

*2007 Non Traditional  
Entrepreneur (NTE) Symposium  
November 17, 2007*

Track 1

- Preparing a Business Plan
- Preparing a Business Forecast
- Securing Financing

Presented by:

The Illinois Small Business Development Center  
at Elgin Community College

847-214-7488

# *Speaker Introduction*

## *Jorge M. Phillips*

- Counselor/Instructor for Illinois Small Business Development Center at ECC
- 18-Year Business Owner of Home-Based Tax & Accounting Firm
- Lead Instructor of Illinois SBDC's 12-week non-credit Entrepreneurial Course held in spring and fall each semester at ECC

# *IL SBDC at ECC Introduction*

- Illinois Small Business Development Center at Elgin Community College:
  - Federally Funded by the Small Business Administration
  - State Funded by Illinois Department of Commerce and Economic Opportunity
  - College Funded by ECC
  - One of 40 SBDCs in Illinois
  - Serves Elgin and Kishwaukee college districts

# *IL SBDC at ECC Introduction – Continued*

## ■ Services Offered:

- Free, unlimited, confidential business counseling
- Free assistance in writing your business plan
- Free assistance in creating financial projections
- Low cost workshops and non-credit classes
- Business resource
- Business referrals

# *IL SBDC at ECC Introduction - Continued*

## ■ Hours and Locations:

- Available from 8:00 to 5:00, M-F
- Center is on the main campus of Elgin Community College with satellite locations in Streamwood, Algonquin, St. Charles, and at Kishwaukee College in Malta.
- Call 847-214-7488 to make an appointment

# *Business Planning*

## *“What’s in it for me...?”*

- Isn't planning for “big business” only?
- How does planning help management?
- Can't I hire someone to do this for me?
- How can I know all the answers?
- How often do I have to do this?

# *The Business Plan*

- Necessary when requesting funding
- Your “Roadmap” from start-up to exit
- Helps sets goals
- Serves as a “Benchmark” for comparing actual performance to projections
- Should be updated frequently – a Business Plan is a “living document”

# *Why Write A Business Plan?*

1. Will force you to take a good look at the business
2. Can be used as feasibility study or help continue success
3. A good tool for better and more effective management
4. Helps communicate your ideas
5. Helps you to move from “reactive” to “proactive”
6. Points everyone in same direction
7. Helps identify opportunities
8. Focuses attention on important questions

# *How To Use Your Business Plan*

- **As a feasibility study**
- **As a benchmark to track performance**
- **As a reminder of your goals**
- **As a means for assigning priorities**
- **As a financing proposal**

# *Contents of a Business Plan*

- Cover Sheet
- Table of Contents
- Executive Summary
- Organizational Plan
- Marketing Plan
- Financial Documents
- Supporting Documents

# *The Cover Sheet*

- Company name
- Address
- Contact information: names and telephone numbers, email address
- Date Written
- Name of Person Preparing the Plan

# *Table of Contents*

- Listing of Plan contents
- All components referenced by page number
- Headings for all sections which include the Organizational Plan, Marketing Plan, Financial Documents, and Supporting Documents

# *Executive Summary*

- Summarizes plan & states objectives
- Lists financing needs
- Shows how financing benefits the business
- Shows how loans will be repaid
- Is concise: one to two pages long

# *The Organizational Plan*

- Description of the business
- Legal Structure
- Products and services
- Location
- Management/Personnel & duties
- Record-keeping methods
- Insurance

# *The Marketing Plan*

- Industry information
- Current industry trends
- Identification of “target market”
- Information on competition
- Statement of your “competitive advantage”
- Product, price & promotion
- Product Distribution
- Sales strategies

# *Financial Documents*

- Projected financial statements including profit/loss, balance sheet, and cash flow statement over a 3-year period (monthly for the first year to show seasonality)
- Historical information on established business (if purchasing existing business)
- Breakeven analysis

Figures must be supported by realistic assumptions!

# *Supporting Documents*

- Resume
- Personal financial statement
- Contracts and lease agreements
- Letters of reference
- Demographic data
- Any other items which support or quantify the contents of the business plan

# *Tips for Successful Planning*

- **Believe planning is important**
- **Commit time and energy**
- **Involve everyone**
- **Have realistic expectations**
- **Be open to discovering “disappointing” news and to making adjustments**
- **Sample Business Plans available at:**

**[www.sba.gov](http://www.sba.gov)**

# *Evaluating Your Business Idea*

- Can this idea be turned into a business?
- Is there a “real” need for the product/service?
- Who will buy? How many will buy?
- Is there competition? How much?
- How much growth potential exists?
  - Market Share
  - Product/service line expansion
- Can I afford to do this business? Now? Ever?
- What’s at risk?
- If I decide “not to do” the deal, have I failed?

# *The Essential Ingredient*

To Start a Business, what is the only **ESSENTIAL** ingredient?

- a) Money
- b) A Product or Service
- c) Customers
- d) Management Skill

Answer is: b

# *Market Research*

## ■ You must learn...

- ✓ Who
- ✓ How
- ✓ Where
- ✓ What
- ✓ When
- ✓ Why
- ✓ How often
- ✓ How much

# *Market Research Tools*

- Library (Public, University/College, Private)
  - **On-line and off-line**
- Trade Associations
- Business Periodicals
- State and Federal Resources
- Local Resources (Chambers of Commerce, SBDCs, BICs)
- Professional Research Companies
- NxLevel Business Resource Guide
- Studying the Competition
- Surveys (focus groups & interviews)
- Observation

**Learn where they are!**  
**Find out what they provide!**

# *Drawing Industry Conclusions*

- How has the industry developed?
- How do small businesses operate within this industry?
- What are the current industry growth patterns?
- What is the industry's size at present?
  - What's projected a year from now? Five years?
- Are there any niche markets that are hot?
- Impact of international trade on the industry?
- Impact of current/new government regulations?
- Impact of technology on your industry and small businesses within it?

# *3 Ways to Go Into Business*

- Starting your own Business
- Buying an Existing Business
- Purchasing a Franchise

# *Starting Your Own Business*

## ■ Disadvantages

- ✓ No Guidelines
- ✓ Long time to get established
- ✓ Limited return first 5 years
- ✓ May be David taking on Goliath
- ✓ Most uncertain route

## ■ Advantages

- ✓ Self Satisfaction
- ✓ Flexibility
- ✓ Control
- ✓ Only choice available

# *Starting Your Own Business*

## ■ **A few words of advice...**

- ⇒ Other sources of income for living
- ⇒ Everything takes longer than expected
- ⇒ Everything costs more than expected
- ⇒ Don't be in such a hurry to get started
- ⇒ Third attempt at an idea is often the one that finally works

# *Buying an Existing Business*

## ■ **Disadvantages**

- ▶ Cost is usually higher
- ▶ Creativity is limited
- ▶ Structuring the deal may be difficult
- ▶ Buy the “*bad*” along with the “*good*”
- ▶ Discover too late the “*real*” reason for the sale of the business

## ■ **Advantages**

- ▶ Shorter lead time to get started
- ▶ Established track record
- ▶ Customers and suppliers in place
- ▶ Previous owner as a mentor

# *Buying an Existing Business*

- **A few words of advice...**
  - ❖ Seek independent advice
  - ❖ Insist on seeing past records
  - ❖ Is this a “*bankable*” deal?
  - ❖ Watch for warning flags
  - ❖ Be willing to walk away from the deal

# *Purchasing a Franchise*

## ■ **Disadvantages**

- High costs—initially & on-going
- Limited flexibility
- Franchisor may not be viable
- May be difficult to exit business

## ■ **Advantages**

- Shorter lead time to get started
- Turn-key operation
- Lower risk
- Strength in numbers

# *Purchasing a Franchise*

## ■ A few words of advice...

- ★ Emerging or mature product/service?
- ★ Are other franchise owners happy?
- ★ Costs comparable to other franchises?
- ★ Analysis of territory and competition?
- ★ Is the Franchise sound?
- ★ Carefully read the “Uniform Franchise Offering Circular” (franchisor must provide to you)

# *Initial Business Considerations*

- Business Name
- ID Numbers
- Bank Account
- Legal Structure
- Government Regulations
- Insurance

# *Registering a Fictitious Name*

- When using a “Doing Business As” (DBA)
- Contact County Clerk where your business is located for details
- Need to publish the DBA in a newspaper
- Usually a nominal fee

# *Obtaining a Business ID Number*

- Called an FEIN or EIN.
- Necessary for Corporations, Partnerships, and LLCs; obtain after forming these entities with Illinois. Strongly suggested for Sole Proprietorships.
- No cost to obtain.
- Contact the Internal Revenue Service at [www.irs.gov](http://www.irs.gov).
- Can obtain on-line using Form SS-4.

# *Setting up a Bank Account*

- Required for Corporations, Partnerships, and LLCs. Strongly suggested for Sole Proprietorships.
- Obtain after Illinois approves formation and FEIN is acquired.
- Be sure that financial institution offers all services you need for your business
- Are bank hours and location convenient?

# *Choosing a Legal Structure*

- Sole Proprietorship
- General Partnership
- C Corporation
- S Corporation
- Limited Liability Company (LLC)

# *Sole Proprietorship*

## ■ Advantages

- ✓ Easy to organize, low cost
- ✓ Less reporting
- ✓ No “double tax”
- ✓ Freedom of action

## ■ Disadvantages

- ✓ Unlimited liability
- ✓ Fewer tax benefits
- ✓ Termination on death of owner
- ✓ Adverse tax consequences upon sale
- ✓ Limited ability to raise capital

# *General Partnership*

## ■ **Advantages**

- ✓ Few formalities
- ✓ Combination of resources & talents
- ✓ Personal tax benefits

## ■ **Disadvantages**

- ✓ Unlimited liability
- ✓ Need Agreement between partners
- ✓ Dissolution upon death of a partner
- ✓ Partnership profits taxed as income to the partners
- ✓ Managing relationships between partners

# *C Corporation*

## ■ Advantages

- ✓ Limited liability of shareholders
- ✓ Perpetual existence
- ✓ Flexibility of financing through outside investors
- ✓ Transfer ownership by sale/gift of stock
- ✓ Tax benefits available to corporate employees
- ✓ Well accepted form of doing business

## ■ Disadvantages

- ✓ Initial organizational costs high
- ✓ Need Agreement between shareholders
- ✓ Annual reporting requirements
- ✓ Possible “double taxation”

# *S Corporation*

## ■ Advantages

- ✓ Same as for the C Corporation
- ✓ Federal tax at the individual shareholder level, no “double tax”

## ■ Disadvantages

- ✓ Except for the tax consequences, same as for a C Corp
- ✓ Limited deductibility of fringe benefits
- ✓ Need Agreement between shareholders
- ✓ With minor exceptions, only individuals can be shareholders
- ✓ Limited to one class of stock
- ✓ Must use calendar year

# *Limited Liability Company (LLC)*

## ■ **Advantages**

- ✓ Limited liability without limits on management participation
- ✓ Flexible ownership and capital structure
- ✓ No “double tax”
- ✓ Allocation of tax benefits among members

## ■ **Disadvantages**

- ✓ Initial organizational cost very high
- ✓ Poor tax treatment of fringe benefits
- ✓ Transferability must be governed by buy/sell provisions
- ✓ Case law is still evolving

# *Formation of Corporation and LLC*

- Go to Illinois Secretary of State website to determine if proposed name is available.
- Corporations and LLCs file Articles with Secretary of State to form the desired entity.
- Basic fee for Corporation is \$ 175 for the first year and \$ 100 each subsequent year.
- Basic fee for LLC is \$ 500 for the first year and \$ 250 for each subsequent year.
- Other documents such as stock certificates, by-laws and Agreements between owners may be required. Consult with your attorney.

# *Government Regulations Which Impact Your Business*

## ■ General Business Taxation

- ✓ Income Tax (Personal and Business)
- ✓ Sales Tax (Illinois Department of Revenue and certain municipalities)
- ✓ Property Tax
- ✓ Business License Fees

## ■ Employee Regulations

- ✓ Payroll Taxes (Employer and Employee)
- ✓ Employee vs. Independent Contractor
- ✓ Minimum Wage and Hour Regulations
- ✓ Hiring Regulations
- ✓ OSHA

# *Government Regulations Which Impact Your Business (cont'd)*

- Consumer Protection Regulations
  - ✓ Warranties
  - ✓ Uniform Consumer Credit Code
- Commerce Regulations
  - ✓ Professional Licenses
  - ✓ Business Registration (State and Local)
  - ✓ Uniform Commercial Code
- Zoning Regulations
- Environmental & Health Regulations
- Other Regulations (*specific to your business*)

# *Developing an Insurance Program*

- **Understand & analyze existing coverage**
- **Determine future insurance needs**
- **Seek professional advice**

# *Types of Insurance*

## ■ Covering Your Business

- ✓ General liability
- ✓ Product liability
- ✓ Professional liability
- ✓ Key-person
- ✓ Business property
- ✓ Business interruption
- ✓ Automobile
- ✓ Employee dishonesty

# *Types of Insurance* (cont'd)

- Covering Your Employees
  - ✓ Worker's compensation (required by law)
  - ✓ Life insurance
  - ✓ Health/Medical
  - ✓ Pension plans
- Specific to Your Businesses
  - ✓ Other
  - ✓ Other
  - ✓ Other
  - ✓ Other

# *Choosing An Insurance Agent*

- Personal referral & reputation
- Services offered
- The agent's personality
- Cost
- Timeliness of response

# *What is Marketing?*

- “Marketing is ***EVERYTHING*** you do to promote your business, from the moment you conceive of it to the point at which customers buy your product or service and begin to patronize your business on a regular basis.
- The key words to remember are ***everything*** and ***regular basis.***”

—*Jay Conrad Levinson*

# *Traditional Marketing Definition*

Marketing is a process made up of these distinct functions:

- ✓ Determining what people want
- ✓ Providing products or services to satisfy the “*want*”
- ✓ Selecting the most effective means of reaching people with information about that product or service
- ✓ Developing strategies for *Creating the Desire* for the product or service in people who have not actively expressed their “*want*”

# *Four Parts to Market Analysis*

- **Determining the “profile” of your customer, your “target market”**
- **Determining the market area**
- **Determining the customer “fit” in your trade territory**
- **Determining the market potential for your business**

# *Demographics*

- **Age**
- **Gender**
- **Location**
- **Education**
- **Occupation**
- **Income Level**
- **Marital Status**
- **Household Type**

# *Psychographics*

## ◆ **Needs**

Security, esteem, love, beauty, acceptance, understanding, good health

## ◆ **Values**

Status, success, greed, simplicity

## ◆ **Buying**

Price, fads, quality, technology

## ◆ **Styles**

Luxury, convenience

## ◆ **Cultures**

Modern, artistic, religious, liberal, conservative, environmental

## ◆ **Interests**

Sports, reading, fitness, cooking, workaholic, gardening

# *Who is Your Customer?*

- **Male? Female?**
- **Professional? Blue Collar?**
- **Age?**
- **Income?**
- **Neighborhood?**
- **How do they buy?**
- **Where do they shop?**
- **When do they shop?**
- **Where do they get information?**

# *Why Analyze the Competition?*

## *You Might:*

- Learn more about what the customer really wants (or doesn't want)
- Discover unserved “*niche markets*”
- Get ideas for marketing, merchandizing, product mix
- Obtain valuable advice, support, information (particularly from remote or indirect competition)

## *You Will:*

- Determine if you have any **COMPETITIVE ADVANTAGE!**

# *What Do You Sell??*

A Product???

A Service???

NEITHER!!

 **BENEFITS!** 

**Features:** Size, Quality, Varieties,  
Types, Material Used

**BENEFITS:** What will your product or  
service DO FOR or  
GIVE TO your customer?

# *Pricing Strategies*

## Setting your price

- What are your costs?
- What will your customer pay?
- What image do you want to convey?
- What does the competition charge?
- What will the market bear?
- How does a service provider set costs?
- What other pricing challenges does your business type face?

# *Elements of Effective Advertising*

- Who?  
Right Audience
- What?  
Right Message
- When?  
Right Time
- Where?  
Right Place
- How Much?  
Right Budget?

# *Methods of Advertising*

- Internet & Website
- Signage
- Flyers
- Radio, TV & Newspapers
- Networking (Chambers & Leads Groups)
- Direct Mail
- Telemarketing
- Yellow Pages
- Guest Speaking & Community Involvement

# *Financial Projections*

- The process of projecting and forecasting how much money your business will receive or spend during a period of time.
- Involves determining specific categories of revenues and expenses, assigning realistic projected dollar amounts and documenting underlying assumptions.

# *Why Prepare Financial Projections?*

- **Get to know your business**
- **Be prepared**
- **Fuel creativity**
- **Provide benchmarks**
- **Uncover bottlenecks**
- **Needed for financing proposals**

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**Please refer to separate Projected  
Financial Statement examples**

# *What Makes A Good Budgeting System?*

- **Everyone is involved**
- **The budgets get used**
- **Performance is evaluated**
- **Creates desired behavior**
- **Allows flexibility**
- **Assumptions are documented**
- **Uses what you have**

# *Financing Your Business*

- **Evaluate your need for financing by completing your projections.**
- **If needed, determine how much and when needed.**
- **Determine what sources of funding are available for your situation.**
- **How much will the funding cost?**

# *The Financing Process*

- A realistic Business Plan will help you determine how much you need and when you need it.
- Banks require a Business Plan for almost all commercial loans.
- Banks also want personal financial statements.
- Usually, banks want a 20-30% cash commitment from you before they loan you money.
- Banks look at the “C’s of Credit” to decide if they will make the loan.

# *The C's of Credit*

- Credit history (FICO Score)
- Character (reputation, etc.)
- Capacity (can you repay?)
- Collateral (pledged assets)
- Conditions (economy)
- Capital (your financial assets)

# *Major Sources of Funding*

- Debt Financing is the most common method of financing a commercial business. These take the form of loans in which the Lender (usually a bank) expects repayment. There is no loss of ownership using this method.
- Equity Financing is money received in exchange for an ownership interest in the business. Most commonly, the business owner(s) will pay in their own money to start. Another example is Venture Capitalists.

# *Other Sources of Financing*

- **Friends and Family**
- **Suppliers**
- **Customer Deposits**
- **Credit Cards**
- **Insurance Companies**
- **Factoring Companies**
- **Loan Guarantor**
- **Loan Brokers**
- **Franchising**

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**Please note that the SBA does not offer “grants”<sup>66</sup> to start “for-profit” businesses**

*Thank you!*

The Illinois Small Business Development at  
Elgin Community College is here to serve  
YOU!

Call today for *FREE, UNLIMITED,*  
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