

Starting a Business in



Class of 2015

Melissa Bernasek
Corey Dixon
Will Gieske
Trish Glees

Larry Henderson
Donna Kline
Tom McGrath
Bonifacio Mondragon

Congratulations! You've decided to become one of the most important parts of the City of Elgin—a small business owner. This is a very exciting time, filled with lots of hopes and dreams, but also one filled with checklists and forms and unanswered questions. That's where this Guide comes in.

The library and Internet are filled with resources to help you start a business, many of which are referenced in this Guide, and you are strongly encouraged to seek those out. In addition, what do you need to know to start a business here, in Elgin? Every city, every state has its own rules and regulations, and a good understanding of those local requirements can make or break your new business. Local regulations are described throughout this guide as they apply; a listing of local resources for further help with starting your business in Elgin can be found on the final pages. Contacting organizations such as the Chamber of Commerce and City offices are vital steps in starting a successful business.

Table of Contents

STRUCTURE	4
Sole Proprietorship	4
Partnership	4
Corporation	5
Advantages of a Corporation	5
Disadvantages of a Corporation.....	5
Limited Liability	6
Advantages of an LLC.....	6
Disadvantages of an LLC	6
S Corporation	7
STARTUP	8
Build Your Team	8
Business Plan	8
Executive Summary.....	8
Vision	8
Market Analysis.....	8
Products and Services	9
Strategy	9
Marketing and Sales	9
Operations	9
Financials.....	9
Insurance	9
General Liability Insurance.....	9
Product Liability Insurance	10
Commercial Property Insurance	10
General Building Permit	10
Name	11
Registration	11
License and Permit	11
Taxes	12
Human Resources	13
Basic Workplace Policies.....	13
Staffing	13
Regulatory Issues.....	13
Affordable Care Act	14
Finances	14
Consulting and Outsourcing	15
Patents and Trademarks	16

RUNNING YOUR BUSINESS (Operations)	17
Customers	17
Marketing	17
Technology	18
Growth	19
Long term planning	19
Recordkeeping	20
Sales and Selling	20
Financial Statements	21
Balance Sheet	21
Income Statement	22
Cash Flow Statement	22
Risk Management	22
Networking	23
Local Resources	23

STRUCTURE

Sole Proprietorship

A sole proprietorship is the simplest kind of business to operate. The startup time frame for such a business is usually very short since setup costs are low and only a local business license is required. For more details about the license(s) required, please contact the Elgin Area Chamber of Commerce: info@elginchamber.com.

Another important aspect of this business structure is that the owner is personally liable for the business. This means if your business is sued, you will personally be responsible. There is no legal financial separation of assets or income. Some other potentially negative aspects of a Sole Proprietorship include:

- Owners are subject to unlimited personal liability for the losses, liabilities and debts of the business.
- Owners cannot raise capital by selling an interest in the business.
- Sole proprietorships rarely survive the death or incapacity of their owners and do not retain value.

While there are some drawbacks, there are many positives, such as:

- Owners can establish a sole proprietorship instantly, easily and inexpensively.
- Sole proprietorships carry little, if any, ongoing formalities.
- A sole proprietor need not pay unemployment tax on himself or herself (although he or she must pay unemployment tax on employees).
- Owners may freely mix business or personal assets (www.entrepreneur.com)

Whatever your situation, weigh your business structure options. The right structure is invaluable and will prove beneficial. Now, let's review some of the other business structure options.

Partnership

A partnership joins two or more people in a legal relationship. Each person who owns a portion of the business is called a general partner. The business in and of itself does not pay income taxes, but rather each person who takes a draw from the business profits will pay income tax on that amount, individually filing.

For those who have decided that a business partnership is the way to go, here is a list of things to discuss with your general partner(s). Make sure to have everything in writing and reviewed by a lawyer before moving the business forward.

- Authority
- Management
- Capital Contributions
- Funding
- Profit and Loss Allocation
- Partner Salaries, Benefits and Compensation
- Buyouts: What if one (or more partners) want out? What if someone dies or gets sick?
- New Partners: What if someone wants to join the partnership?
- Business Organizational Structure
- Dispute Settlement How-To
- Length of Partnership

There are many other things to consider, but if you address these items, you exponentially increase your chances of success. (suite.io/bonny-albo/10tq205)

Corporation

A corporation (sometimes referred to as a C corporation) is an independent legal entity owned by shareholders. This means that the corporation itself, not the shareholders that own it, is held legally liable for the actions and debts the business incurs. Corporations are more complex than other business structures because they tend to have costly administrative fees and complex tax and legal requirements. Because of these issues, corporations are generally suggested for established, larger companies with multiple employees.

A corporation is formed under the laws of the state in which it is registered. To form a corporation you'll need to establish your business name and register your legal name with your state government. If you choose to operate under a name different than the officially registered name, you'll most likely have to file a fictitious name (also known as an assumed name, trade name, or DBA name, short for "doing business as"). State laws vary, but generally corporations must include a corporate designation (Corporation, Incorporated, Limited) at the end of the business name. To register your business as a corporation, you need to file certain documents, typically articles of incorporation, with the Secretary of State for Illinois. For businesses in that position, corporations offer the ability to sell ownership shares in the business through

stock offerings. “Going Public” through an initial public offering (IPO) is a major selling point in attracting investment capital and high quality employees.

Corporations, also known as “C Corps” offer a lot of protection for a large business. Certainly, if you have only a few employees including yourself, picking this business structure isn’t ideal. Consider each structure very carefully and choose wisely. Let’s consider the advantages and disadvantages of C Corps:

Advantages of a Corporation

- **Limited Liability.** When it comes to taking responsibility for business debts and actions of a corporation, shareholders’ personal assets are protected. Shareholders can generally only be held accountable for their investment in stock of the company.
- **Ability to Generate Capital.** Corporations have an advantage when it comes to raising capital for their business--the ability to raise funds through the sale of stock.
- **Corporate Tax Treatment.** Corporations file taxes separately from their owners. Owners of a corporation only pay taxes on corporate profits paid to them in the form of salaries, bonuses, and dividends, while any additional profits are awarded a corporate tax rate, which is usually lower than a personal income tax rate.
- **Attractive to Potential Employees.** Corporations are generally able to attract and hire high-quality and motivated employees because they offer competitive benefits and the potential for partial ownership through stock options.

Disadvantages of a Corporation

- **Time and Money.** Corporations are costly and time-consuming ventures to start and operate. Incorporating requires start-up, operating and tax costs that most other structures do not require.
- **Double Taxing.** In some cases, corporations are taxed twice—first, when the company makes a profit, and again when dividends are paid to shareholders.
- **Additional Paperwork.** Because corporations are highly regulated by federal, state, and in some cases local agencies, there are increased paperwork and recordkeeping burdens associated with this entity

Limited Liability

A limited liability company is a hybrid type of legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership.

The "owners" of an LLC are referred to as "members." Depending on the state, the members can consist of a single individual (one owner), two or more individuals, corporations or other LLCs. Unlike shareholders in a corporation, LLCs are not taxed as a separate business entity. Instead, all profits and losses are "passed through" the business to each member of the LLC. LLC members report profits and losses on their personal federal tax returns, just like the owners of a partnership would.

Advantages of an LLC

- **Limited Liability.** Members are protected from personal liability for business decisions or actions of the LLC. This means that if the LLC incurs debt or is sued, members' personal assets are usually exempt. This is similar to the liability protections afforded to shareholders of a corporation. Keep in mind that limited liability means *limited* liability - members are *not necessarily shielded* from wrongful acts, including those of their employees.
- **Less Recordkeeping.** An LLC's operational ease is one of its greatest advantages. Compared to an S-Corporation, there is less registration paperwork and there are lower start-up costs.
- **Sharing of Profits.** There are fewer restrictions on profit sharing within an LLC, as members distribute profits as they see fit. Members might contribute different proportions of capital and sweat equity. Consequently, it's up to the members themselves to decide who has earned what percentage of the profits or losses.

Disadvantages of an LLC

- **Limited Life.** In many states, when a member leaves an LLC, the business is dissolved and the members must fulfill all remaining legal and business obligations to close the business. The remaining members can decide if they want to start a new LLC or part ways. However, you can include provisions in your operating agreement to prolong the life of the LLC if a member decides to leave the business.

- **Self-Employment Taxes.** Members of an LLC are considered self-employed and must pay the self-employment tax contributions towards Medicare and Social Security. The entire net income of the LLC is subject to this tax.

S Corporation

An S corporation (sometimes referred to as an S Corp) is a special type of corporation created through an IRS tax election. An eligible domestic corporation can avoid double taxation (once to the corporation and again to the shareholders) by electing to be treated as an S corporation.

An S Corp has the Subchapter S designation from the IRS. To be considered an S Corp, you must first charter a business as a corporation in the state where it is headquartered. According to the IRS, S corporations are "considered by law to be a unique entity, separate and apart from those who own it." This limits the financial liability for which you (the owner, or "shareholder") are responsible. Nevertheless, liability protection is limited—S corps do not necessarily shield you from all litigation such as an employee's tort actions as a result of a workplace incident.

What makes the S Corp different from a traditional corporation (C Corp) is that profits and losses can pass through to your personal tax return. Consequently, the business is not taxed itself. Only the shareholders are taxed. There is an important caveat, however: any shareholder who works for the company must pay him or herself "reasonable compensation." Basically, the shareholder must be paid fair market value, or the IRS might reclassify any additional corporate earnings as "wages."

[sba.gov/content/s-corporation](https://www.sba.gov/content/s-corporation)

STARTUP

Build Your Team

In addition to your business partners, if any, you need to consider other necessary "team members"—your Banker, Accountant, Insurance broker, Lawyer (remember "BAIL"). It is very, very rare that a single business owner is an expert in each of these disciplines, and it is critical that these persons be in place *before* you start your business so that things are done correctly and legally from the start. Investing in these professional services is part of running a successful business.

Business Plan

A business plan is an essential roadmap for business success. This living document generally projects 3-5 years ahead and outlines the route a company intends to take to grow revenues. Go to [sba.gov/writing-business-plan](https://www.sba.gov/writing-business-plan) for more details. Every business should have a detailed business plan that includes a description of the organization's Executive Summary, Vision, Market Analysis, Products and Services, Strategy, Marketing & Sales, Operations and Financials. The following represents general areas that each of the sections should include, and that every new business person should document before starting a business:

Executive Summary

- **Business Name Explanation.** Why did you choose your particular business name? What does the name mean?
- **Business Concept.** What is your sustainable competitive advantage?
- **Key Success Factors.** What goals must be met for your business to be successful?
- **Milestones.** How will you know when you have met your goals as the business grows? What is your break-even point? When will you make a profit?

Vision

- **Vision Statement.** A statement that answers the question “Where is your business going in its long term future? Why will your business be viable in the distant future?”
- **Mission Statement.** A statement that answers the question “What are you in business to do?” i.e. sell cars, create websites, style hair, etc.

Market Analysis

- **Overall Market.** What industry are you in? Who are your competitors? What are your industry's financial indices?
- **Characteristics and Market Trends.** What does real data show your prospective customers will actually consistently buy?
- **Target Market and Customers.** Who will buy your product and where are they located?
- **Customer Needs.** What do your customers want?
- **Customer Buying Decisions.** What hierarchical needs are customers meeting when purchasing your product or service?

Products and Services

- **Products and Services Description.** What specifically are you selling? What do you want customers to pay for (a product, service, or idea)?

Strategy

- **Differentiation from Competitors.** What is your sustainable competitive advantage? What will keep others from duplicating and taking your business?
- **Key Competitive Strengths.** What are your core competencies?
- **SWOT Analysis.** Internal Strengths and Weaknesses, External Opportunities and Threats

Marketing and Sales

- **General Pricing.** How much will your product or service cost? What is your profit margin?
- **Promotion and Marketing Strategy.** 4Ps: Product, Price, Promotion & Place. How will you sell your product or service? How will you inform your customers of your existence?

Operations

- **Hours of Operation.** When and where will you do business?
- **Organizational Structure.** Who is running the company? What is the chain of command?

Financials

- **Start-up Summary.** How much money will it cost to get your business off the ground? Where will you get the money to finance it?
- **Assumptions.**

Insurance

Just like human life, the life of a business is full of unexpected events that can have excessively large costs: earthquakes, floods, fires, theft, death of a business partner, loss of intellectual property, lawsuits, etc. Any of these kinds of events can bring about costs that can cannot be covered by a business' normal operating budget. These kinds of costs make it wise for any business to carry the proper insurance so that a company's' assets are properly protected. Visit sba.gov/content/types-business-insurance for more details.

General Liability, Product Liability, and Commercial Property Insurance are a few of the basic types of insurance necessary to protect the long term viability of any business. Here is a general description of these types of insurance:

- **General Liability Insurance.** This is the basic insurance necessary to protect a business against lawsuits due to unexpected injuries and accidents that occur at the place of business or due to the operation(s) of a business. Bodily injuries to customers or employees, negligence, accidents, and slander are some of things that general liability insurance covers.

- **Product Liability Insurance.** Companies that manufacture, wholesale, distribute, and retail a product may be liable for consumer safety. Product liability insurance protects against financial loss as a result of a defective product that causes injury or bodily harm.
- **Commercial Property Insurance.** There are several kinds of commercial property insurance. Basic commercial property insurance covers the loss, damage, or theft of any company property, as well as the tangible products and the raw materials necessary to create these products.

There are many other kinds of business insurance that a company or institution should consider based on the nature of its products/services, including Workers Compensation Insurance, Home-Based Business Insurance, Professional Liability Insurance, Flood Insurance, Automobile Insurance, Renters Insurance, etc.

General Building Permit

Are you looking to build a new facility? Are you purchasing or leasing an existing space? Will renovations or updates be required in the existing space? If so, a Building Permit from the City of Elgin may be required. A few examples of what may require a permit (contact the City of Elgin <http://www.cityofelgin.org> for a full list) include:

- Demolition of load bearing walls
- Modifications to the building structure (floors, walls, stairs, roof, foundation, etc.)
- Major modifications to sewer/plumbing, fire protection, HVAC, and electrical systems.

A permit will likely NOT be required (again, contact the City of Elgin <http://www.cityofelgin.org> for a full list) for:

- New floor finishes (wood, laminate, vinyl, carpet, etc.)
- Interior or exterior painting
- Replacing doors or windows
- Replacing plumbing or electrical fixtures (without plumbing line or electrical wiring modifications)

Other questions to consider:

- How much building space will you need to run your business?
- Will you need to hire a licensed architect/engineer?
- Will you need a licensed General Contractor?

Confirm with the City of Elgin that the location of your business meets all required zoning ordinances (<http://www.cityofelgin.org>).

Name

Choosing a business name is required before you can register your business with the state. Entrepreneur.com offers some advice on how to name your business, including a video. entrepreneur.com/article/21774

- Come up with three name ideas.
- Consider the name based on website address (URL) availability. Check the database at networksolutions.com/whois.
- Search the Corporation/LLC Search/Certificate of Good Standing database at cyberdriveillinois.com/departments/business_services/corp.html to see if the name you would like to use has already been taken.
- Sole Proprietors and Partnerships must file a Doing Business As (DBA) name if they wish to conduct business under any other name than the owner. Existing Corporations and LLCs may also wish to file a DBA under certain circumstances. In Kane County, the DBA is called Assumed Name. File your Assumed Name Certificate with Kane County. Read more at www.co.kane.il.us/coc/Records/Business/business.asp and fill out and print the form. Follow the instructions for filing.

Further reading:

sba.gov/content/how-name-business

Registration

- Sole Proprietorships should have already registered an Assumed Name with Kane County, if necessary. Filing is only required at the county level.
- Domestic and Foreign Corporations, Limited Liability Companies, Limited Liability Partnerships, and Limited Partnerships need to file registration with the State of Illinois. Find the forms at illinois.gov/Business/Pages/registration.aspx
 - Corporations should follow the guide from the Illinois Secretary of State, found at cyberdriveillinois.com/publications/pdf_publications/c179.pdf
 - Limited Liability Companies should follow the guide from the Illinois Secretary of State, found at cyberdriveillinois.com/publications/pdf_publications/c334.pdf

- Limited Liability Partnerships and Limited Partnerships should follow the code of the State of Illinois, found at ilga.gov/commission/jcar/admincode/014/01400166sections.html and ilga.gov/commission/jcar/admincode/014/01400171sections.html
- Not-for-profit corporations should follow the guide from the Illinois Secretary of State, found at cyberdriveillinois.com/publications/pdf_publications/c165.pdf

License and Permit

Apply for your City of Elgin Business License at cityofelgin.org/index.aspx?NID=1077.
What type of business will you be pursuing?

- Certain professions must register with the Illinois Department of Financial and Professional Regulation. Find out if you need to register here: idfpr.com/Professionals.asp
- Federal, State, and Local Governments enforce laws to require special Licenses and Permits in order to protect the public's health and safety.
 - sba.gov/content/what-federal-licenses-and-permits-does-your-business-need
 - sba.gov/content/what-state-licenses-and-permits-does-your-business-need

Will your business involve any activities that are supervised and regulated by a Federal Agency (Alcohol, Firearms, etc.)?

- If so, you may need to obtain certain Federal Licenses or Permits.
- To identify specific licenses or permits required by the State of Illinois visit sba.gov/content/what-federal-licenses-and-permits-does-your-business-need.

Additional References:

illinois.gov/Business/Pages/registration.aspx

illinois.gov/dceo/BizDevelopment/Pages/StepByStepGuide.aspx

Taxes

Determine what type of Tax Year (Calendar Year or Fiscal Year) you will utilize for your annual accounting period for keeping records and reporting income and expenses. For more information on the different types of Tax Years, visit sba.gov/content/determine-when-tax-year-starts-0.

The City of Elgin and/or Kane County may require their own taxes in addition to the State and Federal taxes for which you will be responsible. Contact the City of Elgin (cityofelgin.org) and Kane County Local Revenue Department (countyofkane.org) to determine if additional taxes will apply to your business.

The State of Illinois will also require you to pay Business or Corporate Income Tax, depending on the structure of your business. To review specific requirements, visit www.sba.gov/content/learn-about-your-state-and-local-tax-obligations.

What type of business will you be operating? The type of business will determine the taxes for which you will be responsible and how they need to be paid. General types of taxes include:

- **Income Tax.** All business are required to pay federal income taxes and file a return.
- **Self-Employment Tax.** Social Security and Medicare Tax for individuals who work for themselves.
- **Employment Tax.** If you have employees, you will have to pay certain employment taxes:
 - Social Security and Medicare
 - Federal Income Tax Withholding
 - Federal Unemployment
- **Excise Tax.** Depending on the products you sell or manufacture, the type of business you operate, equipment or facilities used, or payments you receive for certain services, Excise Taxes may pertain to you. Refer to www.irs.gov for more information.

Is your business eligible for Sales and Property Tax Exemptions?

- Certain organizations may be exempt from paying sales tax in the State of Illinois. Your business may be allowed to buy items tax-free, and your property may be exempt from property taxes. For more information about determining your business's eligibility, visit tax.illinois.gov/publications/pios/pio-37.htm.
- Your business could also qualify for Federal Tax Exemptions: irs.gov/Charities-&-Non-Profits/Frequently-Asked-Questions-About-Applying-for-Tax-Exemption.

Additional References:

irs.gov/Businesses/Small-Businesses-&-Self-Employed/Apply-for-an-Employer-Identification-Number-%28EIN%29-Online

Human Resources

Human Resources are the employee(s) who specifically focus on your work force, making sure that every individual is working to their highest potential. As a small business owner, this may be one of your roles, or it may be one that you decide to outsource. There are several key factors to be sure are included as human resources are considered, regardless of the number of employees you have or plan to have:

Basic workplace policies

It is important that every individual in the workplace feels safe. Human Resources specifically set up rules and regulations focusing on the basic needs of your workforce. HR takes care of pay and benefits, job security and the ability for promotion, pride in company work, openness and fairness, and the ability to create a friendly atmosphere in the work place.

Staffing

Work hard to hire individuals that will help achieve the goals of your company. To that end, as new employees are considered, human resources needs to keep key questions in mind:

- What are the key competitive trends that are happening in your industry, and how can HR adapt to make them work for your business?
- What are your strategic goals for the future?
- How does the current level of knowledge, skill sets, and attributes among your present staff match up with what will be necessary in the future?

Regulatory issues

Every business must comply with the Equal Employment Opportunity Commission, a federal agency focusing on the fairness of hiring individuals in the US. Every business must give a fair chance to hire an individual, regardless of race, gender, sexual orientation, handicapped, age etc.

If company rules or state or federal laws are broken by an individual, Human Resources will work with the individual to correct and/ take punitive action to make sure the rules are followed.

Affordable Care Act

The Patient Protection and Affordable Care Act (ACA) enacted comprehensive health insurance reforms designed to ensure Americans have access to quality, affordable health insurance.

Which category does my business fall into?

- Self-employed
- Employers with fewer than 25 employees
- Employers with up to 50 employees
- Employers with 50 or more employees

Businesses with 50 employees or fewer can offer the Small Business Health Options Program (SHOP) plans. Apply online at the Marketplace: healthcare.gov/small-businesses.

Further reading:

- Read about each category at the Small Business Administration. Free webinars in English and Spanish are also available at sba.gov/healthcare.
- obamacarefacts.com/obamacare-small-business
- irs.gov/Affordable-Care-Act

Finances

Determining the budgetary needs for your business is critical. All businesses are different, so there is no general method for estimating how much you will need to start your business.

As a starting point, estimate the **cost of doing business** for the first few months.

These costs should include:

- One Time Costs vs. Ongoing Costs
- Essential Costs vs. Optional Costs
- Fixed Expenses vs. Variable Expenses

Your **personal finances** can have an impact on your Business Finances, so be sure to take the time to review your monthly household budget. It may take several months for your new business to start earning a profit. Can you maintain your current lifestyle until your new business reaches this point? In addition, review your **personal**

credit history. Your current credit score could affect how lenders and suppliers perceive you.

Develop a **Cash Flow Analysis** for your business. You will need cash to start, operate, and expand your business operations.

Calculate your **Breakeven Analysis** to help determine when you can expect your new business to turn a profit and be able to cover its own expenses:

$$\text{Break Even Point} = \text{Fixed Cost} / (\text{Unit Selling Price} - \text{Variable Costs})$$

Do you anticipate needing **additional funding sources** outside of your personal finances to get your new business up and running? Consider

- Equity Financing vs. Debt Financing
- Will you have the ability to repay your loans?
- Make sure you have a good personal credit score.
- Most lenders will want to see equity invested into the new business.
 - Retained Earnings
 - Cash from Owners/Investor
- Will you be able to provide some form of collateral?
- Do you or other lead personal have any Management Experience?
 - Consider taking classes or training courses that specialize in Business Management.

Further reading:

- [sba.gov/category/navigation-structure/starting-managing-business/starting-business/preparing-your-finances/understanding-basics](https://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/preparing-your-finances/understanding-basics)

Consulting and Outsourcing

As you begin your small business, one of the things you may be most looking forward to is “doing it all yourself.” Be sure you are being realistic, however. As you can see from the other sections in this document, there is a lot involved in starting and sustaining a business, and very few people are good at all aspects of the work.

Perhaps you have lots of great ideas for your products or services, and know that your offerings will be excellent. But perhaps you have very few ideas about how to let other people know just how good they are. You know you need to learn more about

sales and marketing, but you don't know where to turn. That's where a consultant can be very helpful, starting with some of the mentoring resources outlined in this document.

There may be aspects of your business that are necessary, but you have no idea where to start—things like technology and accounting are often areas where new business owners get bogged down to the point that their lack of knowledge is a serious problem for the success of the business. Again, be realistic, and consider outsourcing work that you just are not equipped to do yourself. There are lots of companies whose service is exactly that—helping other companies with the things they aren't able to do themselves.

Many small business owners feel that they don't have the financial resources to pay someone else to do part of the work. If that is the case, bartering services may be a possibility. Perhaps you are particularly good at marketing, and the store next door needs help publicizing their business. Your neighbor, however, is great at technology, an area you struggle with. Consider bartering those services—no money changes hands, and both of you receive needed services.

Networking with other businesses may also be a way to keep costs down for outsourced services. Technology is a prime example - it may be less expensive for several businesses to approach a technology company as a “consortium” and split the costs of the combined service rather than each paying their own way.

Outsourcing and consulting may on the surface appear to be luxuries you can't afford as you start your business, but if they will help you manage parts of the work in which you have no or limited skills and without which your business cannot survive, you can't afford to *not* look for other ways to see that they are done, and done well.

Patents and Trademarks

The U.S. Patent and Trademark Office keeps records of inventions submitted by the public. These records are filed to protect the rights of the inventor. If you have an invention or idea and would like to apply for a patent or trademark, you must follow certain steps.

- Read the information and instructions regarding patents and trademarks at uspto.gov/patents/resources/general_info_concerning_patents.jsp
- Following the instructions for filing at uspto.gov/web/patents/howtopat.htm

Further reading:

- Patent article from Cornell University Law School law.cornell.edu/wex/Patent
- *Patent It Yourself* by Nolo Press, 2014

RUNNING YOUR BUSINESS (Operations)

Customers

The US Department of Commerce states that the average business loses 50% of their customers every 5 years.

- Get personal with your customers. If they are regular, learn their first name. Remember the TV show Cheers? Every time Norm walked into the bar, everyone shouted “Norm!” *That* is focusing on the customer.
- Find out what is ‘vital’ for each customer; pay attention to their requests. Have clear and honest communication. Listening and hearing are two different things.
- Remind your employees that they are an extension of you and your business, and that they need to represent your company at all times.
- Add value; make customers want to come back to your business.

Marketing

Marketing is most succinctly defined as “Putting the right product in the right place, at the right price, at the right time.”

The “4 P’s of Marketing” were first described in 1960 by E. J. McCarthy:

- **Product (or Service).** A product can be either a tangible good or an intangible service that fulfills a need or want of consumers. Whether you sell custom pallets and wood products or provide luxury accommodations, it’s imperative that you have a clear grasp of exactly what your product is and what makes it unique before you can successfully market it.
- **Price.** Once a concrete understanding of the product offering is established, we can start making some pricing decisions. Price determinations will impact profit margins, supply, demand and marketing strategy.
- **Place.** It’s critical to evaluate what the ideal locations are to convert potential clients into actual clients. Today, even in situations where the actual transaction doesn’t happen on the web, the initial place potential clients are engaged and converted is online.

- **Promotion.** Promotion looks at the many ways marketing agencies disseminate relevant product information to consumers, and differentiate a particular product or service. Promotion includes elements like: advertising, public relations, social media marketing, email marketing, search engine marketing, video marketing and more. Each touch point must be supported by a well-positioned brand to truly maximize return on investment.

Advertising is a form of marketing—communication used to persuade an audience to take or continue some action. Ideas for advertising include:

- Listing your company in the Phonebook
- Creating Clipper Coupons
- Using Social Media. Most business owners think of the advantages of social media, such as attracting new clients and selling a product or services. Social media can and is much more—it is a relationship builder that can be used for business development and customer retention. Customer service strategies are always changing, and using social media as one of your customer service portals can provide another communication avenue, along with websites, contact forms or email.
 - Social Media increases your brand awareness and lets your business target your audience.
 - Social Media communication is immediate; whether the comment is good or bad, business owners should respond.
 - Social Media gives your clients a personal brand experience, allowing a call out directly to your business.
 - Social Media users talk about their experiences, which translates into free marketing for your business.
- If you have a business, you should have a website.
 - The internet has leveled the playing field when it comes to small businesses competing with the big boys.
 - With a well-designed site, your little operation can make a good first impression, projecting the same professionalism of a much larger company.

Clearly defining product, price, place and time must all be considered when developing a marketing strategy for any product or brand. Whether dealing with a startup or an established business, balancing these four elements is critical to marketers working hard to position a particular product or brand in the marketplace.

Technology

Know the type of technology you will need to run your company efficiently and effectively. Running a business on a home-based computer, whether it is Windows or Mac-based, is not a good security risk.

Here are several Technology questions that need to be answered:

- Will my company require servers, desktops, laptops or tablets or a combination?
- Will my company need a single unit or several units?
- Do I need antivirus software? (Yes. Do not use free-ware products; purchase an annual subscription.)
- Will my company need a PCI Compliance Partner? (If you are planning on accepting credit cards, yes, you will need a Merchant Processing Company.)
- Will my company need an accounting application?
- Will my company be using a network (wired or wireless)?
- Will my company need security?
- Will my company need internet? (If yes, you have a few choices in Elgin, and there is a difference between home and business services.)
 - Comcast - business.comcast.com/
 - ATT - business.att.com/
 - Wow - wowforbusiness.com/
- Will my company need landline phones or can I use just mobile devices?
- Will my company need an email address or domain name?

Each of these questions should have answers before you start the business. If you are not sure how to answer any of them, consultant with a technology partner. Both the Downtown Neighborhood Association and the Elgin Area Chamber are great resources to help you find the technology partner that will meet your technology goals.

Growth

Small business owners usually write a plan outlining their business idea. Business plans include information on the company and organizational structure, expected financial return, financing needs and other pertinent information. Where business plans outline the start-up process for small businesses, growth plans take an advanced look at new business growth or expansion opportunities. Business owners create growth plans to assess business expansion and new potential growth opportunities.

Business owners usually create new marketplace research when evaluating growth opportunities. Marketplace research examines the current supply of consumer products, number of competing companies in the business environment, target market or demographic analysis, and similar research. Business owners evaluate this information to estimate the amount of profit in different growth opportunities. This evaluation may also include estimating the amount of interest the small business can earn saving or investing capital in banks or financial instruments.

Growth planning and market research information may be necessary if business owners need external financing for new opportunities. Banks and other investors usually review a small business growth plan to determine how well the business owner understands the implications of the current growth opportunities. Small businesses with a short historical record of financial success often face more scrutiny from lenders when applying for business growth financing. Small businesses unable to repay start-up financing may be denied additional bank loans.

Small business owners should carefully consider which growth opportunities to review in their planning process. Accepting every available growth opportunity can quickly overextend the resources of the business and create difficult operational situations for the company. Business owners may also consider slowly growing the business from operational profits. Operational profits can be reinvested into the small business for improving operational output or purchasing additional assets for improving company operations. (smallbusiness.chron.com/business-growth-planning-4503.html)

Long term planning

A business plan is an essential roadmap for business success. This living document generally projects 3-5 years ahead and outlines the route a company intends to take to grow revenues. Every business has general long-term goals and strategies. It is critical that these are written down and reviewed once a year. Business plans are dynamic documents; keep them updated as the market—and perhaps your products and services—change.

- Where is your company now? Have SMART (Specific, Measurable, Attainable, Realistic, Time Specific) Goals which can be used to review your business progress.
- Where do you want your company to be in 1, 3 and 5 years? Include business growth, employee growth, customer retention plans, and revenues you want to achieve.
 - Make and keep visual timelines.

- When issues arise, don't panic; brainstorm solutions. Think the solutions through, document them so you can review, repeat (what worked!) and share when the next issue arises.
- Review your insurance policies annually.
- Interview at least three (3) new insurance agents, accountants, lawyers every (3) three years.

Recordkeeping

The type of business you have determines exactly what kinds of records you need to keep. Good records will help you monitor the progress of your business, prepare your financial statements, identify source of receipts, keep track of deductible expenses, prepare your tax returns, and support items reported on tax returns.

- Decide if you will keep records on paper or use a computer.
- Investigate software options.
- If you feel completely out of your realm, consider taking a class or hiring a bookkeeper.

Further reading:

- [irs.gov/Businesses/Small-Businesses-&Self-Employed/Recordkeeping](https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Recordkeeping)
- [nolo.com/legal-encyclopedia/choosing-right-business-record-keeping-32277.html](https://www.nolo.com/legal-encyclopedia/choosing-right-business-record-keeping-32277.html)
- smallbusiness.chron.com/long-business-keep-employee-records-4869.html

Sales and Selling

At the heart of any business is the ability to make deals and sell products and services. Without this basic function, no business can prosper financially. There are several principles of selling products and services worth remembering:

- 1) Always try to create a WIN-WIN situation. A WIN-WIN selling environment is one where both the buyer and seller are exchanging something they both really value. A customer that is coerced to buy a product/service he/she really doesn't want will likely not be a repeat customer. This will ultimately also affect the reputation of the seller because dissatisfied customers usually give bad reviews. Try to avoid WIN-LOSE or LOSE-LOSE selling situations.
- 2) Recording and tracking sales is almost more important than making the sale, itself. You will need to have good sales records to file taxes, protect against audits, have accurate financial statements, etc. There are many useful tools

available to help small and large businesses record and track sales, including Salesforce, Quickbooks, Square Register, Paypal, InfusionSoft, etc. Many of these tools also give free software to non-profit organizations.

- 3) Be sure to do some research on the 4 P's of marketing: Price, Product, Promotion, and Place. The sale and marketing of a business' products/services go hand and hand. The only thing worse than a terrible product is a great product that no one knows about, or is out of the price range of its targeted customers.
- 4) Acquire a great sales team. Not everyone is cut out to be a good salesperson. Oftentimes, the best salespeople are those people that already use your product or a similar product. They are the most likely to "evangelize" to others about your business.
- 5) Know your audience. It's no fun trying to sell a square block to someone that really needs a triangular block. A good salesperson will try to convince the customer to just cut the squares in half to make triangles, but a great salesmen will know the customer's needs beforehand and make sure a line of triangular blocks is developed, if there is a great demand for such a product.
- 6) Understand supply and demand. Are there enough customers interested in what you are selling to make it worth your while to create the product/service? If it is more expensive to make your product than to sell it, you will just end up realizing a loss in profits.
- 7) Choosing the right supplier(s) is just as important as finding customers. Finding the highest quality suppliers with the lowest prices is too complex to explain here, but finding reliable suppliers is the key to making sure your product is always available, and at prices that will create positive revenues for your business.

For more information about sales and selling, go to [sba.gov/content/sales-strategy](https://www.sba.gov/content/sales-strategy)

Financial Statements

There are three basic financial statements that every business should produce: a balance sheet, income statement, and cash flow statement. These statements, when used properly, ensure that the money an organization raises, borrows, earns through sales, and spends through operations, is properly managed:

- 1) **Balance Sheet.** How is money invested in your company? This statement is a snapshot (usual at the end of a fiscal year) of the financial record of all an organization's Assets, Liabilities, and Owners Equity (OE). These three balance

sheet categories reflect all of a company's cash (whether invested, earned, or borrowed) and all of the physical and intangible assets of a business including land, buildings, trade secrets, patents, products and raw materials, loans, investments and profits, etc. These three categories are universally accepted to be represented in the following equation:

$$\text{Assets} = \text{Liabilities} + \text{Owners Equity}$$

This statement is called the Balance Sheet because both sides of this equation must 'balance.' The basic idea is that every Asset a company owns must either be paid for with money it borrows (loans) or money given to it by investors (owners' equity).

- 2) **Income Statement.** How much money did you make? This statement is a snapshot of a company's financial performance over a given time period (usually for an entire fiscal year or quarter). This reflects how much money a business has earned minus how it is spent to operate its business and pay its bills and taxes, resulting in a net profit or loss. It is a simple record of an organization's sales (revenues) and its expenses. An income statement is also sometimes called a Profit & Loss (P&L) Statement. Here are the basic segments of a P&L Statement:

Revenues/Sales	(The Top Line)
- Cost of Goods Sold	
+ Operating Earnings	
- Operating Expenses	
= Net Income/Loss	(The Bottom Line)

- 3) **Cash Flow Statement.** Where is your Money going? This statement is a snapshot of a company's cash inflows and outflows. Cash inflows reflect all of the money a company generates from its normal operations as well money given to it by external investors. Cash outflows represents money spent on business activities and external company investments. The Cash Flow Statement should reflect how a company manages its actual cash. This is not an accrual basis statement like the income statement and must reflect an organization's actual cash position (on hand) at any given point in time.

Further Reading:

- investopedia.com/terms/f/financial-statements.asp

Risk Management

There are several changes that can happen in the ecosystem of the best run business that make it necessary to have a good risk management plan. Just like when investing one's money it is necessary to know a person's risk tolerance, it is also important to both identify risks a business may encounter and to understand how much risk a business is comfortable enduring. It is a good practice to have great insurance policies to mitigate unexpected events that will cost your organization lots of money. However, it is also a great practice to be aware of the risks to your business before they manifest themselves unexpectedly. Here is a list of some of the topics any good business person should mitigate or transfer to another entity in his/her Risk Management Plan:

1) Internal Risks:

- a) Illness and death
- b) Theft and fraud
- c) Low employee morale
- d) Old or outdated equipment and technology
- e) Insufficient cash flow or lines of credit
- f) Injuries or damage to employees/customers or business property

2) External Risks:

- a) Market changes
- b) Employee turnover
- c) Rent increases
- d) Federal, State, and Local laws changing
- e) Weather, natural disasters, and other acts of God
- f) Structural changes in the community (i.e. road construction, empty stores, etc.)

For more information on Risk Management download the following document:
sba.gov/sites/default/files/files/PARTICIPANT_GUIDE_RISK_MANAGEMENT.pdf

You may have noticed that throughout this document there has been an emphasis on relationships. And not just good relationships with prospective and current customers, but also

- Within your company, with your partner(s), employees and/or extended team of consultants, mentors, and experts
- With local lending institutions
- With local, state, and federal governments, to be sure you are in compliance with all regulations
- And so on...

Some of the most important relationships you develop may actually be with other businesses, even competing ones. With other small business owners you can learn best practices, share ideas, and even commiserate. Be prepared to share basic information about your business, not just what you do, but *why* you do it—why you are passionate about it. (This sharing is often called an “elevator speech”—just long enough to say in the time it takes you to ride an elevator one floor.) To that end, we strongly encourage you not just to contact organizations like DNA and the Chamber, but to become an active member. It’s in everyone’s best interest to have a strong business community in Elgin, and the only way the strong base already in place will continue to grow is by working together, in relationship. Here are a few of those organizations to consider:

Local Resources

[City of Elgin](#)

[Elgin Area Chamber of Commerce](#)

[Elgin Development Group](#)

[Downtown Neighborhood Association](#)

[Gail Borden Public Library](#)

On behalf of the 2015 class of the Elgin Area Leadership Academy,

GOOD LUCK!!

The comments and opinions expressed on this site are of the authors and may not reflect the opinions of the City of Elgin or Elgin Area Chamber of Commerce.