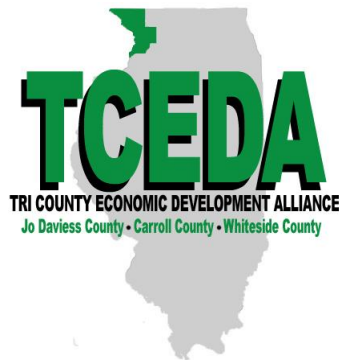


## Starting a Business: Tools for Your toolbox



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*Business focus: Retention driven*

*Our mission: To significantly enhance economic development progress in Northwest Illinois and beyond, as measured ultimately by job creation.*

## Introduction



Did you know that 61% of Americans have owned or want to own their own business? According to a recent survey done by Findlaw.com<sup>i</sup> 30% have started a business and 31% are considering it. Still, 39% of Americans have no desire to be their own boss. So, the question is which group is right? Actually both are! Business ownership is not for everyone. It takes dedication, money, long hours, hard work, and sometimes, even after all that it doesn't work. The fact of the matter is that 50% of all new businesses started will fail within the first five (5) years. The failure rates statistics continue to grow to 90% failure with in the first ten (10) years, leaving only a 10% success rate of new start up businesses. That fact alone is one of the reasons for not taking the plunge. Are there any reasons to take the plunge? Absolutely! But, only if you are really well prepared and ready to build a new future.

How do you begin to investigate if business ownership is for you? How do you know what to do next? How do you begin this new adventure? That information is available to you in this Start-up Tool Kit. We will explain what it will take to start a business, where to find resources, bust some of the myths and rumors, and give you step by step directions to help you start your own business. It will not be easy, fast, or guarantee you big money. Let's get started!

Consider all of the times that you have started a home project; remember the excitement of determining the projects scope? Planning the list of supplies to buy, scheduling everything to make it happen, and the swinging of the hammer the first time! Such excitement! And then reality sets in: you smash your thumb, you bought the wrong nails, and it is going to take more money and time than you expected. Sound familiar? It's happened to all of us at one time or another. Starting your next project today, your business, will be different than any other project ever before. Today you will prepare well in advance so there will not be smashed fingers, wrong supplies, and an overwhelming project ahead. Today we start with building a tool box for you to build your business. We start with step one (1): is this business the right project for you and your family?

## Step 1-Tool 1

### Determining if this right for you



What is the first thing you should do in determining if business ownership is the right direction for you and your family? Ask them! Have a family meeting to discuss your idea. What concerns do they have? How will your business affect your family? How will your family affect your business? How will the start up money needed for your business affect the quality of life for your family? (Yes, you will need money and no, there is no free money for business start ups).

Next ask these questions of yourself:

- Are you a self starter?
- Are you self motivated?
- Does your family want you to start your own business?
- Do you have the money to dedicate to this start up business that will not affect your family's lifestyle or well being?
- Do you have the necessary business knowledge to run a business?
- Are you a team player? (no business owner is an island)
- Do you understand what due diligence is?
- Are you willing to complete **all** that is necessary to fulfill your due diligence?
- Do you know what your credit score is?
- Are you willing to work nights, weekends, and holidays in order to start your business?
- Are you willing to change your life to make this business happen?
- Do you understand the need for these questions to be asked of you?

If you answered no to any of these questions, then you need further exploration and self investigating. How do you do that? There are many great books and booklets available at your local library or on the internet. Here are some other suggestions:

- Find a mentor or business owner in this industry and talk to them
- Get a job in the industry and learn the business from the inside out
- Read, read, and then read some more!
- Investigate the industry stats, what are the trends, what is the projected growth, etc.
- Make an appointment with the closest Small Business Development Center
- Visit helpful websites like the Internal Revenue Service and the Small Business Administration (see our section on helpful websites in this document)

At this point you are wondering how long this process will take. It will take three (3) to 18 months depending on how much time you devote to the process. That's right – it all rests in your hands and yes it is a necessary process.

Another question you need to be asking yourself before you continue in the startup process is: Can you afford to operate this business, even part time? Running a business is time consuming and expensive, more than you may think. It also is not a guarantee of money in your pocket. The IRS has very strict rules about how money comes in and how it goes out of a business. That does not mean that every dollar generated goes into your pocket as owner. In fact you may not be able to draw a regular paycheck for a long time in your business.

Then there is the issue of healthcare. Who will provide the healthcare coverage for you and your family? It is a very expensive expense and one your business may not be able to cover in the first few years of operations. Who will cover you?

## Step 2-Tool 2

### Creating a Team



Creating a team to help you develop your business concept is the next step as you are building your toolbox. The first team that you will need is your start up team. Most likely you will expand your team to include many others as you get closer to your opening your doors. Who should be on your team? Here's your lineup:

- Your family
- Legal counsel
- Certified Public Accountant (CPA)
- Insurance broker
- Banking professional
- Specialist or Industry experts
- Mentor in the industry
- Friends and supporters

Each of these team members is important. Your professional team (attorney, CPA, insurance broker, banker) work for you and your business. Be sure you find the right one. Consider interviewing them as you would an employee: What expertise do they bring to your business, what experiences have they had with your business or a start up business, what are their wages (fees), what is their schedule, etc.? There are some excellent tools available at your local library and online. Find out the right questions to ask in order to select the right team members.

We have already discussed how important your family is in your business, so it is no surprise that they top your list. But let's look at each of the others.

Legal counsel—the world of business law is fascinating, but not to be ventured into without professional services. A licensed attorney who has experiences in business is the right person to add to your team.

Certified Public Accountant (CPA)—your money is important to the survival of your business and needs to be in the hands of professionals who are responsible with the compliance of the law. A CPA is held as legally liable for the compliance laws as you are. Please be aware that a

bookkeeping or a bookkeeping service may not hold this same legal standing. Find a licensed CPA in your state who will guide you in compliance with laws.

Insurance broker—have you ever heard the term “under insured”? It means that not enough insurance was placed on the property in question. It also means that financial recovery from a loss may be unrealistic. A professional insurance broker will help you to determine the right insurance and the right amount of insurance to cover your business. Insurance ranges from everything from sign and glass breakage to worker’s compensation insurance. All have a specific loss they will be covering. An insurance broker will help you find the right combination for your business.

Banking professionals—whether you are looking at lending opportunities or not, your relationship with a banking professional needs to start from the beginning of your business planning process. Everything from checking accounts to future investment opportunities are available with your bank. Another professional helping you plan for your success!

Specialist and industry experts—these professionals vary depending on your industry. These important contacts will be essential as you grow your business. Begin making these contacts as soon as you can!

Mentors in the industry—one of the most popular comments from new business owners is their desire to find someone in the business that they can talk to. A listening post is a great source for a new business owner. Finding out how things work from someone who has been in your shoes. Some industries even offer mentoring programs through trade associations. Find your mentor today!

Friends and supporters—we can’t emphasize enough the importance of a support system while you begin or expand your business. A support system is there to help you to remember why you are pursuing your dream, keep you in touch with the reality, and to keep you grounded.

Begin today by assembling the team that is best for you and your business. Batter up!

## Step 3-Tool 3

### Feasibility Study



The feasibility study often receives a mixture of expressions when discussed as part of the start up process. Some of those expressions are fear, displeasure, and most of all wonderment. What does a feasibility study really mean? It means asking and answering a series of questions about your potential business idea to find out if it is a viable business. When surveyed business owners are asked what is the biggest surprise in running their business, often it is the amount of money and time that it takes to run a business. Read the article, *12 Facts About Entrepreneurs That Will Likely Surprise You*,<sup>ii</sup> by Dharmesh Shah (September 21, 2009) for other interesting facts to ponder in the feasibility study stage.

There are many resources available for you in the feasibility study category. Depending on your industry there may be studies already generated for you. There are companies that will develop a feasibility study for you and conduct it for you too. This might even be required by the bank as a condition of the loan. Regardless, one should be done by every business start up or even for a business that is considering expanding.

There are online resources, books, and templates available. To find the right one for you, consider contacting others in the industry and ask for recommendations. You might also seek the help of your professional service team for one that is appropriate for your industry.

If you don't have one that is specific to your industry, then let us provide one for you! You will find that located in the forms section of this guide. Be prepared! It will make you think and prepare for business ownership.

## Step 4-Tool 4

### Business Plan



The business plan is an exciting part of your business idea. This is the part where you get to tell the story of your business! Think about this: If you were going to have a house built, you would like a contractor who had experience and who could read a blueprint. That contractor would understand the dynamics of that blueprint, understand that precious cuts will need to be made so that everything fits together. Would you pay someone who doesn't have this experience and can't do the job? Well, that contractor is you! You need the skills and a blueprint to build the business on.

Can you get away without one? Well, can you get away with not having a roof on your house? The answer is no. This is an important element to being a business owner. Trying to get out of doing the most important thing for your business is silly, so we will stop talking about why not a business plan and focus on having one. If you aren't interested in writing a business plan, there's no point in reading any further.

What does a business plan contain? It contains the key elements of the business. These are:

- Executive summary
- Your company
- The industry
- Your services or products
- Your customers (market analysis)
- Marketing plan
- Your operations and organization
- Your management team
- Your milestones or goals
- Your financial
- Your future
- Appendix

There may be a business plan structure that is available from your industry experts. There are countless articles and books on business plan templates. Find the right one for the story of your business.

Who writes the business plan? You do, of course! It's your business; design this plan to tell your whole story. The business plan is an excellent time to see if your concept works on paper at NO COST as opposed to opening an business and finding out that it is not right for you.



If you want some good reading materials, check out these articles for some added advice on why a business plan is needed for your business:

- *15 Reasons You Need a Business Plan*, by Tim Berry for Entrepreneur.com (March 2006)
- *Why You Need to Write a Business Plan* by Susan Ward for About.com (2009)
- *Do You Really Need a Business Plan?* by Karen Klein for Businessweek.com (March 2008)

So how do you begin to write your business plan? It is easier than you think! These are the steps:

- Get prepared
  - Prepare a writing space
  - Be sure you have enough computer memory
  - Have a good printer
  - Find someone who can proof read your sections
- Clear your schedule-have the time to do this
- Find the right time that works with you
- Place your writing time on your schedule and stick to your timeline
- Find a mentor or resources to help you if you need assistance in the process
- Understand that this will take time!
- Find a template or outline that you like and is appropriate for **your** business
- Have fun! You are preparing the plan that is making a dream come to life
- Enjoy the process

How much time will this process take you? Depends on how much time you devote to it. No time to devote, no results. In general it will take about three (3) months if you work on it about 10 hours a week. The more time you devote the sooner it will be completed. Be sure that you figure this into your timeline.

Final thought on time management. Pick the time to work on your business plan that are the best work times for you. Are you a morning person? Get up an hour early every work day and get started, by the end of your work week you will have five (5) hours in already!

Still not sure how to get started and maybe feeling a little overwhelmed? This is normal and yes, it is a decision making step. This is what they call due diligence: Doing everything that must be done in order to achieve success. Not willing to write a business plan is setting yourself up for failure. Take some time to think it over.

If you need a template there is one available in the forms section of the Appendix.

## Step 5-Tool 5

### Financing Options



Wondering what progress has been so far? Well, let's look at what you have done and recap the progress so far:

1. You had an idea about starting a business
2. You did some research
3. You had a family meeting
4. You have decided to move forward and research some more
5. You did the full feasibility study
6. You have written your first draft of your business plan and you are happy
7. Now what?

Miss any steps? If yes, go back to where you left off and start from that point and move forward. If you haven't missed any steps, CONGRATULATIONS!!! This is tough stuff and you have gotten further than 75% of the people who decide to begin the business start up process. But, it is going to get tougher from this point on.

Now we have to talk about the money that you will need. You did the financial reports in your business plan and they told you how much money you will need to operate. Now how do you find the money to make this happen?

By this point you understand what owners equity is—your commitment via dollars that you are going to put into the business. Yes, this means real cash. It may also mean some equipment or tools that you own too, but realize that once committed, this becomes company assets and not yours any more. For example let say you have a computer and a printer at home. It is the one that everyone in the family uses and you will not pledge it to your business as equipment and an asset. The computer now belongs to the business and not the family. Things to think about.

But the real business equity is the money that you are sacrificing to the business. This is the serious stuff now and time to realize the financial responsibility of your business by you and your family.

The most common question when the topic of money to operate the business (capitalization) comes up is: Where is all the grant money for my business? There are several important points here that need to be discussed. (See the Frequently Asked Questions section too)

First, if you need grant money in order to operate your business, stop right now. There is no grant money, there has never been any grant money, and there will never be any grant money in the future. Think about it, who will give you money for you to make money?

Second, even if grant money was available in the start up phase, how would you sustain the business?

Third, if it seems to be too good to be true, it is. There are hundreds of traveling companies, infomercials, crazy guys on TV, and websites that proclaiming there is millions in grants. Really, if it was that easy, wouldn't we already know how it is done, legally? There are no grants. Contact your nearest Illinois Small Business Development Center for confirmation.

Now that we have the grant questions answered, let's talk about the real options that are available to help you fund your new business. The following information is important to you even if you are not going for financing with a bank. Be sure you read the information and understand the full impact of money and credit to your business.

If you need to borrow money from a bank you are going to need the eight (8) C's in lending. Each one of these points will need a tangible evidence that you are worthy of the lending process. Those are:

- Credit
- Capacity
- Capital
- Collateral
- Character
- Conditions
- Commitment
- Cash flow

Let's talk about each one of these and what will be used as tangible evidence. Just remember all eight (8) need to be present.

**Credit** – this goes without explanation, but just in case: You will need a high credit score – more than 700 (scores depend on source used). If there is a bankruptcy in your credit history, realize the heavy burden that places on your credit score. It does not disappear in 4 or 5 years; it is a factor that stays for a very long time in your credit history.

**Capacity** – that is the ability to pay the loan back. In other words does your business have the capacity to make enough money to pay the loan back, as well as all the other liabilities (bills).

Also if your credit score shows that you haven't had the capacity to pay your personal bills, it is an indicator that you may not have the capacity to pay back the business loan.

**Capital** – the money that you have to put into the business to operate the business. Part or all of this may be your responsibility or it may be your portion with the bank loan. Being under capitalized is the number 1 reason that businesses fail.

**Collateral** – what are you pledging to the bank to secure the bank loan? This may mean securing your personal assets to the business. Your personal assets may be; cars, homes, boats, jewelry, furs, or items of significant value. You must be prepared as a family for this reality.

**Character** – what type of character (person). This means your honesty, integrity, ethics, and morals. How is this measured? In a variety of ways: looking into your job history, community involvement, and by a background check.

**Conditions** – what are the economic conditions for your community, state, region, and the country. It is also the conditions of the industry, too. The worse the economy, the harder it is for everyone, including the bank lending you the money.

**Commitment** – how committed are you to the business? If you have not written a business plan or done a feasibility study, that is a clear indicator to the bank that you are not serious about the commitment to the business. Your credit and debt repayment history is also an indicator of your commitment to repay your debt.

**Cash flow** – how the business will have money coming in and out, and how does the cash flow through the business. This is where your accounting professional can be of big help to you. Be sure you understand this very important element and what it means to your business and your business plan.

Now that you understand the eight (8) C's to lending realize that these are still the factors used not just by the banks. Your vendors are going to look at some, if not all of these C's too. Your insurance company will also be looking at your credit score to understand your risk value. Your credit is a very big deal.

### Funding options

There are many different types of lending and funding possibilities. Your relationship with your banking professional is a great thing to have. You can seek the advice of these professionals to look at all of your options and determine which one is the best for your business. This information is general so you will want to contact your banking professional for more details.

**Commercial loans** – this is a traditional business bank loan. There will be an application process that usually includes an application, copy of your business plan, and a presentation to the lending officer. This process does vary from bank to bank. Some banks have a lending board or panel

where a full presentation is required. Your banking professional will help you to understand the process. Your lender will also require reporting mechanisms.

**Guarantee loan programs** – this is an excellent way to capitalize your business if you have only a portion of the funds needed. Guarantee loan programs come from sources like the Small Business Administration (SBA) and United States Department of Agriculture (USDA) Rural Development loan programs. There is an application process that requires a lengthy application and a copy of your business plan. Guarantee loan programs do have some limits on amounts of loans, when funds are available and reporting mechanisms.

**Angel investors** – there are people in our communities that look for businesses to invest in. Most of the time you don't even know who they are. Generally angel investors are very discrete and expect the same from those they invest in. There is an application process, some very formal like an application form, a copy of a business plan, and a presentation. Angel investors look for the same things that any other lender looks for, including the eight (8) C's. In general angel investors are looking for a higher return on their investment in a shorter time period.

**Venture Capitalist** – this is an opportunity, but not for everyone. Venture Capitalist generally look for high impact, fast growing businesses. They are also looking for business owners who really understand their business and what the future holds for them. There is an application process, but it varies from group to group. All will look for a business plan and at the owners' capabilities. Venture Capitalists are looking for fast in and out. Meaning they are looking to get into a business on the verge of growth, make a high rate of return and generally are looking for a pay out within five (5) years. Venture Capitalists may also want a part ownership in the business as well as the ability to control the operations and management team of the business.

**Lines of Credit (LOC)** – this is great for all businesses to have established. It is not a lending option, but more as an aid during seasonal fluctuations or special buying opportunities. For example you may use an LOC if you were going to a trade show where you are able to buy inventory at a discount rate. Since you do not know what inventory is available or how much you may need, the LOC is a great way to take advantage of the discounts.

**Revolving loan funds** – these are limited in scope and are generally community or regional specific. For example there are several communities who have revolving loan funds and they are directed for businesses in the downtown area. Revolving loans have an application process that requires an application and a lending presentation. Some require a copy of the business plan (all should). There are limits to this type of lending and it is not meant to be financing for an entire loan, but rather what is called gap financing, money that is the difference between (gap) your owners equity and a bank loan. It is also limited to funds available. Once the money is lent out for a loan, it needs to be paid back for the funds to be replenished. Small revolving loan funds may be unavailable for several years until they are repaid. The source for this loan is generally an economic development office or a bank lenders forum.

**State lending options** – there are from time to time lending options available through state agencies. Most are done through Competitive Community Programs. This means that communities can apply for grants or loans and lend them back out to businesses. These are rare and generally are for very specific industries or programs. Your economic or community development professionals are the ones to contact to find out if there are any currently available.

**Third party lending** – this is the least appealing avenue of options. In general these types of lenders look for a variety of lending partners to form a cooperative of sorts to find this type of lending. Rates are general twice to three times as high as commercial loans with repayment in a generally very short period of time (less than five (5) years). These are generally considered the lender of last resort.

This is general funding information. By this time you have built a relationship with a banking professional, other experts in your industry, and other important mentors. Seek their assistance in finding the right funding options that are available for you and your business.

Final thought, the lending process takes a while, so be sure to add this into your timetable.

## Step 6-Tool 6

### Preparing to Open



It's almost time for you to open your doors and get started in your new business! If you are to this point, you know what it took to get here and it wasn't easy. But now the real work begins!

There are many details that need to be done before you start to serve your customers. There may be a checklist available through the trade associations in your industry. Or check with your vendors, they may have a checklist for you. As true to our word, we have one here for you. It is general and we suggest that you add to it, but here it is:

#### Lender

- ✓ Confirm the loan closing date
- ✓ Arrange for the occupation of the building

#### Staff

- ✓ Write the advertisement for the positions you need to hire staff or contact the local office of the Illinois Department of Employment Security, they can help. Don't forget your employment resource businesses too if you need help in looking for the right team
- ✓ Contact the newspaper and arrange for a blind box and place advertisement
- ✓ Write and place an advertisement for walk-in applicants
- ✓ Make copies of job descriptions from the business plan
- ✓ Get application forms for applicants (have your legal counsel review)
- ✓ Arrange for a location to interview staff
- ✓ Write background check, drug test, and reference check release. (review with legal counsel)
- ✓ Contract with agency to do background checks on staff or begin this process yourself
- ✓ Arrange with medical office or clinic to do drug test
- ✓ Prepare interview questions for various positions
- ✓ Arrange training and orientation day for all employees
- ✓ Prepare needed manuals and materials for employees

#### Building

- ✓ Arrange for occupation of building
- ✓ Tour building (inside and out) and note all repairs to be done
- ✓ Prepare complete repairs list, in priority order
- ✓ Prepare for contractor to complete repairs
- ✓ Clean, clean, clean
- ✓ Decorate
- ✓ Order and arrange for supplies delivery

- ✓ Order and arrange for equipment delivery
- ✓ Order and arrange for raw product delivery
- ✓ Prepare for grand opening event with appropriate chairs, tables, food, etc.

### Management

- ✓ Arrange for management staff to discuss the strategy of the two years. Be sure to discuss, in detail, their roles and defined authority
- ✓ Arrange for diversity, sexual harassment, and general management training
- ✓ Prepare copies of operations manual for each member of management staff and a copy for each department

### Organization

- ✓ Set up business office as soon as possible. You will need a central location that is organized and in order
- ✓ Arrange for all utilities to be turned on
- ✓ Arrange for IT service, if not in house
- ✓ Purchase all office equipment
- ✓ Network computers
- ✓ Install all software, including accounting software. Receive the appropriate training
- ✓ Test all production methods for flow and correct procedures
- ✓ Test all equipment
- ✓ Establish inventory list of all equipment
- ✓ Make a warranty book for all equipment
- ✓ Order all posters required for employees (DOL, IDES, Wage & safety, etc.)
- ✓ Schedule, organize, and review. Time management is the key.

### Marketing

- ✓ Put your marketing plan into action
- ✓ Write press release for all media. Offer tours before opening
- ✓ Join Chamber of Commerce or Merchants group
- ✓ Select grand opening day
- ✓ Write invitations to grand opening event. Invite all politicians, local dignitaries, your family, friends, team, vendors, Chamber of Commerce members, potential customers, and media
- ✓ Arrange for refreshments and entertainment
- ✓ Arrange with marketing company and/or vendors for giveaway as prizes for the grand opening event and for a few weeks after
- ✓ Arrange for advertising of grand opening. Have advertisement in media about your business and its purpose before event

There are many resources available to help you through this. Be sure that you set some up to really plan your move and grand opening. It's your story coming to life.



## Step 7-Tool 7

### Year 1-Reality check



What can you expect for your first year in business? EVERYTHING! There is no magical answer on what to expect. Remember clear back to the very beginning when we said that you should work in the industry for a while to really understand how it works from the inside out? This is why! Now that you are settled into the business comes the tough, really tough time. There is so much work to be done, it is easy to get overwhelmed and lost in the details. Time management and organization are two (2) key factors for your success. Make your to do lists, delegate to your staff, look for assistance from your vendors, and even from your customers.

Now is time to rely on your mentor too. They were there in your shoes not too long ago. They remember the stress, the attention to details, and need for assistance. Reach out to them.

The networking relationships that you have been establishing will come into plan now too. The Chamber of Commerce or Merchants Groups offer fun networking opportunities to meet other business owners. It is also a great way to build up a resource base for yourself too. Who knows you might even find a new customer or two!

Trade associations and trade groups are great resources. We mentioned them to you several times before. They might offer workshops or seminars on what to expect your first year in business. They also offer opportunities to network with others in your field. Never pass an opportunity to network.

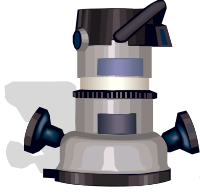
Here are some other things to expect your first year in business:

- Keep planning for the future
- Your business plan is a living document, make sure it is living!
- Ask your customers what makes them happy, then act on it
- Ask your employees what makes them happy, then act on it
- Study, study, study your competition
- Keep current on what is happening in the industry
- Get involved in your community
- Expect to be tired!

Finally remember that you need down time. Be sure to schedule vacation time or even an afternoon out of the office. It will make a world of difference.

## Step 8-Tool 8

### Your Future-Finishing your toolbox



The start up phases are finished, you got the business open and survived the first year. You are among the 50% that have made it. But what is next for you? You didn't think that this would be it did you? Let's first talk about the LifeCycle of a business. There are many different theories of how many parts of the cycle there are. Some experts say there are four (4) others say as many as seven (7). Here is what we think:

1. Start up
2. Growth
3. Maturity
4. Decline
5. Exit

What does this mean and how do you know where you are at? Let's talk about each of them and give you an idea of how to judge this cycle for yourself.

**Start up** – this is the cycle that you have completed. The full definition is when an owner comes up with the idea of the business, acts upon it, and continues through the first year of business is complete. This could be several years in the making depending on how much time you devote to the start up phase.

**Growth** – this is the cycle after the start up period where your business grows into its own. You discover the customer needs and expand on them, you develop your business structure so that it reflects who you are as a business, you hire more staff to support your needs, you grow to become the organization of your dreams. Be careful to monitor and control your growth. Too much growth and having it out of control is as bad as not having enough growth. Nurture this growth so that your company can grow with it. Generally this is 2-3 years following start up, but can last for as many years depending on your community and the industry.

**Maturity** – this cycle comes when you begin to see that you are at the top of your game. You have achieved the levels of sales and new customers are difficult to obtain. This may be because there are no longer any new customers available or that the market place is saturated. This is a part of the cycle that you want to handle very carefully. Be sure that you are implementing and changing your business plan. You will be looking for new products or new avenues of growth

for your business. It is also a cycle where most businesses become complacent at. Resting on your past success is not what a smart business owner does. Instead look at new industry trends or new values for your business for your customers. Be aware of new competitions or entries into the market place so that you do not become a business whose time has now come and gone.

**Decline** – this is the cycle that happens when a business does not keep in touch with the market place or in touch with the changing world. When seeking examples of a decline cycle lets look at pay phones. The phone industry saw that pay phones would be eliminated with the popularity of cellular phones. Instead of watching a declining profitmaker, the industry became involved in the cellular phone industry. This cycle will lead rapidly into the next cycle if you are not paying attention.

**Exit** – this is the closing of the business. No owner wants to see it happen, but sadly it does everyday. How do you prevent it? Look back to the growth period, what steps were you putting into place to keep you growing? Is there a point of no return when you get to the decline and exit cycle? Often no, but there are cases in which owners have taken that entrepreneurial spirit and restructured their business and survive.

These cycles do not change overnight. There are tell tale signs of it changing. It is your responsibility to be in touch with the cycle of your business. Most of the time it is easier to keep the business going than you think. How so you ask? Here are some things to think and act on:

- Keep in touch with the industry trends
- Keep in touch with your customers (often!)
- Talk to your staff and find out what their needs and desires are
- Attend trade events
- Be part of your community, they know what they need and want in your business
- Continue your education
- Look for new product lines or services to bring into your business
- What partnerships do you need or want to enhance your business

Each business is different, but keeping on top of your game is all about the continued development and growth of your business. Just remember to keep that entrepreneurial spirit alive!

# Myths and Rumors

## Frequently Asked Questions



There are lots of myths and rumors out there about starting a business. Everything from free money to you will make millions if you spend \$495 for this “grant” kit, and much more. We will give you the truth about what to believe and what are myths. Be ready, you might not like what you hear.

- *There is free grant money available.* Sorry, but no! The government hasn't ever given out free money to start a business. Think about it, who would pay for it? The truth is if you are going to be in business it will cost you money, money that you obtain on your own.
- *I am convinced there is grant money out there.* I read/hear about it all the time. Sorry, but no again! There is a big difference in for profit businesses (commercial) and not for profit organizations. There is some money for some not-for-profit organizations. They are general from foundations or private groups. But, there is generally a specific purpose and a specific outcome.
- *I will make up a not for profit and then get grants.* Sorry, again no! The Internal Revenue Service (IRS) at [www.irs.gov](http://www.irs.gov) is the issuing administrator of the not for profit status that organizations can apply for. But, make no mistake a not for profit organization still must be a corporation and has to submit a plan in that application process. The organization also must fulfill a specific need. It takes 18 to 24 months for the application process (general due to the applicants lack of requirements) and only about 7% get the status.
- *Private investors are all around just looking to invest in start up businesses.* Yes and no. There are private investors in every community. Many look at start up business and many don't. But here is what an investor wants: A return on their investment in a short period of time(usually 3-5 years)! Investors expect and look for businesses that are well run and managed, have a business plan, are financially sound or have a real opportunity to be financially sound in a short period of time.
- *Venture capitalist will help me with my financing for my business.* Maybe, but be prepared. Venture capitalist are just like private investors, good people looking to support business, but they too expect a return on their investment. They may also want other concessions, such as their own management team in your business, new product lines, and sometimes a role in the managing of your company. Understand the trade offs if this is the direction you are thinking about. Read this article, *The 20 Worst Venture*

*Capital Investments of All Time: Catastrophic collapses and classic crashes in the high-tech business world.* By Inside CRM Editors.<sup>iii</sup>

- *My business is only part time, so I don't need a business plan or feasibility study.* Sorry, but no! Is your business important to you? Is it something you want to do as a business? Then it deserves the same attention regardless of size. If it is worth doing, do it right from the beginning. Don't short change yourself or your business by trying to slide by.
- *My \_\_\_ (uncle, brother, cousin, ex-husband, best friend, etc. you fill in the blank) was a millionaire and started with \$\_\_\_ in his/her pocket. Sheer determination built the business with no business plan. Why can't that happen for me?* It can, but let's look at this realistically. No one builds a business without a plan, written or otherwise. Generally a good story is just that, a good story build with pieces of truth. In reality your family member or friend worked very hard, often at the expense to personal realtionships, had a plan, and it took many years to achieve it. But again it goes back to the fact that it takes a lot of work and planning to be a success. Work on it from that angle.
- *I am planning to start my business after I retire. When should I start preparing for it?* Now and congratulations! You are one of the 61% of Americans who are following their dream! Preparing well ahead of time will add to your success rate. Now is the time to research and plan for the day when you retire.
- *I have all the start up money that I need, is there a need for a business plan?* Absolutely! Money for starting isn't the only reason for a business plan. It is your story of your business. It deserves its story to be told on paper and before you start the business. It is also a plan that helps your success, which means that it helps you plan and then execute your plan.
- *I have a great memory and can think on my feet, why do I have to bother with a business plan?* Bother? It is worth every minute. We can't say it enough: if you have a business you need a plan, on paper and well thought out. If something happens to you, your business should be able to run so well that it could go on without you. Your great memory may hold up to the illusion when you are mired in daily operations and stressed out. Put your plan in writing so you can use it to refer to and so it will live on with or without you.
- *I filed bankruptcy last year, will this affect my business?* Yes and it will for a long time. Bankruptcy is a devastating situation for you as a family, but also as a business. Your credit score determines many aspects in your business including: Insurance rates, buying power, abilitiy to arrange credit, and may even determine if you can find vendors and customers. It is not something to be taken lightly. It will affect your business for a long time.

- *I plan to incorporate or become a limited liability company (LLC) so I am completely protected in case my business fails. This will protect my personal assets right? Again, sorry, no, but...* There are many reasons to incorporate or become an LLC. Your legal counsel and accountant will be able to help you determine the right entity for you and your business. However, should the business fail, the debts incurred by the business will have to be settled. That means if the business doesn't have enough cash or assets, your creditors may seek to attach to your personal assets. A business loan might also have a personal guarantee on it.
- *I know my bank and have been there for years, they know me. Why would I need a business plan for a loan?* A relationship with the bank is very important for any business owner. However, there are different considerations when you have a personal relationship and a professional relationship. There are also laws that require the bank to have a business plan on file with the business loan. It is all part of doing business.

There are no magical answers to starting a successful business. It will take a lot of time, effort, and money to make it happen. There are no short cuts. If this business is important to you and your family, it is worth taking all the necessary steps to make it happen. Tell your full story, settle for nothing less – you and your business deserve it.

## Conclusion

### The last tool



The tool kit is now full. If you look back to the beginning you can see how far you have come. You remember the work that it took to write the business plan? Seems like a very long time ago, but really isn't. Now you have mapped out your future and are in the process of strategically keeping the business going. At this point you are one of less than 30% of businesses that have survived. What do you focus on next? Your community!

The community where your business is located needs your support, not always money. The community needs your support. Become involved with your Chamber of Commerce and Merchant groups. Get to know who provides what products and services in your community. They may be your next vendor or customer.

Margaret Mead (1901-1978) once stated. *“Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has.”*

In rural Northwest Illinois we have worked very hard to create communities that are wonderful places to live, work, and visit. Today is the day you begin to add to this legend with your business.

## References

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Materials adapted from former The Illinois Small Business Development Center at Highland and Sauk Valley Community Colleges (now closed). Originally materials were developed by Michele Miller, Russ Simpson, and Brian Borger, used with permission.

Clip art from Microsoft.com

Written for Tri-County Economic Development Alliance (TCEDA) by Michele Miller, September 2009

<sup>i</sup> Survey, Starting a business March 2009, by Findlaw.com at:

<http://company.findlaw.com/pr/2009/032009.business.html>

<sup>ii</sup> *12 Facts About Entrepreneurs That Will Likely Surprise You*, by Dharmesh Shah, September 21, 2009 from

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<sup>iii</sup> *The 20 Worst Venture Capital Investments of All Time: Catastrophic collapses and classic crashes in the high-tech business world*. By Inside CRM Editors at: <http://www.insidecrm.com/features/20-worst-vc-investments-111907/>