

**Emporia State University
Kansas Small Business Development Center
Business Start-Up Guide**

STARTING A SMALL BUSINESS

Although the exact procedure will vary from business to business, there are a number of steps in starting a business that remain constant regardless of the type of business you are interested in. The decision to start a business can come from many sources: an idea for a new product or service, seeing a business be successful in another location, recognizing a need in the community, or knowing that you can do it better than the boss does. Regardless of what brought you to this point, you're here---and because you're serious, it's time to get down to details.

BUSINESS PLANNING

As a starting point, the business plan represents the first opportunity to gather your ideas in an organized fashion and begin to look at them in a more concrete way. We have enclosed a sample outline which contains both a format and a series of questions which should be answered in the plan. While there is no one right way to write a business plan, some issues that need to be addressed are:

- Who will operate the business?
- How will the business be organized? (sole proprietorship, partnership, LLC, or corporation)
- What is the entrepreneur's experience in business and in the specific industry of the proposed business?
- How much money will the project need?
- Where is the money going to come from?
- What product or service is the business going to sell?
- Who are your competitors? What is good and bad about them?
- What makes your business special and different from other businesses?
- Why is this concept reasonable?

Again, there is no one "right" or "textbook" format to a business plan. Above all things, the plan is your opportunity to sell yourself and your idea---to potential investors, to potential financing sources, and to yourself. Organize and write the plan in a professional way. Answer all the questions that need to be answered in a thoughtful, intelligent way. However, do not be afraid to let the plan show your personality and the personality of the business---the image that you want to create once the business is started.

CASH FLOW PROJECTIONS

Once the written plan is done, you will have a better idea of where you stand. The next step in the process is preparing detailed cash flow projections. This entails estimating total sales, cost of sales, and specific expenses like wages, insurance, and taxes among

others. Realize what you are doing---estimating---making the best educated guess possible under the circumstances. Some estimates will be better than others. The key is to get as many factors as exact as possible (e.g., quotes from an insurance agent) and be as close as possible with the rest.

In many ways, this is the most difficult part of the process, for two reasons. First, it takes a special breed of person to enjoy or even tolerate the number crunching that is required. Second, it may be difficult to know with any certainty if the projections are good. This is why it may be helpful for you to enlist some assistance. We at the KSBDC are always happy to lend a hand at this or any part of the business plan process.

Usually projections are prepared for three years from the business' start date. Factors such as inflation, changes in number of customers, population changes, and cost increases are considered to project the future of the business with as much reality as possible. Because of the long-term nature of financing, this long-range thinking is valuable to potential investors and lenders as well as to the entrepreneur.

Do not be surprised if you present your plan and projections to your lender and the loan officer questions you about them in some detail. This is not necessarily a negative sign or an attempt to belittle your plan. This is their way of making sure you have really thought the plan through and that the projections are reasonable. When it's time to go to the bank, it is best to follow the lesson of the Boy Scouts: be prepared. The path of discovery walked in the business planning process will prepare you well.

OTHER PLANNING DETAILS

In nearly all cases, a lender will want to know about your personal financial situation. This is best shown by preparing a personal financial statement for each of the owners. This is similar to an accounting balance sheet---stating what you own and what you owe. Additionally, information about personal income and expenses should be included to help the loan officer understand your situation better.

It is also a good idea to take a look at your personal credit report. The loan officer certainly will---and you want to be ready to explain any past problems. Also, while not frequent, mistakes have been known to happen. You definitely want to take the steps needed to correct your credit report if someone else's bad information found its way to your report.

Taking stock of your financial situation will be good for you too---telling you exactly where you stand and how your proposed business needs to affect your life. (If you were married with two children and a \$100,000 mortgage, could you devote your life to a business that would realistically pay you \$1,000 a month for the first three years?) These are lifestyle choices and the answers are not the same for everyone. When planning a business, it is important to stress these famous words: **KNOW THYSELF.**

EQUITY

If you own some business-related equipment (free and clear). You can use the fair market value of these items to improve your equity position in the business.

What is “equity position?” A business loan is like any other loan in that lenders require that the owner have a down payment. Your equity position is the down payment on your business---the value of everything you put into the business (cash, equipment, tools, other assets). Lenders generally like to see an equity position of 20-25% of the total project cost (this will vary based on the bank’s lending patterns and your situation).

To find your equity position percentage, follow these steps:

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|--|----------|
| A. Cash contributed by the owner | \$ _____ |
| B. Other assets contributed by the owner (fair market value) | \$ _____ |
| C. Borrowed money | \$ _____ |
| D. Total project cost (<u>A+B+C</u>) | \$ _____ |

$$\text{Equity position percentage} = \frac{A + B}{D}$$

CONCLUDING COMMENTS

The world of small business is exciting and challenging. This decision to become a business owner is one that will change your life. It is critical that you are informed in making that decision---and the business planning process is a big part of becoming informed. It will force you to ask questions you hadn’t thought of. It will provide answers to questions you’ve had.

We don’t expect that this guide will provide all the answers to the many questions you have. It would be impossible to do so in this short space. The ESU Kansas Small Business Development Center is here to help you through this process and to try to answer those nagging questions. Don’t hesitate to call on us for help.