MSU COLLEGE OF LAW

SMALL BUSINESS & NONPROFIT CLINIC

# Small Business & Nonprofit Business Planning Guide

Written and Distributed by the
Michigan State University College of Law
Small Business & Nonprofit Clinic
Available online at www.msu.edu/clinics/sbnp

# Disclaimer

This guide is designed to provide interested Michigan entrepreneurs general educational information and resources for effective business start-up. This guide is NOT intended to provide direction for any particular person or specific situation. This guide is NOT a substitute for seeking competent legal counsel and/or qualified accounting services. Refer to the resources section in the end of this guide if you seek further information from licensed/ certified professionals.

This guide is a summary of key topics and not intended to be an all-inclusive list of every topic on the subject matter. There may be aspects omitted.

# ROADMAP FOR THE JOURNEY AHEAD

# Part One

# What's the Big Idea?

## A. What Is Your Business Concept?

---

Congratulations, you have decided to start your business. Owning and operating your own business can be empowering and exciting. People often state their desire to be an entrepreneur and to someday own their own business. However, it is seldom discussed what kind of business it will be. It is important for every entrepreneur to step back and take an objective look at the business project as a whole. What is the big picture? One must first visualize the business. What is the primary purpose of the business? What products and/or services will it provide? What skills and abilities will you bring to the enterprise? Knowing what type of business is only the first step in the business planning process, but important because a solid business idea is the foundation upon which a thriving business will stand.

## B. Are You Ready To Be Your Own Boss?

---

There are many reasons for wanting to start your own business. At the top of the list is the desire to be your own boss. Many blue collar and office workers want to break free from the assembly line or cubicle and make their work their own. The ability to set your own goals and priorities is an attractive draw for many potential entrepreneurs. It can be far more exciting and fulfilling for entrepreneurial-minded individuals to reap the fruits of their own labor versus increasing the revenues of their employer.

However, it is important to note, being your own boss is not as easy as it sounds. When working for an employer there is a team of people working towards a common business goal. Each individual (or department) has his or her own role in making the business succeed. When you are the boss all of the success and failure lies solely with you. All of the administrative, operational, and legal compliance matters involved in the day-to-day business operations will all be handled by you. Most of these daily requirements and activities will be new, as they are outside of the role you contributed to your previous employer. Thus, it may be shocking to those unfamiliar with what it really takes to manage a business.

The time commitment required of a new entrepreneur may also be a shock to a new entrepreneur. You may find yourself working not only harder but longer hours just to get the business off the ground. It may take many months, even years, until you are able to afford to hire an employee to help manage the workflow.

Being your own boss takes discipline. You are the head and hands of the business. You have to keep yourself organized and on task because there will not be a supervisor around to manage your efforts. If you are up to the task keep reading…

# Part Two

# Do You Have a Plan?

## A. Business Plan Building Blocks

---

Starting your own business is no simple task. It takes hard work and prudent planning to get a business on its feet. The key is to be proactive and not reactive. You will save time and money to prepare today for potential issues that may arise tomorrow. Small businesses are susceptible to being swallowed whole due to costly legal fees and unforeseen business expenses arising from lack of adequate preparation. A business plan will help you develop your ideas and consider the risks before you stake your time and money.

The business planning process will help you to evaluate your strengths and weaknesses as a potential business owner, and prove an effective managing/organizing tool for your start-up process. On the financial side, many lenders require you have an established business plan. In addition, a thorough business plan is an effective marketing tool to showcase to potential lenders and business contacts that you are serious about the enterprise. Geographic location, type of business, size, market, and economic conditions all weigh heavily on the success or failure of a new business. Preparing a solid business plan that considers all of these factors is essential to your business's initial success and potential growth.

First, it is important to clearly identify your initial business intent, and where you would like your business to be in the next five months, a year, five years, and beyond. The next step is to ask yourself several key questions; the answers will later become integrated into your professional business plan.

Here is a list of key questions you should consider:

- What will be the goals/mission/values of my company?
- What services or products will I provide?
- What will be my role in the business?
- How will I raise capital?

- Who is my target audience?
- How will I reach that target audience?
- Who are my competitors?
- Will I hire employees?
- What kinds of equipment/supplies are necessary?
- What current and future expenses do I anticipate?
- What are the risks/ challenges to the business?
- How will I face those risks and challenges?

The final step is to synthesize all of the information you have gathered into a concise professional business plan. There are many recognized formats, tips, and samples available about writing the actual business plan. Examples of the various formats can be found online or in various books found at your local library. (See Appendix A) Once you have established a business plan you have completed the first step into making your dream a reality.

## B. Setting A Realistic Budget

---

It is important to set realistic goals when considering the financial commitment required in starting a new business. Developing a business plan takes time and saving money for your venture will take time as well. Setting a budget as a part of your overall financial plan will help you avoid extraneous expenses that may be unnecessary to the goals and needs of your particular business.

Developing a financial plan is essential in order to make informed financial decisions that will be best for your business in the long run. By establishing a financial plan, you can more effectively anticipate the costs associated with your venture. Speaking with a qualified accountant or financial planner will help you prioritize your goals and evaluate your expenses when creating the financial plan. Understanding all the costs associated with starting your business will help you to clearly identify if this is a venture worth pursuing. Some of the costs associated with a business are filing fees to create the business, license fees, taxes, permits, costs for acquiring a place for the business, remodeling, supplies, record keeping tools, equipment, professional association fees, and marketing/advertising costs, just to name a few.

As a new business owner be cautious and deliberate in the financial decisions you make. It is important not to rush into financial business decisions in order to cut corners and save costs, at the risk of providing a poor quality product or service to your potential customers. Make financial choices that are good for your product as well as your bottom line. A well established financial plan will keep your priorities and finances in order.

## C. Marketing Your Idea

---

### a. Finding Investors

Establishing a new business and raising sufficient capital can be overwhelming to the inexperienced entrepreneur. Traditionally an entrepreneur would go to their local financial institution to obtain a small business or personal loan to finance the start-up.

Today, obtaining a traditional bank loan is not your only financing option. There are many resources available in your community, of which you may be unaware. (See Appendix B and C) Business contacts, friends, family, community groups, and other contacts from your daily life can be an untapped resource. Talk about your ideas with people you trust, and network within the circles you travel. This is one way to gain invaluable consumer insight, business partnerships, financial assistance, and encouragement.

Outside of your personal social network there are many educational and networking opportunities available to entrepreneurs and small business owners. There are various services, courses, workshops, and seminars presented at local community colleges, regional chambers of commerce, small business associations, trade associations, and legal clinics, which may be found on the web. In many circumstances these services are available at low or no cost to you. Attending these programs can assist you in marketing your idea and networking with individuals that can become potential suppliers or service providers for your business.

### b. Reaching Your Customers

Without customers for the products and services you offer the business will not be a success. Through your business planning process you should have developed the image you want your company to portray, and identified your key market. Who are your target customers? What are their interests? Why do they need your product over other similar products in the market? Knowing your customer will help you identify where to reach them, and what type of advertisement/marketing will yield the best results.

It is often said, the number one form of advertising is word-of-mouth. Thus, it is important that you get the word out about your business. This can be as easy as simply telling your friends and family about your new venture. The best way to generate a word-of-mouth referral is to provide quality products and services. When your customers are satisfied the word will travel fast.

In order to expedite the process you must also do your fair share of work generating 'buzz' about your business. There are many ways in which a new business can advertise. Traditional methods like placing print and radio advertisements are still commonplace. Another alternative cost-effective method is by networking through a relevant local business association. Having a web page designed to showcase your product or service is a rapidly growing way to advertise as well.

Tradeshows can also be a great place to showcase your product and make relevant business connections with potential buyers, sellers, and suppliers to your business. However, the costs involved with producing enough products for showcase, travel, registration, and other expenses involved with participation in tradeshows can be rather high. If you decide to participate in a tradeshow make sure it is a good place for your type of business. Do not waste money purchasing booth space at a tradeshow that is not relevant to your product or likely to attract the kind of clients who would be interested in your product.

When you begin to advertise, especially, in the formative years of your business, make every dollar count, and make every decision carefully. You are developing your initial public image, first impressions are lasting impressions.

# Part Three
# Make it Official

## A. Why Formalize The Business?

Once you have your business plan and budget set, it is important to now legally create your entity. Legal formation gives you the proper authority to transact business within the state you chose to do business and it ensures your business is governed and protected by the laws of the state. It also provides limited personal liability for you the business owner.

You want to be an officially recognized business so that others will enter into business with you. Many businesses and investors are reluctant to enter into contracts or give loans to a business that has not been formalized within the state and local regulations. There are various regulations, reporting, and licensing requirements associated with formalizing your entity. Violating some of these requirements can cause you and your business to be subject to stiff penalties. It is best to seek help early in the business planning phase of your start-up to avoid future penalties like costly fines, time-consuming investigations, or loss of personal liability protection.

## B. Choosing the Right Path: Which Legal Entity Is Appropriate For Your Business?

Choice of legal entity is an important factor which should be discussed and planned thoroughly with the professional of your choice. How you will organize your business, business entity choice, which laws apply, and where you will register your business depend upon your particular business needs and interests. Whether or not to establish your entity as a Sole Proprietorship, General Partnership, Limited Partnership, Limited Liability Company (LLC), Corporation, 'S' Corporation, or Nonprofit Corporation is a major decision and will dictate how it is run for years to come.

Each type of business entity has its own advantages and disadvantages. There are two important considerations that will help you chose which is the most appropriate entity choice for your venture. They are *taxes*, how your organization will be taxed, and *liability*, your personal financial responsibility for the debts of the business. We will look at the choices available in light of these two considerations below:

### a. Sole Proprietorship

A Sole Proprietorship is a business owned by an individual. A Sole Proprietorship is often referred to as "Doing Business As" or "DBA" in short. An individual establishes the DBA by registering the business under their name in the county clerk's office in every county in which business is transacted. If the business operates under a name other than that of the individual, a *Certificate of Persons Conducting Business under Assumed Name* must be filed. With a DBA an individual can operate like any other business. For example, you may open a business checking account, receive payments, and advertise. However, the business is not an entity that may own personal or real property. Therefore, all property must be in the business owner's name. In addition, the business name is only protected within the counties it is registered in and not the entire state.

Operating the business as a DBA may be the easiest option, but it carries the greatest risk. The entity is not treated as a separate entity from its owner. This means that under the law the owner is personally liable for all the debts and liabilities that arise out of the DBA. Therefore, if the business does not have enough insurance, profits, or assets to cover the liabilities, the personal assets of the owner must be utilized to fill the void.

As the entity is not separate from its owner, the owner must include business gains and losses on his or her individual tax return. The owner may also be subject to self-employment taxes.

### b. General Partnership

A General Partnership is an association of two or more people in a joint business venture. A Partnership is established by filing a *Certificate of Copartnership* or a *Certificate of Persons Conducting Business under Assumed Name* with the county clerk in all the counties in which the business is transacted. Management is established by a written (in some cases oral) Partnership Agreement. The Partnership Agreement is an enforceable contract between the parties detailing the operation of the business. Partners share in management, unless the Agreement states otherwise.

Much like a DBA, there is no liability protection for the personal assets of the partners. Each partner is jointly and severally liable for all of the obligations of the general partnership even those arising out of another partner's wrongful acts. What this means is that a creditor can go after the personal assets of one or both partners to pay the debts of the business, such as their personal savings. It is then up to the partners individually to sort out the reimbursement of the other partner if debts are paid disproportionately.

Partnership income is taxed to the individual to be filed on each partner's individual tax return. Self-employment tax may also have to be paid.

c. Limited Liability Partnership

A Limited Liability Partnership is the similar to a General Partnership. A partnership which has filed a *Certificate of Copartnership* or a *Certificate of Persons Conducing Business Under Assumed Name* with the county clerk of the counties in which the business is to be transacted then registers the Limited Liability Partnership by filing with the State of Michigan Department of Labor and Economic Growth, Corporations Division (DLEG)

Partners are jointly and severally liable for the obligations of the LLP, the exception is they are not typically responsible for those obligations and liabilities arising out of another partner's wrongful acts.

A Limited Liability Partnership is taxed the same as a General Partnership.

d. Limited Partnership

A Limited Partnership is an association of at least one general partner and one limited partner in a business venture. A Limited Partnership is established by filing a *Certificate of Limited Partnership*, with DLEG. The general partners are the managers of the business.

General partners have joint and several liability for the Partnership. Limited partners are not liable for obligations of the Partnership beyond the amount of their personal investment to the business. But, when they take an active part in the management (supposed to be passive investors) the limited partner may become personally liable for the actions of the organization. Limited partners can also be held liable if there is a third party belief they are acting as a general partner with the authority to bind the business.

A Limited Partnership is taxed the same as a General Partnership.

e. Limited Liability Company (LLC)

An LLC is a separate legal business entity which combines the management flexibility and taxation of a partnership with the liability protection of a traditional corporation. An LLC can be formed with just one organizer who does not have to be a member (owner). An LLC is formed by filing the *Articles of Organization* with DLEG.

The membership of the LLC can elect to be either member-managed or manager-managed. In a member-managed LLC the internal governance is decentralized. This is preferred for smaller organizations. Members have all the rights and duties with respect to managing the business as in a Partnership and all actions of the company are governed by an Operating Agreement that is developed by its members. In a manager-managed LLC the internal governance is centralized. This is preferred for larger organizations. Managers act as agents for the organization with the authority to manage the business and have the exclusive authority to bind the LLC through contracts and other agreements. The Operating Agreement will determine which actions are allowable for the managers alone and which should be approved by both managers and members. If the LLC is to be manager-managed it must be noted in the Articles, and detailed with specificity in the Operating Agreement how many, and how they are determined.

If the business you will engage in provides professional services, (services from a professionally licensed and regulated industry, such as doctors and lawyers, etc.,) you may be permitted to organize as a Professional Limited Liability Company (PLLC). Special rules apply in these situations. For example, all members and managers must be licensed in one of the fields in which the PLLC renders one or more professional services, as in a law firm, all of the members and managers must be lawyers.

Members of an LLC have limited liability protections. This means that the member is only liable up to their investment for the debts and liabilities of the business. As a general rule they are not personally liable for company debts and obligations.

An LLC has *flow-through taxation*, in which members are taxed on any distributions on their individual tax returns like a partnership.

### f. Corporation

A Corporation is an association of persons creating a separate legal entity in which they will have an ownership interest (shareholders). The entity is a living thing, separate from its individual owners. A Corporation can exist with no end date, and has powers and liabilities within the entity itself. A Corporation is established by filing the *Articles of Incorporation* with DLEG.
Management of the corporation is by officers and/or directors (Board of Directors). The Directors are elected by the shareholders to manage the affairs of the Corporation and the Directors appoint the officers. In smaller Corporations the Directors can also serve as the officers of the Corporation. The management and operation of the Corporation are determined by its Bylaws.

A Professional Corporation is a Corporation that provides professional services. The same restrictions apply as explained under the PLLC mentioned above.

Shareholders of a corporation have limited liability protections. This means that the shareholder is only liable up to their investment (price of the shares) for the debts and liabilities of the business. Directors and Officers are only liable for personal wrongful actions.

Under tax laws, Corporations are subject to *double-taxation*. This means the business is taxed at corporate rates for its earnings, and the individual shareholder is then taxed on the income derived from dividends paid from the remaining corporate profits.

### g. 'S' Corporation

An "S" Corporation is a small corporation that has been granted a special tax status to be taxed similar to that of an LLC. Under the Internal Revenue Code section 1361, all of the shareholders of a qualified *'small business corporation'* must make an affirmative election to become an 'S' corporation. In order to qualify for this special tax status the corporation;

- must be a Domestic Corporation,
- have no more than 100 shareholders,
- only have one class of stock,
- cannot be an insurance company, domestic international sales corp., or a non-qualified financial institution,
- Cannot have a shareholder who is not an individual (some estates and trusts do not apply). No partnerships, LLC's, 'S' Corp's, or non-qualified trusts as shareholders, and
- Cannot have a shareholder that is a nonresident alien.

Other than the tax differences, an S Corporation is managed and treated like a standard Corporation.

### h. Nonprofit Corporation

A Nonprofit is a business entity established by one or more persons to serve a public need. Most are established to serve a particular charitable, education, or religious purpose. A Nonprofit is incorporated much like a traditional Corporation by filing the *Articles of Incorporation*. But a Nonprofit must state a specific purpose for its existence and that if dissolved, any assets will be distributed to other nonprofits. Another difference is, although a Nonprofit may earn profits, those profits must be utilized for its nonprofit purposes. This means that no member may privately benefit from the organization. This is different from that of a shareholder in a traditional Corporation who may earn dividends from the profits of the corporations.

Similar to that of a traditional Corporation, a Nonprofit is managed as outlined by its Bylaws by a Board of directors and officers. Nonprofit organizations can have paid employees provided their salaries are reasonable based upon the type of job they perform. Although the Board of Directors of a Nonprofit can be paid reasonable salaries, they are not typically paid for their services.

As the Nonprofit is not owned by any individual, there is no liability in the traditional sense of owners being liable for their investment. However, volunteer officers and directors must be aware before volunteering whether or not the nonprofit will indemnify (assume responsibility) them for any liabilities arising out of their duties. There is potential for personal asset exposure in limited circumstances.

Nonprofit organizations are taxed at corporate rates, unless they are granted tax exempt status by the IRS. We will explore that topic later.

i. Liability Considerations

Limited liability does not mean NO LIABILITY. Limited liability means that there is protection of the partner, owner, or member from the debts, liabilities, and other obligations of the organization (not always, see specific entity structure). However, limited liability does not shield you from personal responsibility for your actions conducted on behalf of the organization, such as, personal negligence, personal contracts, and income taxes (pass through- 'S' Corp. & LLC's).

BEWARE, limited liability does not shield an organization from its obligations for state and federal taxes and employee withholdings, corporate officers can be held liable in their capacity as an officer for these debts if ignored.

Failure to observe the corporate form and all the specifics that entails may allow a creditor to *pierce the corporate veil*, allowing access to your personal assets. Examples of activities that may allow piercing of the corporate veil include: doing, nothing beyond filing the Articles; co-mingling funds; undercapitalization; failure to maintain documentation of transactions or other records; or if the entity was used as s device for fraud.

C. Required Registrations/ Documents

---

As previously mentioned, your business must be authorized to transact business in the state in order to be officially recognized as a lawful business. In order to be fully lawful and enjoy the rights and privileges attached to the particular entity you chose, you must be sure to comply with local, state, and federal rules and regulations for the particular business. We will look at some common formation essentials. In the remaining sections we will explore what these documents mean to the operation of your business.

### a. Formation Documents

We have already outlined above the required document that must be filed with either the county clerk's office or DLEG to establish a business. It is a great analogy to think of these documents as the birth certificate of the organization. The documents typically outline it's purpose, who the owners are, and where the business's principal office will be located. Most creditors and potential business partners or investors will request a copy of this document to ensure the business has been legally formed.

Most businesses create a separate document at formation to detail management of the organization. These are agreements between the members or owners of the organization. Partners to a partnership have *Partnership Agreements*. Members of an LLC will have membership agreements called *Operating Agreement*, and Corporations and Nonprofits have *Bylaws*.

A Shareholders Agreement is a step beyond the Bylaws where shareholders make agreements with one another for rights outside the Bylaws (where allowed). These agreements are seldom viewed by the public unless there is a potential investor who has access to make the decision to join or not join in the venture or if the partners need to seek litigation to enforce their individual rights. Neither of these agreements is generally filed with any governmental entity.

These documents are best analogized to the businesses owner's manual. They are established to help minimize the risk to legal action because the rights, duties and responsibilities of the parties are identified and agreed to at the outset of the venture. It serves as the outline for an organization's policies and procedures with respect to how to run the business; which individuals are responsible for certain actions of the business; transferability of the assets of the business; and eventually how to dissolve the business and distribute its assets.

### b. Employer Identification Number

The Employer Identification Number (EIN) is the business' social security number. This number is used by the Internal Revenue Service (IRS) and other government agencies to identify your business. An EIN is obtained by filing the *Application for Employer Identification Number* with the IRS, found online at www.irs.gov, or by calling 1-800-816-2065.

### c. Taxes

All businesses are required to pay taxes to the federal government. The legal structure, whether there are employees or one is self-employed, and the type of business determines which taxes apply and time-line of payment. Most businesses are required to make regular payments of estimated tax throughout the year. If you have questions about determining your federal tax liability or your payment schedule, contact the IRS at (800) 829-1040, or online at www.irs.gov or discuss it with your corporate accountant.

Depending on the type of business conducted; whether or not there are employees; the amount of gross receipts; selling or leasing a product, etc., the business may be required to pay Michigan taxes. To determine your liability and to register for Michigan taxes, a Registration for Michigan Taxes Form 518 is required to be completed and returned to the Michigan Department of Treasury. Contact the Michigan Department of Treasury at (800) 367-6263 or (517) 636-4660, or online at www.michigan.gov/treasury.

Be aware that that if you have income from sources other than wages, you may be required to make estimated tax payments on a quarterly basis to the Michigan Department of Treasury as well as federal tax authorities.

## D. A Word About Tax Exemption

Under Internal Revenue Code section 501 (c)(3), an organization may qualify for exemption from federal income tax if it is organized and operated exclusively for purposes that are charitable, educational, religious, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and/or preventing cruelty to children or animals.

Generally the term *nonprofit* is a state label and the term *tax exempt* is a federal label granted to qualifying nonprofits. In order to obtain federal tax exempt status the organization must first be incorporated as a nonprofit at the state level. Thereafter the nonprofit can make application to the IRS seeking exemption. Therefore, not all nonprofits are tax exempt but all tax exempt organizations are nonprofits.

What becomes confusing for many new (and existing) tax exempt organizations is that they may still be liable for state taxes. Even though an organization has been granted Federal tax exempt status does not mean the state will automatically recognize the claim. The state has its own definition of what it deems to be taxable and tax exempt and has the authority to make its own regulations on how it will access state taxes. Be certain not to waive your right to claim exemption by failing to file the appropriate forms with your city assessor. If you are uncertain about your responsibility for real and personal property taxes contact your local assessor. The Nonprofit can be subject to interest and penalties for failed payments, simply because it assumed it was exempt.

### E. Purchasing An Existing Business

Purchasing an existing business can have its advantages. You will not be starting from square one with the business. If you are lucky, the business will come with its own marketing, loyal customer base, and even employees. Maybe the business does not have all of that but has enormous potential once you put your stamp on it. Either way a lot of the legwork has been taken out of the planning process, but it is still important to plan. How will you transition the business under your leadership? Do you know enough about the existing business to flourish, or will the learning curve be too great?

You have to approach the purchase of the business just as you would approach the planning of your own. You should be diligent in gathering information about the business, not only so you know what you are getting into, but also so you know what is the appropriate value (worth) of the business to bring to the bargaining table to get the best deal you can.

As the purchaser of even a portion of a business, you may be held responsible for the previous owner's liabilities, regardless of any contractual language to the contrary. As the purchaser of the business, you should make sure that the seller of the business provides proof that there are no hidden liabilities.

Here are some methods to help you uncover any hidden liabilities before you sign on the dotted line:

- Do your homework. Before you purchase an existing business ask questions. You should have access to all of the current financial and sales data. Is this a viable business? Is the business well respected? Subject to any lawsuits?

- Run a title search. Ensure that any title obtained (for land or property) in the purchase is free and clear of any claims of ownership or back payment or that the reported liabilities are as stated by the seller.

- Obtain a Tax Clearance Letter. Contact the Michigan Department of Treasury to obtain certification that the business owe no past due taxes, for which you may become liable or are those as stated by the seller.

- Hire an inspector. Just like purchasing a new home or new car, you have got to turn on all the lights and kick the tires. Does everything work as it should work? Are all structures compliant and up to health, safety, and accessibility regulations? If not, can you agree to whose responsibility it will be to fix the matter?

- Make sure all licensing and permits that are required are up to date. Do not assume the licensing and permits of the business will roll over to you. Check with DLEG to ensure that if new applications need to be made they are done correctly. Any improvements or changes in the business may change the regulations imposed on the work process and site.

Purchasing a franchise is slightly different than purchase of an independently owned business. Thus it needed its own section to explain.

A franchise is a commercial relationship in which the *franchisor* (person who grants a franchise-seller) grants the right to a *franchisee* (person granted a franchise-buyer) to operate its established trademarked business in accordance to the guidelines provided by the franchisor.

In Michigan, franchises are regulated under the Consumer Protection Division-Franchise Section of the Michigan Attorney General's office. Franchises are regulated on the federal level by the Federal Trade Commission. The regulation of franchises is outlined under the Code of Federal Regulations, Part 436- Disclosure Requirements and Prohibitions Regarding Franchising.

Establishing a franchise will require writing a *franchise plan* that is slightly different than the typical business plan. Your franchise plan should include information that will translate well into the widespread distribution of your business.

An entrepreneur must decide if he/she intends to buy a franchise (franchisee) or sell a franchise (franchisor). There are advantages and disadvantages to both options. We will discuss selling a franchise in a later section.

Buying a franchise is a much easier task, because the business model has already been established and tested in the market. Franchises have an advantage over new business start-ups as the business comes with its own marketing, franchisor support, and operations manual ready for use. The entrepreneur has much of the independence of owning their own business with a lot less of the worry.

A downside to buying a franchise is that the franchisee must follow very specific operating procedures as determined by the franchisor. The entire relationship between the franchisor and franchisee is determined by the *franchising agreement* which can often times require lengthy time and financial commitment. Most franchising agreements bind the franchisee for a long-term commitment, some as long as ten-years. Additionally, a potential franchisee must have a large amount of start-up capital. There is often a request for proof of financial ability, by showing availability of a predetermined amount of liquid capital or proof of net worth. Most franchises require a pricey franchise fee to be paid up-front and subsequent royalty payments to be made for the duration of the agreement.

# Part Four

# Ready, Set, Go!

## A. Initial Agreements

---

There are some agreements that must be entered into before you open for business.

### a. Leases

Typically as a small business owner you will run into two kinds of leases, the most common of which is a commercial lease. A commercial lease is an agreement for use of a commercial space. For example, renting out a facility for the operation of your business like in a mall or shopping center. Typically the business rents space just as a tenant rents an apartment. Commercial properties have different rules than residential properties which should be reviewed prior to leasing. The commercial lease will outline the rental agreement and rules to follow. Leasing gives no ownership interest in the property being rented. Monthly or quarterly rent payments go towards use of space and possibly utilities but no equity in the property is gained.

The other type of lease that a business can utilize is the lease for the use of equipment. Be aware that if the lease is a disguised sale of goods, the agreement will be treated as such for tax and enforcement purposes.

### b. Insurance Policies

Insurance should be distinguished from personal liability as mentioned above. Limited liability is a shield for your personal assets and not for liabilities created by the organization. Therefore, the business should seek to take advantage of many of the risk management tools and methods available in the market to assist in limiting the risk of exposure for the business in its daily operations. However, when being careful is not enough the business should be insured.

Contact an insurance agent to determine the types of insurance the business should purchase. Take your time to shop around and compare the different coverage plans available. Insurance rates and types of coverage vary greatly among insurance carriers. You should check with the insurance agency you currently utilize for car or homeowners insurance, find out if they offer business insurance as well. It is usually less expensive to insure with one agency for all your insurance needs.

### c. Vendor Agreements

These are legal and binding contracts. Make sure to utilize written contracts with your suppliers, or to those whom you supply goods and services. Oral agreements are legal, but nearly impossible to enforce. If one party makes claims contrary to your viewpoint, how can you prove what the actual agreement was?

Some vendors have created standard contracts they always use for every transaction. Be advised, read the entire agreement (sometimes that means the back of receipts and other invoices). Conducting business should not be one size fits all. Your business has unique needs and you can negotiate separate terms. Understand, this may cause a vendor to walk away from working with your business, however you should not be bullied into a contract you are unsure about, or that does not work for your business. It may be easier said than done, but find another vendor who is willing to work with your business.

The opposite is true for your own business contracts. You may prefer standard forms but without flexibility you may lose potential customers. The key is to deal fairly, it is important to build and cultivate lasting relationships that will serve a mutual benefit in the long run.

Seek the help of an attorney to draft and/or interpret agreements to ensure they suit your business needs.

---

### a. Licensing & Permits

Some occupations, professions and business activities require certification or licensing and/or permits. These licenses or permits may be required on both the state and local level. Check with the county clerk and/or your city clerk to determine if any local licenses or registrations are required and obtain the necessary forms. For state licensing you must look to the particular agency that is most closely aligned with the industry you serve. All agency's can be found online at www.micihgan.gov.

Here are some of the most commonly used resources:

- Department of Labor and Economic Growth. DLEG is responsible for licensing in the areas of building construction, utilities, insurance and finance, commercial businesses and cosmetology. Contact DLEG at (517) 373-1820.

- Michigan Family Independence Agency. FIA provides licensing for Adult Foster Care and Homes; Child Day Care Facilities, Caring Institutions, Foster Care Homes, and Placing Agencies; Juvenile Court Operated Facilities and Children's or Adult Foster Care. Contact FIA at (517) 335-6124 or toll free at (866) 685-0006.

- Michigan Department of Community Health. DCH regulates health professionals in Michigan who are licensed, registered or certified for 32 health care occupations and also licenses health care facilities. Contact DCH at (517) 373-8068.

- Michigan Department of Transportation. MDOT manages licenses and permits for road construction, parades on state roads, highway advertising, utility coordination, buses and limousines and transport permits for the trucking industry. Contact MDOT at (517)373-2090

- Michigan Department of Environmental Quality. DEQ provides a compilation of the environmental laws, rules and permits that provide the basis for the preservation and improvement of Michigan's environment. Contact DEQ at (517) 373-7917 or toll free at (800) 662-9278.

- Michigan Department of Agriculture. MDA provides licensing and regulation information for the following: pesticides, agricultural products, animals, food industries, and retail gasoline. Contact MDA at (517) 373-1104 or toll free at (800) 292-3939.

### b. Building Restrictions

Make sure the location that has been chosen is zoned appropriately for your type of business and that all state and local building codes and barrier free design rules are met. A certificate of occupancy is also required from the local government. Contact the local government authorities, including the building department, for pertinent information about zoning and permits. Some inspections and alterations may be required to meet state and/or city codes. When operating a business out of your home, check with your city clerk's office about zoning variances.

### c. Health & Safety

There are various health and safety requirements you must adhere to for the use and operation of your facility; preparation and production of your product (especially perishable goods, and hazardous materials); and the creation and disposal of wastes of the business. These regulations are typically industry specific. Knowing the standards of your industry will enable you to identify the measures you must take. Your particular licensing and permitting agency is the best place to start to obtain information.

You must take measures to safeguard the health and safety of your customers and employees in order to foster positive community relations, and avoid potential liability for injury.

### d. Contracts

All other business contracts should follow the same rules as identified for the previously mentioned vendor contracts. Be certain to read and understand every agreement entered into for the business. Each agreement must be clear and concise with no ambiguity in order to protect the integrity of the agreement and to ensure smooth commercial relations

All business relationships are defined by some type of contractual relationship. It is important to understand that with each contract there may be different parties, duties, and legal requirements. It is important to not only understand the impact a contract makes on you, but what impact it makes on the other contracts and relationships of the business. Be aware that a contract may place restrictions on you, or your contracts may place restrictions on others. Know the broad implications before signing. When modifying an existing contract, insure that there is a written modification which defines what was originally expected and what is now expected in the agreement.

e. Employees

If you plan to hire employees you must be sure of two things. First, you have clearly defined the employment relationship. Consider whether or not the new hire will be a traditional employee or an independent contractor. There are rules that define each type of employment relationship that you should be aware of. Detail fully what will be the employee's role, duties, and hours. It may be appropriate to draft an employment agreement or employee handbook.

Second, make sure you are properly withholding employment taxes. There are employment tax liabilities to both the state and federal government. The decision to hire an employee instead of utilizing the skills of an independent contractor has management and tax implications. You cannot avoid tax withholding liabilities by simply declaring your new hire an independent contractor, which can be a costly mistake once discovered. What is important is the amount of control the individual has over the work performed. The taxing entity will look to the circumstances surrounding the employment relationship to determine if the hire is truly working *independently*.

There are various labor and employment laws that govern the employment relationship, to which you must adhere. It is best to speak with your legal advisor to properly navigate the legal duties required for your business. A great place to start is with the U.S. Department of Labor. The agency has developed a very useful "elaws" interactive advisor to help you navigate the various federal employment laws. This guide can be found online at www.dol.gov/elaws. Additionally, the State of Michigan has its own useful guide on hiring employees, found online under "Hiring Employees" at www.michigan.gov/medcguide.

### f. Intellectual Property

Protecting the businesses' brand is important. Trademark and copyright registrations, patent applications, and other intellectual property agreements are vital to keeping your business competitive. The business must protect its public image so that it can be marketed to potential investors and consumers through what is commonly referred to as "brand recognition". Brand recognition is when the business utilizes slogans, images, and logos that are easily identifiable and memorable enough to associate the product or service with a particular business.

If you commission a professional artists or a marketing consultant to create logos or to create marketing material, it is essential that you have a written contract that assigns the rights (copyright and trademark) in the logos, slogans and texts to your business.

The way the business is operated; building and interior design; color schemes; employee dress; product labeling; and logos are all critical components to creating your brand. These items must be protected by registering them as trademarks. Seek the help of a qualified attorney to determine which protections are needed and how to file the appropriate forms. A great resource for entrepreneurs can be found online at www.stopfakes.gov. This website is developed by the U.S. Patent and Trademark Office to make intellectual property concepts and registrations user friendly and accessible to the small business owner.

### g. E-Commerce

Establishing a web presence can be more than just placing an advertisement online. Technology allows you to create your own virtual storefront where customers from many different places can have access to your products and services online.

You must understand the implications of doing business online. You must first formalize the business entity as we have already discussed. All of the legal requirements for expanding the business into other states must be met everywhere you intend to do business, which means across state lines and even internationally. And often you will be required to collect sales taxes on goods and services sold in the other states based upon that states' laws.

1) Creating a Web Site

You can register your own unique domain name with the registrar of your choice. Creating your own web site can be fairly simple as there are many online tools. Do not copy materials (text, logos, and pictures) from other websites without their permission to develop your own.

There are web design companies and even web hosting companies that offer packages to provide you with all the tools necessary to build your business's web site. If you hire a web design company, you must have a written contract with them that will assign the copyright(s) in the design of the web site and any other material created by them to your business. If they custom build a web site for you, you might also consider obtaining the rights to the source code. Without those rights, you may be unable to move your web site to a different location or service provider without having to incur significant costs.

2) Essential Elements of an E-commerce Web Site

Information contained on the website can give rise to liability so be sure all information is accurate and up-to-date. Always provide your customers full disclosures as to the products and services mentioned (use, availability, price, and tax), and send invoices for any online purchases.

*Copyright Notice* - You should post a conspicuous copyright notice on each page of your web site to put visitors on notice that they may not reproduce the content of your web site.

*Privacy Policy* – It is imperative that you take measures to protect your customers' personal information. At a minimum, your privacy policy should indicate what personal information you collect, for what purposes it is collected, how it will be protected, and how web site visitors can get in touch with the individual in your organization responsible for privacy matters.

*Terms of Use* – At a minimum the terms of use should set out the conditions on the use of your web site. This should include any return and refund policies, shipping policies, etc. Your terms of use should also specify that your web site is only an invitation to treat and not an offer than can be readily accepted. This will ensure that you remain free to reject orders in case you cannot fulfill them or in case you made a mistake in the price of an item. It is also very important that you force users to affirmatively accept the terms of use, for example, by forcing visitors to check an "I accept the terms of use" checkbox before they can place an order.

3) Accepting Orders Online

Contact credit card companies directly to obtain information on how to collect payment from their cards online. Or seek the assistance of a credit card payment service company; many small business owners utilize a service like PayPal (www.paypal.com).

Before entering into a contract for the processing of credit card payments, it is a good idea to shop around since discount rates (i.e. the % of the sales that they charge you) and transaction fees charged by the different credit card processing companies vary greatly. You should also look at the duration of the contract and what the penalties will be if you terminate prematurely. This is very important, because most companies will require small business owners to be personal guarantors under the contract. So any fees your company is unable to pay will have to be assumed by you personally.

Before you can accept credit card payments online, your web site will need to comply with the Payment Card Industry Data Security Standards (see https://www.pcisecuritystandards.org/security_standards/pci_dss.shtml). Amongst other requirements, transactions involving credit card information will need to occur over secured internet connections, i.e. HTTPS or Secure Sockets Layer (SSL). To use Secure Sockets Layer (SSL) encryption on your web site, you will need to purchase an SSL certificate from an SSL Certificate Authority, such as RapidSSL.

## C. Maintaining The Business

---

### a. Meetings

It is important for you and your business partners, members, co-owners, or shareholders to hold regular meetings. Statutory language may require that the business hold at least one annual meeting a year. In other situations, where the statutes are silent regarding holding regular business meetings, it is a good business practice to do so. It is a good practice because you want to keep abreast on the business operations. Meeting with partners/members on a semi-regular basis to discuss strategy and audit the books can keep business dealings moving efficiently. Your business will not grow or innovate if you do not make periodic assessments. Most importantly, it is a good practice because, as we have discussed above, failure to observe the corporate form (maintaining some level of formality) can expose your personal assets to liability. If you do not treat the business legitimately, neither will its creditors.

b. Books & Records

For the same reasons it is important to hold regular or periodic meetings it is essential that the business maintain accurate books and records. These records will be an important archive of business decisions. They are necessary so that you can make informed decisions in the future. Almost every entity is required to make an annual filing with DLEG, taxing, and licensing entities. It is imperative that all documents required be stored and accessible for that purpose. Depending on which entity structure you utilize the governing statute will detail which books and records must be maintained. For example, minutes in a corporation are required by statute to be taken and maintained at the principal office and available for shareholders upon request. Resolutions should be used when the Board approves important corporate actions.

c. Taxes

The business must pay and collect taxes on the goods and services it provides. If the business hires employees employment taxes must be paid. Speak with a qualified accountant or financial planner to ensure that all tax liabilities are timely paid in accordance with your particular entity structure, operating expenses, and revenues each fiscal year.

d. Buying & Selling Goods

A prudent entrepreneur should consider the business operations implications of buying and selling goods. If you are providing a good or service that you do not directly manufacture you must be certain to have a very well defined purchasing and distribution plan. You must establish a network of trusted vendors to supply your business with the products it requires to make sales and timely deliveries to its customers. Many commercial carriers like UPS and

FedEx offer small business owners personalized shipping, packing, and tracking services for all their business' shipping needs.

A commonly overlooked aspect of selling goods is that it actually costs money to sell an item. Assess your need for a product inventory, storage facility, shipping services, and packaging supplies when developing your business plan. Include the "overhead" costs for printing contracts and invoices, packing slips, and other general office supplies needed to get from taking/placing an order, to receipt of product(s) and shipping it to the customers.

Buying and selling goods across state lines or internationally can subject your business to various rules and regulations. Know what is required of your business everywhere you intend to do businesses.

# Part Five
# Watch it Grow

## A. Expanding Operations

Start-up of a new business is a very complex and time consuming process. You may have many doors closed to you in the start-up phase. Staying focused and determined will get you through these roadblocks to the opportunities that await you. Being adequately prepared and remaining on task will help you to face those challenges and move forward in a positive direction toward your ultimate goal, success.

When your business is ready to take the next step you will know. If you took heed to our advice at the beginning of this manual you will have included a plan for the business in the long run that will ensure a smooth transition for steady growth. In the sections that follow we will outline some of the unique considerations for taking the business to the next level.

## B. Taking On New Investors

Your business should be built for potential growth from the outset. We identified in Part Four some of the initial agreements the business would need that outline the structure of the business' management and operation. You should structure and manage the operation in a way that is optimal for functional operation now, but you should keep an eye towards the future. Who will be in charge and how will decisions be made should more people be added to the business?

When you seek to expand business operations by courting new investors you must ask yourself three important questions:

1) How can I make my business attractive to potential investors?

If you are looking to attract new partners or new funding opportunities to grow your business the same rules apply as when you started you venture. You have to have a plan. You need to market your business to investors much like you would to new customers. Show investors that investing in your business is a smart choice by highlighting how your business stands out from the competition and how it will bring a profitable return on their investment. Look back to your business plan and update it as needed, investors will want to see the plan to make an informed decision.

2) How can I protect my business when looking for new investors?

In order to court new investors you have to be willing to expose some of the private matters of your business. When you are starting from scratch a solid business plan that will be all it takes to get your business start-up dollars. Now that your business is already established, it will take proof that the business is profitable. This means opening your books and records to prove that your business is a sound investment option. If your business has a hold on a niche market or creates an innovative product the investor will be interested in seeing a sample or will want to understand how the business works. This could mean sharing sensitive client information and/or trade secrets that could potentially expose your business to competition. Be mindful that although the investor needs reassurance, it is your business, you have the advantage. Do not lose your advantage by being bullied by an investor to expose information you are uneasy about sharing. Drafting a "Non-disclosure Agreement" can be a smart way to ensure the potential investors do not expose your business information, lest they subject themselves to penalties, as outlined in the agreement.

3) How will adding a new investor change the way I do business?

What role will the new investor want to assume in the business? Some investors simply seek to provide loans and gain a financial return on the investment. Others seek to be involved, and feel they should assume an active role in protecting their investment. Know the value of your business, what you want from an investor, and how much power you are willing to share or lose in order to move the company forward.

---

You may have heard the phrase, " going public," or term "IPO" (initial public offering). What this refers to is the process in which a privately held company (owned by an individual or small group) offers an ownership interest in that company to the public. In exchange for a percentage of ownership in the company a specified amount must be paid. For example, $1.00 for 1 (one) share of stock in the company. That share carries rights and duties the holder must adhere to as part-owner of the Corporation. The shares can be exchanged relatively freely on the market (i.e., stock exchange). All rights and responsibilities for the shares are encompassed in the Bylaws and subsequent Shareholder's Agreement, which may include the right to vote for the Board of Directors and other initiatives.

In order for a Corporation to go public it must file a Registration Statement, requiring various disclosures with the U.S. Securities and Exchange Commission (SEC) and state regulatory agencies. Note, the organization structure cannot be an LLC or 'S' Corporation. The entity must convert or re-incorporate as a traditional Corporation in order to offer its shares.

Not every successful business should or can go public. Most underwriters typically expect the company to be favored by the public as a "hot" industry or to provide cutting edge technology, something that will attract potential investors. The company is expected to yield consistent high growth over the next few years, and should have profits/ net worth in the millions.

There are many reasons for wanting to take the company public. The most common is to raise money for the company. Going public will expose your business to a wide range of investors that can bring a significant surge in capital and a new range of clientele for your business.

There are some disadvantages to going public. The small business owner who has grown accustomed to having all the control or only sharing control with a small group of people (known associates) will have to share control with many strangers. While the original ownership typically retains a controlling amount of interests, there is no guarantee that one day you will not be fired from your position, or voted off the Board of Directors by a fickle group of shareholders. Additionally, there is a substantial amount of reporting requirements to the state and federal government, and shareholders. The cost of reporting and disclosure compliance can be very steep. Lastly, securities regulation is rapidly changing and deeply complex, therefore you must be able to keep up with changes and meet your business's obligations.

Seek the help of a qualified professional in securities regulation if you are contemplating taking your business public; an underwriter, IPO consultant, accountant, or attorney can assist you. The SEC has developed a useful guide for small businesses in these matters called the *Q & A: Small Business and the SEC*, found online at www.sec.gov/info/smallbus.shtml. The SEC also has a listing of the various registrations forms and regulations pertaining to small businesses and large companies.

### D. Another Word About Tax Exemption

---

It is important to understand that tax exemption is a gift not a right. You should be mindful that expanding operations of a tax-exempt entity is subject to limitations. As long as the organization continues to operate for the purpose it was granted exemption there is no problem with making changes to its programs and/or adding new ones. Once the nonprofit ceases to operate for its exempt purpose, and looks to be operating for a wholly different purpose, (mainly a for-profit entity in disguise) the organization can jeopardize its tax exempt status. Once a tax exempt organization loses its status it will be treated like a for-profit corporation and taxed at corporate rates.

### E. Selling Your Business

---

If you planned right, the business should flourish. One day you may be in the fortunate position that a larger company wants to acquire your business or in the alternative, you may want to turn your attention to starting another successful venture. Whatever the reason, you may look to sell your business someday. Selling your business encompasses many of the concepts already mentioned in this guide. Much like the preparations necessary to take a privately held business public, or seek out potential investors to raise capital, selling the business is all about the health and value of your business.

The key is to show potential buyers that your business is a sound investment option. In order to do this, it is important to make the process of researching and buying your business (in whole, in part, or as a franchise) as easy as possible. As the seller you should prepare adequate disclosures that showcase the value of your business. Outline for the buyer how your business is successful and will continue to be successful. Identify for the buyer how your brand is distinguished in the market. Provide your buyer with financial assessments that prove your business is free and clear of any debts or other liabilities (contact the Michigan Department of Treasury to obtain Form 514 to request a Tax Clearance). Your business should not appear to be a credit risk or a sinking ship as this will cause you to lose some buyers or drag down the value of your business attracting lower than expected bids.

It is best to work with a professional in the sale of your business. Depending on the entity structure and assets held, the process could have complicated tax, licensing and permits, and/or regulatory restrictions and responsibilities.

# Part Six

# Resources

It is important to note that the most valuable resource you can seek is professional consultation. Seeking professional expertise will help you to avoid unforeseen legal issues, management concerns, or complex tax issues. Professionals like attorneys, accountants, business planning, and technology consultants will help you assess the advantages and disadvantages of your chosen business form and financial structure. These professionals also can help you anticipate the potential legal compliance, contract, human resources, and technology needs of your start-up.

## A. General Start-up Resources

---

Once you start to develop your business plan these resources may assist you in moving your business forward.

Resources in the Mid-Michigan Area:

- Entrepreneur Institute of Mid-Michigan http://www.eim-m.org/
- Lansing Regional Chamber of Commerce www.lansingchamber.org
- Michigan Economic Development Corporation www.michigan.org
- Michigan Minority Business Development Council (MMBDC) www.mmbdc.com
- Michigan Nonprofit Association www.mnaonline.org
- Michigan Technical Assistance Center: Jackson Alliance for Small Business Development (517) 778-4680
- MSU College of Law Small Business & Nonprofit Clinic www.msulawclinics.org/sbnp
- Small Business Development Center at Lansing Community College www.misbtdc.org/region8/
- Tri-County Regional Planning Commission www.mitcrpc.org
- U.S. Small Business Administration www.sba.gov (offers free online entrepreneurship course)

Starting your Business:

- State of Michigan business resource page, www. michigan.gov/businessstartup
- Michigan Economic Development Corporation, www.medc.michigan.org, 1-888-522-0103.
- Michigan Small Business Technology Development Center, www.misbtdc.org, 517-483-7075.
- Small Business Administration, www.sba.gov, 1-800-U-ASK-SBA (1-888-827-5722).

Filing Your Business Entity:

- State of Michigan Department of Labor and Economic Growth-Corporations Division, www.michigan.gov/corporations, 517-241-6470.

Franchise Disclosures:

- State of Michigan Attorney General, www.michigan.gov/ag, 517-373-7117.
- Federal Trade Commission, www.ftc.gov, 1-877-FTC-HELP (1-877-382-4357).
- North American Securities Administrators Association, www.nasaa.org, 202-737-0900

Franchise Information

- International Franchise Association, www.franchise.org
- www.entrepreneur.com/franchises
- www.franchisesolutions.com

- Michigan Women's Marketplace, www.miwomen.com, 1-800-miwomen
- Michigan Women's Business Council (MWBC) www.wbenc.org
- The Center for Empowerment and Economic Development(CEED), www.miceed.org
- Women's Business Enterprise National Council, www.wbenc.org , 1-734-677-1444
- The SBA online Women's Business Center, www.onlinewbc.gov
- Detroit Entrepreneurship Institute, www.deibus.org
- Michigan Women's Foundation, www.miwf.org
- Women Business Owners of Southeastern Michigan, www.wbo-mich.org

# Part Seven

# Meet Our Entrepreneurs*

Throughout this guide you were introduced to some concepts that may be very new to you. Below you will meet three individual entrepreneurs like you who face the unique challenges of starting their own business. A brief look at some of the unique start-up issues they will encounter may help you to understand how to approach starting your new business.

## A. Richard

---

*Richard is an MSU graduate in Landscape Architecture interested in starting his own landscaping business. Aside from his degree, Richard, enjoys gardening and has worked for a local lawn service company every summer since he was 16 years old. As he is a recent graduate, Richard has no money to start the business, but has some equipment and a truck of his own.*

A Sole Proprietorship is an attractive choice for Richard. He is the only employee of the business, with no clients or money. It is easiest for him to simply register his DBA and solicit referrals while building the business from a small scale at first. However, with unlimited personal liability, a Sole Proprietorship is not a great option. Richard should consider forming as an LLC. The LLC will allow him the flexibility to build his business and keep its operations small, while also protecting his personal assets.

Richard should be careful in the use of his personal assets for businesses purposes. He must be diligent in keeping expenses separate, maintaining a log of mileage used, when utilizing the truck for both business and personal needs. He can claim the truck and equipment used as business deductions when preparing his taxes. However, only those uses that were in furthering the business can be considered.

---

* These characters are fictional in nature. Although the problems they face are very real issues of concern for an entrepreneur, no real persons or circumstances are reflected in this guide.

Making connections should be a priority for Richard. He has the interest and the experience to build a successful business. However, he needs to obtain clients in order for the business to thrive. Richard will need to distinguish himself from similar lawn service companies. The best way for Richard to raise some start-up cash would be by obtaining a small business loan or utilizing personal resources.

In operating his business, Richard will have to make sure he adheres to local and state regulations with respect to building structures upon the land or digging. There are environmental regulations concerning the products he can use, plants he can utilize, and permits regarding potential safety hazards with digging(ground wires).

B. Teresa

---

*Teresa is a stay-at-home mom. The kids are now school aged and she is interested in starting a home-based daycare to fill her days. She is also interested in starting an after school program for 'latch-key' kids, which provides social and educational development activities. Teresa has $3,000.00 in savings and her friends have offered an additional $3,000.00 in support.*

Selecting the appropriate legal entity structure will be important for Teresa's venture. Her business idea may not be ideal for a single business venture. She has identified two distinct business ideas which are related but, could make operations complex if she forms one entity. She will have to decide if she wants to run her day care as a for-profit enterprise or tie it in with her social program initiatives and run a single nonprofit entity. The latch key program must be related to the purpose of the daycare or should be its own nonprofit program.

Many new entrepreneurs are reluctant to form their business as a nonprofit because they will lose control over the operation of the entity. It will be an awkward situation for Teresa if she is operating the nonprofit out of her home and the Board of Directors has voted her out of her duties as a board member or as Executive Director. This is a possibility, so she should think carefully about how to form the business, or where to operate it. Finding an existing nonprofit and helping out is one way to wet an altruistic appetite without overextending into two business ventures.

Whatever entity she decides, if Teresa operates the business out of her home she will have to keep accurate records distinguishing home expenses from business expenses.

Her daycare business will be subject to regulation and she will have to obtain a license to operate a daycare facility, and be a licensed childcare provider. Additionally, she will have to make sure her business is adequately insured. If she is living in a rental property she will need to check with the provisions of her rental agreement to ensure she is permitted to operate such a business.

Raising start-up capital is not an issue, thus far. Teresa has some money to get her business going.

C. Eve

---

*Eve is a nine year old gifted and talented elementary student interested in starting her own business. After watching a talented kids episode on a popular television talk show, Eve decided to enter an area young inventors competition. Her innovative kid friendly alarm clock won the top prize and with her $1,000.00 price money she wants to sell the product on the market. Her parents have decided to support this endeavor by increasing her allowance and aiding in fundraising, start-up matters.*

The biggest issue is Eve's age. As a minor her parents will have to assume a substantial role in the business as her guardians, or they must appoint a guardian or establish a trust to maintain her ownership interests. Eve may not be able to obtain a business loan or sign contracts in her individual capacity as owner. It may be appropriate for her parents to protect her interests and operate the business by forming Corporation. The Corporation has its own legal identity and can be utilized to open a business bank account, obtain loans, and enter into contracts.

The business planning phase should focus heavily on defining the business' purpose, Eve's role, and that of her parents in the ownership and operation of this business. Eve is a minor, her experience and ability to take this product to market will be limited. She and her parents may decide operating a business of this nature is too large a task for a nine year old. If so, they would simply find a way to protect Eve's rights to royalties and invest the proceeds wisely. In the alternative, they could move ahead with the building of Eve's alarm clock empire by hiring employees to manage the business and ensure the production and sale of this product.

In this case the business' biggest asset is the product. Her invention will need to be protected. The Corporation should obtain a patent to protect its right to create, innovate, and distribute this product in the future.

# Appendix A

# Sample Business Plan Template



Cover Page: This page includes the name of the business and all relevant contact information for the business and authorized representative(s).

Table of Contents: This section provides an organized listing of the various sections and subjections of the business plan.

Section I: Executive Summary: This section provides an overview of the entire business plan. It will detail whether the main purpose of the submission is to obtain funding, gain investors, or bid on a contract, etc. Briefly identify the company, products, goals, and needs that will be outlined. Detail how and why this business will be successful.

Section II: Company Overview: This section will articulate the mission, goals, and objectives of the business.

Section III: Products and Services: This section will describe the products and/or services of the business. It will also detail the pricing structure and specific use(s) of the products and/or services, and introduce any affiliated products.

**Section IV: Marketing Plan:** This section will include a market and industry analysis, identifying the target customers, and competitors of the business. It will also detail fully the advertising and promotional strategies the business will use to reach the articulated marketing goals of the business.

**Section V: Operational Plan:** This section will detail the business model to be used, as well a listing the long-term and short-term goals of the business. The section will also provide an analysis of the strengths and weaknesses of the business and identify methods to limit the weaknesses from inhibiting the success of the business. This section will also detail operational and legal requirements of the businesses (licenses, permits, insurance).

**Section VI: Management and Organization:** The section will include an introduction to the organizational structure and key personnel (either positions filled or to be filled) of the business.

**Section VII: Financial Plan:** This section will outline the financial aspects of operating the business. A detailed budget listing start-up and productions costs, available cash, and other assets of the business will be included. This section will also provide financial projections about the profitability, risks, and contingencies in the future of the business. Financial disclosure documents concerning the businesses financial history may need to be included as well.

**Section VIII: Supporting Documents:** This section will include any supporting documents to the proposal. For example, the owner(s) may wish to provide a resume, credit report, and references or other testimonials.

**Section IX: Attachments:** This section should include any documents that are required disclosures of the business like copies of licenses and permits, or any other documents referred to in the business plan. For example, copies of all relevant leases, contracts, and vendor agreements.

# Appendix B

# For Profit Funding Sources

1. Entrepreneur Institute of Mid-Michigan Executive Director Denise Peek at (517) 483-4051 or http://www.eim-m.org/.
2. Angel Networks www.kauffman.org. Local Angel Networks may be found at: www.annarborangels.org (Ann Arbor), www.grandangels.org (Grand Rapids), or www.glangels.org (Great Lakes).
3. Small Business Administration www.sba.gov/mi (microloans) or www.sbaonline.sba.gov/index.html.
4. Venture capital companies www.michiganvca.org. (comprised of and organized by venture capital, private equity and professional services firms with the common interest of promoting investment activity in the State of Michigan).
5. Michigan Small Business & Technology Development Center – Region 8 go to www.gvsu.edu/misbtdc/region8/.
6. Lansing Economic Development Corporation's Business Finance Assistance Program go to www.cityoflansingmi.com/edc/financing_programs.jsp (funding for business development in downtown Lansing)
7. If you need individual assistance go to www.nef.bizserve.com. The New Enterprise Forum (NEF) is a not-for-profit corporation that helps entrepreneurs prosper and grow. NEF links entrepreneurs to management expertise, potential joint venture partners, mentors, business services, capital, and other critical resources in Michigan and the Midwest. (There is a fee for service).
8. Regulated Financial Institutions (banks and credit unions) provide a variety of financial services to individuals and small businesses including lines of credit, term loans and mortgages.
9. Know your credit score for sure before you apply for a loan, Equifax, Experian, and TransUnion are the 3 major credit reporting agencies. Go to www.annualcreditreport.com for 1 free credit report per year. Please see each individual service for other fees.

# Appendix C

# Nonprofit Funding Sources

1. Michigan Nonprofit Association www.mnaonline.org/ .
2. Council of Michigan Foundations, The Foundation Directory Online www.fconline.fdncenter.org (fee).
3. Michigan State University Funding Center http://www.lib.msu.edu/harris23/grants/index.htm.
4. Angel Networks www.kauffman.org. Local Angel Networks may be found at: www.annarborangels.org (Ann Arbor), www.grandangels.org (Grand Rapids), or www.glangels.org (Great Lakes).
5. The University of Michigan www.lib.umich.edu/govdocs/fedgt.html (Federal grant resources).
6. The University of Michigan Nonprofit and Public Management Center www.nonprofit.umich.edu/nonprofits/resources.php. (a wealth of information for all types of nonprofits)
7. Small Business Administration www.sba.gov/mi (microloans) or www.sbaonline.sba.gov/index.html.
8. Guidestar www.guidestar.org (Searchable database of US nonprofits and charities' activities and finances).
9. Thompson www.grantsandfunding.com (Guide to federal funding for government and nonprofits).
10. David and Lucile Packard Foundation www.packard.org (Provides grants to nonprofit organizations in the following areas: conservation and science, population, community, families and children).
11. Bill and Belinda Gates Foundation www.gatesfoundation.org (Focuses on increasing access to innovations in education, technology, and world health).
12. W.K. Kellogg Foundation www.wkkf.org (Provides grants in the following areas: health, food systems, rural development, youth, education, philanthropy and volunteerism, and the Greater Battle Creek area).
13. FirstGov for Nonprofits www.usa.gov/Business/Nonprofit.shtml (provides agency specific resources, fundraising, grants and loans, regulations and tax information).
14. Tech Foundation www.techfoundation.org (Provides nonprofits with access to capital to help afford their technology needs called "Tech Grants").
15. Michigan Nonprofit Association *"The Grantwriter's Start-Up Workbook"* and video kit available for $14 or $50. (a step-by-step guide to securing grants; also includes samples.)
16. Nonprofit Enterprise at Work www.new.org.

# Appendix D

# Business Start-Up Checklist

## Step One: What's the Big Idea?

- [ ] Identify your business idea
- [ ] Conduct an idea analysis and self assessment

## Step Two: Do You Have a Plan?

- [ ] Research business planning tools and develop/utilize a business plan template
- [ ] Set a realistic budget for your business and develop a financing plan
- [ ] Research the market and your target consumers and develop a marketing plan

## Step Three: Make it Official

- [ ] Research the various business entity structures
- [ ] Select the best entity choice for your business
- [ ] Formalize the business entity by filing the requisite legal documents
- [ ] Contact the IRS to obtain your business' EIN
- [ ] Contact the Michigan Department of Treasury to register for business taxes

## Step Four: Ready, Set, Go!

- [ ] Purchase necessary insurance for the business
- [ ] Draft requisite internal Partnership, Membership, and Shareholder's Agreements
- [ ] Establish a schedule for regular or periodic member/owner meeting dates and times
- [ ] Review and sign lease agreements for use of commercial space and other equipment
- [ ] Draft/Review and sign vendor agreements and other contracts for the business
- [ ] Obtain requisite licensing and permits for the business
- [ ] Register any trademarks, copyrights, and/or patents of the business
- [ ] Register a domain name and develop a business website
- [ ] Purchase requisite supplies and materials for the business

## Step Five: Watch it Grow

- [ ] Periodically update and revise the business, financial, and marketing plans
- [ ] Organize books and records for periodic review and reporting requirements

## Step Six: Resources

- [ ] Utilize the various resources available to assist the General Start-up Resources