

ENTREPRENEUR GUIDEBOOK

ROANOKE REGIONAL SMALL BUSINESS DEVELOPMENT CENTER

Serving the Roanoke and New River Valleys and Alleghany Highlands

2019 Edition

10

EASY STEPS TO
START YOUR
NEW BUSINESS
*including worksheets
and cheat sheets*

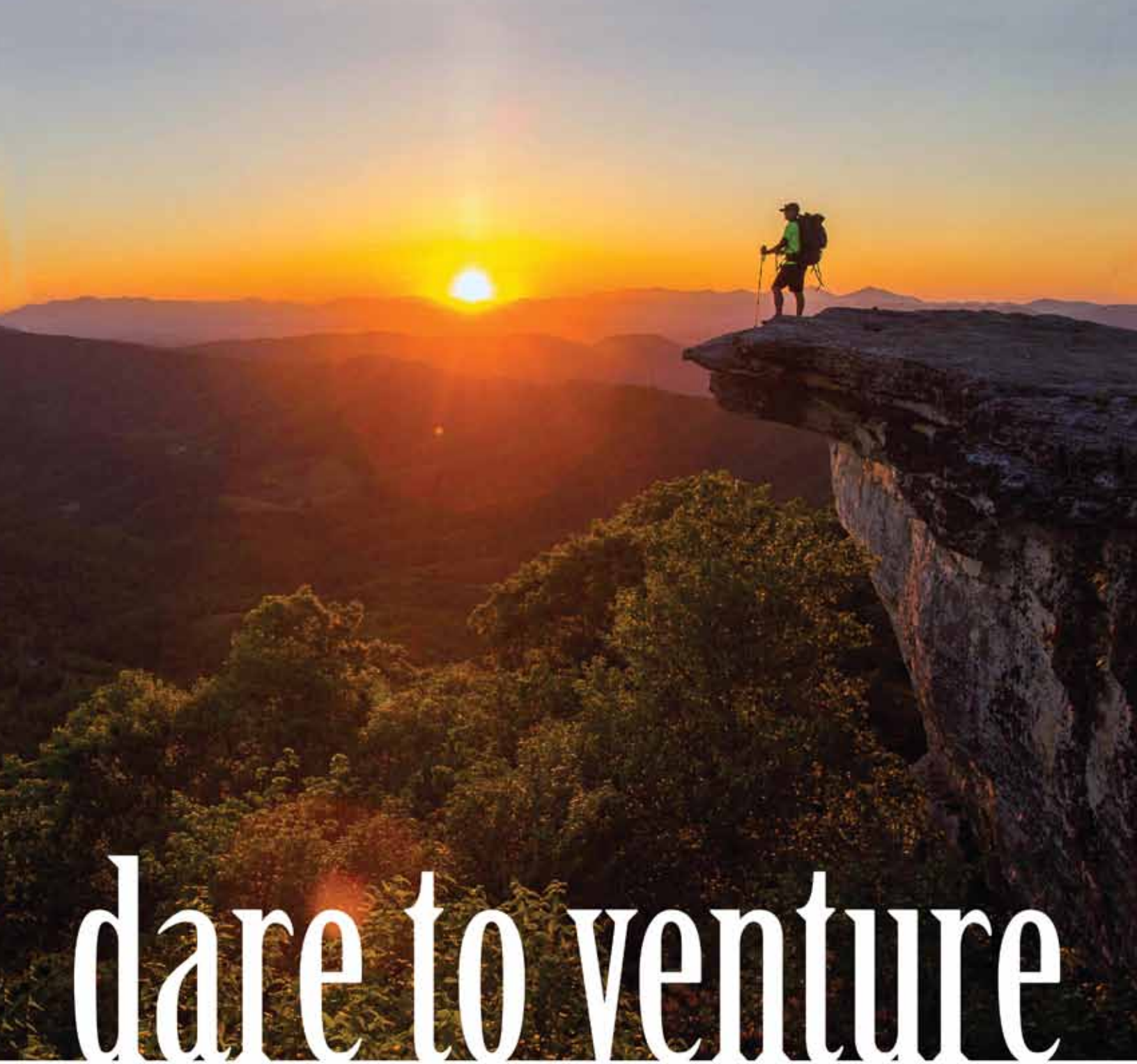
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From Our Team

Our mission is to provide you with the best resources to start your business in the Roanoke and New River Valleys and Alleghany Highlands.



Tom Tanner, a senior advisor for our center, created the first Guidebook in 2013. His goal was simple; to lay out the necessary steps to start a business and provide up-to-date local resources all in one place.

Since that time it has grown into the most used resource in our service area for entrepreneurs starting a new business. Each year we ensure it is updated with the most relevant information to save you time and energy.

In addition to this valuable resource, we offer 1:1 advising, facilitation, and workshops on topics useful to the challenges small business owners face. We help small businesses start, grow, expand, or even exit when the time is right. Our team is made up of former business owners in various industries and have expertise in finance, operations, leadership, marketing, strategic growth and succession planning.

We hope you find this resource to be valuable during your journey. If we can help at any point in your process, please reach out to us.



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Advisor



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Web: RoanokeSmallBusiness.org

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The advertisements you see in this Guidebook are those of our partners who help us provide free advising and low cost programs to small businesses. They share our vision of small business being at the center of our communities and together, we want you to succeed.

If you'd like to support our work, please reach out to our Director, **Keith Hartman at 540-983-0717**.



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Legal entity structure



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Writing a Business Plan



Market and customer research



Marketing basics

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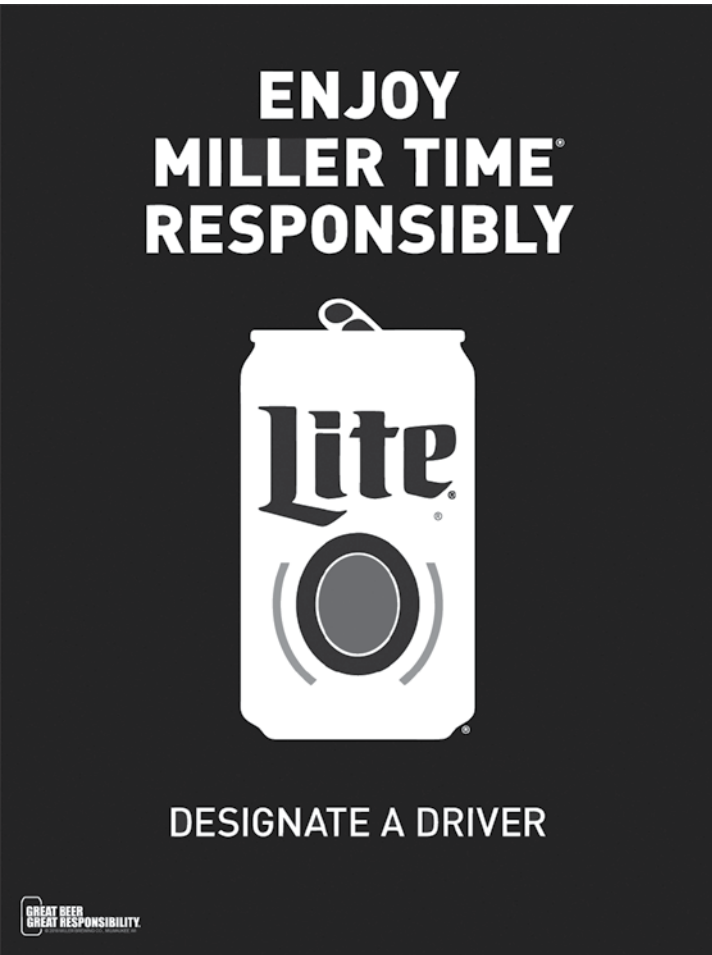
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We invite you to our beautiful mountain community and, no matter what brings you here, we hope you feel right at home and we encourage you to plant roots and see what make us **Uniquely Allegheny!**



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Nestled at the foot of Angel's Nest, Pearisburg is home to some of Giles County's most historical sites. Here you will also find an assortment of retail stores, restaurants, banks and government offices.

Pearisburg's small-town charm is enhanced by mountainous setting and the genuine hometown atmosphere that prevails year round. Pearisburg is a relaxed community where local merchants often call their customers by their first names and a friendly wave from a passing motorist is an everyday thing.

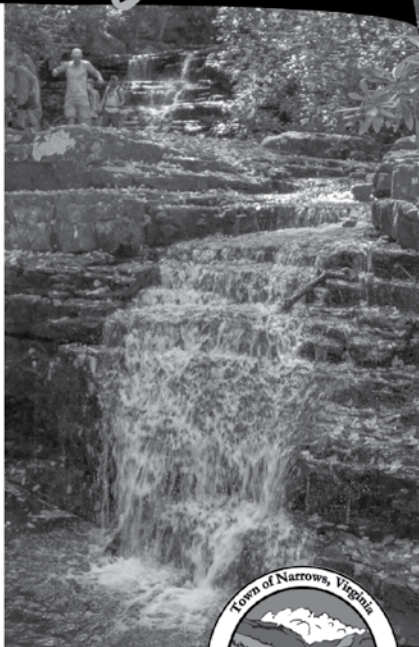


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ICAP includes FREE training programs and counseling services offered through ICAP instructors and local SBDC counselors. ICAP helps startups identify potential customers and develop successful business models based on that knowledge. It is an ideal program for early-stage companies trying to prepare for eventual venture investment.

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Introduction

Small business starts with big ideas

and is the heart of our community. Thank you for considering opening or expanding a business in the Roanoke Valley, New River Valley or Alleghany Highlands. We are pleased to assist you in your endeavor!

The Entrepreneur's Guidebook can assist you in your new business endeavor, or help you run your current business more profitably. Included in this guidebook are guides to starting a business, writing a business plan, tax requirements, basic legal information, marketing, buying and selling a business, business insurance, franchising, and obtaining capital.

The main focus of this guidebook is to assist you in the business planning process. Every business, both startups and existing businesses, have a need for business planning. If you have an existing business, you may be considering developing a business plan because you want to expand, find additional capital, or you simply want to understand where your business is and where it needs to go. Whatever your reason, business planning is an ongoing process and something every business should be doing every year.

The planning process is key, not the business plan document.

Effort was made to provide the best and most current information. However, it is not all encompassing and not intended to replace one-on-one assistance with your Small Business Development Center Advisor or other council.

We have compiled the information in this guidebook from various sources including, local, state, federal institutions, and nonprofit organizations. We have made every effort to obtain the most current information; however, since such information is subject to change in the future, no warranty, expressed or implied is made regarding the accuracy of the information.

Written by the Roanoke Regional Small Business Development Center © 2019 Roanoke SBDC

First Things First

So what does it take to be successful as a small business owner? A simple answer to this question is applying the **Business Success Formula** to your business idea.

$$GP + D + GM + ECS = \$\$\$\$$$

To be successful you first must have a **Good Product (GP)**, you must have **Demand (D)**, you must let the marketplace know about this product through **Good Marketing (GM)** and you need to deliver **Excellent Customer Service (ESC)**. Of course there is much more to a successful business than just this formula and this is where a well developed business plan comes into play.

It is also helpful to know why businesses fail so you know what to avoid. Some reasons businesses fail include:

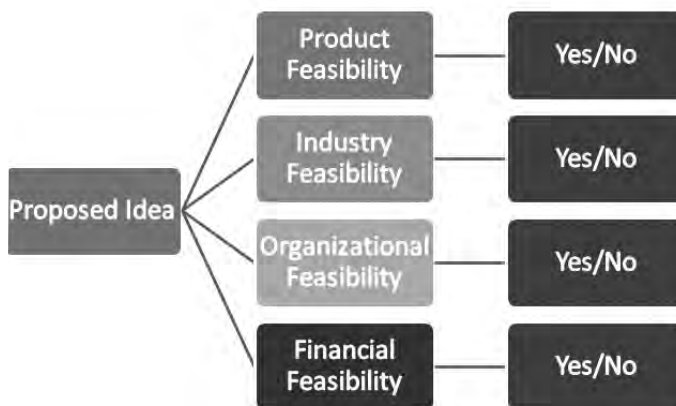
- Lack of proper funding - run out of cash

- Poor business model - not enough initial research
- Inexperience in the business
- Poor customer service
- Lack of marketing strategy
- Inattention of the market & competition
- Failure to adjust to changes in the marketplace
- Excessive debt
- Poor location
- Poor inventory control

Feasibility

As part of the business planning process one of the goals should be to determine the feasibility of the business (product, service, etc). The questions you need to answer are:

- **Is the idea feasible?** (will customers want and buy your product and can the business make money)
- **What is the cost to pursue?** Even at the beginning phase of the business planning process you need to evaluate what the costs to pursue the business will be.
- **Is it possible to get the money needed?** There is no reason to develop a detail business plan for a business that requires resources beyond your means.
- **What are the risks associated with this plan?** Everyone has different risks tolerances. You must decide, how much are you willing to risk. Are you willing to risk your life savings, your retirement, your home, etc.?
- **What other ways can I pursue this idea?** If I can't get the money, can I do something on a smaller scale. Say you want to open a restaurant, but don't have the money or not willing to take the risk, can you start a food cart, or food truck. This would cost less, reduce your risk and also give you time to prove the market for your product. Always be thinking about a Plan "B" "C" "D" etc.
- **What is your business model?** The business model is the underlying economic logic that explains how you deliver value to the customer at a price the customers is willing to pay. In other words, how do you make money.



Different Aspects of Feasibility

- **Product /Service Feasibility** - Is it a product/service customers need and will buy?
- **Industry Feasibility** - Is the industry growing, shrinking, or will it even survive in the future?
- **Organizational Feasibility** - Can you put together the organizational structure to make this work?
- **Financial Feasibility** - Will customers buy the product/service for the price you need to sell it at in order to make money? Also, can you obtain the financial resources needed to open and operate the business?

Business Planning

Do I need a business plan?

- You have an idea for a product/service, or have determined there is a need that has not been met in the marketplace. What's next?
- You have an existing business and want to expand into new products/services and need capital. What's next?
- Your current business is doing OK, but you feel there is no direction. What's next?

Developing a business plan is your next step!

What exactly is a business plan?

- If you are considering starting a business, then a business plan is a feasibility study to see if the business idea makes sense. It provides a road map as to how the business will operate, how you will market the business and will provide financial benchmarks if you decide to proceed with the business.
- If you are an existing business, it summarizes your current business and looks at how your business can grow. A business plan also includes tools needed to accomplish this growth, including financial benchmarks.

How detailed should the plan be?

It depends on the overall purpose of the plan.

- If you are a startup business looking for financing or investors, your plan needs to be detailed enough to convince the reader there is a **need for this business**, the business **can make money**, and you **have the team** to make it successful. If you are writing for yourself, the same detail needs to be done; however, your emphasis needs to be on the process not the document.
- If you are an existing business looking for financing or investors, your plan needs to show that your current business is successful, the funding you are requiring is to grow your business, you have a strong management team, and the business can repay the loan or investors.
- If your existing business simply needs direction, then working through this book is an informal approach to help you understand the current state of your business, where there are opportunities, and how you will get there.

The most important part of the business plan is the process itself. Doing the research, strategizing, and thinking about how this business can be successful will improve your business operation.

How do I start?

Developing a business plan can seem intimidating and difficult. The best way is to look at each section in this guidebook and make "key points" on a pad of paper. Using this book will help as there are questions being asked that will need to be answered.

Do this for each section before you write any narrative. Once

you have completed your key points for each section, go back and start writing the narrative; this will make it easier to complete. Please note that not all questions pertain to all businesses.



Business Plan Tips

1. **Understand the purpose** – Why you are writing the plan will affect the look and detail. Is it for investors, the bank, or just for you to understand if the idea makes sense?
2. **Write it yourself** – Only you have the vision and understanding of this business.
3. **Write in 3rd person** – Use 'the business' instead of 'us,' 'the staff' instead of 'we,' and 'the owner' instead of 'me' or 'I.'
4. **Do not copy a sample plan** – It is OK to use as a guide, but your plan needs to meet your needs.
5. **Realistic Assumptions** – When making assumptions in your financial projections, be sure they are realistic, believable, and obtainable and list your assumptions.
6. **Make the right length** – The plan should only be as long as necessary. Do not fill the plan with useless information. Most plans, excluding financial documents and appendices, should be less than 10-20 pages. In some cases you may only want a few pages.
7. **Easy to read** – Use large enough fonts, plenty of line spacing and be sure to include graphic elements such as pertinent charts, photos and include plenty of white space.
8. **Not done in a day** – Do not try to write your plan in a day. Your business plan will need research, thought, and review. Your time needs to be spent on understanding the need for your product or service and talking to potential customers, not on writing the document.
9. **Expect the unexpected** – Any good plan will include anticipated problems and a solution for them.
10. **Write for everyone** – Do not use excessive technical information as the person reading may not understand or comprehend your idea. Put it in non-technical language whenever possible.
11. **Proofread** – Be sure you and others proofread the plan if you are presenting to investors or banks.
12. **Borrow enough money** – If borrowing money, be sure you are borrowing enough, as it is harder to go back to get additional funding after initial funds have been provided.
13. **Are you ready?** – Take the quiz on page 47 before starting to be sure you are ready to own a business and that this idea makes sense.

Elements of a Business Plan

What sections should be included in your plan?

It depends on the purpose of the plan. At a minimum, the business plan needs to include:

1. **Marketing Analysis** - Is there a demand
2. **Marketing Plan** - How will your customers find you
3. **Financial Analysis** - Can you make money

If you need to write a **detailed business plan**, then your plan might consist of some or all of the following sections.

1. Cover sheet
2. Table of Contents
3. Statement of Purpose
4. Executive Summary
5. Business Description
6. Products/services
7. Market Description & Analysis
8. Marketing Plan
9. Operational and Administrative Plan
10. Management and Organization
11. Financial Plan
12. Appendix
 - a. Pro-forma Income Statements 3-5 years
 - b. Pro-forma Cash Flow Statement 3-5 years
 - c. Pro-forma Balance Sheet 3-5 years
 - e. If leasing or buying space, lease or purchase contract
 - f. If buying business, copy of purchase agreement
 - g. Bios of the owners and key personnel
 - h. List of what loan will be used to buy – equipment, leasehold improvements, etc.
 - i. For existing business, last three years of business tax returns, current financial statements.

1. Cover Sheet

List Business name, contact information, and to track copies, list "Copy ___ of ___."

2. Table of Contents

To make it easier for a reader to find particular sections, include a Table of Contents and tabs.

Example:

Topic	Page
Statement of Purpose	2
Executive Summary	3
Business Description	5
Products & Services	8

3. Statement of Purpose

The first section of your business plan should always contain a **Statement of Purpose**. The statement of purpose is the reason why you are creating this business plan. It is only used when the plan is to solicit funding, either as equity or debt.

What is included in the Statement of Purpose?:

- A brief description of the business and the products and services offered
- The amount of capital being requested with suggested terms
- If looking for investors, the number of investors, specify debt

- or equity financing, and the terms or potential return
- The amount of money being invested by the owners
- What specifically will the money be used for?

Example: This business plan provides the basic strategic information necessary for the initial purchase and operation of Mobile Superlube, Inc. Mobile Superlube, Inc. is a mobile oil change business offering services to consumers and businesses and has been in business since 2005 with sales of \$600,000 and an EBITDA of \$95,000 in 2016.

John Smith and Henry Jones wish to purchase this business at an agreed upon price of \$150,000. Mr. Smith and Mr. Jones will buy the assets of the company and establish a new corporation.

Mr. Smith and Mr. Jones are requesting a loan for \$125,000 for a term of five years. Mr. Smith and Mr. Jones will also be investing \$50,000 into the company, which will allow for \$25,000 in additional working capital. The list of assets being purchased is listed in the appendix.



4. Executive Summary

The executive summary summarizes the entire business plan. This section needs to tell a story and provide an enthusiastic snapshot of your business idea. If you want the reader to read your entire plan, this section has to intrigue him/her to find out more about your business or business idea. This is the last section you should write and should be no more than 2-3 pages, including photos and graphs. **NOTE:** In some cases the Executive Summary (maybe an extended version) and the financial projections are the only sections that are presented to investors or banks.

Review each section you have already written, and capture the key points to use in this summary. So what should be included?

- **Your story** – tell a story about your idea (or your business if in business) and how it solves a problem for a customer. If in business, use real customers and show how you solved their problems.
- **Business Description** – A brief description of the company
- **Products & Services** – A brief description of your products/services
- **Market Description & Analysis** – A brief description of your target market, why you believe there is a market for your product/service and what is your competitive advantage? (what is your value proposition)
- **Marketing Plan** – A summary of how you are going to promote your business,
- **Operation** – A brief summary of the operational aspects of the company
- **Ownership and Management** – An introduction of the team, including the owners and key management. Show how your team can "Make it Happen".
- **Financial** – Summary of the financial aspects to primarily

show the profitability and cash flow potential. Then refer to full projections in appendix.



5. Business Description

Include a general description about your company, or proposed company, along with information about the industry. Many of these items will also be listed in more detail in other sections of the plan (such as marketing, management, operations, etc.) Items to include:

- **Mission and Vision statement** - When crafting a mission statement you need to answer the following questions:
 - What do you do or what problem do you solve?
 - For whom do we do it?
 - What's the benefit?
 - **Business name and legal entity** (or proposed name)
- **Status of business** - Startup, franchise, expansion or buying business
- **History of business** - When was the business started, type of business (retail, service, manufacturer, franchise, etc.) Hours and days of operation.
- **Products/services** - Brief description of the products and/or services you currently provide and what new products/services are anticipated.
- **Description of the industry** - Is the industry growing? What is the outlook for future growth? What changes or challenges do you see in the future? How will the company handle those changes?
- **Company's core competencies** - What does your company do better than your competitors? *Example: Volvo's core competency is safety.*
- **Owners** - Who are the owners, their percentage ownership, and area of responsibilities? For a new business concentrate on the experience of each partner.
- **Business location(s)** - Where is your business located (or planned to be located), how long has the business been there, size of facilities, rent or own, special features,
- **Major assets** - List any major assets that you have beside your facility such as equipment, computers, etc.
- **Short term and long term goals** - What is important to your company in the short term and in the long term? List at least 2-3 items for each.
- **Keys to success** - List 3-4 items that need to be done in order for this business to be successful
- **Sales summaries** - List your sales and profit over the past 3-5 years. For new businesses, this would be left blank.
- **Business advisors** - This would include accountant, attorney, insurance agent, SBDC, or other advisors.

- **Regulatory information** - Are there processes your business needs to go through with the EPA, FDA or other regulatory agency?
- **Intellectual property** - Do you own patents, trademarks, copyrights or have you applied for these. Are they critical to the success of the business?
- **Photos/diagrams/charts** - Provide photos of location, current or planned equipment, products, or significant diagrams or charts that help explain your business.

6. Products and Services

In this section, list the products and/or services your business currently sells. If a startup business, or existing business wanting to add new product/services, list these in a separate section as future products/services. Your reader may not understand the technical aspects of your business, so be sure to explain in easy and understandable terms. It is important to show your enthusiasm about the possibilities of this product/service.

- **What do you sell** - Specifically list the primary products and/or services you currently sell (list all if only a few). Where are these products and/or services in the product life-cycle (Development, Introduction, Growth, Maturity, or Decline Stage - see chart on page 8) Do you have exclusivity or territorial limitations?
- **Features and benefits** - What features/benefits does your product/service provide? Features are characteristics that describe the product; benefits solve a problem.
- **Warranties or guarantees** - Do you offer a warranty or guarantee on your products/services? Do your competitors offer a similar or better one?
- **Competitive advantage** - What is your competitive advantage?:
 - Why would customers buy this product over a competitor's product?
 - Do you have Patents, Trademarks, Copyrights, etc.?
- **Barriers to Entry** - How difficult is it for competitors to enter this field, or add these products. The more difficult, the less likely you will have additional competition.
- **Technical Support** - Do you have, or will you need to provide, technical support, including telephone, installation, or service support? Is this system in place, and if not what are your plans?
- **Regulatory** - Are there any regulations that affect, or could affect, your product/services?
- **Pricing** - How are your products priced and how do these prices compare to the competition?
- **Future products** - What are your future product ideas for the next 3-5 years?
- **Technical products** - Will you have to meet technical milestones to be successful with this product? Why do you believe these milestones are realistic and achievable?
- **Technical data** - Include drawings, brochures, etc. in the appendix.
- **Photos/diagrams/charts** - Include these for the reader to better understand your business, products, and services.

7. Market Description & Analysis

The first step is completing a market analysis to see if it makes sense to proceed. Answering these nine steps will help you document to your business plan reader that you have done the necessary planning to be successful.

To complete these nine steps, you will need to do primary and secondary research.

Primary research is gathering your own data through:

- Surveys - telephone, electronic, in person, and by mail.
 - Ask potential customers what problem needs solved
 - does your product address these areas?
 - what changes would make it a better product?
 - would you purchase this product if available?
 - how much would you be willing to pay?
 - how often would you purchase this product?
- Focus groups
- Talking to other business owners in same industry
- Shopping competitors including looking at their website, social media, review sites and other internet presence
- Going to trade shows, talking to vendors, other owners
- Counting customers or vehicle traffic counts, etc.

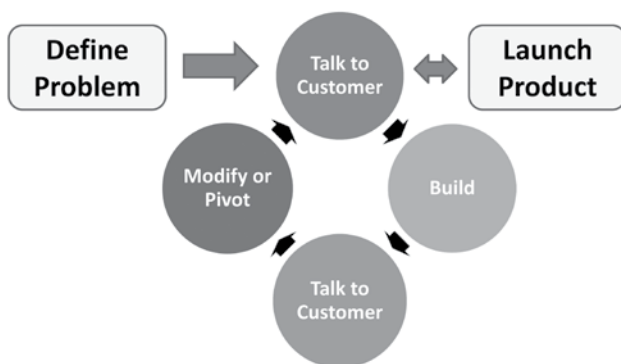
Secondary research is using existing sources of data such as:

- Census counts, published traffic counts
- Trade association data, IBIS or similar industry reports
- Vendors in the industry, etc.
- Other business owners operating similar business in a non-competing area.
- Local from your area's government planning district.

This data is obtained from government entities, local chamber of commerce, library, internet searches, industry trade groups, etc. Both primary and secondary research should be used to help develop answers to these nine steps.

Lean Startup Methodology¹

Use the Lean Startup Methodology as you work through the nine steps. Lean Startup Methodology refers to a planning process of first understanding what the customer problem is, not what you think it is, and then constantly refining it until you give the customer what they want. Remember, you are building this product or service for customers, not you.



There are several parts to this process: (see chart above)

- **Define** the problem as you think it is
- **Talk** to potential customers and find out what their pain points are, what problem do they need you to solve. This is called "**Customer Discovery**"
- **Build** a prototype (could be a product, a website, or even a presentation showing what you plan to do) also called a MVP or Minimum Viable Product.
- Again **talk** to your customer showing them your prototype, make notes as to changes, improvements, etc. that are suggested by customers.
- **Modify** your product and once again talk to the customer. Continue this cycle until you have a decent product (not 100%), but something good enough to launch. You are looking for "**Customer Validation**"

- **Launch** the product. Even after launch you want continual feedback from your customers on how to improve the product. Make changes and then relaunch. You should always be looking for ways to improve your product or service, or someone else will.
- A "**Pivot**" is sometimes needed. Maybe you have been going back and forth making iterations of the product, but find out you really need to make a drastic change. It is time to "Pivot", and make drastic changes to your business model. Example might be:
 - Moving from a free service using advertising to subscription model.
 - Changing from a sit down Italian restaurant to a fast food Jamaican restaurant.

¹ Lean Startup Methodology - Ries, Eric (2011-09-13). The Lean Startup

Nine Steps to Market Analysis

There are several tools available to help you understand whether your idea can make it as a business. One tool is the **Business Model Canvas** (see page 48). Another listed below is a nine step process to understanding the market for your product or service.



Step 1: Define the Problem or Pain to Solve

Successful Products/Services rely on solving customers problems. No problem, no business.

- What problem(s) are you trying to solve for your potential customers?
 - Will this product properly solve this problem?
- Is this a problem the customer really cares about and is willing to pay for?
- Are you selling a single product (service), or multiple products (services)?
- Will you be able to provide these products/services?
 - Are there territorial restrictions?
 - Have you made arrangements with the vendor to offer these products?
- Can you legally sell this product/service in the area you want?

Step 2: Target Market

In this step you need to understand who your customer is.

- Are you selling to consumers, businesses, government or all three?
- What are the demographics of your customers?
 - For consumers this would include age, gender, income, education, occupation, marital/family status, where they live, etc.
 - For businesses this would include industry, location, size of business (revenue, # of employees, etc), why they buy (price, quality, service, etc) who are the decision

makers at the company

- Generation: each is marketed differently with different messaging and reason to buy.
 - Baby Boomers (1946-1962)
 - Gen X (1963-1980)
 - Millennials (1981-1998)
 - Gen Z (1999 - today)
- What is your customer "**Persona**"? (Persona refers to the motivations, personality, lifestyles and activities of your customer to include hobbies, volunteer activities, etc.)
- How do you determine who your customer is?
 - In Step 1, you are talking to different people and in this step you need to determine who is interested in your product and who is not. Additionally, during the SWOT analysis, you may determine there is a demographic or persona being underserved.
- Other ways to help determine your target market:
 - Industry trade groups, other business owners
 - Vendors, competitors, surveys, focus groups
 - Internet research, marketing research firms
- You also need to consider how future changes might affect your business, either positively or negatively.

Step 3: Existing Solution

Customers are currently getting their problem(s) solved:

- How are these problems currently being solved?
- Are there currently multiple solutions to solving this problem?
- Are the current solutions actually solving the problem, or are only partly solving the problem?
- What is the strength of the current solution(s)? What is the weakness of the current solution(s)?



Step 4: Your Solution

Now you know how the solution is currently being solved, how are **you** going to solve the problem?

- Explain your solution in detail with a comparison to the existing solution(s).
- Is your solution better, cheaper, cleaning, faster, safer. Is it simpler to use, do you have new features.
- Do customers really care about your the changes?
- Did you develop multiple ideas to solve the problem?
- Is your solution innovative?
- Is your solution patentable? How do you protect your solution so others don't just duplicate it?
- Will customers pay for your solution?

Once you have developed your solution(s) you need to use the Lean Startup Methodology to test and improve your ideas. It is at this stage you need to start your "Customer Discovery" and

get "Market Validation" of your product or service. (See page 6).

Step 5: Competitive Advantage

Different is better than better.

In this step, you need to evaluate competitors and answer the question "**Why would a customer buy from my business rather than a competitor?**" Even if you have a new product that only your business is selling, customers still have to have a reason to buy from your business. (See page 52 for a SWOT Worksheet - Strengths, Weaknesses, Opportunities, and Threats that should be used as a guide to evaluating competitors and your business.)

- Who are your competitors? If you sell multiple items, you may have different competitors for each item you sell.
 - Direct – selling exactly what you are selling
 - Indirect – selling items that take business away from you, but are not exactly the same item. (if you own a bowling alley, a theater or baseball game are competitors as they are competing for the same customer's entertainment dollars)
- Where are they located (mark them on a map)
- Use SWOT analysis to evaluate each one. (page 52)
- Why will customers buy from you over your competition?
- How easy is it for a customer to switch from one business to another? (If you are selling software, can customers easily switch to your product, or is it difficult?)
- Is your product easily substituted by another product?
- What are the barriers to entry for new competitors? (high capital, production or marketing costs, Intellectual Property protections, special skills, etc.) Are these barriers large enough to keep future competitors from coming into the marketplace and taking market share?
- Where is there opportunity that your competitors are not taking advantage of? Are these opportunities where you want your business to concentrate (your niche)? Refer to your SWOT to determine if there are "holes" in the marketing place.

Positioning

You have done your market research and determined there is a demand, the industry is strong, you have an advantage over your competitors, and you have identified your target market. What niche are you serving? With this information, you can determine how you want to position your company in the marketplace.

Position is how your customer perceives your products/services. You need to be sure you understand how you want your business to be positioned and be sure your marketing and branding supports your positioning.

Your business can be positioned in many ways. Examples:

- Price
- Customer service
- Quality
- Convenience - location, hours of operation
- Technical service/support
- Value
- Selection of products
- Ease of use
- Customization

Be careful if your positioning is on price alone. Lower prices will reduce your profit margins and sometimes the customers searching for the lowest prices will jump to a competitor who

has a lower price. There will always be someone who will cut prices, or accept profit margins less than you. Most customers buy value, not price, so determine how you can provide value to the customer at a price you can make money.

Step 6: Demand, Pricing, and Market Size

Demand

- How do you know if there is a demand for your product?
 - Explain the research you have done to include primary and secondary research which should include surveys or other customer discovery methods.
- Who else is selling this product/service in the area in which you intend to operate?
- Are these businesses busy, do they have excess capacity?
- Are there new businesses starting regularly?
- Have you surveyed potential customers to see if there is a demand? If so, what is the customer looking for? (price, convenience, quality, selection, etc.)
- Is there unmet demand because of location, price, etc?
- Most importantly, you have to think hard and answer these three questions:
 - What makes people want your product?
 - Why will customers buy from you rather than your competitors?
 - Is demand greater than supply?

Pricing

Follow these principles:

- Pricing must follow your positioning. If you state you are the low price leader, then you must be the lowest price. If you are building your business on quality and service, don't offer the cheapest price.
- Pricing must be competitive
 - What are competitors charging? You need to decide how your positioning fits into the mix. Do you want to be in the middle of the pricing, or do you believe your product is far superior to others and can charge higher than the market?
 - What are customers willing to pay? You need to understand that customers buy when the perceived value of the product is greater than the cost. Do surveys to determine what customers would pay for the product. Is it in line with competitors? Can you make money at this price? Are you charging too little? Charging under the market cuts your profit margin, but also low prices may indicate to customers a perceived inferior product.
- Pricing must be profitable - In the end, you have to be able to make money. Here are some important terms you need to know in order to understand how to properly price products:
 - Variable Costs - these are costs that only occur when you sell an item. Example: If you sell TVs your variable cost would be the TV and maybe sales commissions. These costs do not exist until you sell the TV.
 - Fixed Costs - these are costs that occur regardless of whether you have sales. Examples are rent, admin wages, utilities, etc.
 - Markup vs Gross Profit Margin (GPM) - Markup is taking the cost of a product and marking up the price a determined amount. GPM is the gross profit percentage after subtracting costs from revenue. See chart on page 55 for example.
- Other Pricing Strategies:
 - Bundling products or adding services at lower price
 - Don't give customers too many options
 - Price similar products at different price

Market Size

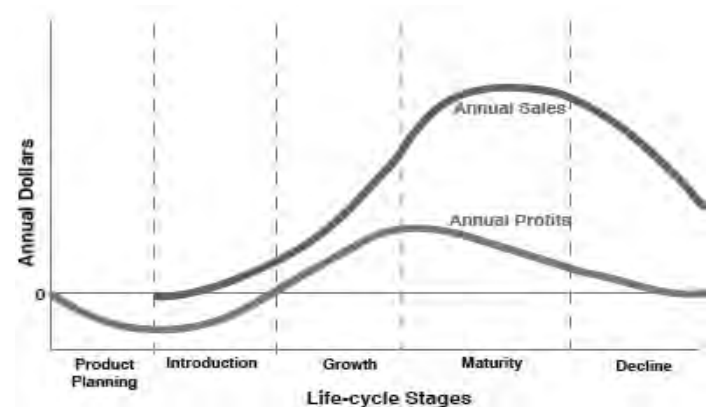
- What is the size of the market?
 - Determine the target market, determine where you will do business and what area will you draw customers from. Use census data, or other demographic data to determine the number of customers available.
 - What is the number of customers you can realistically turn into customers. You can look at competitors, look at industry data and come up with a percentage of customer market. Take that percentage and multiply by the market size.
 - How much will these customers buy? Even if you capture a large part of the market, is there enough customers, buying enough product at the price you need to sell it.

Step 7: Industry

Names like Kodak & Blockbuster Video were giants in their field until they didn't properly evaluate or just ignored the industry. Both companies have gone through bankruptcy and will never be the company they once were. Be sure your research shows the industry you are getting into is not the next Blockbuster Video of the future.

- How has the industry been performing in the past?
 - Are sales growing or shrinking industry-wide? By what percentage?
 - Is the number of businesses offering this product/service growing or shrinking? By what percentage?
- What is the future forecast of the industry?
- Are there any technological changes that could greatly affect the industry either positively or negatively?
- Is there any current or future government regulation that could greatly affect this industry?
- Is this industry greatly affected by economic conditions?
- Are there any demographical/psychographical changes that could greatly affect the industry?
- Where is the industry in regard to the product life cycle? (Introduction, Growth, Maturity, or Decline Stage) See chart on next page. You don't necessarily want to get into a business where the product(s) are at the end of their life cycle.

PRODUCT LIFE CYCLE



Step 8: Where to Buy - Distribution

After you have determined the previous seven steps, you need to decide how you will get the product to your customer.

How will you do business?

- Retail store
 - Is the location convenient, plenty of parking, good visibility, easy ingress and egress?
 - Is the location suitable for your target market?
- Visit customer at their location – use of salespeople
 - Are your customers easily accessible?
 - Are enough customers in the geographical area?
- Wholesaler
 - Are you located convenient to transportation needs?
- Distributor
 - Are you located convenient to transportation needs?
 - Is there enough margin to pay distributor?
- Internet only
 - Is your web site designed to properly handle e-commerce and at what volume?
 - Is your web site customer friendly?
- Independent Sales Reps
 - How are you going to locate sales reps?
 - What is your commission structure?
 - How will you administratively handle sales, delivery, refunds, questions, leads, etc.?



Where will you do business?

- Geographic – as an example 1-mile radius of location, the entire city or county or anywhere in U.S.
- Will you be selling on the Internet? Are there any restrictions of where you can ship?
- Why did you pick this physical location? What are the advantages? What are the disadvantages and how will you overcome these disadvantages?
- Knowing the location of your market will help you develop your marketing strategy and logistical questions such as shipping, service or technical support.



Step 9: Marketing

The last step is how you will reach your customers and potential customers, which will be explained in the following Marketing Plan section. The primary items to consider in developing your marketing plan includes, **Packaging, Marketing, Advertising, Customer Service (people)** and **Public Relations**.

Remember, marketing is every contact your customer has with your business (brand) whether positive or negative. You need to be sure every contact your business and employees have with a customer, or potential customer, is positive.



Also see page 14 for more on Strategic Marketing.

8. Marketing Plan

Through your research you have determined there is a market for your product/service. You have identified your target market, you

have asked your potential customer what they want, you have determine your company's market position and determined the pricing strategy. It is now time to develop a marketing strategy of how potential customers will find out about your incredible business. Without a thorough and detailed marketing plan, you can have the best product in the world, but if no one knows about your business, it will fail.



Include the following in your plan:

Branding

The first marketing step you should take is Branding. This encapsulates a lot, but we will break it down to the most basic steps and build up. A lot of the breakdown of this handbook is based on Inbound Marketing. Inbound Marketing is a marketing ideology that puts the customer/client at the center of all efforts. In order to engage and attract these customers/clients you need to empathize with them, create a product/service they want or need, while creating your strategy based on them.

Style Guide: What colors, fonts, symbols, and font sizes do you want associated with your business?

Logo: Most people are visual in nature, so a logo is critical for brand recognition. This will encompass the style guide and needs to become a key identifier for your brand.

Marketing Collateral: This would include professional designed business cards, brochures, letterhead, etc. using your logo, tagline and all your contact info to include your social media addresses.

Packaging: Packaging can sometimes sell your product more than the product itself. This applies to the package in which the product is delivered, the point of purchase display or material that is promoting the product. Be sure these are well thought out and professionally designed to appeal to your target market.

Interiors: Caring our your brand through your interior space is critical to customer engagement with your brand. Your space should flow, be safe and have proper layout for your product or service. Consider hiring a professional to assist.

Keywords and Characteristics: Next you need to think of a list of words you want to be synonymous with your business. These words should describe the type of product or service you provide, but you also need to dive deeper and think about the non-specific words customers will use to describe your business.

For example, there are brands that are known for being aloof or funny in their ads. There are brands that curate their content on the great customer service they are known for. Use this list as a foundation on which you want your business to be based on. If you ever deviate from these words you need to really think about if the business is changing or if you are steering away from your original vision.

Audience Personas: It is crucial to know who your target audience is because the manner in which you brand your business has to be able to attract that target. The same colors, fonts, symbols, and logos may not react across demographics. It is important to create a basic description of the persona(s) you are trying to reach and really think about what they like, are attracted to, and how they engage with you.

Website: A Website is crucial for your business and every business should have one, even if just a simple site that tells what you do and how to reach you. We suggest hiring a professional to design your website. However, there are many tools available that can help you DIY.

- SquareSpace
- Wix
- WordPress

Social Media

Now that you have identified your intended audience, it's important to locate your audience persona on social media channels and decide which ones you want to utilize. You do not need to be on every social media platform as that is not possible. Also, keep in mind that not all platform audiences are the same so the way you interact and create content for each platform can and should be different. Include the ones you find most beneficial in your plan.

Facebook: 25 – 65+. The most widely used network. Great for brand awareness and customer engagement through comments and Messenger. Make sure all posts have an image or video attached in order to have strong reach and engagement. Be prepared to pay to boost important posts or promote your page. Boosting is very cheap and should be done conservatively until you have discovered if there is ROI (return on investment) for you. Focus on quality content with strong visuals and engage with audience members who comment or reach out to you. Video content does better than anything else and Facebook Live posts are a great way to provide behind the scenes looks for your audience and let them engage on the spot with you.

Twitter: 18 – 50. Twitter is a great open network (meaning you can tweet to anyone) which is wonderful for community building. If you want to find your "tribe" and share their content as well as your own, Twitter is the channel for you. Don't sell on Twitter. It looks salesy and spammy.

Instagram: 16 -45. Instagram is a curated platform where visuals matter. It's a great tool to help you authentically tell your story. It requires attention to the overall content of your account and is a great way to show off your brand. Collaborations with other businesses on Instagram often lead to more followers and engagement with like clientele. You can use hashtags to get in front of people who may not be following your account. Instagram for business allows viewers to shop products and link content in "stories."

Snapchat: 12 – 30+ celebrities. Snapchat is a great tool if your audience is teens or young adults. Businesses are using

SnapChat to offer geo targeting coupons, on the spot sales promotions, and is great for showing behind the scenes.

LinkedIn: 22 – 65+. If you want to be able to find the key decision makers and don't want to deal with a gatekeeper, this channel is perfect. You are able to establish a personal page which essentially acts as a resume. You can also create a company page to legitimize your business in the corporate sphere and also have it so employees can easily identify themselves as a company employee. You can headhunt by location, company name, title, education, etc. This is an amazing networking tool if you want to be seen as a professional in your industry.

Pinterest: 20 – 65+. It is heavily used by women, if women are your target market, it is possible to be a great disruptor by offering pins that stand out amongst the pack. Particularly if you have photographs of products, design or DIY.

YouTube: 10 – 65+. This video based channel is an amazing option for business if they have video content that they want to share. There is also very strong advertising base where you can have commercials for your business done pre-roll of any video. These commercials can be local base so they would only be shown in this area you specify.

Advertising

How much and what: For a startup business the amount of advertising is not based on a percentage of sales since sales are just starting. As a startup, determine where you want to advertise and how frequently.

Types of advertising to consider including in your plan:

Public Relations: Includes press releases, news releases, making presentations at events, writing or participating in a blog, belonging to groups such as chambers, Rotary and making regular contacts with key people in the local media and getting influential bloggers talking about your products.

Developing Strategic Alliances: One of the most useful tools for small businesses is working with other businesses that are marketing to the same customers, but do not compete with you. Do joint events and advertising, and place flyers in other businesses. Every business has other business(es) they can align with. *Example: a photographer could work with a caterer, florist, DJ, wedding planner, etc. to put together events, ads, packages, etc.*

Referral Systems: Word of mouth advertising is one of the greatest marketing techniques available to your business, but it does not work by itself. You have to develop a strategy as to how you will implement referrals. This would include asking for referrals, compensation, tracking, thanking customers, etc.

Traditional Media: this could include television, radio, yellow pages, newspapers, magazines, billboards, etc. Be sure they make sense for your business and are cost effective.

Networking: An important element of getting your name out is networking yourself in the marketplace to get in front of your target market. This could be official networking events, memberships in organizations, or involvement with social media.

Direct Mail: Direct mail should be considered in the mix as a way to touch new or existing customers; post cards in particular work well, as they are inexpensive and have a greater chance

of being read. The US Postal Service has a special direct mail program that will mail to zip codes or even routes at a much reduce rate. Check out their service by visiting www.usps.com/business/every-door-direct-mail.htm.

E-mail Marketing: E-mail marketing is not spam, it is permission based marketing (customers have asked to be sent info) that is usually created by an e-mail service (Constant Contact, Mail Chimp, iContact, etc.). Use e-mail marketing to regularly touch your customers with valuable and relevant content, specials, notifications about events or cool new products or services.



Pay Per Click (PPC): For some businesses advertising on the Internet could include banner ads on pertinent websites, or doing Pay Per Click ads on Google, Bing, Yahoo or Facebook. Each service has different products. PPC is when you create an ad and you only pay for the ad when someone actually clicks on the ad. For some services you choose certain keywords and then choose the geographic location you want to advertise in.

Sales

Advertising will bring sales in the door. The second part of your marketing strategy is how you will handle sales. This will include such items as:

- Will you have dedicated sales people?
 - Are they inside sales, outside sales, etc?
 - If not dedicated, how will sales be handled?
- How will you train your salespeople?
- Development of standardized sales systems.
- How will you capture, distribute and track leads?
- How will you keep track of sales?
- How will you capture customer data? If you are a retail business, will you use a POS system? If you are in direct sales, will you use a CRM web service or software?
- What hours/days of operation will the business be open?
- Will you be selling on the internet?
 - What is your sales strategy?
 - How will you track sales metrics such as visits, conversions, etc?
 - How will you capture customer information?
 - Will you also have telephone sales, or live online sales support?

Customer Service

The last things to include in your marketing section is to be sure you have created a customer service strategy and customer focused policies. This would include:

- What procedures are in place to evaluate your customer

service standards?

- Comment cards, follow up letters, web site comment form, surveys, 800 number, QR codes in packages, tabletop or at the checkout counter.
- Do your customers know your businesses policies for:
 - Refunds and returns?
 - Procedures for complaints or comments?
- How do you handle customer complaints?
 - How quick to respond to complaints?
 - Are complaints documented and followed up on?
 - Who is responsible for follow up/documentation?
- How do you ensure employees follow these guidelines?
 - Do you have a training system?
 - Is management properly communicating to employees the importance of customer service and customer focused policies?
- Do you have policies in place for all business decisions to consider “how will this decision affect our customers, or how can we make the customer experience better?”
- Do you have a system in place to allow employees to make recommendations to improve customer service?
- Do you have a system in place to award employees for excellence in customer service?

9. Operational & Administrative Plan

The Operations section outlines the processes you will use to deliver your product to the market. This could include manufacturing, transportation, logistics along with customer service and technical support. The administration section outlines how you will support the operations functions. You may also want to develop a time line and milestones.

Introduction

Start with a brief introduction as to the operations and administrative areas of the company and the importance your company places on these areas. Be sure to note which operations will be done in house and which ones will be outsourced.

Timeline and Milestones: Include dates and responsible party of each event; some items may include:

- Business plan rough draft
- Develop prototype
- Business plan final draft
- Submit plan to bank(s) or investors
- Rezoning or required permits and licenses
- Interview and hire people
- Purchase equipment
- Start marketing

Production

If you are selling products, do you produce these products or buy finished product?

If you produce:

- What are your production techniques/procedures?
- What is your capacity; is it in line with your sales estimates?
- How do you handle quality control?
- How do you develop new products?
- What capital assets will you need?
- What assets do you currently have?
- What vendors provide you raw goods? (If startup, have you identified these vendors and have an agreement to buy from

them?)

- List primary vendors. Any restrictions such as minimum orders?
- Do you have multiple vendors for same products in the event of shortages?
- Any anticipated shortages or major increase in the price of supplies?

If you buy finished products from vendors:

- Do you have vendors established? (If startup, have you identified these vendors and have an agreement to buy from them?)
 - List primary vendors.
 - Do you have multiple vendors for same products in the event of shortages?
 - Any anticipated shortages or major increases in supplies prices?
- What is the internal procedure for ordering supplies?
- What capital assets do you have and need?

Logistics

What are your logistical requirements?:

- **Inventory:**
 - How will you order and keep track of inventory?
 - Will you have a computerized accounting system?
 - Will you maintain a certain amount of inventory or use a Just In Time (JIT) inventory?
 - What amount of inventory will you keep on hand?
 - What is your anticipated inventory turnover rate?
- **Procurement:**
 - What are your procedures for procuring products?
 - Do you have a computerized procurement system for tracking purchases?
- **Transportation:**
 - How will you get product to your business and how will you get product to your customer?
- **Warehousing:**
 - Will you be warehousing products, if so do you have a systematic approach to warehousing?
- **Order Management and Fulfillment:**
 - How do customers purchase products and how are they fulfilled?
 - Is there a computerized sales system?
 - Fulfillment would include processing orders, packing, shipping, and delivering product to customer.
- **Customer service:**
 - How will customer service be handled for both customer inquires and order taking?
 - Will you use a customer service department and sales department, or just a customer service department?
 - Will they be in house or contract labor?
 - Will you offer live web support?
- **Technical support**
 - Will you need technical support personnel?
 - Will they be in house, telephone, in field support or all three?
 - Will they be company employees or contract labor?

Location

- Is the location convenient to customers and transportation needs?
- Why was this location selected?
- Is it convenient to attract the best employees?
- What are the physical requirements of the facility (provide a site and floor plan if appropriate)?
- Provide a map showing your location and recognizable

landmarks.

Operational Regulations

- What are the tax requirements?
- What are the permit and special license requirements?
- Is there any special insurance/bonding requirements?
- Are there any zoning or other regulatory requirements or restrictions?
- Do you have need for patents, trademarks, service marks or copyrights?
- Are there any special EPA, OSHA, EEOC, or other governmental requirements?

Administration and Human Resources

- Accounting
 - Do you have a computerized accounting system?
 - If you have Account Receivables do you have written credit and collection policies?
 - How will you handle Accounts Payable? Will you have online payment, write checks, etc.?
 - How will payroll be handled? Internally, contracted to a payroll company, or employee leasing company?
- Do you have written standard operating procedures (SOP) for administration and operational areas?
- Do you have detailed job descriptions, roles and responsibilities for each position on your organizational chart (see Appendix VIII on page 56)
 - How many employees do you need?
 - What is the pay scale?
- What are the training procedures for new employees?
 - Do you have written training requirements?
- What are the skill requirements of each employee position?
- Are you using employees for all functions, or will you be using contract labor?
- Have you determined employee policies/procedures?
 - Have you determined the benefits you will offer to employees?
- Do you have a procedure for finding new employees?
 - What techniques will you use?



10. Management Plan

The most important part of any business is the people who are running and managing it. Investors and banks would rather provide funding to an experienced and strong management team with a mediocre idea, than to a weak management team with a great idea.

This section is to convince the reader you have the team that can

be successful. Discuss the company management strengths, but also identify the weaknesses and how these will be overcome by advisors, consultants, etc. By the end, you want the reader to believe you have the team that can make this business successful.

What to include:

- An organizational chart of the positions in the company with the appropriate name assigned. In smaller companies, each person may be assigned multiple positions. (See page 56 for sample org. chart)
- List each key person in the business with their background, in particular if they have had specific training in the area your business will be in and/or experience in small business operation. You should also include resumes in the appendix for each key person.
- What is the compensation structure for each key person to include salary, benefits, stock options, etc?
- If you have a board of directors, who are they and what is their background?
- If you have an advisory board, who are they and what is their background?
- What is the ownership structure by position and ownership percentage?
- Where are the gaps in your team and how do you intend to fill these gaps (advisors, consultants, independent contractors, etc.)?

11. Financial Plan

The financial plan is the most important section in your business plan and the one you need to take the most time and effort to insure it is accurate and realistic. If you do not have experience in creating financial projections, seek assistance from the Small Business Development Center, an accountant or experienced consultant. Even though every section in the business plan is important, if you cannot make money, then the business will not be successful.

The financial plan for an existing business will have more information than a startup.

At a minimum, you should be projecting sales on a month-to-month basis for the first three years. If you are seeking financing, your projections should reach out to the length of the term you are requesting; however, after year three, yearly or quarterly projections may suffice. Due to the complexity of developing financial forecasts, this guidebook does not go into detail; it only lists required items (see sample on page 53).

When developing projections you should develop projections for what you anticipate in revenue and profit and a set of projections of worse case scenario. Some lenders may want to see both a realistic, best case and even worst case scenario projections.



What financial reports are needed for a startup business?

- **Startup expenses** to include equipment, supplies, payroll, training, etc. (See page 54 for example)
- **Pro-Forma Income Statement** (financial projections showing revenue, costs, profit, etc.) showing month-to-month for years 1-3 and annually (or quarterly) for years 4-5. (See page 53 for an example)
- **Pro-Forma Cash Flow Statement**, month-to-month for years 1-3 and annually (or quarterly) for years 4-5.

- **Pro-Forma Balance Sheet** showing beginning balance and years ending 1-5.
- **Break-Even Analysis** – This will show at what point (revenue, units, etc.) the business is at a break-even point (the point where the company begins to become profitable). The Break-Even Analysis is one of the most important forecasting tools available to determine the financial viability of a business or business expansion. (See page 54 for example).

Other requirements for existing business

- Business tax returns for the previous three years
- Interim financial statements (Profit & Loss, Balance Sheet) that are no more than 90 days old.
- List of all current debts, the debtors, and the terms of these debts (interest rate, when they will be paid-off, and the current balances)
- If available, identify industry benchmarks to show how your company compares to the industry

Assumptions

When creating financial projections, you will be making both revenue and cost assumptions. In the financial summary, you will need to list these assumptions. What was the formula you used to forecast revenue, how did you derive that formula? How did you estimate expenses, and why did you estimate them that way? Estimating costs are far easier than estimating revenue.

- If an existing business, previous year's sales are a good indication to future sales.
- If a new product for existing business, demonstrate how previous new products have sold and assume this product will use a similar sales pattern.
- To determine sales of a new business you can use several approaches:
 - Talk to similar businesses in non-competing geographical areas to determine how those businesses did during the startup phase.
 - Create a model based on realistic data. (See page 56 for example)
 - Monitor your competition to estimate sales and determine the amount you realistically believe you can capture from those businesses, and why?
- Cost of Goods estimates can be obtained from the vendor(s) where you will be buying supplies.
- Payroll expenses attributed to Cost of Goods will need to be computed based on a realistic model of the hours and pay scale required. (See page 55 for example)
- General and Administrative costs (G&A) such as rent, telephone, insurance, taxes, permits, etc. can be obtained by contacting the appropriate businesses or agencies.
- Advertising expenses should be estimated based on your marketing plan. If your advertising consists of TV, Radio, Newspaper, Billboards, etc. then you need to determine how much each of these items cost and use those numbers. You may also look to see what the typical marketing expense is for your industry (such as 3% of sales, etc.) and use that as a guide, but your budget still needs to match your marketing plan.
- Use industry benchmarks when possible to determine what appropriate costs should be. *Example: if you are opening a restaurant, project that food costs are approximately 35%.*

Financial Summary

Summarize your financial projections into an easily readable section so the reader can see the financial capability of your business at a glance. This would include:

- Summary of financial projection by year. Combine many of the smaller expenses into single categories to make it simple to read. The detail will be in the appendix of your plan.
- Show the profitability and any key ratios.
- List detailed assumptions made in estimating revenues and key expenses.
- Summary of current debt and new debt to demonstrate that the company is able to carry the entire debt.



Strategic Marketing

This portion of the Guidebook is provided by Eddy Alexander, an international marketing, advertising and public relations firm located in Roanoke, Virginia.

There are five things about marketing every entrepreneur should know before they open their doors. Most don't.

1) Marketing is not the same as advertising.

The terms marketing and advertising are often used interchangeably, that doesn't mean they should be. Having an understanding of the differences between each of these professional disciplines will set you up to be a more savvy, and effective, entrepreneur from day one. So here it goes, back to the basics:

Marketing is the combined set of efforts and strategies you'll deploy to promote your business to your customers. It can, and often does, involve research, pricing, promotion, branding, public relations, advertising, lead generation activities, and much more.

Advertising by contrast is the process of using creative copy, design, and production to promote and amplify your business message(s).

While an advertising campaign can promote a specific brand identity, public message, or pricing special, the act of defining the message, setting the pricing strategy, or developing the limited time discount is a strategic marketing decision while the choice of what formats to leverage for your campaign - television,

newspaper ads, or similar – and what they should look like are specifically advertising strategy determinations.

As a smart entrepreneur it is very likely you will need to plan for both marketing and advertising investments in the months ahead.

2) Marketing is important. Really important!

Every good business coach will tell you that cash is king. Let's be honest, everyone you meet will encourage you to hoard as much cash as you can in your first few years. That advice is sound... except when it comes to doing so at the expense of setting aside a marketing budget.

The reason is simple. No one ever bought anything they didn't know about. You can't expect customers to find you if you don't invite them in. Whether you choose to advertise via traditional channels, using newer digital techniques, or via guerilla strategies, the same principles will apply.

You must let your target customers know your company exists, is ready, and wants to serve them. And, the more quickly you can get the word out the more customers you can pull in.

The most successful companies in nearly every sector of the economy proactively communicate and spend lots of money doing it. It sounds risky but if you are doing it right, it isn't. You should be making more money off your marketing investments than you spend. Period.

Gone are the days of wondering whether or not your marketing is paying off. If you can't measure the impact, ask for help.

3) There is a right, and a wrong way to promote your business.

Marketing (and advertising for that matter) is and always should be an investment. If you don't know what your goals and your timeline are, you are not ready to spend.

Start with market research and add a good bit of self-reflection. Just like when you are dating, you have to understand who you are trying to talk to, what they care about, and what you have to offer before you can wow the person you are trying to impress.

Still, every business shares some key realities. Your target customers must know you exist before they will consider buying from you. They must consider your offerings relevant to a need they recognize and want to address. They must prefer what you are selling over what someone else is offering to solve the same challenge. And, finally, they must find doing business with you smooth, easy, obstacle free, and pleasant in order to 1) complete their transaction(s) and 2) tell their friends about the experience in a way that brings more business in the door.

Some companies spend their entire marketing budget on customer service, or experiential design, others on brand awareness and advertising, and still others on rotating promotional discounts or one-time media stunts designed to earn news coverage. You can choose or mix and match.

Regardless of what approach you take to marketing, you must start by being an informed consumer yourself. Know your goals. Buy marketing and advertising services to solve business challenges you've identified and prioritized. Don't let the first sales person who calls on you define your problem or solution.

4) ***“It doesn’t have to be expensive, but it should be strategic.”***

As a benchmark, the US Small Business Administration recommends that new businesses spend between 8 and 10% of their annual revenue on marketing each year. Of course, the actual marketing spend of your competition will vary widely based on market, industry, personality, and competitive landscape.

If you are the only shop in town selling something in high demand, you won’t have to work as hard to get people in the door. But, if you have ten competitors on the same street and two of them are constantly running high profile promotions, you are going to have to out-manuever to survive.

Today’s business environment is arguably more competitive than ever before. The internet has made just about every good and service available to just about anyone anywhere. The price conscious consumer can confidently buy the cheapest widget in the world with just a few key strokes. To stay competitive, you’ll have to offer more than the cheapest widget or service.

As you define your new company, spend time thinking about the experience you want your consumer to have. In a world where time is limited, promises are plenty, and authenticity is rare, you can differentiate your services just by paying attention to the details others may ignore.

Once you’ve created something people will want, something that your customers will value getting from you over someone else, then think about how you want to let the world know.

Consider traditional channels like print and radio advertising, but don’t forget about more intimate channels like in-person events, chamber newsletters, or club or association sponsorships.

Remember that people buy from people and if you can introduce your company to a new audience with some initial relational advantage, everyone will benefit. The key to finding the best channels for your promotional efforts will be in understanding where your target consumers spend their time, gather information, and place their trust.

And, it is worth noting that in today’s increasingly digital world, that place is often virtual. Digital advertising is allowing savvy marketers to leverage rapidly advancing digital techniques to combine their advertising and market research efforts while micro-targeting very specific customer profiles. This allows them to quickly and cost effectively learn about the which messages and creative formats engage their audiences and then react in real time to optimize their investments for maximum performance.

More marketers than ever before, in companies of all sizes, are shifting the majority of their marketing spend towards digital because it can yield measurable results and provide meaningful lessons at lower price points than traditional methods. However, it takes time and training to leverage these complex tools effectively.

5) **Be remarkable, professional, and repetitive.**

The bottom line is this: Marketing is about differentiation and advertising is about effective disruption. Together, all promotional strategies work best when they are thoughtfully leveraged to encourage target audiences to take a deeper look at the company who is trying to get their attention.

When creating your campaigns, seek creative ways to make your messages easy to understand, memorable, exciting, and unique. And, never underestimate the value of professionalism. Make sure that your final ad copy and design represent the quality of the best products and services you offer.

When done well, effective advertising allows you to amplify your message broadly. That can be incredibly helpful, and cost effective, when you are looking to grow your business. However, it can also be quickly damaging if you make a mistake. If you are going to invest in amplification, make sure that what you are saying and how you are saying it positions your company exactly the way you want it to be perceived.

We live in noisy world and your future customers do too. One of the most common mistakes new advertisers make is underestimating how many times a message needs to be heard before it becomes memorable. Most entrepreneurs are surprised to learn that studies historically showed that the average consumer needs to hear or see an advertising message more than seven times before they even remember having seen or heard it once. And, in recent years, that number has jumped to over 15x.

This means that if you are going to pay for advertising, you need to set aside enough budget to ensure your target audience will hear or see your message enough times to absorb your value proposition. If you can’t afford the frequency you need in one channel, look for a smaller or more targeted channel where you can have a greater share of voice.

One way to improve your impact is to run the same message across multiple channels during the same period. Studies have shown that when one consistent advertising message hits the same person through multiple channels, it takes fewer overall touch points to resonate and break through.

At the end of the day, every business owner needs a marketing strategy, and for many businesses, advertising will be a necessary requirement for growth. Plan to set aside early revenue to reinvest in building and sustaining your customer base. And, if you need help, ask for it. There is room for creativity in marketing and many businesses owners enjoy the process of uncovering what works well for their growing business. Still, mistakes can be costly. If you find yourself unsure how to proceed or if the investments you are making aren’t producing tangible benefits, ask for assistance. There are wonderful professionals all over the region who spend their time studying the art, science, and evolution of business promotion and are willing to help you learn how to optimize your performance. Your local SBDC is a great place to start.

Written by Jennifer Eddy, Chief Marketing Strategist





10 Easy Steps To Start Your New Business

Step 1: Choose Your Legal Structure

To begin any type of new business you must choose your legal structure. Businesses are divided into one of four basic types: (see chart on pages 17-18)

1. Sole Proprietorship/Qualified Joint Venture
2. Partnership
3. Limited Liability Company (LLC), (PLCC)
4. Corporation

The decision on how to structure a business varies for each owner but is an important decision as may affect your personal liability and taxes. There is, of course, no need to make the business structure more complicated than it needs to be. You may first want to consult with an attorney, accountant, or business advisor.

Sole Proprietorship: A business owned by an individual who is solely responsible for all aspects of the business. All income, and the ability to deduct business expenses, flow directly to the owner and is reported on their individual 1040 tax return using a Schedule C form. A sole proprietor can have employees, own equipment, etc. The disadvantage is that the owner is personally responsible for anything that happens in the company, including anything that the owner, the employees or even liability from the product/service being sold. Normally not recommended for businesses that intend to have employees, or be in a business that may be susceptible to liabilities.

Qualified Joint Venture: is when spouses own a business together. To be qualified as a Joint Venture the business cannot be setup as a LLC or Corporation, both spouses must be actively involved in the business and there are no other owners. If these conditions are met, then revenue and expenses for the business can be split between the two spouses and reported separately on their own Schedule C.

Partnership: Necessary when two or more people want to start a business but do not want to setup another form of legal structure.

A written partnership agreement, although not mandatory, is usually a practical necessity. It describes each person's responsibility, how profits and losses will be divided, how a partner can leave the business, and what happens in case of a partner's death, disability, or serious discord.

Partnerships must file a federal income tax return (form 1065), but do not pay tax; each partner's share of profits or losses are included in the individual partner's income tax return. The disadvantage is that each owner is personally responsible for anything that happens in the company, including anything that the owners, the employees or even liability from the product/service being sold.

Is not required to be registered with the State Corporation Commission, but may be to assist in protecting the company's name, or to have the partnership on record.

Limited Liability Company (LLC): An LLC combines selected corporate and partnership characteristics while still

maintaining status as a legal entity distinct from its owners. As a separate entity, it can acquire assets, have employees, incur liabilities and conduct business. As the name implies it provides limited liability for the owners.

An LLC is setup with the Virginia State Corporation Commission and is a legal entity only. For tax purposes you would still need to decide whether you would want to be taxed as a sole proprietor (single member LLC), a partnership (multi-member LLC) or even taxed as an S or C corporation.



Corporation: The advantages and disadvantages of incorporating are numerous and complex. They take into account issues of duration of the business, capital formation, income distribution and retention, liability protection, ownership transfer, taxation, and legal costs.

A corporation is a legal entity distinct from its owner or owners. Owners are stockholders in the company, but can also be employees. It reports and pays taxes separately (C-Corporation only) and its organization and operation are regulated by Virginia law. A corporation has permanence; unlike a partnership or sole proprietorship, it cannot be so easily dissolved. Using an attorney to incorporate is not legally mandatory but recommended.

Once your corporation is setup in Virginia (as a stock corporation, or a non-stock corporation for a non-profit), you must decide how the corporation will be taxed. The choice of an S-Corporation deals largely with tax considerations. S-Corporations pass profits or losses on to the shareholders much like a partnership. C-Corporations pay taxes directly and any income passed through to their stockholders would be as dividends incurring what is referred to as "double taxation" of profits.

Professional Corporation (PC) or Professional Limited Liability Company (PLLC)

"Professional services" means any type of professional personal service to the public **that requires** as a condition precedent to the rendering of that service or the use of that title the obtaining of a license, certification, or other legal authorization and shall be limited to the personal services rendered by: pharmacists; optometrists; practitioners of the healing arts or behavioral science professions; nurse practitioners; veterinarians; surgeons; dentists; architects; land surveyors; professional engineers; certified interior designers; certified landscape architects; public accountants; certified public accountants; attorneys-at-law; insurance consultants; audiologists; speech pathologists; clinical nurses; psychologists; licensed social workers and counselors.

Healing arts is defined as the arts or science dealing with the prevention, diagnosis, treatment and cure of physical or mental disabilities or functional limitations.

Legal Entity Comparison Chart

	Sole Proprietorship	General Partnership	C-Corporation (tax structure)	S-Corporation (tax structure)	Limited Liability Company (LLC)
Legal Liability	Owner is personally responsible for 100% of all business debts.	Partners are equally personally responsible for 100% of all business debts.	Stockholders are only responsible up to their investment in the company. An exception is if stockholders provided a personal guarantee.	Stockholders are only responsible up to their investment in the company. An exception is if stockholders provided a personal guarantee.	Owners are only responsible up to their investment in the company. An exception is if stockholders provided a personal guarantee.
How to Setup	Get business license, any professional licenses, and fictitious name registration. Not required to, but should obtain FEIN from the IRS.	Get business license, any professional licenses, and fictitious name registration. Obtain FEIN from the IRS. Should develop a Partnership Agreement. Registration with SCC optional.	Establish Corporation by filing Articles of Incorporation with the SCC, establish bylaws, FEIN, business license, issue stock, create minute book.	Establish either a Corporation or LLC with the SCC, establish bylaws (corp), operating agreement (LLC), FEIN, business license, send in form 2553 to IRS.	Articles of Organization filed with the SCC. Establish an Operating Agreement, FEIN, business license, determine how to be taxed and notify IRS.
How is Owner's Income Handled	Not considered employee so does not have to pay unemployment taxes, or file federal employment reports such as 941/940 unless there are employees. Owner needs to submit Quarterly Estimated Taxes on personal income earned. 100% of income is subject to Self Employment Taxes of 15.3%.	Not considered employee so does not have to pay unemployment taxes, or file federal employment reports such as 941/940 unless there are employees. Owner needs to submit Quarterly Estimated Taxes on personal income earned. 100% of income is subject to Self Employment Taxes of 15.3%	Working stockholders are considered employees (non-working stockholders are not employees) and are subject to unemployment taxes. Income is distributed as earned income and reported on W-2s. Additional income may be received as dividend and stockholder would receive form 1099DIV.	Working stockholders are considered employees (non-working stockholders are not employees) and are subject to unemployment taxes. Income is distributed as earned income and reported on W-2s. Additional income may be received as distribution. Some benefits are also considered income such as health insurance. Restrictions also for some fringe benefits	Owners not considered employee unless taxed as corporation. Does not pay unemployment taxes, or file federal employment reports such as 941/940 unless there are employees. Owner needs to submit Quarterly Estimated Taxes on personal income earned. 100% of income is subject to Self Employment Taxes. If LLC is taxed as a corporation see columns to left.
Tax Filing Required	Schedule C with Owner's personal Form 1040. Must submit quarterly estimated taxes form 1040ES and Virginia form 760ES Schedule F if for a farm.	Must complete a Partnership Return Form 1065. Each partner would receive a K-1 to report income on their own form 1040. Must submit Quarterly estimated taxes form 1040ES and Virginia form 760ES	Complete Form 1120 annually. Quarterly estimated tax payment required if more than \$500 will be owed. Must use the Electronic Filing Payment System EFTPS.	Complete Form 1120S; distributes K-1 to shareholders. Shareholders may have to submit quarterly estimated taxes form 1040ES and Virginia form 760ES	If single member LLC you would be taxed as a Sole Proprietor. If there are two or more members, you would be taxed as a Partnership. LLCs also have the option of filing as an S or C corporation.

Legal Entity Comparison Chart

	Sole Proprietorship	General Partnership	C-Corporation (tax structure)	S-Corporation (tax structure)	Limited Liability Company (LLC)
Taxation of Income	Directly to owner.	Directly to partners in proportions agreed upon by partners in partnership agreement.	All profits taxed at corporate level. Extra distributions would be as dividends and subject to personal tax by the stockholders (double taxation).	Taxed directly to shareholders (no double taxation). Percentage of profits & losses passed to owners would be based on stock ownership. Losses limited to owner's stock "basis".	Depends on how the LLC is established. May be taxed as sole proprietor, partnership or S or C corporation.
Administrative and Legal Costs to Establish	Low - only a business license and fictitious name registration is required.	Low to Medium – business license and fictitious name registration is required. Suggest a partnership agreement be drawn up. Can register with SCC for \$25.	High – establish Articles of Incorporation, Bylaws, register with SCC at a minimum of \$75 and \$100 a year, minute/stock book, registration with IRS. Suggested to be handled by attorney and/or accountant.	High – Same as C-Corporation with the addition of registering with the IRS as S-Corporation.	Medium to High Registration with SCC at \$100 with an annual fee of \$50, register with IRS for taxing status and draw up Operating Agreement.
Fringe Benefits	Some not deductible.	Some not deductible for partners.	Deductible, but subject to many rules (mainly non-discrimination).	Generally not deductible for over 2% shareholders.	Depends on tax status.
Major Advantage(s)	Easy and cheap to start.	Chance of business success enhanced if right combination of partners.	Limited liability, not many restrictions on classes of stock or who may be stockholder.	Limited liability without double taxation of regular corporation income. Reduction of self-employment tax.	Easier to setup and administer than a corporation. Tax treatment may be more favorable than corporation. Can move from one tax structure to another with some restrictions.
Major Drawback(s)	Unlimited liability, more prone to audits by the IRS.	Unlimited liability.	Greater cost to establish and maintain, double taxation of income, owners considered employees so must pay unemployment taxes.	Greater cost to establish and maintain, owners considered employees so must pay unemployment taxes, more limits on fringe benefits.	Depending on circumstances, owners may be subject to 100% self employment taxes on all income received.

All members of the PLLC must be a licensed individual and all perform the same professional service. Typically a professional would also have individual liability insurance (malpractice, E&O, etc.) in addition to the PLLC have general liability insurance.

The requirement is to either setup a PC (file form SCC544) or a PLLC (file form LLC1103).

There are strict guidelines as to who can be a member or stockholder in a PC or PLLC and certain specific tax consequences. Seek the advice of an attorney or other knowledgeable individual to determine if this form of organization is right for your business.

Maintaining the Entity Integrity

If you set up a legal entity, you need to operate it correctly or you could lose the personal protection afforded by the entity. Be sure to setup a separate bank account, never mix personal and business funds, do not pay personal bills from company, or company bills personally, sign all leases, contracts, etc. in company name, put insurance in company name and always sign documents with your title (sign as president, member, etc.)



Under most circumstances when borrowing funds, business owners will be required to personally guarantee the loan, even if the business is set up as a Corporation or LLC. In the event the business is unable to pay the loan, the business owners will be personally responsible. With multiple owners, each owner will have to **Jointly and Severally** sign the note, which means each business owner is responsible for 100% of the loan regardless of the individual's percentage ownership in the business. Landlords and vendors may also require a personal guarantee. Before signing any personal guarantee, be sure you understand the risk associated with the agreement.

Step 2: Register Business Name

Before deciding on a name for your business, you need to be sure the name is not currently in use in Virginia. Contact the State Corporation Commission (SCC) at 866-722-2551 or 804-371-9733. You can also check name availability by going to www.scc.virginia.gov/clk/index.aspx and clicking on entity search.

You can also check to see if your logo, or potential trademark or service mark, is available. Visit www.scc.virginia.gov/srf/faq/tmsm.aspx to research its availability. Additional research should be done on the federal level to be sure there are no trademark issues by visiting www.uspto.gov/trademarks-application-process/search-trademark-database and searching the database.

Register with the Virginia State Corporation Commission (SCC)

To register with the State Corporation Commission and complete a corporate package, you must first choose your legal structure. Next, refer to the list below to determine if you are required to file with the State Corporation Commission and to identify the forms you must complete. (SCC required forms are available by visiting the Business Entity section of the Clerk's Office's web site www.scc.virginia.gov/clk/formfee.aspx.)



Online Registration: You may also obtain your legal

entity online by first setting up an SCC e-file account. Go to <https://sccfile.scc.virginia.gov/NewEntity> and first setup an account. Once the account is setup and verified you can now use the online tool to setup an LLC, Corporation, or make changes to an existing structure. You will need a credit card for payment.

Sole Proprietorship: You do not need to file with the State Corporation Commission; however, you will be required to file a fictitious name filing with the clerk of your local Circuit Court.

Partnership

General Partnership: Partnership statements are filed with the State Corporation Commission. Complete the Statement of Partnership Authority (Form UPA-93) and file with the Commission. A duly authenticated copy of a statement that is filed in an office of another state may be filed with the SCC. You are not required to file with the SCC.

Limited Partnership: Complete the certificate of Limited Partnership (Form LPA-73.11) and file with the State Corporation Commission. Registration with the SCC is required.

Corporation

Stock Corporation: Complete the Articles of Incorporation (Form SC 619) and file with the State Corporation Commission.

Nonstock Corporation: Prepare Articles of Incorporation following the guide (Form SCC 819) and file with the State Corporation Commission. This would be for a non-profit. The Articles of Incorporation are required to contain certain IRS verbiage so be sure to read the instructions in detail, or consult an attorney familiar with non-profits. Contact the SBDC for the guidebook on "How to Start a Nonprofit in Virginia"

Professional Corporation: Prepare Articles of Incorporation following the guide (Form SCC 544) and file with the SCC. A professional corporation would include professionals such as doctors, lawyers, engineers, etc.

S Corporation: To elect to be an S corporation, Form 2553 must be filed with the IRS. The election permits the income of the S corporation to be taxed to the shareholders of the corporation rather than to the corporation itself. If you elect S-Corp tax status, you still need to file with the SCC as a Stock Corporation using Form SC-619 or as an LLC using form LLC-1011.

Limited Liability Company (LLC):

Domestic LLC: Complete the Articles of Organization (Form LLC-1011) and file with the State Corporation Commission.

Professional LLC (PLLC): Complete the Articles of Organization for a PLLC (Form LLC-1103) and file with the SCC.

If your corporation, or LLC is registered in another state and you want to open an office in Virginia, but keep the primary entity in another state, you would be required to register as a Virginia Foreign Corporation or LLC with the SCC.

Step 3: Domain Name Registration

Though it is not required you have a web site, it is certainly good practice to have one. To keep the name of your business consistent with the branding of your web site, before deciding on a business name, check to see if the URL is available. You can visit <https://whois/icann.org/en>. If the name is available, then you can purchase the domain through one of the online providers.

Step 4: Federal Employer ID Number (FEIN)

All employers, corporations, LLCs and partnerships are required to obtain a federal employer identification number (EIN). The EIN identifies your business' tax accounts on all federal and state tax forms. A sole proprietor without employees does not need to obtain an EIN and may instead use his/her social security number; however, it is recommended that they obtain an EIN so that he/she does not have to use his/her Social Security Number.

To apply for your Federal EIN, go to the www.irs.gov website and enter the letters EIN in the search box at the top right. You will be taken to the links for the EIN application. Obtaining an EIN is FREE so do not pay to obtain this number.

Step 5: Assumed / Fictitious Business Name

If business is conducted in Virginia under a name other than the legal business name, an assumed or fictitious name certificate must be filed in the office of the Clerk of the Circuit Court in each county or city where business is located. In addition, if the entity is a limited partnership, a limited liability company or a corporation, a copy of each fictitious name certificate must be obtained and attested by the Clerk of the Circuit Court where the original was filed, and filed with the Clerk of the State Corporation Commission. There is a \$10 fee and should be mailed to the SCC address listed below.

To locate the circuit court in your area visit:
<http://www.courts.state.va.us/courts/circuit.html>

Forms for all court jurisdictions can be found at:
<http://www.courts.state.va.us/forms/circuit/cc1050.pdf>

State Corporation Commission Office

For questions concerning registering a corporation, partnership, or limited liability company, and to obtain forms from the State Corporation Commission, use the following contact information:

State Corporation Commission
attn: Clerk's Office
Tyler Building, First Floor
1300 East Main Street
Richmond, VA 23219
(800) 552-7945 or (804) 371-9967
www.scc.virginia.gov/

Step 6: Select a Location

The location of your business can play a decisive role in the success and failure of your business. Your location should be built around your customers, it should be accessible, and it should provide a sense of security.

Area zoning offices regulate the location of various kinds of land uses including different types of businesses. A business cannot operate at a certain location without the permission of the local zoning office. Additionally, if you wish to have a sign at your location the zoning department will let you know of any restrictions. Home-based businesses are allowed in most jurisdictions, however, check with the local zoning office for the restrictions in your area. If your home is located within a subdivision that has a property owner's association, you will need to verify that you are not in violation of any property owner covenants.



It is important to verify zoning requirements with the

zoning office before you sign a lease, purchase property, or make any improvements. Before signing a lease or any contract, be sure you are signing in the name of the legal entity. Some landlords may request that you personally guarantee a lease. Be sure you understand all documents before signing. If there are any questions, contact your attorney or local SBDC counselor.

Step 7: Apply for a Business License

Local Licensing

Any new business must obtain a business license prior to operating. In some jurisdictions, you will be required to receive a Certificate of Occupancy from the Planning Department. Be sure to check with your area Commissioner of Revenue. If you operate a contracting business (plumber, carpenter, painter, contractor, tile layer, carpet, etc) then there are other restrictions, and you may need multiple business licenses. Check with each jurisdiction in which you do business to see if a license is required.

If the business tax license is applicable, it must be pre-paid as part of the application. The tax rate varies depending on the type of business and estimated income for the first year. Most businesses pay a tax based on gross receipts earned in the previous calendar year. A few categories of businesses pay a flat fee. New businesses estimate their gross receipts for the current year and the tax will be adjusted at a later date to reflect actual gross receipts. Rates vary depending on the type of business.



Peddler and Itinerant Merchant License

For businesses that do not have a storefront and carry their goods to sell, there are additional license requirements (example would be a person who sells food out of trailer at an event). A Peddler permit is needed if you will be selling at more than one place in a year. An Itinerant Merchant is someone who will be selling at the same place for less than one year. Each jurisdiction is different as to the licenses required. Check with the Commissioner of Revenue in your area for details.

If you operate a food truck, each jurisdiction has license, operating and parking requirements so check with the jurisdictions you will be operating in. To file a registration for business license, contact the appropriate office in your city or county:

...continued on next page

CITY OF ROANOKE: Commissioner of Revenue
www.roanokeva.gov 215 Church Ave. S.W., Room 251
(540) 853-2521 Roanoke, VA 24011

ROANOKE COUNTY: Commissioner of Revenue
www.roanokecountyva.gov 5204 Bernard Drive, 1st Floor
(540) 772-2050 Roanoke, VA 24018

ALLEGHANY COUNTY: Commissioner of Revenue
www.co.alleghany.va.us 9212 Winterberry Ave
(540) 863-6640 Covington, VA 24426

CITY OF COVINGTON: Commissioner of Revenue
www.covington.va.us 333 W. Locust Street
(540) 965-6350 Covington, VA 24426

TOWN OF CLIFTON FORGE: Finance Dept
www.cliftonforgeva.gov 547 Main Street
(540) 961-1108 Clifton Forge, VA 24422

TOWN OF BLACKSBURG: Finance Dept
www.blacksburg.gov 300 South Main Street
(540) 961-1108 Blacksburg, VA 24060

TOWN OF BOONES MILL Town of Boones Mill
www.townofboonesmill.org 120 Easy Street, P.O. Box 66
(540) 334-5404 Boones Mill, VA 24065

COUNTY OF BOTETOURT: Commissioner of Revenue
www.botetourtva.gov 1 West Main Street
(540) 473-8270 Fincastle, VA 24090

TOWN OF CHRISTIANSBURG: Finance Dept
www.christiansburg.org 100 E. Main Street
(540) 382-9519 Christiansburg, VA 24073

CRAIG COUNTY: Craig County Courthouse
www.craigcountyva.gov 182 Main Street
(540) 864-5010 New Castle, VA 24127

TOWN OF DUBLIN
www.dublintown.org 101 Dublin Park Road
(540) 674-4731 Dublin, VA 24084

FLOYD COUNTY: Craig County Courthouse
www.floydcova.org 182 Main Street
(540) 864-5010 New Castle, VA 24127

COUNTY OF FRANKLIN Commissioner of Revenue
www.franklincountyva.org 255 Franklin Street
(540) 483-3083 Rocky Mount, VA 24151

GILES COUNTY
www.virginiasmtnplayground.com 315 North Main Street
(540) 921-2525 Pearisburg, VA 24134
Pearisburg - www.pearisburg.org - (540) 921-1222
Narrows - www.townofnarrows.org - (540) 726-2423
Rich Creek - www.richcreek.org - (540) 726-3260
Glen Lyn - www.glenlyn.org - (540) 726-7075
Pembroke - www.pembrokeva.org - (540) 626-7191

MONTGOMERY COUNTY: Finance Dept - Government Center
montgomerycountyva.gov 755 Roanoke Street, Suite 2C
(540) 382-6960 Christiansburg, VA 24073

PULASKI COUNTY: Commissioner of Revenue
www.pulaskicounty.org 52 W. Main Street, Suite 200
(540) 980-7750 Pulaski, VA 24301

TOWN OF PULASKI Finance Department
www.pulaski.town 42 1st Street
(540) 994-8696 Pulaski, VA 24301

CITY OF RADFORD: Commissioner of Revenue
www.salemva.gov 619 Second Street, Room 161
(540) 731-3613 Radford, VA 24141

TOWN OF ROCKY MOUNT Finance Department
www.rockymountva.org 345 Donald Ave
(540) 483-5243 Rocky Mount, VA 24151

CITY OF SALEM: Commissioner of Rev, City Hall
www.salemva.gov 114 North Broad Street
(540) 375-3019 Salem, VA 24153

TOWN OF VINTON: Treasurer's Office
www.vintonva.gov 311 S. Pollard Street
(540) 983-0608 Vinton, VA 24179

Please note that the local business license is in addition to any professional licensing requirements of the State of Virginia. Contact your local commissioner of the revenue or town administrator to satisfy local license tax requirements.

Regardless of the type of business, one or more local licenses may be needed. You must contact your county or city Commissioner of the Revenue within 30 days of starting your business to determine which licenses you will need. In addition, you should check with your local zoning or planning department to verify that you can operate your business at your desired site.

Step 8: Other Requirements

State Occupational and Professional Licensing:

The Commonwealth of Virginia regulates certain businesses, occupations, and professions by requiring licensees before beginning operations. In particular, this includes contractors. For a complete list, ask your SBDC counselor or visit the Virginia Department of Professional & Occupational Regulations at www.dpor.virginia.gov.

If you plan on opening any business that involves cosmetology, barber, nail care, waxing, tattooing, piercing or esthetics, you will be required to have a Salon/Spa license from the Board of Barbers and Cosmetology. This is in addition to each employee performing these services must also be individually licensed. For more information go to: www.dpor.virginia.gov/Boards/BarberCosmo/

Virginia Department of Health Professionals:

If you are in the field of Medicine, Audiology, Nursing, Audiology, Counseling, Social Work, Dentistry, Funeral Director, Veterinary Medicine, or any health professional then you need to check the licensing requirements at www.dhp.virginia.gov. If you are a massage therapist you will need to be licensed by Board of Nursing at www.dhp.virginia.gov/nursing.

Department of Health:

If you will be operating a business governed by the Virginia Department of Health, you will need to understand all the requirements for your business. Businesses affected include restaurants or any place that serves food which includes catering services, medical facilities / labs, etc. For more information, visit www.vdh.state.va.us.

Department of Agriculture:

The VDACS inspects any establishment where food is manufactured, produced, processed, packed, exposed, offered or held for sale. This includes grocery stores, supermarkets, convenience stores, food/beverage manufacturers and processors, food/beverage warehouses and **includes home kitchens**. There are some exemptions to the law for home kitchens. Refer to the website listed below for exemptions. Restaurants are not

covered under the VDACS, but is covered by the Dept of Health. Caterers are covered under the Dept and Health and not allowed to operate out of a home kitchen. <https://www.vdacs.virginia.gov>.

Child and Adult Services:

The Dept. of Social Services control the licensing of childcare services. Visit www.dss.virginia.gov/family/cc/index.cgi to find out the requirements. This includes any home daycare center who cares for more than four children at a time. If you will be operating an Adult Daycare facility or Assisted Living facility, this is also handled by the Dept of Social Services. Visit www.dss.virginia.gov/facility/adcc.cgi.

If you will be operating an Adult Home Care Businesses, there are many regulations and licensing based on what services you will be providing. The Virginia Dept of Health controls this area. If you will be providing only “Companion Care” which provides services such as transportation, meal prep, shopping, housekeeping and companionship, then a license from DSS is not required. If you are providing other services such as bathing, feeding, dispensing medicine, dressing, etc. then a license will be required. Visit www.vdh.virginia.gov/licensure-and-certification/laws-regulations-and-guidelines/ for requirements.

ABC Board & Federal TBB:

If your business will be selling or dealing with alcohol, you will need to understand the requirements of the Virginia ABC Board. For more information, visit www.abc.state.va.us. If you are making alcohol (beer, spirits, etc) you will need to get licensed through the U.S. Alcohol & Tobacco Tax and Trade Bureau, visit <https://www.tbb.gov>.

Department of Behavioral Health & Developmental Services:

If your business will be dealing with mental health, developmental disabilities or with substance abuse assistance, you will need to understand the requirements of this department. For more information, visit www.dbhds.virginia.gov.

Registration with Department of Consumer Affairs:

If you are a charitable organization, health club, sell extended service contracts, travel, or camping clubs, you will need to register your business or with the Department of Consumer Affairs. Visit www.vdacs.virginia.gov/consumer/index.shtml

Note: Each department listed above has different guidance and involvement; it is recommended that one of the first things you do is contact the appropriate agency to learn their requirements.

Step 9: Register for Taxes

Go to the section on Virginia State Taxes on page 33.

Step 10: Business Insurance

Proper business insurance is critical to the operation of any business; without it, your entire business can literally be lost overnight. It is also a complex issue. You will need to consider various types of protection, competing insurance companies, varying costs and benefits, and to weigh these considerations against potential risks, your needs, and costs.

Certain minimal insurance is essential when considering the possibility of your business being harmed suddenly by a fire or liability suit, yet having too much insurance can waste scarce budget resources.

If you are operating a business from your home, make sure your existing insurance coverage will protect your business and that your coverage won't be invalidated, this includes using your auto for business purpose.

Some forms of insurance are required by law. Examples are worker's compensation and vehicle insurance. Most other forms of insurance are optional. Some of these are described here:



Liability insurance protects your business from negligence lawsuits (for example, injury on your premises or as a result from your product) and can pay for the costs of defending against the suit, as well as the possible damages. Don't assume that forming a corporation or LLC will provide adequate liability protection.

Product Liability protects your business from liability from damages caused by your product.

Casualty insurance comes in different forms: fire, theft, robbery, storm, wind and flood damage. The insurance can cover inventory, contents, equipment and the structure itself if you own it. Insurance on plate glass can also be useful.

Business interruption insurance protects against loss of income while the business is temporarily closed due to fire, power loss, and other causes. It can also provide extra expense insurance while your business is being reestablished.

Life and disability insurance insures an owner or a partner against death or long-term disability. It may help the business survive if a key person is suddenly absent. Life insurance proceeds, under key man insurance, can enable the remaining partner to buy the deceased partner's share of the business.

Group health plans are an important fringe benefit in attracting employees and creating a stable work force. Group insurance is generally more affordable than individual insurance, but may still be costly. Check with local insurance providers. Small businesses might be able to obtain health insurance for their employees through the ACA SHOP Marketplace. For rates visit <https://www.healthcare.gov/see-plans/#/small-business>. ACA business plans are only available for companies that have employees (the owner is not considered an employee).

Bonds: There are two types of bonds, Surety and Fidelity:

- **Surety Bond** – promise to pay one party an agreed amount if a second party fails to meet an obligation. Two types of Surety Bonds are:
 - **License Bond** – guarantees the business will comply with applicable codes and regulations.
 - **Contract performance bonds** – guarantees the performance of a written contract according to terms and conditions.

...continued on page 31



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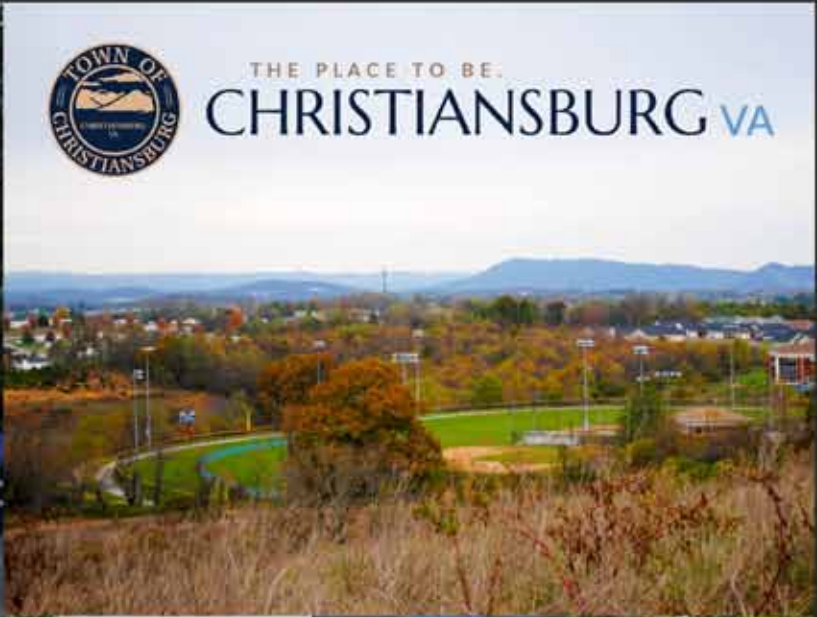
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There are four types of contract performance bonds:

- Bid Bond
 - Performance Bond
 - Payment Bond
 - Maintenance Bond
- **Fidelity Bond** – also referred to as Crime Insurance. If you have employees that occupy a position of trust, crime insurance coverage will assist in protecting your business. There are several types of crime insurance coverage:
- Employee Dishonesty Coverage
 - Loss Inside Premise Coverage
 - Loss Outside Premise Coverage
 - Depositors Forgery Coverage



Professional Liability / Errors & Omissions protects professional practitioners against potential negligence claims made by their patients/clients. Professional Liability insurance may take on different names depending on the profession. Listed below are several types:

- Medical Malpractice - Professional liability insurance in reference to the medical profession
- Errors & Omissions (E & O) - Include policies for public notaries, accountants and CPAs, real estate brokers, appraisers, engineers, insurance agents and web site developers. There are specific E & O policies for technology companies, such as software developers, technology consultants and other creators of technology.
- These coverage's focus on the failure to perform, financial loss and error or omission of the products or service sold.

Employment Practices Liability (EPL) coverage provides protection against claims made by employees alleging discrimination, wrongful termination or harassment, including sexual harassment. EPL coverage pays for liability damages and defense costs due to charges by full-time, part-time, temporary, and seasonal employees, applicants for employment and recognized volunteers. Coverage for claims made by third parties, such as customers or vendors, is also available.

Business Catastrophe Liability / Umbrella Liability Insurance: provides broad liability coverage and serves as a financial reserve against a judgment beyond the limits of your primary liability policies. It also provides coverage not provided by the underlying insurance policies. Some of the important coverage's which may be included in your policy are: Personal and Advertising Injury Liability, Bodily Injury and Property Damage Liability, Products and Completed Operations Liability, Blanket Contractual Liability, Broad Form Property Damage Liability, Host Liquor Liability and

Owners and Contractors Protective Liability.

Special Insurance for Food Service: If you will be operating a food service business, there are special insurance coverages. This includes coverage for Liquor Liability, Food Borne Illness Business Interruption, Food Contamination Shutdown, Spoilage due to mechanical breakdown, Equipment Breakdown Coverage.

Other Special Coverages: EDP Equipment covers damages to computers and other electronic devices, Utility Interruption, and Hired Auto & Non-Owned Auto coverage.

Home Office Coverage: If you operate your business out of your home, be sure to notify your home insurance company to be sure you are covered for all needed insurance for liability (if clients come to your home) and coverage of equipment.

Workman's Compensation Insurance

Virginia law requires every employer, who regularly employs three or more employees (whether full-time or part-time), to purchase and maintain workers' compensation insurance. Employers with fewer than three employees may voluntarily come under the law. It is always a good idea to have coverage for your business, even if not required, in the event that an employee is injured on the job. Without coverage, the company will be responsible for all medical expenses and out of work compensation. For more information visit www.vwc.state.va.us or your insurance agent.

Information about certain business entities as they apply to workman's compensation:

- Sole proprietors and partners are considered owners of businesses and are not covered by workers' compensation. However, sole proprietors and partners may elect to obtain coverage for workers' compensation liability by purchasing insurance.
- Members of a Limited Liability Company (LLC) are considered to be owners of a company and are not covered by workers' compensation unless specifically covered by an insurance policy or either elected or appointed as a manager. The manager of an LLC is treated as a corporate officer under the registrations.
- A corporation's officers may choose to reject workers' compensation coverage for accidents, but not for occupational diseases. To do so, officers must file a "Notice of Rejection" with the insurer. If the officers are paid regularly, they are nevertheless counted as employees to determine jurisdiction under the Act.

Guidelines for Contractors and Subcontractors

If you will be using contract labor, be sure your subcontractors are covered by workman's compensation. If they are not, you will be required to count their employees in your numbers. Additionally, you want to be sure the relationship between your company and the subcontractors are legitimately considered an independent contractor. Review IRS publication 1779 or visit the link: <http://www.irs.gov/pub/irs-pdf/p1779.pdf>

Small Businesses Are Job Creators and Innovators.



Accounting Basics

From your business's outset, it is vitally important that you set up and regularly maintain records of your business. You need these records to not only keep track of how your business is doing, but also to comply with tax regulations, show proof of tax deductions, and show values in case of insurance loss.



Simple accounting and record keeping systems are readily available to include QuickBooks, Sage along with some online solutions. You may elect to maintain records yourself, hire a bookkeeper or a family member, or use an accounting firm. The Roanoke SBDC has created a special publication "The Small Business Guide to Employment Taxes". This publication is available for free at www.RoanokeSmallBusiness.org. There are special rules regarding compensation for owners of an S-Corporation. Be sure you understand these rules.

Each business has its own particular record keeping needs. You will need a system to keep track of the following accounting functions. Depending on your business, you may not have the need for some of these items (for example, not every business will need account receivables).

Many industries have companies that sell specific software for the industry. Some of these industries include retail, salons, restaurants, etc. If your business is retail, you might also look at POS (Point of Sale Systems).

Some items to consider when purchasing an accounting solution is the need for:

- Payroll, including payroll taxes
- Account Receivables
- Accounts Payables
- Inventory tracking and Purchase Orders
- Income or sales
- Operating expenses
- Cost of goods sold
- Tax payments
- Loan payments
- Assets purchased, sold or transferred
- Profit and loss

You will also need to decide if you will accept credit cards, checks, or internal charge accounts. If you accept credit cards, you will

need to check with your bank or other financial institution to set up an account. There are also numerous online solutions for credit cards, especially if you will be selling online. You also need to determine how you will handle payroll. Is it done in house or by an outside service? Most accounting software programs offer payroll solutions built into the software.

Registration of a Trademark or Service Mark

A trademark includes any word, name (business name), symbol (logo), or device, or any combination, used or intended to be used, in commerce to identify and distinguish the **goods** of one manufacturer or seller from goods manufactured or sold by others, and to indicate the source of the goods. While a Service Mark is the same, except it is for a service.

You do not have to register your name or symbol, but federal registration has several advantages, including notice to the public of the registrant's claim of ownership of the mark, a legal presumption of ownership nationwide, and the exclusive right to use the mark on or in connection with the goods or services set forth in the registration. In order to register a trademark or service mark, the word, name, symbol, or device must be used in commerce, meaning the mark is being used to advertise or sold in interstate trade (not intrastate).

To file for a trademark or service mark you can fill out an application online, check it for completeness, and file it using the Trademark Electronic Application System (TEAS), at www.uspto.gov/teas/index.html. You can also respond to office actions and file, notices of change of address, allegations of use and requests for extension of time to file a statement of use through TEAS. You can check the status of your application through the Trademark Status and Document Retrieval (TSDR) database at <http://tsdr.uspto.gov>. If you do not have access to the Internet, you can call the Trademark Assistance Center at 1-800-786-9199 (or 571-272-9250) to request a paper form. You may also want to consult with an attorney who practices in the area of trademarks.

For more information about trademarks and service marks go to the U.S. Patent and Trademark web site www.uspto.gov/main/trademarks.htm

If you only want protection of your trademark or service mark in Virginia, you can register it with the State Corporation Commission at www.scc.virginia.gov/srf/faq/tmsm.aspx

Disclaimer: We have compiled the above information from various sources including, local, state, federal institutions, and nonprofit organizations. Our team has made every effort to obtain the most current information. However, since such information is subject to change in future, no warranty, expressed or implied is made regarding the accuracy of the information.

New Hires

Before hiring any new employee, you must have the person complete a W-4 (Employee's Withholding), VA-4 (Virginia Withholding), and an I-9 (Employment Eligibility Verification). All federal forms can be downloaded from www.irs.gov and the Virginia state forms from www.tax.virginia.gov.

To find the latest version of the I-9 form, go to www.uscis.gov/i-9. If you wish to verify the accuracy of the applicant's information, you may use the E-Verify system. This online verification system will immediately inform you if the documentation the applicant has presented to you is accurate. To register for this service (it is free and voluntary) go to www.uscis.gov/e-verify.

When an employer hires or re-hires a full, part-time, or temporary employee, the employer must report this information within 20 days of hiring. To download the necessary form or file electronically, go to: <https://va-newhire.com>



Taxes

Virginia State Taxes

To register for business taxes in Virginia go to www.tax.virginia.gov/business and register using **iReg**. You may also want to register for **iFile**, which allows you to file and pay taxes online.



Virginia Withholding Tax

Virginia Employee tax withholding must be filed to the Virginia Department of Taxation based on the following schedule:

Quarterly Filing Business: If the average monthly Virginia withholding amount is less than \$100, your business is a quarterly filer. Use form VA-5 to make payments. Payments must be made by the last day of the month following the end of the quarter. Payment must be made by EFT (Electronic Funds Transfer using the iFile system).

Monthly Filing: If the average monthly Virginia withholding amount is more than \$100, but less than \$1000 your business is a monthly filer. Use form VA-5 to make payments. Withholding must be made by the 25th day of the month following the end of the preceding month. Payment must be made EFT (Electronic Funds Transfer using the iFile system).

Semi-Weekly Filing: If the average monthly liability is greater than \$1,000 then your business is a semi-weekly filer. Deposits must be made within three banking days of the withholding date using form VA-15 (can also be made by EFT). At the end of the quarter Form VA-16, quarterly reconciliation, must be filed by the last day of the month following the end of the quarter.

Seasonal: When registering for taxes if you registered as a seasonal filer, you will need to complete the same requirements.

Note: Regardless of your filing schedule, even if you have no withholding, a return must be filed on the correct due dates.

Annual Requirement: On or before January 31st of each year, form VA-6 must be filed with copies of each W-2. The VA-6 is an annual summary of all payments made throughout the year.

State Unemployment Taxes:

Virginia Unemployment Tax Act (SUTA) is required for any business that has employees. This would include the owners of businesses that operate as an S or C corporation. To file and pay this tax you must first register with the Virginia Department of Taxation, or with the Virginia Employment Commission. To register online go to www.tax.virginia.gov and select business and register new business. You may also file Virginia Employment Commission form VEC-FC-27 by going to www.vec.virginia.gov and selecting forms. If you are already registered as a business in the Virginia Department of Taxation site, but need to register with the VEC, log into your Virginia tax account and select Virginia Employment Taxes.

You are liable for unemployment tax if: Your business has one or more employees who work for any portion of a day in twenty different weeks in a calendar year, or if your total gross payroll for any calendar quarter is \$1,500 or more. If you are an agriculture, domestic service or household employer different rules apply. Please see Virginia tax web site for more detail information.

If you are liable for unemployment taxes, you are required to file form VEC-FC-20 and VEC-FC-21 each quarter. This form reports wages, taxes and employment information and is due at the end of the month following the end of the calendar quarter. For a copy of the form go to www.vec.virginia.gov and click on forms, then employer. If you registered for this tax, you should receive this form in the mail each quarter. You may also file and pay this tax by using the Virginia iFile system.

The current taxable wage base is \$8,000, which means you pay Virginia State unemployment taxes (SUTA) on each employee up to their first \$8,000 in wages. The tax amount is based on the historical claims of your business. For a new business, you will start at approximately 2.5% (this number can change). When you receive forms from the VEC, your tax rate will be listed on form VEC-FC-20.

Estimated Taxes: If you are required to file individual estimated taxes (and are operating on a calendar year), payments must be made by April 15th, June 15th, September 15th and January 15th. For individuals (if sole proprietor, partner or owner in S-Corp) you would file form 760ES. If filing for C-corp, then file form 500ES.

Pass Through Entity Tax Return: Any business whose tax entity is treated as separate from the owner must file Virginia Form 502, Virginia Pass-Through Entity Return of Income. This includes subchapter S-Corporations, General and Limited Partnerships and Limited Liability Companies (**except those taxed as sole proprietors**). Form 502 is must be file by April 15th of each year.

Corporate Income Taxes: Any business that is taxed as a C-Corporation must file a corporate tax return (form 500) by the 15th day of the 4th month following the close of the corporations' tax year. Current corporate tax rate is 6%.

Virginia Sales Tax (also called Resale or Certificate): For the privilege of making retail sales in Virginia, a seller is subject to a sales tax imposed on gross receipts from retail sales of tangible personal property. The seller collects the tax from the customer by separately stating the amount of the tax and adding it to the sales price. Retail sales are defined as sales to a consumer or to any person for any purpose other than for resale.



To register for Virginia Retail Sales Tax go to www.tax.virginia.gov and complete form R-1 or by using iReg. If using iReg, be sure you select Retail Sales Tax. The current sales tax rate is 4.3% for state and 1% local

(total of 5.3%). There may be additional local taxes, but these additional local taxes are paid directly to the Commissioner of Revenue.

Due Date: Retail sales tax return and payment must be made by the 20th day of the month for the preceding month's gross receipts. You may send in sales tax return and payment by eforms, iFile or Web Upload, payments **cannot** be mailed in. If the Virginia Department of Taxation notifies that your business should file quarterly, the return must be filed and tax paid by the 20th of the month following the close of each quarter.

Special note for sales of food items & drugs: The tax on food items for home consumption is 1.5% state & 1% local (2.5% total). The definition includes most staple grocery food items and cold prepared foods, packaged for home consumption. Specifically excluded from the definition of food for home consumption are alcoholic beverages, tobacco, and prepared hot foods sold for immediate consumption on and off the premises. Prescription drugs and some non-prescription drugs are exempt from sales tax. Please visit www.tax.virginia.gov to find the exact qualifications.

Special note for contractors: Contractors who perform construction or reconstruction and thus take tangible personal property and through the construction process converts to real property (part of real estate) is considered the end user and will be required to pay sales tax on all purchases. The contractor does not charge their customers sales tax on final product. There are exceptions so check with the Virginia Department of Taxation to ensure you are paying and collecting the appropriate taxes.

NOTE: If your company is purchasing tangible personal property for resale then you are not required to pay sales tax to the vendor from which you are purchasing items (provided you are charging your customer sales tax). You will need to provide your vendor a form ST-10, Exemption Certificate (or other correct exemption certificate, see www.tax.virginia.gov for a list of the different exemption certificates), in order to be exempt from sales tax.

If you have a customer, who is purchasing product from your business, but will be reselling and charging sales tax, the customer must provide you with a form ST-10 (or other correct exemption form) that must be maintained in your file. Be sure the file is current with the business's sales tax number and is signed by designated individual.

Out of State Sales – Virginia is a designation tax state as it applies to sales tax. If your business is shipping an item to a Virginia address, regardless of where the customer is residing, sales tax must be charged and kept track of and reported by locality using sales tax form ST-9CO. If an item is shipped out of state, Virginia sales tax is not required to be collected, however, under a recent supreme court ruling, other states may require you to collect sales tax in the ship to state. The different state requirements are constantly changing, so be sure to check the current ship to state requirements.

Cigarette Sales: every pack sold in Virginia will be required to have both a state and local (if required) tax stamp affixed to it. There are other requirements; visit <https://tax.virginia.gov/cigarette-tax> for more information, there are also local tax requirements.

Alcoholic Beverages Sales: you will be subject to taxes by the Virginia Alcoholic Beverage Control (ABC). For information, visit www.abc.virginia.gov/licensing.html or (800) 552-3200.

Vehicle or Bulk Fuel: If your business is selling vehicles, or dealing with bulk fuel storage, operating a truck, etc. you will need

to register with the Virginia Department of Motor Vehicles. Go to www.dmv.state.va.us or call 804-497-7100 for more information.



Other Virginia Taxes not covered in this document. Visit www.tax.virginia.gov for more information. These include taxes such as: Aircraft Tax, Communications Tax, Consumer's Use Tax, Motor Vehicle fuel tax, Vending Machine Tax, Watercraft Sales Tax, Cigarette Tax, Tobacco Products, Tax, Corn Assessment, Cotton Assessment, Egg Excise Tax, Forest Products Tax, Litter Tax, Peanut Excise Tax, Sheep Assessment, Small Grains Assessment, Soft Drink Excise Tax, Soybean, Tire Recycling Tax.

Virginia Department of Taxation

Mailing Address:

Virginia Department of Taxation
Office of Customer Service
P.O. Box 1115
Richmond, Virginia 23218-1115

Forms Request Unit:

Virginia Department of Taxation
Forms Request Unit
P.O. Box 1317
Richmond, Virginia 23218-1317
Toll free: 1-888-268-2829 or
www.tax.virginia.gov/site.cfm?alias=busforms

Local Taxes

At this time, there is no local employment tax in the Roanoke Valley Alleghany Regional Commission area.

Business License (Business Professional Occupation License, also known as BPOL)

- Required for any business operating in any jurisdiction you have a physical presence in. If you only have one physical location, the Business License would be paid in that area and you would be able to do business in other jurisdictions without obtaining additional licenses. Renewal applications are normally sent out in January of each year and usually must be paid by March 1st. Businesses are taxed based on their gross receipts and category of the business. Check with your local Commissioner of Revenue's Office for more information.

Tangible Business Personal Property Tax – Any tangible property that is owned by a company, this includes machinery and tools, furniture, fixtures, computers, (software excluded) etc. must be listed on the tangible personal property form your business receives each January. Each item must be listed with

purchase date and original cost. Form must be filed (not paid) by February 1st of each year. You will be sent a tax bill that will be due in May. Filing and due dates in your jurisdiction may be different, so check with your Commissioner of Revenue's office for more information.

Other local Taxes – If you will be operating a food or beverage business, you will need to register with the local Commissioner of Revenue for both Meals and Beverage Taxes. There are certain requirements for grocery, convenience stores, and caterers; check your local jurisdiction for specifics. In addition, there is a lodging tax for hotels and travel campgrounds and an admissions tax on public amusement, entertainment, performance, exhibition, and sport/athletic events. There may be other taxes related to utilities, telephone, right of ways, etc. For any questions regarding local tax requirements, check your local jurisdiction.

Food Trucks - If you plan to operate a food truck, local jurisdiction regulations are constantly changing. Every jurisdiction you are operating in will require some type of licensing or registration. Check with the Commissioner of Revenue office in each area you plan to operate in. Additionally, sales must be kept track of by locality since both sales and meal taxes must be collected and submitted by jurisdiction.

See chart on pages 37-38 for Current Local Tax Information. Taxes are subject to change; check your jurisdiction for current amount and taxes required.

Federal Taxes

For businesses that have employees (counting the owners of corporations):

Employment taxes – this includes Social Security, Medicare, and employee withholding. Deposits can be made with a coupon and payment to a local financial institution, mailing directly to the IRS or using the Electronic Federal Tax Payment System (EFTPS).

When to deposit – your business will either be a monthly or semi-weekly depositor. Determination is made each year based on **tax liability** reported on your Form 941 during the lookback period. Lookback period is the 4-quarters beginning on July 1 and ending on June 30th of each year. If your business reported \$50,000 and less for the entire 12-month period, your business is designated as a monthly schedule depositor. If you reported more than \$50,000 then you are a semi-weekly depositor. Monthly depositors must deposit by the 15th for previous month.

Note: New businesses are considered monthly depositors for the first calendar year of operation.

Required Tax Reporting:

Form 941, Employer's Quarterly Federal Tax Return, is required to be filed by the last day of the month following the end of each quarter. This report lists the total payroll of all employees, the amount of tax withheld, and what payments have been made. The report may be mailed or filed electronically using the e-file system.

Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, must be filed by January 31st of each year reporting data from the previous year. FUTA deposits must be made quarterly by the end of the month following the end of a quarter if your liability is more than \$500. If liability is less than \$500, you may wait until the end of the next quarter to deposit.

Estimated Taxes – Individuals and corporations are required to

make estimated tax payments by April 15th, June 15th, September 15th, and by January 15th. Complete form 1040-ES for individual estimated payments, or form 1120-W for C-corporations. If your company is taxed as a Sole Proprietor, Partnership or S-Corporation, the owners will be required to file individual estimated taxes as the company does not pay taxes.

Form 1099 - There are three primary 1099 forms businesses may be required to use. The most common is 1099-MISC, which is used to report miscellaneous income to non-employees for services rendered for more than \$600 in a calendar year. The 1099-INT is to report interest paid to individuals or non-corporate entities of more than \$600 in a calendar year. The 1099-DIV would be to report dividends paid to stockholders in a C-corporation.

Federal E-File System – The e-file system allows your business to electronically file your returns. The IRS does not offer this service, but is offered through third party providers only. In order to use the E-File system you will need to find an IRS e-file provider by going to www.irs.gov/efile. Some of these providers include most payroll services, accounting software such as QuickBooks and online providers.

Federal EFTPS – Electronic Federal Tax Payment System, is the IRS electronic payment system. You are not able to file tax forms, but only make payments to the U.S. Treasury. There is no charge to use this system. To register or find out more, visit <https://www.eftps.gov/eftps>. **If your business is classified as a semi-weekly or monthly filer, you are required to use the EFTPS system for payments.**

Due to the ongoing modification of tax laws, the information provided here is strictly a guide. To be sure you are properly filing and paying all taxes, your business should contact the Virginia Dept. of Taxation, local Commissioner of Revenue, and the IRS.

For information on Federal Taxes visit www.irs.gov and download the following publications.

Publication 15 Employer's Tax Guide
Publication 15-A Employer's Supplemental Tax Guide
Form 1040 ES Estimated Tax payments



If you have employees, you will need to display labor posters that are visible to each employee. To determine which posters you need, visit: <http://www.vec.virginia.gov/employers/Required-Posters-for-Virginia-Employers>

Workman's Compensation Insurance: For information as to requirements visit: www.vwc.state.va.us

Other Required Filings:

W-2: Must be given to each employee by the end of January.

1099: Must be sent to each vendor or person, by the end of January of each year, that meets the particular 1099 requirements.

W-3: Must be filed with a copy of each W-2 by January 31st.

1096: Must be filed with a copy of each 1099 by January 31st.

If semi-weekly payroll tax schedule depositor -

State – Deposits must be made with form VA-15, or filed using EFT within 3 banking days following payroll payment.

Federal – Deposits must be made on the following schedule. If payroll is paid on Wed, Thurs or Fri, deposit must be deposited by the following Wednesday. If payroll is paid on Sat, Sun, Mon or Tues. deposit must be made by Friday.

Current Local Tax Information Updated May 2019

	With Whom You Register	Meals Tax	Food Trucks License**	Business License Tax
Roanoke City	Commissioner of Revenue 215 Church Ave, Rm 251 Roanoke, VA (540) 853-6825 www.roanokeva.gov	5.5% paid monthly; due by the 20th day following the month tax was collected	\$50 Itinerant merchant license. Business license if office is in city	Due March 1st Minimum \$50 Cost by category over \$100,000 in annual sales
Roanoke County	Commissioner of Revenue 5204 Bernard Drive, 1st Fl. Roanoke, VA (540) 772-2046 www.roanokecountyva.gov	4% paid monthly; due by the 20th of the month for previous- month sales	\$50 Peddlers Permit. Business license if of- fice is in county	Due March 1st Minimum \$50 Cost by category over \$100,000 in annual sales
City of Salem	Finance Department 114 North Broad Street Salem, VA (540) 375-3061 www.salemva.gov	6% paid monthly; due by the 20th of the month for previous month's sales	\$50 Peddlers Permit. Business license if of- fice is in county	Due March 1st Minimum \$30, cost by category
Botetourt County	Commission of Revenue 1 West Main Street Fincastle, VA (540) 473-8270 www.co.botetourt.va.us	4% paid monthly; due by the 20th of month for pre- vious month's sales		Due March 1st Minimum \$10, cost by category
Alleghany County	Commissioner of Revenue 9212 Winterberry Ave Covington, (540) 863-6640 www.co.alleghany.va.us	4% paid monthly due by 20th of the month. Paid to Treasurer's office	Regular business license if based in county. If not, then \$10 a day or \$500 a year	\$15 application fee plus fee based on gross receipts and business category.
City of Covington	Commissioner of Revenue 333 W. Locust Street Covington, (540) 965-6350 www.covington.va.us	8% paid monthly, due by 20th of the month for previous month's sales	Regular business license if based in Covington, if not, a \$100 a year license	Fee based on gross receipts and business category with minimum of \$30 per year.
Town of Clifton Forge	Finance Department 547 Main Street Clifton Forge, (540)863-2503 www.cliftonforgeva.gov	7% paid monthly, due by 20th of the month for previous month's sales	Regular business license based on gross receipts. Minimum is \$28.50 per year.	Fee based on gross receipts and business category. Minimum of \$28.50 per year
Franklin County	Commissioner of Revenue 1255 Franklin Street Rocky Mount, (540) 483-3083 www.franklincountyva.org	4% paid monthly; due by the 20th of the month for preceding month's sales	Not required	Not required
Town of Rocky Mount	Finance Department 345 Donald Ave Rocky Mount, (540) 483-5243 www.rockymountva.org	5% paid monthly; due by the 20th of the month for preceding month's sales	\$50 a year, must also complete mobile food application	Due May 31st Cost is based on category
Town of Boones Mill	Town of Boones Mill 120 Easy Street Boones Mill, VA 24065 (540) 334-5404	4% paid monthly; due by the 20th of the month for preceding month's sales	\$50 Peddlers Permit. Business license if of- fice is in town	Due January 31st Minimum \$30, cost by category
Town of Blacksburg	Finance Department 300 South Main Street, Blacksburg, VA 24060 540-961-1108	6% paid monthly; due by the 20th of the month for preceding month's sales	\$100 a year, check for strict limitations	Due March 1st Minimum \$30, cost by category
Floyd County	Floyd County Admin 120 W. Oxford St Floyd, VA (540)745-9300 www.floydcova.org	5% paid monthly; due by the 20th day follow- ing the month tax was collected	No business license requirements - private property only	Not Required
Town of Floyd	Town of Floyd 138 Wilson Street Floyd, VA (540)745-2565 www.townoffloyd.org	5% paid monthly; due by the 20th of the month for preceding month sales	\$50 per six months, must list where parking	Due March 1st Minimum \$30, cost by category

*Chart is provided only as a guide. Taxes are subject to change; check your jurisdiction for current amount and taxes required.

** Food trucks are required to be inspected and licensed by the Virginia Department of Health in addition to county and city requirements. Food Trucks are required to collect Virginia sales tax and meals tax for each jurisdiction they operate in.

Current Local Tax Information Updated May 2019

	With Whom You Register	Meals Tax	Food Truck License	Business License Tax
Pulaski County	Commissiонер of Revenue 52 W. Main Street Ste 200 Pulaski, VA 24301 (540) 980-7750 www.pulaskicounty.org	4% paid monthly; due by the 20th of the month for pre- ceding month sales	Business License, park on private property only	Due March 1st Minimum \$30 up to \$100,000 in sales then cost by category
Town of Pulaski	42 1st Street Pulaski, VA 24301 (540) 994-8696	7% Meals Tax	Business License required	\$30 Minimum, charged by category
Town of Dublin	101 Dublin Park Road Dublin, VA 24084 (540) 674-4731	4% Meals Tax	Business License required	\$30 Minimum, charged by category
Giles County	County Office 130 N. Main Street Pearisburg, VA 24134 (540) 921-3321 www.gilescounty.org	No Meals Tax in Giles County - see towns below for requirements	No Business License in Giles County - see towns below for requirements	No Business License in Giles County - see towns below for requirements
Town of Pearisburg	112 Tazewell Street Pearisburg, VA 24134 (540) 921-0340	4% Meals Tax	Business License Required	\$30 Minimum, charged by category
Town of Narrows	210 Main Street Narrows, VA 24124 (540) 726-2423	4% Meals Tax	Business License Required	\$30 Minimum, charged by category
Town of Rich Creek	140 North & Spruce Street Rich Creek, VA 24147 (540) 726-3260	4% Meals Tax	Business License Required	\$30 Minimum, charged by category
Town of Glen Lyn	205 Houston Lane Glen Lyn, VA 24093 (540) 726-7075	4% Meals Tax	Business License Required	\$30 Minimum, charged by category
Town of Pembroke	500 Snidow Street Pembroke, VA 24136 (540) 626-7066	4% Meals Tax	Business License Required	\$30 Minimum, charged by category
Town of Vinton	Town of Vinton 311 S. Pollard Street Vinton, VA 24179 (540)983-0608 www.vintonva.gov	5% paid monthly; due by the 20th of the month for pre- ceding month sales	\$50 per year. Check with Vinton on parking restrictions	Due March 1st Minimum \$30, cost by category
Montgomery County	Commissioner of Revenue 755 Roanoke St. Ste 1A Christiansburg, VA 24073 (540)382-5710 http://www.montgomery- countyva.gov/	4% paid monthly; due by the 20th of the month for pre- ceding month sales	No county permit required	Not Required
Town of Christiansburg	Town of Christiansburg 100 E. Main Street Christiansburg, Va 24073 (540) 382-9519 www.christiansburg.org	7.5% paid monthly; due by the 20th of the month for pre- ceding month sales	\$300 per year, private property only	Due March 1st Minimum \$30, cost by category
City of Radford	City of Radford Commissioner of Revenue 619 Second Street, Room 161, Radford VA 24141 (540)731-3613 www.radfordva.gov	5.5% paid monthly; due by the 20th of the month for pre- ceding month sales	Regular business license requirements	Due March 1st Minimum \$30.75, cost by category

*Chart is provided only as a guide. Taxes are subject to change; check your jurisdiction for current amount and taxes required.

** Food trucks are required to be inspected and licensed by the Virginia Department of Health in addition to county and city requirements. Food Trucks are required to collect Virginia sales tax and meals tax for each jurisdiction they operate in.

Tax Calendar - see pages 33-34 for tax requirement explanation

Federal Requirements	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Estimated Tax Payment	15th			15th		15th			15th			
941 – previous quarter	31st			30th			31st			31st		
940 – previous year	31st											
Provide W-2	31st											
Provide 1099	31st											
Monthly tax filer deposit	15th	15th	15th	15th	15th	15th	15th	15th	15th	15th	15th	15th
File 1099 & 1096 w/IRS	31st											
Send W-2 & W-3 to IRS	31st											
C-Corporate Tax Return				15th								
Individual Tax 1040				15th								
Partnership, S-Corp Tax Return			15th									
Deposit FUTA payment if more than \$500				30th			30th			31st		

State Requirements	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Estimated Tax Payment	15th			15th		15th			15th			
Sales Tax	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th
VA-5 if monthly filer	25th	25th	25th	25th	25th	25th	25th	25th	25th	25th	25th	25th
VA-16 – semi weekly filer for previous qtr	31st			30th			31st			31st		
VA-5 if quarterly filer	31st			30th			31st					
VEC FC-20 & 21	31st			30th			31st			31st		
Va-6 Annual Summary	31st											
Pass through entity return (form 502)				15th								

Local Requirements	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Meals Tax	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th
Admissions Tax	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th
Lodging Tax	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th
Submit Business Property forms		1st										
Business License		1st										

This document is only a guide in understanding taxes associated with your business. Research was done to obtain the most accurate information possible; however, check with the appropriate taxing agency, or your accountant to ensure you are properly accounting for all taxes and reports required for your business.



Raising Capital

Start-up Capital

Capital you need before the business opens. See the start-up expense sheet on page 54 for a list of expenses that might be necessary.

Working Capital

Money needed for day-to-day operations. For a startup business, this means having enough capital available until you reach a break-even point. This sometimes takes from a few months, to several years depending on the industry. When doing financial projections, be sure there is enough extra capital to allow for unexpected expenses or delays in reaching the break-even point.

Debt Financing

Financing you receive from an entity that must be paid back over a specific period. Debt financing does not give the lender any ownership rights. Debt financing could include:

- Bank financing
- SBA guarantee loans through local bank
- Microloan programs - small loans from \$500 - \$50,000.
- Loans from friends/relatives – be sure to complete a Promissory Note
- Loans from stockholders – be sure to complete a Promissory Note
- Asset based lender – company that provides loans against Account Receivables, Inventory or Purchase Order
- Credit Cards
- Crowd Funding sites -Kickstarter.com, lendingclub.com, prosper.com to name a few.

Equity Financing

Money put into a business in exchange for ownership rights to the company. This money is not paid back on any specific time

schedule and is considered an investment in the business. Equity financing could include:

- Personal savings – retirement funds, home equity loan, savings, life insurance, etc.
- Friends or relatives
- Private Investors
- Angel Investors
- Venture Capital Firms
- Crowd Funding

Internal Financing

Using the sources within the business. This could include:

- Customers – customers may provide a down payment
- Vendors – businesses from which you buy may provide you extended terms.
- Retained Earnings – if your business is producing profits then there is additional money left in the company to provide needed cash.

Leasing

Leasing is an option for many businesses for the purchase of equipment. Banks, manufacturers, distributors, franchisors, etc. usually have leasing programs. Leasing come in two types:

- Operational Lease – also known as a Fair Market Value lease, this is where you pay a specific payment each month and at the end of the contract, if you want to buy the equipment you would pay a “fair market value.” Normally these lease payments are treated as an expense so you are able to deduct 100% of the payment each month. Additionally, the item is not added to your fixed assets and neither is the lease amount added as a liability.
- Capital Lease – also known as a \$1.00 buyout, this form of a lease is similar to a loan in that the item would have to be capitalized, meaning you would need to add the item to the fixed assets and the item cost as a liability. The item would then be depreciated over the normal life of the product. For tax purposes, you would only be allowed to expense the interest and then depreciate the equipment.

There are several advantages and disadvantages to leasing:

- Advantages –
 - Up front cost are usually less
 - Usually easier to get than a loan
 - Could be better tax incentives
 - Good for equipment that needs frequent updating such as computers or copiers
- Disadvantages –
 - You cannot pay off the lease early without significant penalties
 - If you have a Fair Market Value lease then there is no equity
 - Interest rates are usually much higher than traditional loans
 - Limitation use, such as in cars and the number of miles driven
 - If lease is for equipment that would normally be exempt from sales tax, in a Fair Market Value lease you would still have to pay sales tax



Grants

Are there really grants available for a small business, or is that just a myth? Most of the information you hear about grants available for “for-profit” businesses are myths, if not outright scams.

for “for-profit” businesses are myths, if not outright scams. The government does not hand out money for you to start your coffee shop or other small business. There may be grant programs available for small businesses tied to a specific industry or for social programs.

There may be some grants available through your city or county government, but these will be very limited. These grants are complex and usually very competitive. To find out more, go to www.grants.gov.

Angel Investors/Venture Capital

Both Angel Investors and Venture Capital businesses are interested in taking businesses with high growth potential and investing in the company in the form of ownership. Each is different in their goals:

- Angel Investors are usually local business people or entrepreneurs that want to help a startup or existing business move to the next level. Their interest is in the investment, but to also be a mentor and contributor to the success of the business. If you consider angel investment for financing, be sure you know the investors’ goals.
- Venture Capital is provided by firms that are looking for high growth business opportunities in businesses that can grow and be sold within a short time frame. They require an active role in the business, which may conflict with the goals and objectives of the owner(s). Most venture capital firms are looking for investments in the \$500,000+ range.

Raising Outside Capital

If you will be seeking equity funding from investors that will not be directly involved in your business, then you may need to create a Private Placement Memorandum in order to solicit funds. It is best to seek the advice of an attorney who has experience in this field. This only applies to equity investors and not to people loaning you money. There are also exceptions for immediate family members and if investors are all in Virginia. Be sure you understand the SEC rules before soliciting.

Facts About Small Business Loans:

- You will need to have good credit
- You will need to put some capital into the company as banks or investors will not loan or invest in your company unless you have
- If borrowing funding, you will be required to sign a personal guarantee
- Getting a loan is not quick, so expect several months to go through the process
- Startup businesses are harder to finance than existing businesses

Small Business Administration

The SBA has resources available for lender matching and education. Visit their website at www.sba.gov



Banks that Support Small Business

The Small Business Development Center is fortunate to have many local branches that support our work with small businesses. Make sure to visit them once you are ready for a business loan or banking products:

- HomeTown Bank
- Freedom First Federal Credit Union
- Atlantic Union Bank & Trust
- Wells Fargo
- Highlands Community Bank
- BB&T
- Member One Federal Credit Union
- First Citizens Bank
- American National Bank & Trust
- Bank of the James
- Bank of Botetourt
- Bank of Fincastle
- Carter Bank & Trust
- Virginia Small Business Financing Authority



Buying or Selling a Business

Buying a Business

Starting a new business can be daunting and take months or sometimes years to become profitable. Additionally, finding capital to start a new business is becoming more and more difficult. Buying an existing business can eliminate many of these issues, or at least make it easier.

Advantages:

- Proven track record of profitability
- Reduction in up-front costs
- Immediate positive cash flow
- Existing customer base
- Existing and trained staff
- Easier to find capital to include loans/owner financing

Disadvantages:

- Initially higher price than what it would cost to start from scratch
- Problems of which you are unaware – legal, customer service, employees, etc.
- The owner may be the business and employees and customers won’t follow new owner
- Paying more than what the business is worth; the owner may have an unrealistic opinion of the business’ value.

Best Practices

- **What do you want to do?** - In which type of business would you enjoy working? You will be committing numerous hours and capital to this business, so you want to be sure that you are doing something you will enjoy.
- **Capital Available** - How much capital do you have available to invest? There is risk, so you need to understand the worst case scenario.
- **Look online** - Start your search with online business listing services to see what types of businesses are for sale and

listing price. Example: www.bizbuysell.com

- **Ask others** - Ask friends, relatives and business associates if they know of businesses for sale that meet your criteria. Additionally, many businesses are sold that were never for sale; if you see a business you would enjoy owning, ask the owner if they ever consider selling.
- **Seek Professionals** - Many of the best businesses for sale are not publicly listed and are handled strictly by business brokers. Talk to different business brokers to see what markets they serve, what businesses they currently have for sale, and to keep you updated of new ones.
- **Be diligent** - When you find a business that might be of interest, you need to conduct a thorough investigation. You will be asked to sign a letter of confidentiality to proceed.

Questions to Answer

When you proceed with your due diligence, here are some questions you need to answer:

- Why is the owner selling the business? If the owner is retiring or ill and has owned the company for years, this could be a legitimate reason. Other reasons include burnout, career change, etc. Dig deep to find the real reason.
- Review the business' last three years (if not more) tax returns, and the internal financial statements (by month or quarter) for last three to five years.
 - Are sales trending up or down?
 - Is the industry trending up or down?
 - Is the business profitable? Is there enough cash-flow to service the debt and have sufficient excess?
 - If there is A/R, what is the aging and are there numerous bad debts? This could signal problems.
- Do not believe internal financial statements unless audited by a CPA. Compare the financial documents to the tax returns to see if they match. Ignore all claims by owner of unreported income. If the income is not on the tax return, it is not real income.
- Obtain a list of all assets that will be sold with business to include date purchased, initial cost, and current book value.
 - Will you need to immediately replace or add equipment, which will use capital resources?
 - Is the Accounts Receivable or any debt being sold with business?
 - How will you determine the value of inventory? Is there any old or outdated inventory?
- How is the business structured (as a corporation, LLC, etc)? Will you buy the business, or just the assets of the business? This could have legal and tax implications for seller and buyer.
- Does the company have any contracts and if so are they long term, safe and transferable? Some contracts would not transfer to new company so might not be able to do an asset purchase.
- Who are the biggest customers? Compare their last three years' sales. Are their sales increasing or decreasing?
- Get a list of employees with job descriptions, length of service, pay rate, etc. What is the likelihood they will stay with new owner?
- How long will the current owner stay on during transition?
- Is the current owner "The Business"? In other words, how easy will it be to transition the employees and customers to a new owner?

- Is there a lease on the location? If so, how long and what are the terms? If location is critical then a long-term lease is necessary. If location is not critical, then a short-term lease may be more favorable.
- What sort of marketing has the company been doing? What marketing will you need to do to expand and how much more capital will this require?
- Who are the main competitors? Is there a likelihood this could change in the future and take market share? What are the barriers to entry for new competitors?
- Is the price the owner asking reasonable? Will the owner provide any owner financing?
- Are there any issues with customers, employees, legal or environmental that could cause problems in the future?
- Are there any new laws that could affect the business, or a new traffic pattern or construction that could deflect traffic from your location?

Once you have all your answers, you need to determine your own business valuation. This can be done using several valuation techniques discussed later in this section or hiring a certified business appraiser. Part of your evaluation process is developing income and cash flow projections for the next three-five years.

Regardless of the price you come up with, the cash flow from the business will have to pay your debt service with sufficient cash reserves unless you are willing to use your own capital.



Selling a Business

You have built your business for years and are now ready to sell. Do not let all your hard work and investment go down the drain because you made a quick decision to sell. In most cases, you should be planning 1-2 years out to sell your business if you want to maximize your selling price. Here are a few tips to selling your business and getting the best price.

Best Practices

- **Plan ahead** to sell and understand what buyers will be looking for.
- **Clean up your financial documents**
 - Be sure the business is not paying for personal or

unnecessary expenses. You need to show increased profitability.

- Be sure all income is being run through the company, no off-the-book income. You want your sales as strong as possible and showing growth.
- Get rid of worthless inventory and turn into cash.
- Clean up A/R and get as current as you can and collect past dues and get bad debt off books.
- **Look at ways you can increase sales over the next few years.** Can you improve your marketing, update web site, sell to new markets, or offer new services or products. You want to show growth.
- **Increase profitability,** cash flow in particular. Can you buy more efficiently? Can you cut costs, such as payroll or other expenses? Work to show improved profitability.
- **Look at your customer/vendor.** If you have several customers/vendors providing the bulk of your income or inventory, look to diversify. Potential buyers get nervous when they see the bulk of sales coming from only a few customers or only one or two vendors providing products.
- **Sell under-performing assets,** or assets you don't need.
- **Buy new assets** if they will make the business more attractive to buyers and immediately produce new revenue and profit streams.
- **Clean up location.** This could mean painting, new carpet, and uniforms for employees, etc. Buyers are looking at the appearance, and customers will notice.
- **Develop written operational procedures** so that a new owner would feel comfortable with understanding the business. Find ways the business can operate without you. You need to show that the company can run and make money without you having your hands in every facet of the operation.
- **Write a business and marketing plan** so the new owner can see the possibilities of the business.
- **Create final projections** for the next 3-5 years. The buyer will need to do this, so doing this for the buyer will provide additional confidence in buying.
- **Consider using a business broker to sell your business.** The broker can screen out any lookers and only present serious potential buyers. They can also find buyers you could not and usually get a higher price than you could. Be sure you pick the best broker for you and that they have a marketing plan on how they will sell the business.
- **Be sure to understand what the real value of your business is.** Do not try to overprice the business and chase away legitimate buyers, and do not ask too little and leave money on the table. Consider having a professional business valuation performed.
- **Be prepared to negotiate.** Either take a lower amount, or be willing to owner finance part of the sale.
- **Address any "Deal Killers"** like outstanding tax issues, legal issues, employment issues, etc.
- Before releasing any information to potential buyers, be sure you get signed a legally binding **Confidentiality Agreement.**
- Check out any potential buyers by doing **credit and background checks.** If there is no way they can get financing, do not waste your time.
- **Keep quiet,** as you do not want your employees, customers, or vendors knowing about your interest in selling. If you believe they will find out, then be sure you get their buy-in. To most buyers the staff will be a critical component of the sales price.
- Do not expect the business to sell in a short time; some businesses take 2-3 years to sell.
- Be sure you are selling at the best time, so you can maximize the sale price. Sell when sales and profits are rising not

stagnant or falling.

- **Be sure you understand the tax and legal issues involved** with the sale of a business. Consult with an attorney, CPA or accountant who understands these issues. Understand the tax issues of an stock sale vs and asset sale.
- Will this be **Stock Sale or an Asset Sale.** Stock sale is when the buyer buys the current legal structure as if buying the stock in the company. If an Asset Sale the buyer is setting up a new legal structure and is only buying the assets of the business (which includes the goodwill).
- If you have a buyer interested, keep the negotiations moving. Once you have a signed purchase agreement, the buyer should not take more than 2-4 weeks to complete their due diligence. Do not let this stage drag on too long.
- Most of all, **keep motivated** throughout the process. If you let up, your business could suffer, and so will your price and chance of selling.

There are many issues involved in selling a business. To protect you and to get the maximum selling price, hire people who are experienced in this area. This would include a business broker, an attorney familiar with business purchases, and a CPA or accountant that is familiar with the tax consequences of selling.



Business Valuations

A realistic business valuation requires more than just looking at the current financial statements. To get the most realistic value of the company, you must analyze historical financial information going back 3-5 years, looking at the future projected income statements and an understanding of the industry, the economy and how your company will compete in the marketplace.

There are several different techniques used to evaluate a business. Smaller businesses are usually evaluated mainly on cash flow, while larger small businesses may be evaluated on capitalized earnings, or comparing several different techniques. Use the method(s) that works best for you. If the company you are buying is of significant value (more than \$300,000), you may need to hire a certified business appraiser to provide a professional price assessment.

Cash Flow Method

Unless you have additional capital to handle costs above the cash flow of the business, you will need to have positive cash flow starting on day one to cover all debts. When using this approach, it is assumed it does not matter how many assets the business has, if there is not enough cash flow to pay the debt service, the business is over-priced for the terms of the financing.

You determine the actual cash flow by taking the profit and adding back non-cash items, or costs assigned to previous owner. This is sometimes referred to EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization). Also include items that are referred to as SDE (Sellers Discretionary Earnings) which are items that would not be typical for a new owner.

Step 1: Items to add to profit include, but are not limited to:

- Depreciation
- Amortization
- Interest Expense
- Income taxes (not business or property taxes)
- Owner's Salary & Benefits
- Any other expense that would not normally occur

Step 2: Once you have determined cash flow, you will need to determine your new additional costs. Take the cash flow in Step 1 and subtract:

- Interest and Principal of all debt, including new debt
- New owner's salary & benefits
- Any new expenses you will need such as equipment or additional marketing expenses, or personnel.

After you have subtracted all your costs there should still be sufficient cash remaining to allow for other unanticipated costs, or a decrease in sales. Your cash flow after Step 2 should be no more than 75% of the current cash flow after Step 1.

Cash Flow or Sales Multiple

A method to value a small business is using an industry multiple times the profits, or sales (also called a rule of thumb). This is far from an exact science and should not be used solely as a business valuation method.

Cash Flow method: Using the cash flow method created in Step 1 above, you would then multiply this amount by the industry multiple. To find an industry multiple you would need to do research. There are many industry resources to include web sites, industry groups, etc. If you are dealing with a business broker, they will usually have access to this information.

Example: There is a dry cleaner for sale with annual revenues of \$800,000 and a cash flow of \$125,000. The industry multiple for a dry cleaner doing more than \$500,000 and less than 1 million is 2.5. To determine a fair price you would take $\$125,000 \times 2.5 = \$312,500$. In this case, the business would be worth around \$312,500. There are variables that could affect price such as age and condition of equipment, length of lease, and whether the cash flow trend is increasing or decreasing.

Sales method: Some industries use the sales multiplied by an industry factor, not taking profit into consideration; these are usually service businesses such as accounting and legal firms.

Book Value: This is a simple approach to valuation by taking the current book value of the assets and subtracting the liabilities. It is not usually a good value, as the book value may not reflect the true value of the assets especially if the assets are inventory, or intangible assets such as intellectual property, or goodwill.

Tangible Book Value: This approach is similar to book value, but the intangible assets, such as goodwill and intellectual property are not included.

Asset Market Value: This is similar to the Book Value approach except you get true market value of the assets which may be larger or smaller than the book value. In particular inventory and intangibles need to be evaluated as to realistic market value. Inventory may be overstated due to the fact that it is old, outdated

or damaged. Goodwill may not be properly stated, and patents may be ready to expire and no longer have value.

Capitalized Adjusted Earnings: This approach uses the buyer's expected rate of return from this business. Since most investors could recoup 8-10% in the general market, small business risks are usually evaluated with a rate of return of 15-25% or even higher. Longer established businesses would be lower, while newer less established businesses would be higher. The lower the rate of return the higher the price for the seller so the seller and buyer need to agree on what is a fair rate of return for this business.

The formula is taking the cash flow of the business using a weighted average over the past five years, or taking the previous year and dividing by the rate of return (if the business is trending up you may just take last year, or average the last two years). This will give you the selling price of the business.

Example: A dry cleaner is for sale, and the buyer is expecting a 25% rate of return; the cash flow for the past five years is listed below.

Weighted Average Approach:

Year	Cash Flow (CF)	Weight	Adjusted CF
2005	\$75,000	1	\$75,000
2006	\$85,000	2	\$170,000
2007	\$90,000	3	\$270,000
2008	\$100,000	4	\$400,000
2009	\$125,000	5	\$625,000
Total		15	\$1,540,000
Average CF			\$102,666

*If you use the weighted average approach:
 $\$102,666 / .25 = \$410,664$ is the value of the business*

*If you take the last year's cash flow:
 $\$125,000 / .25 = \$500,000$ is the value of the business*

If the seller believes the rate of return should only be 20%, then the value of the business changes dramatically.

*Weighted average approach:
 $\$102,666 / .20 = \$513,330$*

*If you take the last year's cash flow:
 $\$125,000 / .2 = \$625,000$*

As you can see from the examples, determining a reasonable rate of return can have dramatic differences in the business valuation.





Franchising

A franchise is a system a company (franchisor) uses to market their products/services by granting individuals or groups (franchisee) the right to use the franchise's brand (trademark & name) and their proven system of operation within a well defined territory.

The franchisee must adhere to the operational and marketing standards that have been established by the franchisor and to operate within a defined geographical area. The agreement is usually a long-term contract lasting upwards of 20 years.

Why Choose a Franchise

A franchise may be a perfect fit for someone who has not been in business before, or likes the idea of operating under a proven system, and wants to own his or her own business. They also want to reduce some of the risk associated with starting a business from scratch. Franchises are available for almost all retail or service industries. To out more about franchises, visit the SBA approved franchise list (allows faster approval for SBA loans) www.franchiseregistry.com, or the industry trade association www.franchise.org.

Advantages of a Franchise:

- Established name recognition
- Business has developed a proven system of success
- Provides training and advice in how to start and operate the business
- There is an established branding and marketing system
- Better buying power for supplies or services
- Networking with other franchisees
- Award systems within the franchise operation
- Exclusive rights to a geographical territory
- Usually easier to get financed than traditional startup
- Franchisor may have special financing arrangements
- Higher success rate than traditional startup

Disadvantages of a Franchise:

- Loss of independence on how you want to run and operate your business
- Startup costs are higher
- Royalty and advertising fees last as long as contract
- Growth restrictions as you have a territory. To expand you

- have to buy additional territories
- Usually an inability to sell online, carry new products/services without franchisor's approval
- Franchisor may not be reliable or provide necessary support
- Could be harder to sell business as franchisor has right to approve new owner
- Other franchisee could give your location bad name if they provide poor service
- Long term commitment, usually with no easy termination
- In some cases there is an increase in cost of supplies as the franchisor may charge more for inventory than purchasing elsewhere

Franchise Disclosure Document (FDD)

The Franchise Disclosure Document (FDD) is a legal document that franchisors are required to furnish franchisees at least 10 days prior to signing a Franchise Agreement. The FDD contains critical information about a franchise operation and is designed to help franchisees analyze whether the franchise is right for them.

The FDD contains these and other items:

- Information on the franchisor
- Litigation history to include bankruptcy, lawsuits, etc.
- Initial franchise fee and other initial payments
- Royalty, advertising and other fees and expenses
- Obligations of franchisee to purchase or lease from approved vendors
- Obligations of the franchisor
- Exclusive/Designated territory
- Trademarks, Service Marks, Trade Names, Logos, Patents, Copyrights
- Obligations of the franchisee
- Restrictions on goods and services offered by franchisee
- Renewal, termination, modification or resell of agreement
- Actual, average, projected or forecasted franchise sales or profits
- Financial Statements
- Contracts

Note: While a disclosure document is required by law, no legal body has reviewed its contents to ensure its accuracy, which is why retaining an attorney that is familiar with franchise laws is usually appropriate.

Franchise Agreement

Document that legally binds both Franchisor and Franchisee. This document lays out the rights and obligations of each party.

Best Practices

- Ask current franchisees how their experience has been. Has the franchisor provided what was promised? Has the business generated the results they thought? Are they pleased they went with this franchisor? Be sure to find franchisees yourself, not just the ones the franchisor provided to you.
- Do they have at least 25 locations? The more locations and more successful locations show that the system they have works. You should beware of franchises just starting and only have a few locations.
- Have you done market research to see if this type of franchise will work in your geographical area? Just because a franchise is successful in California does not mean in will be successful in Southwest Virginia.

- Do they have good training and support staff? Some franchisors operate on a shoestring with one or two people doing everything. You need to be sure they have well trained and qualified staff.
- Are they financially viable? Is there any reason to believe they cannot provide support due to lack of capital?
- Is the franchise agreement something you can live with for the term of the contract? Even if the franchisor does not do what you thought they would do, it is usually hard to break an agreement, which means you will continue to pay fees regardless of the support you are receiving.
- Do a detail analysis of the income and profit projections. Be sure you can make money with the sales you have forecasted. Be conservative in your estimates.
- How much of the advertising allowance you pay to the franchisor is put back into the local market? Some franchisors place your ad dollars in areas that are of no benefit to you, which means you need to project additional marketing dollars.



Legal Documents

Incorporation-

- **Articles of incorporation** – Key document submitted to the State Corporation Commission (SCC) to legally establish a corporation in Virginia.
- **Bylaws** – Document that defines how a corporation will operate and the rights and powers of the shareholders.
- **Unanimous Consent** – The adoption of resolutions, etc. where each board member agrees to an action without formal meeting of the board.
- **Resolutions** – Corporate resolutions approved by the Board of Directors with one of the key elements containing a list of individuals who are authorized to conduct specified actions on behalf of the company. Typical authorization would include the ability to sign checks and commit to loans, or to buy and sell assets of the corporation.
- **Stock Certificates** – Documents reflecting legal ownership of a specific number of stock shares in a corporation.
- **Corporate Minutes** – Documents formalizing agreements made by the board of directors. You are required to have the board meet once a year to elect officers. Meetings are also conducted whenever a significant action will take place within the corporation.

Limited Liability Company-

- **Articles of Organization** – Form required to be completed in order to become established as a Limited Liability Company in Virginia. This form is completed and sent to the SCC.
- **Operating Agreement** – Document used by a Limited Liability Company to outline how the LLC will operate. This will include such items as who the members are, what ownership rights they have, how much capital was contributed, how one member sells their ownership interests, etc. This document is not required if it is a single member LLC. The Operating Agreement is an internal document between the owners and is not recorded with any government agency. The agreement should be updated when necessary, signed by all parties, notarized, and given to each party and the company's attorney.

Buy/Sell Agreement – Agreement between owners of a business (applies to all legal entities) as to how ownership of the business is transferred. Usually has limitation on who ownership can be sold to, the value of the ownership, what happens in event of death, divorce or bankruptcy. This is an extremely important document for every business if there are multiple owners. In many instances, a **“Key Man”** insurance policy is purchased for each partner so in the event one partner dies, the insurance proceeds will allow the other partners to purchase the stock from the estate of the deceased partner.

Promissory Note – document that specifies the terms, rights, and obligations that apply to a loan. It should include interest rate, payment terms, due dates and be signed by the borrower. Should be completed any time the business borrows money.

Non-Disclosure Agreement (NDA) – agreement under which a party(s) agree(s) not to disclose confidential or proprietary information which they receive or have access to from another party. Used when a company may want to hire a manufacturer to build a product, or hire a consultant to provide services and will be exposed to critical business information.

Subcontractor Agreement – agreement between a company and someone who is performing duties for that company in a subcontracting basis. Is not just for contracting companies, but can be used by any company to confirm a relationship between a company and another company or individual to reaffirm there is not an employee relationship.

Lease – agreement between a landlord (or lessor) and a tenant (or lesser) where the lesser is leasing property (real estate or business property) from the lessor under specific terms (length of lease and cost). Be familiar with tax and legal issues involved in leases.

Personal Guarantee – agreement where one individual guarantees another person, or entity, his or her personal guarantee that an agreement will be fulfilled. This is usually associated with loans, leases or the purchase of equipment and supplies. Regardless of how your business is legally structured (corporation, LLC, etc) a personal guarantee operates outside of these restrictions.

Sales Contract – document stating the terms of sale between the company and another party. This document will state the exact items being provided, the cost, dates, and terms.

Bill of Sale – document under which a seller transfers property to a buyer. Not used for real estate, but can be used for any real property to include vehicles, machinery, tools, etc. This document

should state what the item is and that it is free and clear of all liens.

UCC/Lien – legal document that is filed with the State Corporation Commission and a local courthouse to show property that has been pledged against a note or other security agreement.

Hold Harmless Agreement – legal contract designed to protect one party from the liability of another party. Used when one party uses the services/property of another party, yet the first party does not want to be responsible for the second party's actions. Should be properly drafted by an attorney who understands liability law.

Copyright - laws that regulate the use of work by the creator of a work. Examples would include artist, photographer, designer, or author. This includes copying, distributing, altering, and displaying creative, literary, and other types of work. Unless otherwise stated in a contract, the author or creator of a work retains the copyright. Copyrights do not have to be registered to be enforced. Registering a copyright establishes a date and proven ownership and will allow for additional compensation in the event of a copyright infringement. Copyrights are registered at www.copyright.gov.

Patent – set of exclusive rights for a period of time for an invention in exchange for public notification. An invention can be a product, system, useful improvement, etc. Patents do have an expiration date. This is commonly referred to as Intellectual Property Rights (IP). Patents are registered at the United States Patent and Trademark Office www.uspto.gov. Patents are typically good for 15 years from filing date for design patents and 20 years for utility patents.

Trademark/Service Mark - word, name, symbol, or device that is to indicate the source of the services or products and to distinguish them from the services or products of others. A service mark is the same as a trademark except that it identifies and distinguishes the source of a service rather than a product. The terms “trademark” and “mark” are often used to refer to both trademarks and service marks. Trademarks and Service Marks are registered at the United States Patent and Trademark Office (USPTO), www.uspto.gov and are good for 10 years and then can be renewed. There is also a requirement to file with the USPTO between the 5th and 6th year that the Trademark is still in use.

Partnership Agreement – similar to an operating agreement, except for a partnership.

Letter of Intent – in general, an agreement to agree. It outlines the terms between parties who have not formalized an agreement into a contract and want to continue formal negotiations. Letters of intent are generally not binding and therefore unenforceable. Such letters indicate an intention to do something later.

End User License Agreement – licensing the use of a product (such as software) rather than selling the item (CD or DVD). This gives the user the right to use the product, but not allow to resale. To determine if this agreement is right for your product seek professional guidance from an experienced attorney in intellectual property rights.

Private Placement Memorandum – If you will be seeking equity funding from investors that will not be directly involved in your business, then you may need to create a Private Placement Memorandum in order to solicit funds. It is best to seek the advice of an attorney who has experience in this field so that you

do not break the law. This only applies to equity investors and not to people loaning you money. There are also exceptions for immediate family members.

Thank you for being part of the small business community! You can reach out to us and learn more about our services at:

RoanokeSmallBusiness.org



WE HELP SMALL BUSINESSES

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GROW
EXPAND
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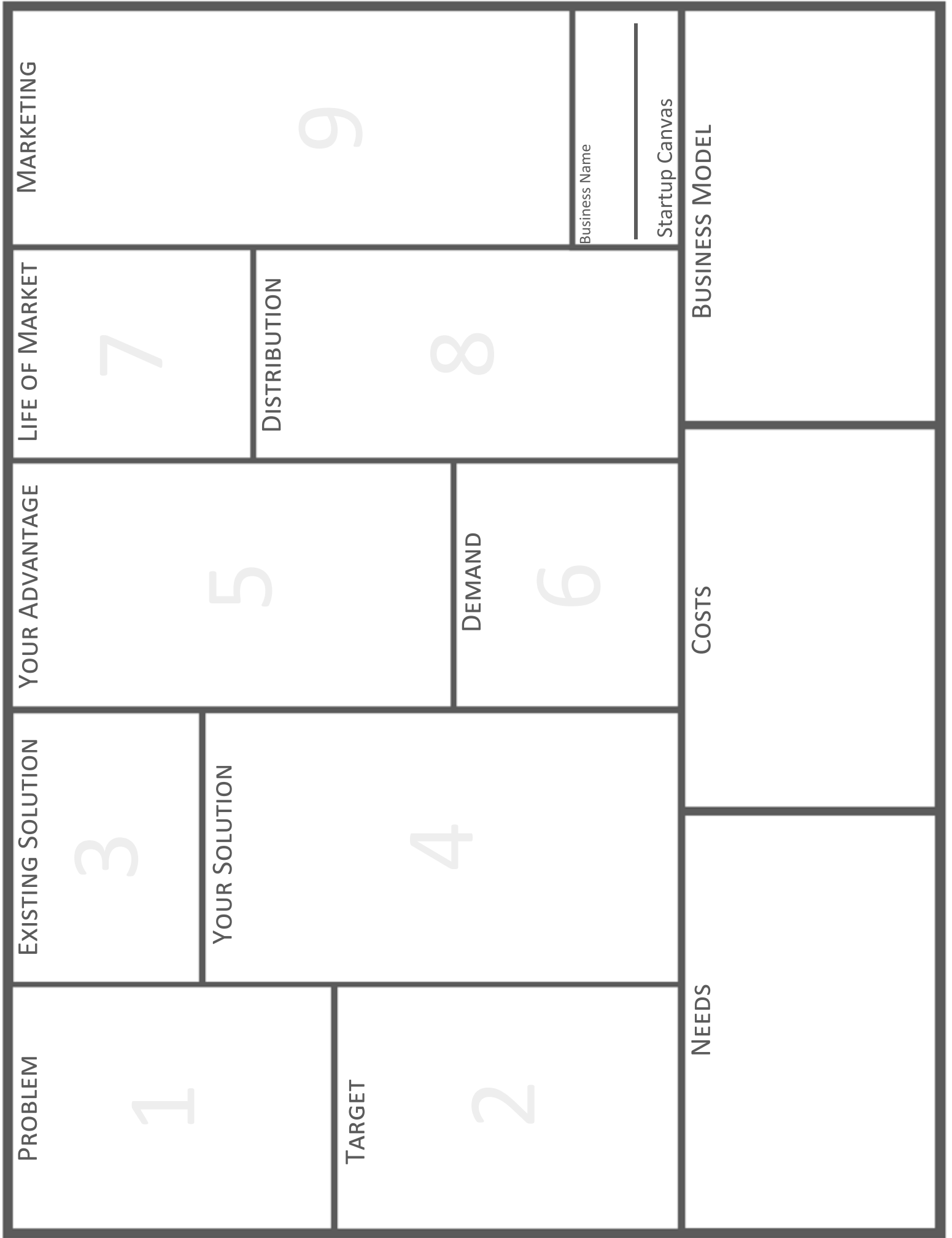
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Business Owner Self-Assessment

1 = no way 5 = I'm all in	1	2	3	4	5
Are you committed to doing whatever it takes to start a business?					
Are you a self-starter and self-motivated?					
Do you like to be challenged and find new ways to do things?					
Can you work independent of someone giving you directions?					
Do you consider yourself honest and ethical, and will you treat customers the same way?					
Do you get along well with different personalities?					
Are you good at solving problems?					
Are you good at managing people and projects?					
Are you creative?					
Can you make timely decisions?					
Are you emotionally and physically capable of working long hours?					
Are you good at managing your time?					
Are you well organized?					
Do you have the support of your family to make the necessary sacrifices?					
Are you willing to put in the necessary time and energy?					
Are you willing to make the financial sacrifices of putting your assets at risk and being the last one to be paid?					
Are you good at multi-tasking?					
Do you have the background and knowledge to operate this business?					
Do you understand what your strengths and weaknesses are?					
Have you worked in the type of business you are interested in starting?					
Are you willing to take the extra steps to improve the knowledge areas that you are lacking?					
Do you enjoy networking or speaking about your business to other?					
Are you good at public speaking and making presentations?					
Are you able to overcome discouragement when things do not go right?					
Can you handle stress?					
Have you identified key advisors and/or mentors?					
Do you know what your personal goals are and do they align with your business goals?					
Do you have a written business plan?					
Do you have good credit?					
Do you have the assets available to start the business and are you willing to risk those funds?					
Are the conditions right in your life and in the economy to start a business?					
Do you have a plan for meeting your personal living expenses until the business is profitable?					



Entrepreneur – 360 Assessment

1=Need a lot of help 5=No Help Needed	1	2	3	4	5
Mission Statement					
Sales – <ul style="list-style-type: none"> • Calling on customers • Customer follow up • Closing sales 					
Sales – Developing sales strategies and sales messages					
Marketing – <ul style="list-style-type: none"> • Market analysis • SWOT (competitor analysis) • Developing customer personas • Understanding niche(s) • Understanding message(s) • Developing brand (to include logo) • Packaging • Developing elevator pitch • Networking skills • Public relations • Pricing 					
Advertising <ul style="list-style-type: none"> • Website • Digital media • SEO • Social media • PPC • Review sites (Yelp, Google, Tripadvisor, etc.) 					
Customer Service <ul style="list-style-type: none"> • Developing customer service strategy and policies • Follow up • Handling upset customers 					
Distribution - Plans to get product or service to customer					
Manufacturing					
Developing of Business Plan					

<p>Financial Planning</p> <ul style="list-style-type: none"> • How to interpret financial reports (P&L, Balance Sheet) • Understanding loan requirements • Developing financial projections • Managing money (cash management) 					
<p>Legal/Organizational</p> <ul style="list-style-type: none"> • Legal entity required • Other legal issues, contracts, agreements, etc. • Board/Advisory Board • Intellectual Property 					
<p>Accounting</p> <ul style="list-style-type: none"> • Bookkeeping functions (A/P, A/R, inventory, reports, etc.) • Inventory management • Taxes – income, sales, employee • Payroll 					
<p>Administrative</p> <ul style="list-style-type: none"> • Work flow requirements (phone calls, scheduling, etc.) • Knowledge of permits, licensing, regulatory compliance, etc. • Knowledge of insurance requirements 					
<p>Human Relations</p> <ul style="list-style-type: none"> • Job descriptions • Employee handbooks • Hiring/firing procedures • Employment laws 					
<p>Business Skills</p> <ul style="list-style-type: none"> • People skills – managing employees • General business management skills • Oral presentation skills • Written communication skills • Computer skills • Basic technology skills • Organizational skills • Time Management 					
Industry - Knowledge of the technical aspect of your business					
Need for capital to fund business					

Checklist to Starting a New Business

Items to Complete:	Completed
Start business plan, Marketing Plan, Financial projections, Break-Even analysis	
Determine if any special professional licenses, permits or requirements are required from the Department of Professional & Occupational Regulation (DPOR), ABC Board, or from the Departments of Health, Mental Health, and Social Services	
Determine possible locations – use for estimating costs	
Determine estimated start-up costs and necessary funding, including working capital	
Locate possible funding sources – can you get the money you need	
Select Accountant & Attorney to help in business plan development	
Determine business location and negotiate lease – (do not sign), check on zoning, parking, sign, days of operation, or other restrictions. Be sure you can obtain your business license.	
Determine Business Name – see if available (no conflicts, trademark issues, etc.)	
Check to see if URL is available for the business name or something close	
Reserve name at SCC(unless you will get soon), purchase URL (you can wait on this step for financing)	
Complete business plan and financial projections	
Complete Marketing Plan and develop Marketing Calendar	
Submit business plan to potential lenders and investors	
Receive confirmation of business loan, or have access to necessary capital	
Submit for any special licenses, permits, requirements, etc. This would include DPOR, ABC Board, and the Departments of Health, Mental Health, and Social Services	
Determine business legal entity	
Set-up legal structure of business - (<i>file with SCC</i>)	
Purchase URL if you have not done so	
Apply for FEIN & submit any necessary tax information to IRS (S-Corp. section)	
Setup bank account in name of business	
If taking credit cards, select credit card processor	
Setup accounting system, Point of Sale system, etc. to start tracking expenses & income	
Finalize lease with landlord – setup phone, utilities, etc.	
Obtain funds from financing – deposit in business account	
Obtain necessary insurance to include workman’s compensation	
Purchase necessary equipment	
Develop marketing plan for pre-opening and implement	
File fictitious name registration with courthouse	
Obtain Business License and register for any local taxes (meals, entertainment, etc.)	
Register with Department of Taxation for all Virginia Taxes and VEC registration	
Obtain all necessary employment posters and display	
Hire employees – complete all necessary hire paperwork, setup payroll system	
Design logo, print business cards, letterhead, brochures, etc. (can be done earlier)	
Design and get live business Web site.	
Register any trademarks, service marks, patents or copyrights (can be done earlier)	
Open for business	
Schedule Grand opening	

*Note: Not all items are needed for every business. Place an N/A in the completed column if the item is “Not Applicable” to your business. This checklist is just a guide and some items for some businesses will need to be completed in different sequences. Adjust the list to meet your particular schedule.© RRSBDC 2019

SWOT Worksheet

Competitors Business Name: _____

Date _____

Item	S	W	O	T	Comments
Pricing					
Quality					
Convenience/Location					
Customer Service					
Product Selection					
Hours of Operation					
Yrs in Business					
Reputation					
Employees					
Web site					
Add Ons					
Refund Policy					
Warranties/Guarantee					
Low Price Guarantee					
Free Delivery					
Free Training					
Parts/Service Dept					
Customer Service					
Marketing Strategy					
Ease of Doing Business With					
Distribution					
Target Market					
Appearance – store, emp, cars					

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Under the Strengths and Weakness column you can enter a check mark, or if you want to list the strength or weakness of the item, you can use a number from 1 to 5.

Select S (Strength) column if this item is a strength of your competitor. If so, you should select either the Opportunity or Threat column to mark whether you see this Strength as a Threat or Opportunity to your business. In the comment section, list the exact strength and explain how you will counteract this strength.

Select W (Weakness) column if this is a weakness for your competitor. If so, you should select either the Opportunity or Threat column to mark whether you see this Weakness as a Threat or Opportunity to your business. In the comment section, list the exact weakness and explain how you will counteract this strength.

*Note: This is a sample of items to compare. Your list may include more or different items.

Sample Income Statement

INCOME STATEMENT PROJECTIONS, FISCAL YEAR ONE													
REVENUES	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Sales Item 1	5,000	5,800	6,500	7,200	7,800	8,400	8,800	9,500	10,000	10,500	11,000	12,000	102,500
Sales Item 2	1,000	1,400	1,600	1,700	1,850	2,000	2,200	2,350	2,475	2,700	2,975	3,100	25,350
Sales Item 3	2,000	2,300	2,500	2,700	2,900	3,000	3,200	3,375	3,525	3,700	3,875	4,100	37,175
Total Revenues	8,000	9,500	10,600	11,600	12,550	13,400	14,200	15,225	16,000	16,900	17,850	19,200	165,025
COST OF SALES													
Revenue 1 CGS	1,250	1,450	1,625	1,800	1,950	2,100	2,200	2,375	2,500	2,625	2,750	3,000	25,625
Revenue 2 CGS	300	420	480	510	555	600	660	705	743	810	893	930	7,605
Revenue 3 CGS	420	483	525	567	609	630	672	709	740	777	814	861	7,807
Hourly Wages	1,680	1,995	2,226	2,436	2,636	2,814	2,982	3,197	3,360	3,549	3,749	4,032	34,655
Franchise Royalties	0	0	0	0	0	0	0	0	0	0	0	0	0
Total COGS	3,650	4,348	4,856	5,313	5,750	6,144	6,514	6,986	7,343	7,761	8,205	8,823	75,692
GROSS PROFIT	4,350	5,152	5,744	6,287	6,801	7,256	7,686	8,239	8,657	9,139	9,645	10,377	89,333
EXPENSES													
Accounting and Legal	25	25	25	25	25	25	25	25	25	25	25	25	300
Advertising	160	190	212	232	251	268	284	305	320	338	357	384	3,301
Depreciation	833	833	833	833	833	833	833	833	833	833	833	833	10,000
Insurance	50	50	50	50	50	50	50	50	50	50	50	50	600
Interest	375	370	365	360	355	350	345	339	334	329	324	318	4,164
Paper Supplies	0	0	0	0	0	0	0	0	0	0	0	0	0
Payroll Taxes	363	387	405	421	437	451	464	480	493	508	523	545	5,476
Local Taxes - Per P & R/E	50	50	50	50	50	50	50	50	50	50	50	50	600
Rent/Lease	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Repairs & Maintenance	25	25	25	25	25	25	25	25	25	25	25	25	300
Cleaning Supplies	35	35	35	35	35	35	35	35	35	35	35	35	420
Telephone	75	75	75	75	75	75	75	75	75	75	75	75	900
Utilities	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Licence and Fee's	42	42	42	42	42	42	42	42	42	42	42	42	504
Bad Debt	4	5	5	6	6	7	7	8	8	8	9	10	83
Security	10	10	10	10	10	10	10	10	10	10	10	10	120
Workers Compensation	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Laundry	10	10	10	10	10	10	10	10	10	10	10	10	120
Credit Cards	160	190	212	232	251	268	284	305	320	338	357	384	3,301
Misc. Expenses	75	75	75	75	75	75	75	75	75	75	75	75	900
Exterminator	28	28	28	28	28	28	28	28	28	28	28	28	336
Office Supplies	45	45	45	45	45	45	45	45	45	45	45	45	540
Benefits	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Uniform	25	25	25	25	25	25	25	25	25	25	25	25	300
Owner Salary	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
TOTAL EXPENSES	7,340	7,420	7,478	7,529	7,578	7,621	7,662	7,715	7,753	7,789	7,848	7,919	91,663
NET PROFIT	(2,990)	(2,268)	(1,734)	(1,242)	(778)	(365)	24	524	904	1,340	1,797	2,458	(2,330)
INCOME TAXES*	0	0	0	0	0	0	0	0	0	0	0	0	0
NET PROFIT A/TAX	(2,990)	(2,268)	(1,734)	(1,242)	(778)	(365)	24	524	904	1,340	1,797	2,458	(2,330)

*Income Taxes are approximate. If business is setup as a S-Corporation or LLC taxes are passed through to the stockholders and taxed at their personal income rate. Additionally, no consideration has been made for 179 deductions.

Start-up Expenses

Pre-paid expenses

- Insurance

Licenses & Permits

- Business License
- Building Permits
- Vehicle Registration
- Corporation Fees
- Special Licenses
 - ABC license
 - Contractor license
 - Other

Professional Fess

- Attorney
- Accountant
- Consultant

Deposits

- Rent
- Phone/Utilities

Pre-opening Advertising

- Logo Design
- Web site
- Business Cards
- Stationery, etc.
- Printing: brochures, etc.
- Pre-opening media

Beginning Inventory

Leasehold Improvements

- Location Improvements
- Signs

Other Fixed Assets

- Furniture & Fixtures
- Computers
- Software
- Manufacturing Equipment
- Vehicles

Supplies

- Office
- Cleaning

Cost of Financing

- Down payment on loan
- Closing costs
- Appraisals
- Pre-paid interest or payments

Employee Costs

- Hiring Costs
- Cost to Train
- Wages before opening

Research Costs

- Market Analysis
- Business Plan Development
- Travel Costs, etc
- Product Development Costs

Unanticipated Costs: add 10% to total

Note: Be sure to add enough working capital to cover your business until you reach breakeven.

Break-Even Analysis

A break-even point is when sales are equal to expenses. In other words, you are not making or losing money. In order to determine your break-even point, which is an extremely important tool, you will need to know your fixed expenses and your gross margin as a percent of sales.

Fixed expenses are expenses that are independent of either production or revenue. In other words, if you had no sales for the next month, what costs would you still have? Listed below is the procedure for determining your break-even point.

Sample Profit & Loss Statement:

Sales	\$100,000
Cost of Products	\$40,000
Direct Labor	<u>\$20,000</u>
Gross Profit	\$40,000
Fixed Expenses:	
Advertising	\$2,000
Insurance	\$1,000
Rent	\$1,500
Telephone	\$500
Salaries	\$5,000
Utilities	\$1,000
Interest Expense	\$1,000
Leases	\$1,500
Supplies	<u>\$500</u>
Total Fixed Expenses	\$14,000

Step 1:

Calculate your gross profit margin:

$Gross\ Profit / Total\ Sales = Gross\ Margin$

$\$40,000 / \$100,000 = 40\%$ or .4

Step 2:

Your total fixed costs are \$14,000.

Step 3:

Calculate your break-even point:

$Total\ Fixed\ Expenses / Gross\ Profit\ Percentage = Break\text{-}Even\ Point$

$\$14,000 / .4 = \$35,000$

Your break-even point per month would be \$35,000.

If you were selling a single item that sold for \$100 then you could calculate how many units you would have to sell. Take $\$35,000 / \$100 = 350$. To break even you would have to sell 350 units at \$100.

If you are selling multiple items at different margins, you will need to do a more thorough analysis by determining product mix and using a weighted average.

Estimating Payroll Requirement

If your business will have multiple employees, you will need to determine your anticipated payroll. Based on your business, payroll may be based on sales, production, or even hours of operation. Use this chart to help determine your payroll.

Monthly payroll estimate based on number of hours store is open:

Example: The store is open 50 hours a week, you need 2 employees in the store at all times, and you pay \$10.00 an hour.

Weekly hours open	Monthly hours open Column 1*52/12	# Employees Needed	Average Wage	Total Monthly Payroll
50	$50 \times 52 / 12 = 217$	2	\$10/ hour	$217 \times 2 \times 10 = \$4,340$

In this case your monthly payroll would be \$4,340. You could make this even closer by determining the exact days in the month the store will be open. In the case above, we took the average hours per month. This also does not take into consideration seasonality of a business.

Payroll estimate based on production, or the need for people based on what they produce:

(This could be the hours needed in manufacturing to create the product, or in a childcare facility where you have to have an employee for each 10 children.)

Example: A day-care has to have one employee for each 10 children. Average wage is \$9.00 an hour. Employees work 40 hours a week, 52 weeks a year.

Month	# Children	# Employees	Wage	Total Payroll
January	8	1	\$9.00	\$1,557
February	12	2	\$9.00	\$3,114
March	25	3	\$9.00	\$4,671
Quarterly Total				\$9,342

The formula for March would be $3 \times 173 \times 9 = \$4,671$. There are 3 employees, 173 is the average hours per month and \$9 is the hourly wage.

Formula for Pricing Product

Margin Based Pricing: Where you want to have a particular gross profit margin.

Cost = \$1.00 Margin = 40% (.4) Use formula $(\$1.00 / .4 = \$2.50)$ Retail Price = \$2.50
To determine your Gross Profit Margin take $\$2.50 \times (1 - .4) = \1.50 (or $\$2.50 - \$1.00 = \$1.50$)

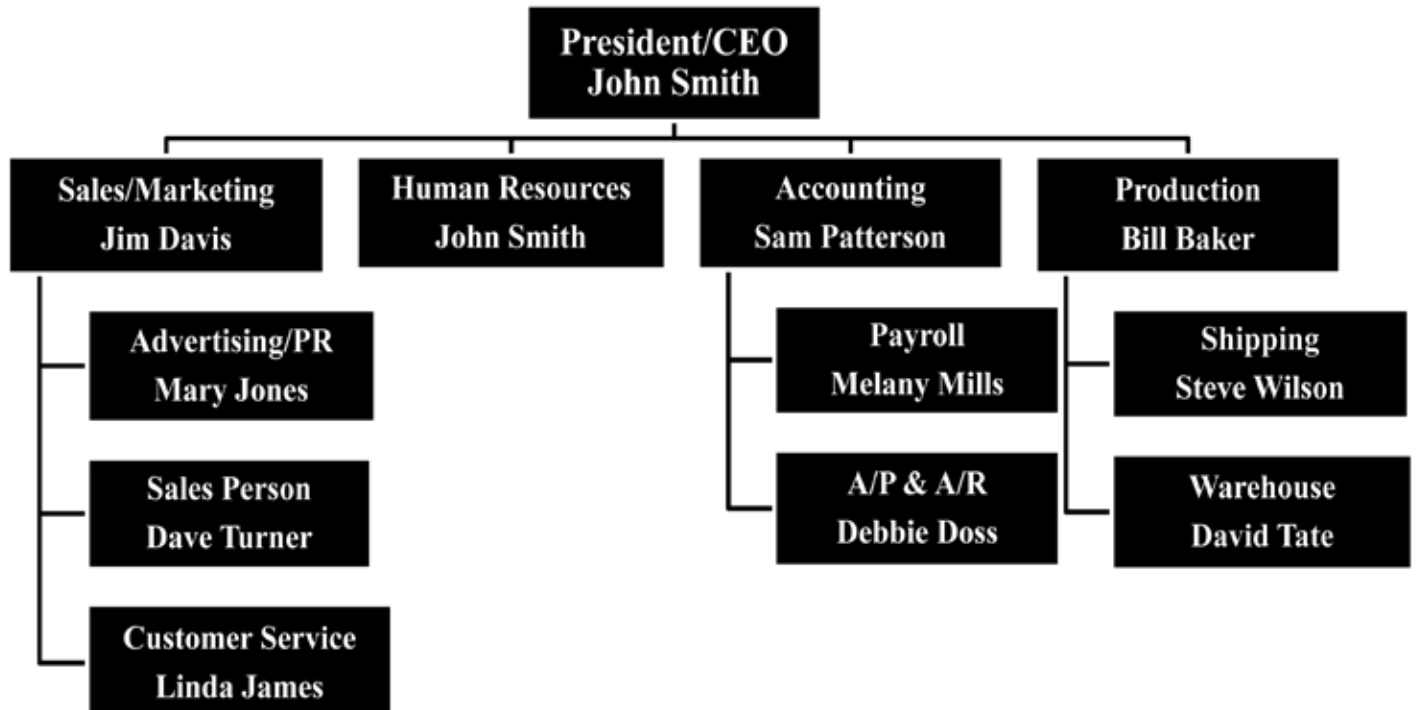
Product Mark Up: Where you are taking the cost and marking it a percentage.

Cost = \$1.00 Markup = 120% Use formula $\$1.00 \times (1 + 1.2) =$ Retail Price of \$2.20

Effects of Profit on Price Change: The amount of loss business from a discount. Always determine the amount of increased business you need to bring in from a price decrease.

Price of product = \$10.00, Amount of Discount = 20% New price = \$8.00
Current Gross Profit Margin = 50% which would be Cost of Goods of \$5.00
Take the New price of \$8.00 - \$5.00 (CGS) = \$3.00
Amount of loss profit = 40% (giving a customer a 20% discount results in a 40% decrease in profit)

Organizational Chart



Techniques for Developing Revenue Projections

In order to properly project revenue in the future you need to develop a realistic model that works for the business you are developing.

Example: You want to open a restaurant downtown. You have done proper market research by surveying potential customers, and observing other restaurants during different times of the day.

Given these assumptions, develop your revenue projections.

- The location is 2000 square feet and will have 20 tables that seat four people.
- The average table use is 3 people per table.
- You will serve lunch and dinner, and you estimate you can turn your tables twice at lunch and three times at dinner.
- The average cost of lunch is \$10 per customer and in the evening is \$15.
- Your business will be open 7 days a week.
- Take the total tables of 20 and then multiply by 3 (number of people per table) = 60 people you serve at a time.

For lunch you turn your tables twice at \$10 per customer so multiply $60 \times 2 \times 10 = \1200 . This shows that you will produce \$1,200 a day for lunch.

For dinner you turn your tables three times at \$15 per customer so multiply $60 \times 3 \times 15 = \2700 . This shows that you will produce \$2,700 a day for dinner.

To determine your monthly and yearly sales take the above numbers.

- Monthly Sales – $\$1,200 + \$2,700 \times 30 = \$117,000$ a month in sales (assuming 30 days per month)
- Annual Sales - $\$117,000 \times 12 = \$1,404,000$ in sales in a year.

This is a simple approach and does not take into account such variables as seasonality, or changes based on the day of the week, etc. However, using this approach with whatever you are selling will help you estimate sales and provide you somewhat realistic assumptions. You do not want to project sales that are physically impossible to achieve. Such as producing the same sales above with 3 tables. If you were preparing this for a new business, you would need to factor in slower sales in the beginning months until you reach a break-even point.

Simple Business Plan Template

Statement of Purpose (page 4) : (why are you writing this plan, need money, how much?) _____

Executive Summary (page 4): (Tell a story about your business, what is it you want to do, and why do you think it is needed. Additionally, summarize each section of this plan into just a few paragraphs). _____

Problem you are solving (page 6) : What is the problem you want to solve? Explain why you think this problem needs to be solved. _____

Who is the target market, and customer persona? (page 6) How do you know these customers want your product/service, what research have you done. _____

How is solution currently being solved? (page 7) _____

How do you plan to solve the problem? (page 7) _____

Who are your competitors? (page 7) (complete a SWOT (page 45 and list results). What will be your competitive advantage? State why you believe customers will buy from you rather than your competitors.

How large of a market is there for your product/service? (page 8) _____

How will you price your products/services? (page 8) _____

Where and how will customers buy from you? (distribution strategy page 9) _____

What is your marketing strategy? (page 9) How will you get the word out about your business? Discuss traditional advertising such as brochures, flyers, business cards, print ads, etc. Also discuss digital strategy such as website, social media, online directories, review sites, e-mail marketing, public relations, etc. Then discuss strategic partnerships, sales and customer service strategies. _____

Team? (page 15) Discuss the team that is behind this business. This would include the owners and key employees. What are their roles and backgrounds? How do they fit in this business to make it a success? Do you have advisors, mentors, etc.? Who are they and what is their background or experience? Why do you believe the team is qualified to make this business successful? _____

Breakdown of capital needed? How much money are you putting in the company? How much do you need to borrow? What are you going to use the capital for (list precisely what the money is for, don't estimate) _____

Financial Forecast: (page 16) Develop financial projections to show projected revenue and profit. List any assumptions you are making, and how you derived at the figures. _____

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20

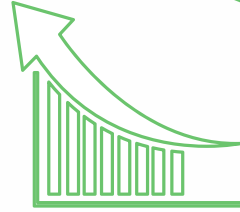
18



ADVISING HOURS
1,111



WORKSHOPS | 21
ATTENDEES | 371



INCREASED SALES
\$2,086,383



CAPITAL INVESTMENT
\$3,243,091



CLIENTS
331



EXISTING
61%

STARTUP
39%

BUSINESS STATUS



JOBS CREATED | 65
JOBS RETAINED | 107



STARTUPS
27

DEMOGRAPHICS

WOMAN
46%

MINORITY
17%



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