

# **Check List**

## **Forming a Small Business**

### **Introduction:**

Each year, thousands of Americans catch the entrepreneurial spirit, launching small businesses to sell their products or services. The City of Auburn, Office of Economic Development knows that this is a big step for you and your family and we are available as a helpful resource to you.

We also know that while this should be a fun and exciting time, it can also be a time of great worry and anxiety. Without a doubt the more you know and prepare the greater you increase the chances for a successful outcome. The advanced planning and preparation you invest now will lead you to a significantly increased likelihood that the organization you form will develop into a satisfying and lasting source of income into the future.

The following checklist has been compiled by us as a guideline to assist business entrepreneurs who are considering the pursuit of a small business enterprise. This document is intended to be a guideline only; and in no way is it represented to be a comprehensive list of actions. At best, this document should be used in conjunction with extensive self-help research. Clients customers of the City are also advised to seek the professional assistance of qualified business consultants as they deem necessary.

### **Small Business Checklist:**

1. Develop your business idea.
  - What are your personal talents and skills?
  - Does the type of business suit you?
  - Do you possess the drive, desire and passion to make this business a success?
  - Is this business intended to be your family's sole source of income?
  - Use caution in attempting to be too broad in your business endeavor. Typically is better for smaller businesses to identify manageable niche markets.
  - Will your business use a traditional store front form of operation; or will your businesses goods/services be sold via the internet; or both?
2. Evaluate your business concept.
  - Is there a need for your product(s) or service(s)?
  - Who are your competitors; and what distinguishes your business from theirs?
  - Are the materials, equipment and/or work force available to provide you adequate production resources?
  - Perform a break-even analysis. (The point where income and expenses are equal. No net loss or net gain)
    - When this analysis is completed and the 'break-even' point is established; it then enables you to decide if you should try to:
      - Reduce fixed costs;
      - Reduce variable costs; or
      - Increase your selling price of your goods or services.
3. Identify your basic marketing plan. Development of a marketing plan will ensure you are spending your marketing budget wisely.
  - Understand your target market;

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- What is your competitive position within your market? Are you a minor player, major player, or do you control your market?
  - What is your tactic for reaching your market?
  - How will you differentiate yourself from your competitors?
  - Establish your marketing budget. Outline the costs of reaching your market.
  - Keep an eye on your 'Return on Investment' (ROI) and be willing to make adjustments to ensure you are getting the most for your dollars, and that you are staying within your budget.
4. Develop your business plan. Keep in mind that your business will evolve over time and your business plan should be considered a living document that will be reviewed and modified regularly as needed. While there is no set template, a sound business plan should provide your summary concept and vision; a description of marketing and business operations; financial projections; and necessary supporting documents. Plan elements may include:
- Cover sheet;
  - Executive summary or statement of purpose;
  - Table of contents;
  - A description of Business Operations:
    - Description of business;
    - Marketing plan;
    - Competition;
    - Operating procedures;
    - Personnel model;
    - Business insurance.
  - Financial Information:
    - Loan applications;
    - Identification of collateral or cash;
    - Capital equipment and supply list;
    - Break-even analysis;
    - Profit and loss statement;
    - Three year summary;
    - Detail by month, first year;
    - Detail by quarters, second and third year;
    - Assumption upon which projections were based;
    - Pro-forma cash flow.
  - Supporting documents:
    - Tax Returns of principals (partners in business) for last three years, personal financial statement (all banks have these forms);

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- Copy of franchise contract and all supporting documents provided by the franchisor (as applicable);
  - Copy of proposed lease or purchase agreement for building space;
  - Copy of licenses, certifications, or other legal documents;
  - Copy of resumes for all principals (partners);
  - Copies of letters of intent from suppliers, etc.
5. Investigate and identify possible sources of start-up financing. There are numerous types of financing which can be found in the market. Here is a list of some types:
- Small business loans: SBA small business loans and funding, economic development loans, start-up loans;
  - Working capital: merchant advances, micro loans, business credit cards, equity loans;
  - Commercial Finance: asset lending, account receivable factoring, purchase order financing;
  - Equipment Finance: equipment leasing, software financing, and cash-out sale leasebacks;
  - Equity Investment: venture capital, investment banks, government sbic investors;
  - Commercial Mortgages: commercial real estate lenders, mortgage bankers, construction loans;
6. Develop the legal structure for your business. In-depth self-help research will be needed, OR consult with a professional advisor(s):
- Are the business sole ownership, or identify the number of owners;
  - Decide how much protection from personal liability you'll need (depends on the risks involved in your business);
  - How will you address your taxes;
  - Do you envision that your business will grow to a point where you may benefit from stock sales?
  - Identify the type of ownership structure you will establish:
    - Sole Proprietor
    - Partnership
    - LLC
    - C Corporation
    - S Corporation
7. Choose a name for your business:
- Write down the product or service your business will produce (underline it):
    - Identify as many key words you can think of to describe your business;
    - Use a Thesaurus to identify additional words of the same or similar meaning;
  - Consider what it is you want your business to accomplish. How do you want people to think of your business? Write down a list of adverbs and adjectives;
  - Write down your own name and your location; your list should be getting long.
  - From your list, begin identifying words that feel or sound like winners to you. See if a possible business name(s) surface;

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- Consider how you intend to market your business. If using the internet, search the web for similar businesses and their names, and consider these against your own. If you intend to establish a web site, check on the availability of domain names;
  - Check with your county clerk's office to see if your proposed name(s) are on the list of fictitious or assumed business names in your county;
  - If your business will be incorporated, check the availability of your proposed name(s) with the Secretary of State.
  - Perform a federal trademark search of the proposed names still on your list;
  - Choose between the proposed names that are still remaining on your list.
  - Register your business name:
    - Register with the county clerk as a fictitious or assumed name;
    - Apply for registration as a federal trademark if you intend do business nationally;
    - Establish / Register your domain name if you intend to market using the web.
8. Prepare your organizational paperwork. (This step is not applicable if you are a sole proprietor)
- Partnership
    - Partnership agreement;
    - Buy-sell agreement;
  - LLC
    - Articles of organization;
    - Operating agreement;
    - Buy-sell agreement;
  - C Corporation
    - Pre-incorporation agreement;
    - Articles of incorporation;
    - Corporate by-laws;
    - Buy-sell agreement (stock agreement)
  - S Corporation
    - Articles of incorporation;
    - Corporate by-laws;
    - Buy-sell agreement (stock agreement)
    - File IRS Form 2553, Election by a Small Business Corporation.
  - File for an Employment Identification Number (EIN) using IRS Form SS-4 (not required if you are a sole proprietor).
9. Find a business location.
- Identify the physical features your business will need. (Fixtures, Special Features, etc.);
  - Set a rent/lease budget;
  - Contact a commercial real estate broker for assistance;
  - Identify a general location or neighborhood which would best suit your business;
  - Find out the average lease costs within those neighborhoods you have selected;
  - Select a few possible lease spaces;
  - Check with the local jurisdiction regarding zoning regulations and ensure your selections meet the requirements;

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- Negotiate (through your broker) the per foot price and total overhead (triple net) costs, utilities, taxes, upkeep, etc. Also identify if the owner is willing to make tenant improvements as part of your initial lease;
10. Obtain necessary Licenses and Permits.
- Identify the required state licenses. Obtain your State Business License; Sellers License; Environmental Licenses, etc.;
  - Obtain any necessary vocation-related licenses, certifications, etc.;
  - Obtain your City Business License;
  - Obtain any needed Use Permits, or other Local Permits.
11. Obtain Insurance.
- Contact a licensed Insurance Broker / Agent;
  - Determine what business property requires coverage;
  - Obtain liability insurance, vehicles, premises, general business, etc.;
  - Obtain product liability insurance, as needed;
  - Obtain Fire Insurance;
  - Obtain coverage for loss of business due to fire or catastrophic incident;
  - If working from home, make sure your homeowner's insurance covers damage to or theft of your business assets, as well as liability for business-related injuries;
  - If you are intending to hire employees, obtain Workers Compensation Insurance;
  - Consider health and disability insurance for yourself and your employees.
12. Familiarize yourself with methods of protection against Loss Prevention for your type of business.
13. Set up a Tax Reporting and Accounting System. In-depth self-help research will be needed, OR consult with a professional advisor(s):
- Familiarize yourself with the legal requirements, or tax scheme required for your type of business organizational structure (partnership, LLC, etc.);
  - Understand the common business deductions and depreciation which must be tracked;
  - Obtain the following IRS Publications:
    - Tax Guide for Small Business, Publication 334;
    - Taxpayers Starting a Business, Publication 583;
    - Tax calendar for Small Businesses.
  - Set up your bookkeeping system.
    - Decide whether to use cash or accrual system of accounting;
    - Choose a fiscal year; if your business cycle does not fall on the calendar year;
    - Set up your Accounts Receivable records;
    - Set up your Accounts Payable records;
    - Set up your General Business Ledger.

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#### **Sources Documents:**

Sources of information for the compiled list include:

- SBA, Small Business Administration;
- Forbes.com;
- NOLO;
- Wikipedia;
- Investopedia;
- Shari Waters;
- About.com;
- Business Finance.com;
- IRS Forms and Publications;