-work approving purchases for you, and more rewards for your business.

With APRs that typically range from 10% to 30%, credit cards can be a very affordable, short-term solution for small businesses. One downside to credit cards is that they're particularly sensitive to your credit score, and if your score is damaged, the credit limit can be lowered or closed without warning.

Who Small Business Credit Cards Are Right For

Business credit cards should be a part of every business' financial toolkit. They're a great option if you want to manage employee expenses or earn cashback rewards. Business credit cards are also good if your business has little to no revenue or has just started, as qualifying is often based on your personal income and credit score.

Where to Find a Small Business Credit Card

Business credit card providers can extend credit-based, in part, on personal credit and income. This makes business credit cards a great option for startup businesses. If you're ready to apply for a business credit card, our guide to the top small business credit cards can help you find the best one for you and your business.

6. Personal Loan for Business

A personal loan for business allows you to borrow funds based on your personal credit and income. Personal loans rarely have limitations regarding what the loan funds can be used for, and therefore can be used to finance your business needs. However, because the loan is in your name as an individual, you're personally responsible for repaying the debt.

Personal Loan Costs

The typical costs involved with a personal loan for business are:

- **Interest rate:** 5% to 36%
- **Origination fee:** 1% to 6%

Personal Business Loan Terms & Qualifications

With a personal loan, you can typically receive funding in amounts ranging from $1,000 to $100,000. The exact loan amounts offered will vary by lender, and will be based on your credit, income, and debt-to-income ratio (monthly debt payments divided by monthly income). Standard repayment terms for an unsecured business loan range from one to five years.

The basic terms and qualifications for a personal loan for business are:

- **Loan amount:** Up to $100,000
- **Minimum credit score:** 600 (check your score for free)
- **Repayment term:** One to five years

Keep in mind that while these loans may be for a business purpose, you're the one who is borrowing and ultimately responsible for the loan. If you don't repay the loan, your credit rating will be affected and you could lose personal assets. The interest rates can be similar to credit cards, but you'll be receiving a lump sum payment that you'll be paying interest on instead of a credit line.

Who Personal Loans for Business Are Right For

These loans are a good fit for startups or businesses without much history—as long as you're willing to be personally responsible for repayment. Since this is a personal loan, your personal credit is on the line. A personal loan for business is also good if you're willing to put your personal assets at risk (which is often required with business loans through a personal guarantee anyway).

Where to Find Personal Business Loans

You can prequalify online for up to $40,000 with LendingClub in just a few minutes by filling out their simple online application. Once you've filled out an application and been approved, you'll receive funding in as little as one week.

7. Equipment Financing

Equipment financing can be used to purchase equipment, vehicles, or machinery. This type of startup business funding can be obtained through equipment dealers, banks, and online providers. Equipment financing can help startups finance equipment and preserve their cash for other needs.

Equipment Financing Costs

The APRs for equipment financing can start as low as 5% but vary based on the type of equipment you're purchasing and where you're borrowing from. For example, equipment dealers might charge you a higher interest rate than banks, but banks may have additional fees that other lenders don't have.

Equipment Financing Terms & Qualifications

Equipment financing can be structured as a loan or as an equipment lease. Though both options work similarly, the largest difference pertains to how the ownership of the equipment works at the end of the financing term. The exact terms and qualifications will vary depending on which equipment financing provider you choose to work with.

The three most common methods for equipment financing are:

Equipment Loans

With an equipment loan, the purchased equipment is owned by you. This type of equipment financing allows you to spread out the payments over one to five years.

Fair Market Value Leases

Fair market value leases are what most people think of when they think about an equipment lease. You make monthly rental payments in exchange for the use of the equipment. At the end of the lease term, you can purchase the equipment at its fair market value, extend the lease, or return the equipment.

$1 Buyout Leases

Under a $1 buyout lease, you make monthly rental payments to use the equipment. At the end of the lease term, you have the option to purchase the equipment for $1. This is a good lease option if you're fairly certain you will want to purchase the equipment at the end of the lease.

Under an equipment leasing agreement, you typically get:

- **Time to use the equipment:** Two to five years
- **Interest rates:** 6% to 16%

If you need help determining which equipment financing option is best for your business, our equipment lease calculator can help you evaluate the costs.

Who Equipment Loans Are Right For

Equipment financing can be a great option for startups where equipment or machinery will play a major role in the early stages of the business, like a trucking company. Financing equipment rather than paying for it all at once helps to keep more cash available for other business expenses.

Since equipment financing is collateralized by the equipment itself, it is typically easier for startups to get approved for than unsecured business loans. Whether you're looking to buy a skid steer or salon chairs, equipment financing might be a good financing fit for your small business.

Where to Find an Equipment Loan

Smarter Finance USA can finance your equipment up to $100,000 and structure it as either a loan or a lease. To qualify, you'll need a credit score of at least 650, no bankruptcies, foreclosures, or repossessions, and a down payment of at least 10%.

8. Borrow From Friends & Family

Family members and friends who are supportive of your business idea may be willing to lend you their personal funds as startup money for your business. Usually, loans from friends and family have very favorable rates and repayment terms, but you have to have access to a network of wealthy individuals. Remember, it's very important to keep business and personal finances separate. This way, you always have a good paper trail.

Friends & Family Loan Costs

In August 2019, the required minimum interest rates were:

- **Short-term loans (less than three years):** 1.45%
- **Long-term loans (up to nine years):** 1.77%

These rates come from the IRS Index of Applicable Federal Rates, which updates on a monthly basis. This index provides the minimum interest rates the IRS expects on all loans. Even if your friend does not want to receive a return on their money, it is important for you to pay interest on what you receive or the IRS may see the money as a gift and tax you for it.

Friends & Family Loan Terms & Qualifications

Friends and family can be a great source for startup funding. While they may be willing to donate the money to your startup, you likely won’t want to pay the gift tax on that amount of money. Instead, you can structure it either as a loan or you can sell them shares of your business.

Unless your friends and family are sophisticated investors, taking money as a loan is generally cleaner than selling them a share of the business for three reasons:

1. **Unwanted business advice:** Even small equity owners might believe that they have the right to have a major say in the strategy and operations of the business. You may not want to be constantly getting business advice from your uncle.
2. **Potentially unrealistic business valuations:** The founders of a new business tend to place unrealistic valuations on the business. To avoid giving friends and family a "bad" deal, a loan that pays a good interest rate might be the fairest approach.
3. **Loan obligations for owners:** Owners of a business may be required to be part of the application (and provide personal guarantees) for any future financing.

Who Friends & Family Loans Are Right For

Borrowing from family and friends may be a good option if you have a network of high net worth individuals and are out of other financing options. Be aware, though, that the lack of documentation in these arrangements could lead to reporting and legal problems, and also could complicate your future fundraising efforts if you don't have formal loan agreements.

Where to Find Family & Friend Loans

If you're going to borrow from family and friends, make sure you document every cash investment or loan. It's also critical to keep your personal and business finances separate so you have a good paper trail and can answer any questions about how you used the funds.

9. Crowdfunding

Crowdfunding is the act of raising small amounts of money from a large number of people, and is a form of equity financing. Crowdfunding investments are usually handled through an online platform. Entrepreneurs looking to crowdfund capital for their business generally give equity or some type of reward in exchange for the funds.

Crowdfunding Costs

The costs associated with crowdfunding typically include a flat fee of 5% to 10% of the total money raised, transaction costs for each contribution, and the costs of offered incentives or rewards (e.g., gifts, shares of business).

Crowdfunding Terms & Qualifications

There are many different ways to crowdfund. Some startups just rely on the strength of their business or campaign, believing that their product will inspire contributors. Others offer rewards or incentives to supporters in exchange for their investments, and others offer equity in their business. Crowdfunding campaigns are almost always hosted through a crowdfunding website.

Reward-based Crowdfunding

The reward-based crowdfunding strategy is very popular, with one of the most popular platforms being Kickstarter. Reward-based crowdfunding works by offering a product or service as a reward to people who contribute a certain amount of money to your business. The funds raised must be for a specific purpose (like manufacturing a new product) and that purpose must be acknowledged at the beginning of the campaign.

Equity-based Crowdfunding

With equity-based crowdfunding, campaign contributors donate and receive shares of your business in return for their contribution. This method of crowdfunding is much more complicated than other crowdfunding methods. It is recommended that you seek legal guidance when using this form of financing, as there are rules and regulations that you must abide by.

The three types of equity crowdfunding are:

1. **Equity I:** This option must be done privately through accredited investors. Entrepreneurs using this type of crowdfunding get access to the fewest number of potential investors, but also have to deal with the least amount of legal regulations.
2. **Equity II:** This option allows you to publicly advertise your crowdfunding opportunity, but you can still only accept money from accredited investors.
3. **Equity III:** This option allows you to publicly advertise your crowdfunding needs and goals, and you can accept funds from just about anyone. This option is heavily regulated by the SEC to protect the interests of inexperienced investors.

The ability to reach potential crowdfunding investors through an equity crowdfunding campaign requires you to abide by many laws and regulations. These laws are in place to protect the interests of the investors because many of them are likely inexperienced with this type of funding and investment.

Who Crowdfunding Is Right For

Reward-based crowdfunding might be for you if you don't have any revenue yet or are launching a new product for the first time. It's also a good option for high-margin products or services. Many entrepreneurs use this type of crowdfunding to initiate presales of new products and to gain exposure.

Equity-based crowdfunding can be good for any business willing to give up equity to receive the capital they need to grow quickly. This form of crowdfunding is more difficult to navigate and it is recommended that you seek legal advice to ensure that you are not violating any SEC rules and regulations.

Where to Find Crowdfunding

There are several crowdfunding platforms available for businesses to present their crowdfunding pitch. Some are rewards-based and others are equity-based. The best crowdfunding site for your campaign will be the one that focuses on the type of crowdfunding you are offering, has a large audience, and affordable fees.

10. Angel Investors

Angel investors are usually wealthy individuals who provide your business funding in exchange for an ownership stake. An angel investor invests as much in you, the business owner, as they do in the business' products or growth opportunity. Angel investors generally give less money than venture capitalists, but they also are less likely to take an active role in your business.

Angel Investors Financing Cost

Accepting angel investment funding will cost you a percentage of the ownership of your business. The exact percentage will be negotiated between you and the investor. In general, you can expect to give up between 5% and 50% of your equity. Some angel investors will only invest capital if they get a majority ownership stake, but they will still fully expect you to operate the business.

Tips for Raising Money From Angel Investors

The most important thing to keep in mind about raising money from angel investors is that it's all about networking. You have to get yourself and your business in front of individuals who have the money and interest to invest.

If possible, structure the investment as a convertible note. A convertible note is a loan that pays interest, but converts into stock under certain conditions, like if venture capitalists invest in the company later.

Two benefits of a convertible note include:

- They are simpler and therefore require less in legal fees than a typical equity investment.
- They eliminate the need to decide how much the company is worth with the angel investor (that will be determined by the valuation of the next investment in the company).

Who Angel Investors Are Right For

If you need a lot of capital to grow your business and are willing to give up equity in exchange for funding, then angel investment funding might be for you. Raising capital from angel investors is not as simple as applying for a loan, but can be a viable way to fund your business without taking on debt.

Where to Find Angel Investors

In many cases, angel investors are people you know who are just as much about investing in you as investing in your idea. However, if you do not have friends with deep pockets, you can also advertise your business on angel investing sites such as AngelList.

11. Venture Capital

Venture capitalists are a group of investors who make up a company or investment firm. Venture capital funding is given debt-free in exchange for a percentage of equity in your business. Venture capital investors are likely to take a hands-on role in your business, and often require a seat on your board of directors. A well-prepared business plan with financial projections is a must when pitching to a venture capital firm.

Venture Capital Costs

The primary cost of venture capital funding is the percentage of the ownership of your business given to the investors, which typically is a non-negotiated offer from the venture capital firm. Many firms will want significant ownership of your business. You can expect to give up at least 10% to 30% of your business to non-controlling venture capital investors.

Venture Capital Terms & Qualifications

Venture capitalists are a group of investors who are looking for a very high rate of return on their money, generally around 10 to 15 times their initial investment within a five-year period. Most new businesses cannot guarantee such a high rate of return, which is why they are often not a good match for venture capital funding.

Venture capital firms are comprised of investors who give them money to invest in startup businesses. Because the firm must answer to their own investors, they are more likely to take an active management role in your business. This ensures they can help guide your business on a path to success, maximizing the opportunity for a quick return on their investment.

Who Venture Capital Is Right For

Like angel investing, you need to be ready to give up equity and have the ability to scale your business quickly if you want to find venture capital investors. Venture capitalists are looking for businesses ready to become a large business worth substantially more than they are today, and that stand out in their industry.

Venture Capitalists vs Angel Investors

Venture Capitalists are a group of investors who provide multi-million dollar funding to small businesses through multiple funding rounds. Angel investors are individuals who are generally wealthy and like to invest in early-stage startups, generally contributing between $25,000 and $1 million per investment.

The major differences between venture capitalists and angel investors are:

- Venture capitalists only invest in businesses where their potential gain exceeds 10 times their initial investment. Angel investors are generally not looking for as great of a rate of return on their investment
- Many angel investors like to help advise business operations, but generally do not take control of making decisions. Venture capitalists are more involved in your business operations, and require significant ownership control in return for the investment.
- The average seed round for venture capital exceeds $5 million, while angel investors typically invest less than $1,000,000.

Where to Find Venture Capital

Raising venture capital is a tough endeavor and isn't right for all companies. While there are websites, like FundingPost, that allow you to present your business to potential investors, often the best way to raise venture capital funding is via mutual introduction. It's much easier to elicit the attention of investors when you have a mutual connection who can pre-pitch the discussion.

12. Government Grants

While not a loan, a government grant is another funding option you should consider when evaluating your startup funding options. Many small businesses may be eligible for government grants. All federal government grants are posted on the grants.gov website, which allows you to search for grants that align with your business type.

Government Grant Costs

Government grants are free, and you'll never be solicited by the government to tell you that you've qualified for a grant for which you haven't applied. Don't be fooled by scams trying to convince you that you need to pay to receive a grant.

Government Grant Terms & Qualifications

The terms and qualifications for government grants are all different. When you review the grants to see if they align with your business, you'll be able to tell what's required to get the grant. Some examples might be the type of business ownership (e.g., minority-owned), the population you're serving (e.g., an underserved area), or the service you provide (e.g., environmental).

Who Government Grants Are Right For

With the variety of government grants available, they can be a great financing opportunity for anyone who meets the requirements of a specific grant. There are set application deadlines for government grants, and you may be required to meet certain objectives (e.g., promise to provide a service for a set amount of time), but grants do not require repayment and are essentially free money for your business.

Where to Find Government Grants

The U.S. government has a site where government grants are listed. On this site, you'll be provided with all the details about the available grants and what it takes to apply. Grants are offered by various federal agencies, and have defined application periods. It can be worthwhile to search the site to see if there are any active grants that align with your business type and objectives when considering your startup funding options.

Chapter 5
File Legal Paperwork

Now it is time to file the necessary legal paperwork. 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.

Register Your Business Entity

Registering the business entity, such as a limited liability company (LLC), S corporation (S-corp), or C corporation (C-corp), protects your personal assets if legal action is taken against the business. Registering the business also makes you look legitimate when a customer or vendor look you up in the state's business registry. Each business entity has advantages and disadvantages depending on the type of business and needs of the business owner. Typically, most startups file as an LLC because of the smaller amount of paperwork.

Business Structure Advantages & Disadvantages

Here is a snapshot of the different business structures you can consider and their key advantages and disadvantages. As you go through the article, we will explain more in detail how these pros and cons come into play.

Business Structure Comparison Table

Business Structure	Advantages	Disadvantages
Sole Proprietorship	Default setup for single owner business which requires little or no paperwork; owner has total control; profits pass through to personal tax return	No separation between business and personal liability; poor vehicle for raising money from investors
General Partnership	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	No separation between business and personal liability; possibility of partner conflicts; poor vehicle for raising money from investors
Limited Partnership	Provides partnership structure but also makes it easier to raise external capital	Limited partners have no control in the management of the business

Limited Liability Company (LLC)	Protection from personal liability; less record-keeping than corp; profits and responsibilities can be easily divided among members	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 (Medicare and Social Security)
C Corporation	Protection from personal liability; easy to raise capital; seen as an established entity	Costly to form; double taxation; extensive paperwork requirements
S Corporation	Protection from personal liability; Profits pass through to owners' personal tax returns	Only some companies eligible; more limits on issuing shares

How to Form Your Business

Paperworks, licences, and business permits are required to operate legally. These also vary based on the type of your business, your location, and the regulations that apply in that state. Below are some general guidelines. You can check the specific paper requirements you need for your business by choosing your state.

Sole Proprietorship

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 setup any other legal entity for the business, then you are automatically a sole proprietorship.

This business structure is ideal for low liability businesses, one-person online businesses, freelancers, small businesses that are just a hobby or part-time job for the owner.

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

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 together, 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

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.

LLCs

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 are ideal 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. LLCs can also get LLC insurance in order 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 which includes percentage of interests, information on profits and losses and member's 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.

C Corporations

A C Corporation 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 officer, director, and shareholder.

S Corporations

S Corporations have an advantage over traditional C Corporation 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. Businesses should have fewer than 100 shareholders to organize as an S Corporation.

Formation requirements for S Corporations are similar to a C Corporation.

Personal Liability for Business Obligations

Having a business of any type exposes you to liability. Your business can be sued or go into debt. An LLC or Corporation provides personal liability protection for business owners (though this does not eliminate your need for general liability insurance). This means the owners can't be held personally liable if the business is sued or has debts.

In contrast, when you have a partnership or sole proprietorship, there isn't a clear line between the owner and the business, so you can be held personally liable if the business is sued or has debts. This means creditors can come after your personal assets, such as your home, car, or savings accounts, to satisfy a business obligation.

Sole Proprietorships

A sole proprietorship, while easy to form and maintain, provides no personal liability protection from the business' debts and legal obligations. This means that creditors of the business can come after your personal assets, such as your car and home, if the business loses a lawsuit or racks up debt. A precaution you can take is to purchase a business liability insurance policy to cushion yourself from risks that may arise due to filed lawsuits and similar claims directly related to your business.

General Partnerships

Like sole proprietorships, general partnerships leave you open to personal liability. However, the scope of liability is even broader with a partnership because every partner is fully liable for the business' debts and obligations and for the actions of other partners. For example, if you own a spa, and your partner negligently injures a client during a massage, you could potentially be on the hook for that. You cannot use your partnership agreement to avoid liability for the acts of your partners.

Limited Partnerships

A limited partnership offers more liability protection than a general partnership because it creates two classes of partners. "General partners" run the business and assume liability for the partnership. "Limited partners" invest in the business but don't participate in its day-to-day management; they are not liable for the partnership's debts and obligations.

LLCs

Members of an LLC are shielded from personal liability for the business' debts and obligations. Exceptions to this rule exist in cases of misconduct. Remember, if you take out a business loan and sign a personal guarantee, then creditors can come after your personal assets if the business stops making loan payments.

Corporations

As with an LLC, if you form a corporation, you cannot be held personally liable for business debts or legal obligations. The corporation is an entity separate from its owners and can be sued or held accountable apart from its owners. However, in cases of misconduct or negligence (e.g. fraudulent financial activity), the court will "pierce the corporate veil" and hold owners, members, or shareholders of a corporation personally liable for the company's legal obligations.

Again, if you personally guarantee a loan that's taken out on behalf of the corporation, and you default on the loan, creditors can come after your personal assets to satisfy the loan.

Taxes

Similar to other aspects of business, your tax situation depends on what kind of business you have and which state you are headquartered in. Sole proprietorships, partnerships, and S Corporations are often call "pass-through entities". This is because the business itself isn't taxed. The profits flow through to the owners' personal tax returns and are taxed at their personal tax rate. In contrast, a C Corporation gets hit with double taxation: once at the company level and again at the owner/shareholder level.

Sole Proprietorships

Sole proprietorships are pretty attractive from a tax standpoint. The business income and losses pass through to and are reported on your personal income tax return. There is no separate business tax return. This is a plus because business losses can offset personal income from other sources, reducing your overall tax burden. You pay a similar tax rate to what you would if the money came from an employer, but using the Schedule C tax form to pay for self-employment taxes.

General Partnerships

General partnerships are similar to sole proprietorships for tax purposes. They are "pass-through" entities, so the partnership's income and expenses are reported on each partner's personal income tax return. Each partner pays taxes on his or her share of the profits as defined in the partnership agreement.

General partners must also pay self-employment taxes.

Limited Partnerships

Limited partnerships are taxed similarly to general partnerships, except limited partners do not have to pay a self-employment tax because they are not involved in running the business. In addition, some states have an annual tax on limited partnerships, but this generally isn't very high (California's annual tax, one of the highest, is $800).

LLCs

After setting up an LLC, if no election is made with the IRS, then income from the LLC will pass through to the owners in the same manner as it does with a sole proprietorship or general partnership.

However, LLCs can also elect to be taxed as a C Corp or an S Corp on their federal tax return. Many LLCs elect S Corp tax status so that the business income passes through to their personal tax returns.

Normally, LLC owners must pay a 15.3 % self employment tax on all of the business income (this is how self-employed people contribute to medicare and social security). If you elect S Corp status, you can give yourself a reasonable salary from the business income and treat the remaining income as unearned distributions. Distributions are not subject to the self-employment tax, so this will lower your tax bill.

If you're an LLC and want to change your federal tax status, you'll need to fill out the correct paperwork and submit it to the IRS.

C Corporations

C Corporations are not as tax friendly as sole proprietorships and partnerships. In fact, a frequent complaint about C corporations is that they subject you to "double taxation." Learn more about double taxation.

Income from a C Corporation is first taxed at the current corporate tax rate of up to 35% (see current corporate tax rates). Income that is paid out to owners in the form of salary is then taxed again at the recipient's personal income tax rate. Income that is paid out as dividends to shareholders is also taxed at the current dividend rate (15% for most taxpayers).

S Corporations

The advantage of S Corporations from a tax standpoint is that they avoid double taxation. The profits from the business pass through to the individual owners' tax returns. There is no need to file a corporate tax return. To be eligible as an S Corp, you must have no more than 100 shareholders and one class of stock, among others.

Record Keeping Requirements

Running a business entails a lot of paperwork and recordkeeping requirements. In order to stay compliant with state and federal law, it is important to be aware of what documents are needed and the cost, time, and frequency of filing. Sole proprietorships and partnerships require the least amount of paperwork and legwork. Corporations require the most.

Sole Proprietorships

A sole proprietorship has very few ongoing requirements. You may have to renew local permits or pass local inspections. Trade name filings are usually good for 5 years.

Although we recommend that you separate business and personal assets, this isn't a legal requirement for sole proprietorships, so accounting can also be simpler for sole proprietorships.

Partnerships

Like sole proprietorships, partnerships also carry few if any ongoing formalities, other than renewing local licenses and trade name filings. If your partnership agreement requires certain formalities to keep the partnership active, be sure to do those.

LLCs

The ongoing requirements for an LLC are less onerous than corporate formalities. You're not legally required to hold member meetings or issue membership shares, although it may be a good idea to do so. You must file a statement or report with the state every year. If your LLC operating agreement requires other formalities to maintain the business, be sure to do those as well.

Corporations

Of all the different business types, corporations require the most paperwork. Even single-person corporations have to comply.

In most states, corporations must hold annual board meetings and shareholder meetings. Most decisions in running the corporation must be made by a formal vote and documented in meeting minutes. You should keep meeting minutes, as well as other documents such as stock ledgers, at your business location. In addition, virtually all states require corporations to submit an annual report. Meeting these requirements can take a significant amount of time if you're not familiar with your state's corporate law. Many corporations hire an attorney or accountant to take care of the paperwork and compliance matters.

Raising Money

If you plan to raise money for your business, then you should choose a business structure that facilitates investment. The best business structure for raising money is a corporation because you have the ability to raise funds through sale of stock. Investors and banks are less likely to put money in or loan money to a sole proprietorship or general partnership.

Sole Proprietorships

In general, a sole proprietorship is not ideal for raising money. Since business successes and failures are tied to one owner, sole proprietorships are riskier investment opportunities, and investors tend to shy away from them. If you want to remain the sole owner, you cannot incentivize investors by selling a stake in the business.

Banks also hesitate to provide loans to sole proprietorships because of the perceived continuity risks of a one-person shop (e.g. what happens if the owner becomes ill?). Moreover, since a sole proprietorship is not an entity apart from the owner, you cannot borrow money under the business' name. You must rely on personal funds or take out a consumer loan.

General Partnerships

General partnerships are also not well suited for raising money. You cannot attract an investor by selling a stake in the partnership because that would make the investor a general partner. He or she would have to assume liability for the partnership, even if they don't participate it its daily operation. Most investors don't want to take on that kind of liability.

Limited Partnerships

Limited partnerships find it easier to raise money because the owners can sell a stake in the partnership to investors. Investors can serve as "silent" limited partners without assuming liability for the business or partaking in daily business operations. Limited partners generally can't lose more money than they invest in the business.

LLCs

It's relatively easy to raise money as an LLC because you can sell membership interests to investors. However, investors generally prefer stock to LLC membership because the latter could increase their tax bill. This could happen when the business has an active trade in other states which could subject them to pay taxes in there. Also, investors like corporations because a public offering of stock can be their "big pay off." An LLC can't go public; they are privately held businesses, so their return on investment potential is lower.

Corporations

It is easiest for a corporation to raise money because it can issue stock. Investors can get a piece of the pie without facing liability for the corporation's mistakes. C Corporations are better situated for raising money than S Corporations because C Corporations allow multiple classes of stock and have no limit on the number of shareholders (S Corporations are limited to to 100 shareholders).

C Corporations are required if you're planning on investing your retirement money in your own business, a process called a rollover for business startups.

Banks are more likely to lend to corporations than to sole proprietorships or partnerships because multiple layers of corporate formalities spread out decision making responsibility and reduce risk.

Flexibility

While most businesses stick to their chosen business structure, there are times when various factors would require you to change into a new one that would be more beneficial for your business. This is something you should take into consideration, especially when your business is rapidly growing. It can be expensive and time consuming to switch business structures, so try to choose a structure now that can adapt with your business in the future.

Sole Proprietorships

Sole proprietorships are quite flexible. You have complete control over management decisions without having to answer to partners, directors, or shareholders. You can work as much or as little as you want. In addition, you can easily sell a sole proprietorship if you decide that you no longer want to run the business.

Partnerships

Partnerships can be flexible, but just how much depends on your partnership agreement. In the absence of an agreement, one partner can freely make decisions on behalf of other partners without their consent. However, partnerships can also be dissolved easily. If the partnership agreement doesn't define the rules for dissolution, a partnership can be dissolved when one partner gives notice that he or she wants to end the business.

LLCs

Many small businesses choose to operate as LLCs precisely because of the flexibility that they offer. The operating agreement allows you to specify how much authority different members have in the management of the business.

An LLC can be managed by members or by elected managers. These are managers elected by members or investors to take charge of running the company. If an LLC is manager-managed, the members don't have direct control in the company's governance.

You can also choose for your LLC to be taxed as a partnership or a corporation. In many cases, choosing to be taxed as an S Corp gives you the benefits of operational flexibility and a lower tax burden. You can either choose to observe corporate formalities or ignore them.

Corporations

Because of all the formalities that corporations must adhere to, they are not very flexible. As mentioned above, most management decisions must be approved by the board in a formal meeting. Even closing down a corporation requires a formal vote, and dissolution forms and/or tax clearances must be filed with the state. A one-person corporation is more flexible since one person serves as officer, shareholder, and director.

Chapter 6
Startup Insurance

Business insurance for startups refers to several potential insurance policies that protect a startup's assets, investors' interests, and employees. At a minimum, startups need general liability and business property but may also need policies such as workers' compensation, professional liability, and key man insurance. A business owner's policy (BOP) combines these with prices starting at $500 annually.

Startup Insurance Providers

A startup business needs a commercial insurance provider that makes insurance both easy to understand and easy to buy. New business owners may not have the background to understand what different policies do and how each financially protects their assets. Finding a carrier that can provide this information can be a huge benefit to a startup.

Additionally, business insurance costs for startups vary widely. One key differentiator is the industry. Different industries have different risk profiles, so national insurance carriers vary on the industries they prefer to insure. But other factors impact cost as well, including property ownership, number of employees, and industry experience. Consider the price and which provider is best for your company.

How Small Business Insurance Works for Startups

A startup has many risks inherent in the formation of a new entity. One of the most significant financial risks is having a loss or claim that the business doesn't have the money to pay for or defend against. Startup business insurance policies pay for claims that might otherwise cause the business to shut its doors before it had a chance to succeed.

Small business insurance for startups pays claims that include:

- Slip-and-fall accidents
- Fire loss or theft of office equipment, supplies, and inventory
- Lawsuits for defamation of character
- Lost revenues if the business is closed during a covered claim
- Professional errors in workmanship or service
- Employees injuries when hurt at work

Certain types of businesses have more exposure to certain types of risks, although the most common are third-party injuries with slip-and-fall accidents or business property loss coupled with closing the doors to repair or rebuild.

Who Needs Startup Insurance?

Not having coverage puts your business and, sometimes, your personal assets, at risk. According to an Insurance Information Institute press release, 40% of small businesses do not reopen after a disaster and another 25% close after a year. Even without the threat of natural disasters, the cost of customer lawsuits makes insurance a good idea.

As a result, startups need business insurance if they:

- Work with customers or clients
- Own business property
- Rent business equipment
- Advertise their business
- Hire employees
- Provide professional advice
- Want to protect their personal assets

Additionally, many startups operate as sole proprietors in the initial phase and often for quite some time. While this is the easiest business entity to form, it doesn't separate business and personal assets. As a result, lawsuits that go against your business can drain your personal savings account.

Forming a limited liability company (LLC) can reduce the risk to your personal savings but not your business assets. Lawsuits over customer injuries and negligence can still hurt your startup and make business insurance a smart investment. Learn more in our article on LLC Insurance.

8 Types of Business Insurance for Startups

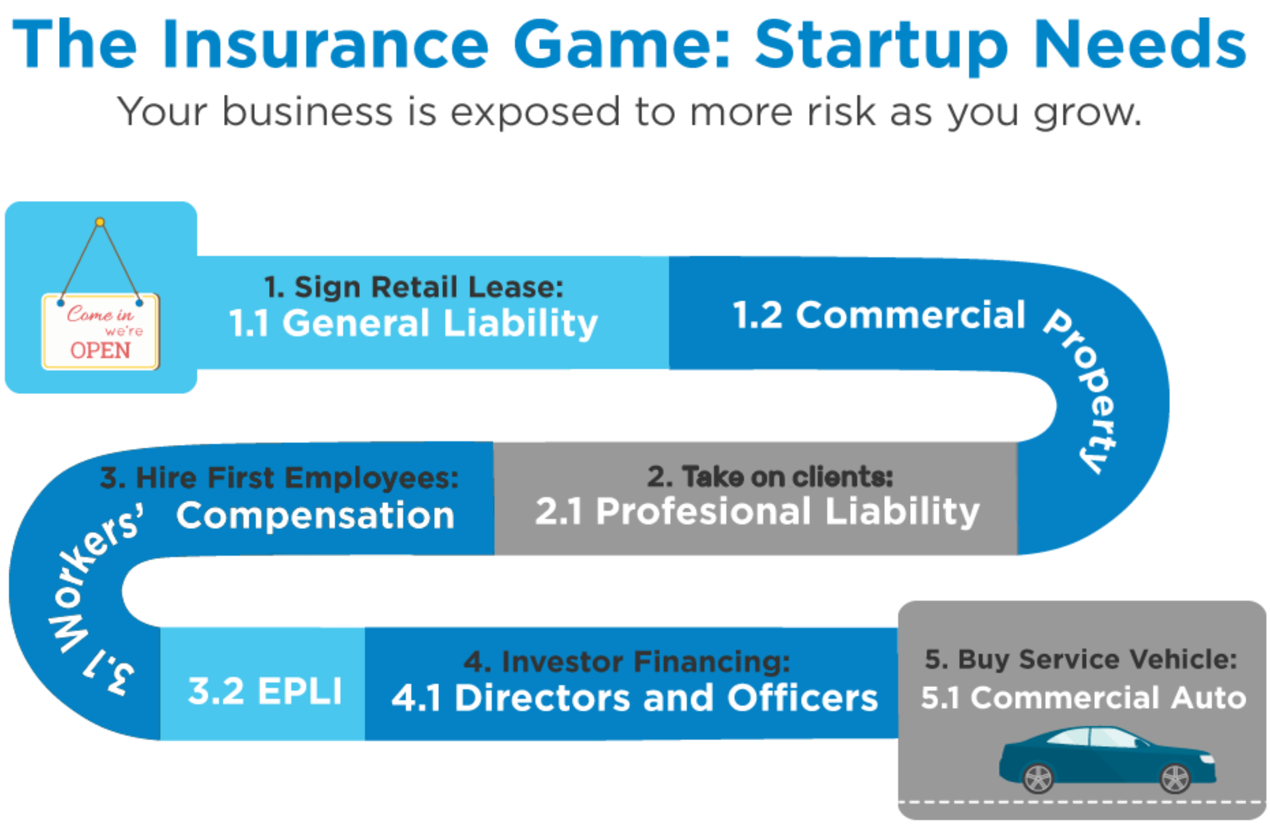
General liability and property insurance are fundamental business policies. However, your business may need other coverage. For example, many startups get workers' compensation once they start hiring staff. Some also buy cyber liability if they are responsible for client data or networks. The insurance your startup needs depends on what you do and how you do it.

Most Common Types of Small Business Insurance for Startups

Type of Insurance	What It Covers
General Liability Insurance	Third-party lawsuits over property damage, bodily injury, and advertising injury
Commercial Property Insurance	Damage to business-owned property, including equipment, office space, furniture, and fixtures
Professional Liability Insurance	Client's allegations of negligence and errors in professional work
Cyber Liability Insurance	Costs associated with data breaches, including fines, court costs, and civil awards
Commercial Auto Insurance	Costs associated with car accidents and other events for business-owned vehicles
Workers' Compensation Insurance	Employees' medical bills and lost wages stemming from work-related illnesses or injuries

Employment Practices Liability Insurance	Costs associated with lawsuits involving the hiring process and employer-employee relationships
Key Person Insurance	Death or disability of designated key employee

There's no one policy for startups. Instead, you need business insurance for the risks your startup faces, like lawsuits and property damage. A different policy covers each risk, so you want to know which ones are a problem for your business so you can get the appropriate coverage.



Consider covering your risks with one or more of these eight startup insurance policies.

1. General Liability Insurance for Startups

General liability insurance covers third-party claims of bodily injury, property damage, and advertising injury. Third parties are essentially people who aren't employees and can include anyone who visits your business.

Here are some examples of how general liability covers your startup:

- **Bodily injury:** If a delivery person slips on your wet floor, general liability covers his or her medical bills and your legal fees if they sue
- **Property damage:** If a fire in your workspace causes property damage for the business owner next door, general liability covers the repairs
- **Advertising injury:** If a business owner claims you used their copyrighted material, general liability covers your legal fees when they sue

Most general liability insurance also covers product liability, so businesses that sell, manufacture, or distribute consumer goods also need coverage. However, it doesn't include liabilities that stem from your position as an employer or your professional services. You need other types of insurance for those liabilities.

2. Commercial Property Insurance for Startups

Commercial property insurance covers the value of property owned by your business, including fixtures, furniture, equipment, and physical location. When a covered event causes damage, your insurer pays the insured amount so you can make repairs.

Most commercial property policies cover damage caused by:

- Fire
- Windstorm
- Hail
- Vandalism
- Theft

Startups with minimal property exposures like freelancers may forgo this coverage. However, before you decide you can skip property insurance, you want to weigh the risk of catastrophe and your ability to recover. If you can't operate without certain equipment, it may make sense to insure it. Please note that flood, hurricane, and earthquake are often excluded and need separate business insurance policies if you want coverage.

3. Professional Liability Insurance for Startups

Professional liability insurance, sometimes called errors and omissions (E&O) insurance, covers your professional work. If a client accuses you of making a mistake that costs them money, professional liability pays for your defense. It may also cover claims that you failed to meet contractual obligations.

E & O is for individuals who make a living off of specialized education and expertise, including:

- Accountants
- Architects
- Engineers
- Medical professionals
- Business consultants
- Information technology professionals
- Financial advisors
- Physical trainers
- Artisan contractors

Some business owners, like restaurateurs, retailers, and cleaners, typically don't need professional liability. However, insurers have designed professional liability products geared to other industries, such as personal trainers and massage therapists.

4. Cyber Liability Insurance for Startups

Cyber liability insurance covers your costs after a data breach. There are two types of cyber coverage: first person and third person. Startups need first-person cyber liability if they store customer data like credit card numbers, medical information, or email addresses. Third-person cyber protects businesses that are responsible for client networks.

Cyber insurance typically covers:

- Forensic services to discover the source of the breach
- Customer notification and credit monitoring
- Public relations and marketing services to restore your good name
- Ransomware costs
- Legal fees
- Court-ordered judgments and settlements

Startups that don't store and don't have access to client data probably don't need cyber liability. For instance, if your business charges customers and never keeps the credit card number, then you may not need cyber insurance.

5. Commercial Auto Insurance for Startups

Commercial auto insurance covers business-owned vehicles. It's typically purchased as a standalone policy. However, you may be able to add it as a rider to your personal auto insurance if you personally own the car and it is used for both purposes. An agent can help you decide if that's the right option for your business.

As with personal auto, commercial auto comes with a variety of coverage options, such as:

- **Liability:** For other people's property damage and injuries
- **Medical payments:** For injuries you and your non-employee passengers sustain
- **Collision:** For damage to your vehicle caused by a car accident
- **Uninsured & underinsured motorist:** For when the other driver is responsible for damage but cannot pay

Most states require business owners to at least carry liability coverage for their business-owned cars and trucks. However, adding other coverage like collision and uninsured and underinsured motorists provides greater protection. You may also need commercial auto if you drive your personal vehicle for work because most personal auto insurance excludes business driving.

6. Workers' Compensation Insurance

Workers' compensation insurance is a state-mandated coverage that pays for employees' work-related illnesses and injuries. Policies typically cover the injured employee's lost wages and medical bills or pay death benefits to eligible survivors.

Every state has its requirements for workers' compensation. Some mandate coverage the moment you hire a single employee. Others require it only as your startup grows. Texas doesn't require it at all. You can find out your state's workers' compensation laws online. Get the contact information for the correct government department from the United States Department of Labor.

7. Employment Practices Liability Insurance

Employment practice liability insurance (EPLI) covers your interactions with current and former employees and job candidates. It's triggered by claims you failed to treat employees or potential hires fairly.

Events covered by EPLI include:

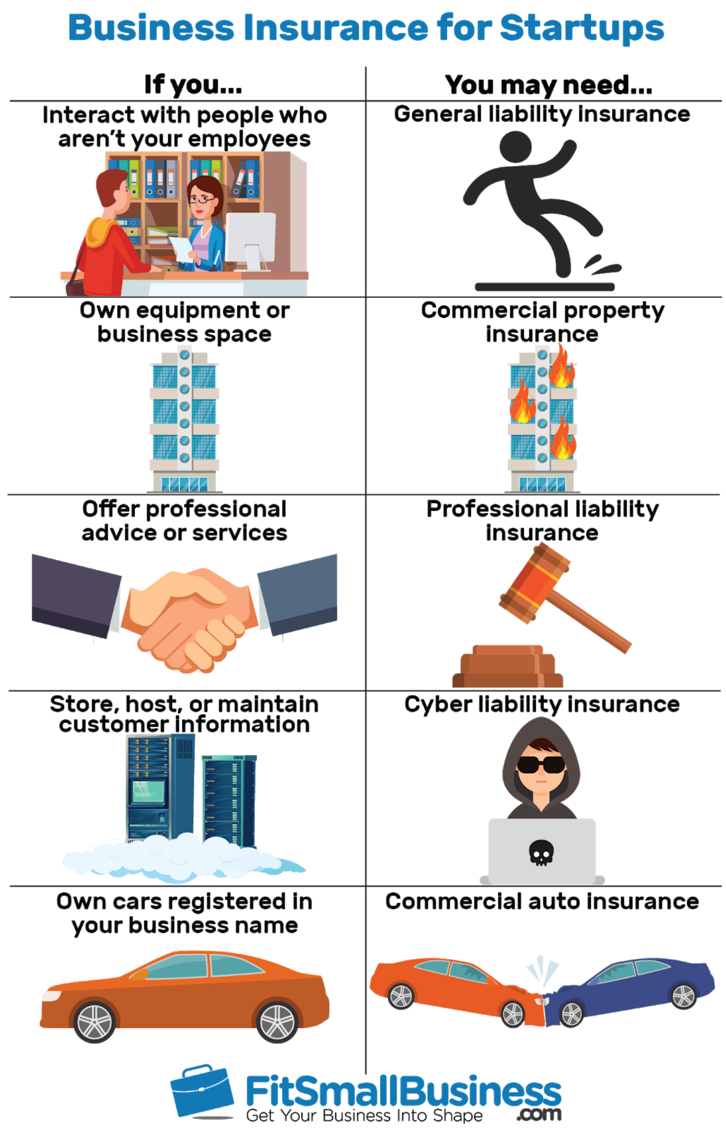
- Sexual harassment
- Wrongful termination
- Slander and libel
- Mismanagement of benefits
- Breach of employment contract

Startups only need EPLI if they are planning to hire staff. This particular insurance policy becomes more important as management teams grow because it covers the exposure to employment and management risks.

8. Key Person Insurance

Key person insurance, sometimes referred to as key man insurance, is a life or disability insurance policy startups may want to take out on an employee, founder, or owner who is essential to the business's success. If the key person dies or is disabled and can no longer work, the insurer pays the business a cash benefit. This helps the business regroup after a significant loss.

The most common type of key person insurance is a term life insurance policy. This means you purchase the policy for a certain time frame, usually 10 to 30 years. The coverage only pays if the insured dies or suffers a disability while the policy is in force. Whole life, variable life, and disability insurance policies are used in specific business circumstances.



Business Insurance Costs for Startups

A fundamental insurance policy like general liability insurance can cost as much as $600/year. Property insurance adds additional costs, depending partly on the value of your biz-owned items. However, many carriers bundle these coverages in BOPs so they can offer them at a lower rate. BOPs typically cost $500 to $3,500 per year.

Small Business Insurance Costs & Deductibles by Policy

Insurance Type	Coverage Amount	Annual Premium Cost	Common Deductibles
General Liability Insurance	$1 million/$2 million	$400-$1,000	$0-$1,000*
Business Owner's Property	$1 million/$2 million GL $5,000-$10,000 property	$500-$3,500	$500-$1,000
Professional Liability Insurance	$500,000/$1 million to $2 million/$2 million	$1,000-$3,000	$1,000-$3,000
Cyber Insurance	$1 million	$1,000-$3,000	$0-$1,000
Key Person Life Insurance	$500,000	$300-$5,000	$0
Commercial Auto	$250,000/$500,000	$1,200-$4,000	$500-$1,000

**General liability doesn't usually have a deductible, but insurers may require them for startups in hazardous industries.*

Professional liability insurance tends to be the most expensive coverage for startups that need it. The lower premium represents $500,000 occurrence and $1 million aggregate coverage. The more professional coverage you need, the higher your premium. Startups that need $5 million occurrence/$5 million in aggregate coverage can pay up to $8,000 a year. Requesting a higher deductible can reduce that.

Businesses where customers come to a physical location like restaurants and retailers usually have higher general liability costs. General liability often doesn't require a deductible, but you can opt for one to keep your overall premium down. Commercial property always has a deductible but is usually the least expensive coverage for startups.

How to Get Inexpensive Startup Insurance

Business insurance is a smart investment for startups, but many entrepreneurs skip it because the costs seem to outweigh the benefits. However, you can keep your rates down by shopping around, bundling policies, raising your deductible, and managing your risk.

Here are some examples of how to get cheap startup insurance:

- **Compare rates:** Every insurer has its own system for determining premiums, so some can offer cheaper insurance for your specific risk; working with a broker is a good way to get multiple quotes with one application
- **Bundle policies:** Insurers want your business, so they usually give discounts for combining key coverage; ask your insurance agent about a BOP; most BOPs bundle general liability and commercial property, but some add in additional coverage
- **Raise your deductible:** Raising your deductible lowers your premium because it reduces your insurer's share; before you do this, however, you want to think about how much cash you typically have on hand
- **Lowering your limits:** Choosing a lower limit reduces your overall costs; however, remember that lower limits mean less insurance reducing protection plus some businesses or landlords that you work with may require certain limits in their contracts
- **Manage your risk:** Your claims history is one of the factors insurers consider when determining your premium; many insurers offer discounts for having burglar alarms, sprinkler systems, and other safety features

Chapter 7
Build Your Business Team

You don't have to build your business alone. There are local experts who can assist you on your journey. Even though you are an expert in your industry, turn to others for help and guidance. Local professionals like attorneys, accounts, and bankers can help you make informed business decisions. Employees may be needed to create products or talk with customers. Plus, there is local no-cost assistance for small business owners provided by the government.

Hire Local Professionals

Local professionals are attorneys, bankers, insurance agents, and other professionals who have specific expertise that you may not have. Many business owners have relationships with a local business attorney, accountant, banker, and insurance agent. You can go to these experts when you have questions about how to start your own business.

A common task that business owners choose to do themselves instead of hiring a professional is accounting. It's important to have a firm grasp of what revenue is coming into the business and where it is going. Use the online accounting software QuickBooks to document your income and expenses.

Hire Employees

Not all startups need to hire employees. A common saying to determine if you need to hire employees is if “you run out of you,” which means you cannot keep up with customer demand. When hiring, you want to make sure you’re complying with federal employment and labor laws. If you’re unsure about how to follow these laws, contact your local business attorney or human resources consultant.

Connect With Local Resource Providers

There are local government-funded resources that provide no-cost consulting and counseling to business owners. The SBDC is a government program that provides low-cost training and no-cost consulting to small business owners. There are more than 1,000 SBDC offices throughout the U.S. The Service Corps of Retired Executives (SCORE) Association is also a government-funded program that provides no-cost counseling to small business owners. Employees in the SBDC and SCORE offices are previous business owners who can provide direction for business challenges.

Network With Local Business Owners

In many industries, there are local networking groups. The members help each other grow their businesses through referrals. For example, if your business is in the wedding industry, you may find a group of local wedding vendors, like wedding planners, florists, and DJs that have a monthly networking meeting. A resource to find local networking events for your industry is Meetup.com.

Chapter 8
Market Your Business

The last step in starting a business is making sure your ideal customers know about your business. Marketing your business can be done with traditional strategies, or online. You also want to make sure the local media knows about your newly-opened business.

Traditional Marketing

Traditional marketing is a necessity if you are opening a brick-and-mortar location or are doing local networking. This type of marketing includes business cards, flyers, and signage. When creating different traditional marketing materials, make sure your branding is consistent. Colors, fonts, and words used to describe the business need to be consistent across all marketing. Inconsistent branding will make your business look unprofessional.

If you are meeting with customers in person, you want to create a card directing customers where to leave you an online review. This is overlooked by many business owners but is recommended because of your potential customers looking for your products or services online. Which review website to direct them to depends on your type of business. Google My Business, discussed below, is typically the best online directory to start collecting customer reviews.

Online Marketing

Online marketing is evolving constantly, and it’s difficult to keep up with all the new opportunities. A great online presence can help a business get in front of their ideal customers online when they are searching for what your business provides. Many business owners struggle to keep up with online marketing trends.

Consider these channels when determining how to start your own business:

- Website: A website is a resource you use to promote your business online. To create a website, you need a domain name, hosting, and a website platform.
- Google My Business: Google gives every business looking for local customers a free business listing. You want to create your listing before your business opens so that customers can start leaving you Google reviews right when your business opens.
- Online directories: Almost all industries now have online directories like Yelp, TripAdvisor, and Yellow Pages. You want to create your business’s listing on directories important to your industry so potential customers can find your business online.
- Social media: The type of social media accounts to create depends on the industry you are in. Social media is not a requirement to have a successful business but, when used correctly, it can be an asset.
- Email marketing: It’s important to start collecting email addresses from customers on day one of starting your business. By sending high-quality and valuable emails to your customers, you keep your business top-of-mind.

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.

Chapter 9

Frequently Asked Questions About Starting a Business

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

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 scare. 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 is 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 are 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.

Appendix

How to Start Your Own Business

Come Up With a Business Idea

Look Inward for a Business Idea

Look Toward Others for a Business Idea

Follow the Trends

Network With Peers

Select Your Business Idea

Be Honest With Yourself

Identifying Opportunities