

CHECKLIST FOR STARTING A BUSINESS

Overview of major steps critical to planning and starting a business

People start and operate businesses for many reasons. Regardless of why you are interested in starting and operating your own business, you want to be successful.

The act of forming a business is not particularly difficult. However, planning for and developing a profitable, growing business is a complex, ongoing process. Adequate planning, attention to details, and realistic expectations are critical to your success, especially if the business grows rapidly.

STEP 1: Examine your motivation for business ownership

Although hundreds of businesses are started each day, owning and operating a business is not for everyone. Many businesses are started without a realistic evaluation of personal objectives, individual talents, and personality traits. If you open a business without an honest evaluation of your motives, you may find yourself unhappy and disillusioned.

STEP 2: Choose a business suitable for you

A question often asked is "What kind of business should I start?" No one can answer this question for you. Your choice is a highly personal matter. Businesses of all types are both successful and unsuccessful. A particular business generally succeeds or fails based on the customer market, the skills of the owner(s) and workers, and the quality of the products; not because of the type of business. Personal Areas To Consider When Choosing Your Business: your experience, your talents and your interests.

STEP 3: Evaluate the feasibility of your chosen business

At this point, you have examined your personal motivation for business ownership and chosen an interesting possibility. Most likely, you are anxious to run to the bank, get a loan, and open your business. STOP!

A common mistake made by many individuals is to blindly pursue business ownership without adequately evaluating whether their idea is actually feasible. Before you go any further, you need to examine your idea for feasibility. A good feasibility evaluation involves a detailed examination of financial, personal, and market realities

STEP 4: Consider start-up requirements and common pitfalls

Become aware of the legal forms of organization you may choose. Learn which permits, licenses, rules and regulations are applicable to your proposed business. Determine the types of records you will have to keep for local, state, and federal tax purposes. Determine the types of recordkeeping and control systems you will need for internal management purposes. Determine the steps you must take to establish a legal

business entity. Consider your professional needs, such as marketing and advertising, legal, accounting and tax, insurance, and banking.

STEP 5: Develop your business plan

Many people talk about a business plan when they really mean a financing request. If you are seeking significant private investment, the two documents will require much of the same information. However, if you are going to seek traditional commercial financing, which is much more likely, the financing request will usually be less comprehensive.

- A Business Plan Is: The strategic plan for the development and operation of your business for your internal management use.
- A Financing Request Is: A document you prepare for raising capital based on information in your business plan.
- A Business Plan Is a Management Tool You Should: Use to help you think through the development of your business and ensure that you have considered options and anticipated potential difficulties; Use to evaluate your progress against your planned business goals; Update and modify for operational and strategic planning purposes as the business environment changes; Use in the development of financing proposals.

STEP 6: Develop your financing request and obtain initial capital

In reaching this step, you have determined you have enough personal money to cover a "down payment" or the "full cost" of starting your business. If should do an honest analysis of your financial position, without doing so you could invest a lot of your personal time only to learn that you are not going to be able to borrow the money necessary to start your business.

Facts you should know about borrowing money to finance your business:

- Most businesses are started with money from personal savings, family, or friends.
- Only approximately 20% of new business owners start their business with money borrowed from commercial lenders.
- No conventional lending source, private or governmental, will make a commercial loan for 100% of the funds you need to start your business.
- As a rule of thumb, your personal investment will need to approximately 25% the total start-up costs of your business. If you have less than this, your chances of obtaining outside financing are not as good.
- Your "sweat equity" will not be considered relevant by the lender. As a general rule of thumb, you will need \$1.50 in quality collateral for every \$1 you want to borrow.

Although you may think your collateral's true worth is its appraised value or its original cost, its worth to the lender will be far less than either of these values. Your financial projections must show that any loan proceeds plus interest and other business expenses can be repaid from business revenues. The assumptions that you base your financial projections on will be examined carefully for reasonability. Simply having adequate collateral will not override the business's inability to generate positive cash flow when the lending decision is being made.

Acquiring a loan will be more involved and time-consuming than you think. In the best of circumstances, it will normally take 60-90 days to close a loan. If you have a complex situation or if the lender needs additional information for any reason, the time span may be significantly longer.

Caution: Do not assume your loan request will be approved. Be realistic. Lenders are in the business of making money, not buying ideas.

STEP 7: Finalize all start-up requirements

You have completed your planning and have acquired the funding needed to start your business. Now is the time to sign contracts and lease agreements, pay various licenses, permits, and fees, obtain utility services and complete all other requirements.