

## Session 2 –Business Basics

In this session you will learn:

- There are many types of startups, from the simple one-person business to a complex technology startup, with a lot in between.
- How to choose a business name, and how to own the name.
- Basic legal business types: corporations, Limited Liability Corporation, sole proprietorship, fictitious business name and “doing business as” (DBA).
- Business locations: home office, retail store, business offices, and so on.
- What is a business plan, and why is it useful?

### OVERVIEW

Now that you have decided on the business concept, how do you want to set up your business? Making these decisions now will help you build your business foundation:

- What is the best legal setup for your business? What are the costs?
- Will you have a partner? If so, what will the taxes be for each of you?
- Is your business name already used by someone else? How can you find out?
- Do you need a storefront location to reach your customers?

### DEFINITION

**Intellectual Property:** Common types include copyrights, trademarks, patents, industrial design rights and trade secrets.

### STEVE BLANK: THE 6 TYPES OF STARTUPS

*From The Wall Street Journal*

*The Accelerators: Startup mentors discuss strategies and challenges of creating a new business*

While we have only one word for “startup,” there are six varieties: lifestyle, small business, scalable, buyable, and social and inside a large company. The founders who start these are all “entrepreneurs.” But there are significant differences between the people, funding and strategies involved. Not understanding those differences can screw up your chance of success.

- **Lifestyle Startups: Work to Live Their Passion**

On the California coast where I live, lifestyle entrepreneurs are like surfers, teaching surfing lessons to pay the bills so they can surf some more. Lifestyle entrepreneurs live the life they love, work for no one but themselves and pursue their personal passion. The Silicon Valley equivalent is the journeyman coder or Web designer who loves the technology and takes coding and U/I jobs because it is a passion.

- **Small-Business Startups: Work to Feed the Family**

The overwhelming number of entrepreneurs and startups in the U.S. today are still small businesses. This category consists of grocery stores, hairdressers, consultants, travel agents, Internet commerce storefronts, carpenters, plumbers, electricians, etc. They are anyone who runs his or her own business. Small-business entrepreneurs work as hard as anyone in Silicon Valley. They hire local employees or family. Most are barely profitable. Most small businesses are not designed for scale — the owners want to own their

business and feed the family. Their only available capital is their own savings, what they can borrow from relatives and banks. Small-business entrepreneurs don't become billionaires and don't make many appearances on magazine covers. But in sheer number, they are infinitely more representative of "entrepreneurship" than entrepreneurs in other categories—and their enterprises create local jobs.

- Scalable Startups: Born to Be Big

Scalable startups are what Silicon Valley entrepreneurs and their venture investors aspire to build. Google, Skype, Facebook and Twitter are just the latest examples. From day one, the founders believe that their vision can change the world. Unlike small-business entrepreneurs, their interest is not in earning a living but rather in creating equity in a company that eventually will become publicly traded or acquired, generating a multi-million-dollar payoff. Scalable startups require risk capital to fund their search for a business model, and they attract investment from equally crazy financial investors – venture capitalists. They hire the best and the brightest. Their job is to search for a repeatable and scalable business model. When they find it, their focus on scale requires even more venture capital to fuel rapid expansion.

- Buyable Startups: Acquisition Targets

In the past five years, the cost and time required to build Web and mobile apps has plummeted. You can get to product/market fit and a million users with \$100,000 to \$1 million. Many of these startups bypass traditional VCs by using crowd or angel funding. In some cases, while they might be able to build a billion-dollar business, the lack of traditional venture-capital investors (and nosebleed valuations) takes away the pressure of the "swing for the fences" liquidity goals. This class of startup is likely to be sold to a larger company for \$5 million to \$50 million. The founders and investors walk away with millions but not billions.

- Social Startups: Driven to Make a Difference

Social entrepreneurs are no less ambitious, passionate or driven to make an impact than any other type of founder. But unlike scalable startups, their goal is to make the world a better place, not to take market share or to create to wealth for the founders. They may be organized as a nonprofit, for-profit or hybrid.

- Large-Company Startups: Innovate or Evaporate

Large companies have finite life cycles. And over the past decade, those cycles have grown shorter. It's already becoming clear that lean startup practices are not just for scalable and buyable startups. Corporations have spent the past 20 years increasing their efficiency by driving down costs. But simply focusing on improving existing business models is not enough anymore. Almost every large company understands that it also needs to deal with ever-increasing external threats by continually innovating. To ensure their survival and growth, corporations need to keep inventing new business models. This challenge requires entirely new organizational structures and skills.

## COMPANY TYPES – LLC, S CORP, C CORP AND DBA

**Each company type has key advantages and disadvantages. Here are some things to consider if you're deciding whether to form an LLC, incorporate as an S corporation or C corporation or to file a DBA.**

### **Filing a DBA**

A DBA filing (doing business as, also called an assumed or fictitious business name) allows a company to transact business using a different name. It generally takes place at the county level, but some states have state-level DBA filings. For sole proprietorships and general partnerships, unless a DBA is filed, the company name is the same as the owner's or owners' name(s). For example, John Smith is operating a landscaping business as a sole proprietorship. In order to transact business as Smith's Landscaping, he must file a DBA for that name. Otherwise, he must transact business as John Smith.

A corporation or LLC can also file a DBA to transact business under a name different from the one registered with the state (when the business was incorporated). For example, a corporation formed as Smith and Sons, Inc. may want to do business under a name that more clearly states what the company does and could file a DBA to use a more descriptive name like Smith Landscaping.

#### Advantages & limitations

- For sole proprietorships and general partnerships, the advantage of filing a DBA is that it does not provide the same ongoing compliance requirements of incorporating or forming an LLC. It merely allows the company to transact business with the new name. The limitation is that it does not provide the liability protection and tax advantages of incorporating.
- A DBA filing does not change the official name of the corporation or LLC. It only allows the business to use a different name in trade, which can be in addition to or instead of the official corporate or LLC name.

### **Forming a corporation or LLC**

to incorporate your business as a corporation or LLC, formation documents—Articles of Incorporation for corporations and Articles of Organization for LLCs—must be filed with the appropriate state agency. Incorporating helps protect personal assets, while sole proprietorships and partnerships that use a DBA incur unlimited liability.

### **Understanding corporation types**

to formalize your organization, first learn about and decide which business type is right for you:

- **C Corporation.** A corporation is a separate legal entity set up under state law that protects owner (shareholder) assets from creditor claims. Incorporating your business automatically makes you a regular, or "C" corporation. A C corporation (or C corp) is a separate taxpayer, with income and expenses taxed to the corporation and not owners. If corporate profits are then distributed to owners as dividends, owners must pay personal income tax on the distribution, creating "double taxation" (profits are taxed first at the corporate level and again at the personal level as dividends). Many small businesses do not opt for C corporations because of this tax feature.
- **S corporation.** Once you've incorporated, you can elect S corporation status by filing a form with the IRS and with your state, if applicable, so that profits, losses and other tax items pass through the corporation to you and are reported on your personal tax return (the S corporation does not pay tax).
- **Limited liability Company (LLC).** Another business type that is formed under state law and gives your personal liability protection is the LLC. Tax-wise, an LLC is similar to an S corporation (or S corp), with business income and expenses reported on your personal tax return. If you are the only owner of an LLC, you are viewed as a "disregarded" entity. This means you report the LLC's income and expenses on Schedule C of Form 1040—the same schedule used by sole proprietors.

### Advantages & limitations

C corporations, S corporations and LLCs provide you with personal liability protection. S corporations and LLCs are commonly used for small business activities. Both enable you to grow your business and take on new owners. Both pass through income to owners who report it on their personal returns. Both cost about the same to set up, depending on the filing and ongoing fees imposed by the state in which you incorporate. One key difference is how owners are affected by employment taxes:

- S corporation shareholders are employees of their corporation so Social Security and Medicare (FICA) taxes apply to compensation they receive, but not to distributions they receive.
- LLC members are self-employed individuals who owe Social Security and Medicare taxes, paid by self-employment tax on their share of business net income.

Incorporating or forming an LLC provides advantages to business owners that operating a business as a sole proprietorship or general partnership does not, including:

- Limited liability protection for the personal assets of the owner(s).
- Certain tax advantages such as tax deductions not available to sole proprietors.
- Opportunity to gain credibility with potential customers, vendors, partners, and employees.
- Capital can be raised more easily.

### **Making your decision**

the decision to file a DBA or form a corporation or LLC depends on your particular business, situation and goals. Existing corporations and LLCs evaluating whether to file a DBA may need to consider:

- Does the new name project a business focus that is allowed under the business purpose (as outlined in your Articles of Incorporation or Organization)?
- Are there advantages to creating a subsidiary or an entirely new business to operate alongside your existing business?

For questions regarding your specific situation, consider talking with an attorney or accountant.

### **THE EFFECT OF BUSINESS LOCATION TO THE BUSINESS' SUCCESS**

*By Dana Griffin, Demand Media - <http://www.chron.com/>*

The first course of action to finding a location for your business is to determine your business' needs. Will you rely on foot traffic? Does your business require natural or local resources? What kinds of zoning restrictions might you encounter? The best location is one that minimizes costs while maximizing income. Some businesses are "footloose" in that they could set up pretty much anywhere.

### **Push and Pull Factors**

Factors that draw a business away from a certain location are "push" factors. These include increasing costs, more competition, and a reduction in demand or poor communication and transportation systems. Conversely, those that "pull" a business toward a location are lower labor costs, a growing consumer base, government incentives, and improved transportation and communication systems.

### **Customers and Community**

when you rely on customers to visit your business, consider the demographics of your potential location. A business appealing to young families would not do well in a location where the average householder is older than 50. A day care facility would need to be located near where young dual-income families live,

or where young parents work, so that dropping off and picking up are not out of the way. Check the United State Census information for your proposed locations.

### **Competition**

when your business relies on the local community for support, you'll need to check out the competition. In some cases, being near several similar businesses is an advantage because it draws a consumer group to that area. So, if you are retailing teen fashions, being near to other similar stores could be helpful. The same is true of fast food or quick restaurants, and gas stations. However, if you need the bulk of the market share, such as a grocery or after school program, you'll want to choose a location where you are the primary servicer of that market segment.

### **Area and Success**

choosing the actual business area contributes to the bottom line. Consider traffic patterns and accessibility for both customers and employees. Consider too that even if a location does not have specific zoning, there may be covenants and deed restrictions on the location you choose. "Bloomberg BusinessWeek" writer, Peter Coy, points out that while Houston, Texas, for instance, has no formal zoning code "the separation of land uses is impelled by economic forces rather than mandatory zoning ... Developers employ widespread private covenants and deed restrictions, which serve a comparable role as zoning."

### **Choosing Space**

Once you've chosen the general area, you'll need to determine what kind of space you'll need for your business. A retail business needs street access and a storefront. A coffee shop or cafe needs kitchen facilities. If you're warehousing and shipping, access to shipping facilities might be the priority, and a labor-intensive assembly business might need to locate nearest to the source of inexpensive labor, such as a college campus. Because businesses generally rent locations to begin with, check out the costs for renting in your area as well.

### **WHY IS A BUSINESS PLAN IMPORTANT?**

*By Steven D. Peterson, Peter E. Jaret, and Barbara Findlay Schenck from Business Plans Kit For Dummies, 4th Edition*

Nearly all business experts agree on one thing: the importance of drafting a business plan. Yet plenty of companies plunge into the competitive arena without a formal plan. Why? We've heard plenty of excuses posing as reasons.

A lot of new businesses are carried away and figure their passion and optimism are enough to build a successful company. Others say they were just too busy to develop a formal business plan. But operating without a plan can prove even more time-consuming in the long run.

The benefits of having a business plan

The time you invest in your business plan will pay off many times over. Some of the most obvious benefits you can gain from business planning include

- An opportunity to test out a new idea to see if it holds real promise of success
- A clear statement of your business mission and vision
- A set of values that can help you steer your business through times of trouble
- A blueprint you can use to focus your energy and keep your company on track
- Benchmarks you can use to track your performance and make midcourse corrections
- A clear-eyed analysis of your industry, including opportunities and threats
- A portrait of your potential customers and their buying behaviors
- A rundown of your major competitors and your strategies for facing them

- An honest assessment of your company's strengths and weaknesses
- A roadmap and timetable for achieving your goals and objectives
- A description of the products and services you offer
- An explanation of your marketing strategies
- An analysis of your revenues, costs, and projected profits
- A description of your business model, or how you plan to make money and stay in business
- An action plan that anticipates potential detours or hurdles you may encounter
- A handbook for new employees describing who you are and what your company is all about
- A résumé you can use to introduce your business to suppliers, vendors, lenders, and others

What can go wrong without a business plan?

The many benefits of having a business plan should be enough to convince you. But in case you're still wavering, consider what can go wrong if you don't take time to plan. You risk

- Running out of cash before you open your doors because you haven't anticipated your start-up costs
- Missing sales projections because you don't really know who your customers are and what they want
- Losing customers because your quality or service falls short
- Becoming overwhelmed by too many options because you never took the time to focus on a mission and vision for your company
- Going bankrupt because you don't have a rational business model or a plan for how to make money

Take our word for it: Time spent putting together a solid business plan is time well spent. In fact, the more time you spend, and the better prepared you'll be. But don't be overwhelmed at the prospect. The basic components of a business plan are fairly simple.