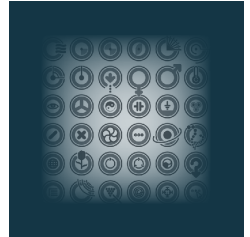


# Business Development Services

at the Toledo Regional Chamber of Commerce

## Your Entrepreneurial Support System



## Start-Up/Business Plan Guide



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**Welcome** to the Business Development Services of the Toledo Regional Chamber of Commerce. Our primary focus is to support businesses at all stages of development by assessing client needs and then linking them with the appropriate expertise that will help their businesses better compete in today's global economy.

The Chamber has assisted small businesses through Business Development Services programs for over 20 years. We have a strong support system in place to help entrepreneurs in the Northwest Ohio region by providing programs that can assist small business at every stage of the business life cycle. These programs (detailed below) assist businesses in the areas of business development, manufacturing and international trade.

### **Small Business Development Center**

The SBDC program assists businesses in all stages of development. Services include no-cost one-on-one business counseling, cash flow analysis, financial projections development, market feasibility and research, marketing strategy development, strategic business planning and workshops and training programs. Certified Business Advisors at the SBDC can assist start-up businesses as well as established businesses in a wide variety of industries.

### **Manufacturing and Technical Small Business Development Center**

The MTSBDC provides businesses with one-on-one counseling to assist in the development and commercialization of innovative technologies and advanced manufacturing. Manufacturers with less than 50 employees can receive management counseling and education services in Lean manufacturing, intellectual property issues and marketing, new product development and commercialization strategies, basics of patenting, trademarks, and copyrights and much more.

### **International Trade Assistance Center**

International markets provide opportunities for businesses to increase sales and create jobs. Many small companies don't have the expertise or resources to expand their business into international markets. The International Trade Assistance Center (ITAC) helps companies to expand globally through services which include, but are not limited to: export education (documentation, logistics, etc.), export readiness assessments, identifying local marketing tools, local product requirements and trade missions.

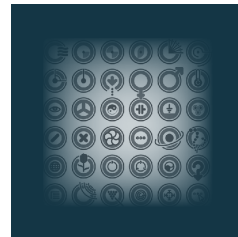
This Start Up/ Business Plan Guide will give you the basic information you need to make decisions and get your business started right. If you have questions after reading this guide, please call the Business Development Services department at 419.243.8191. Remember, we are here to provide you with information and assistance no matter where you are in the business life cycle. We look forward to working with you!

## ***Name Registration***

If you wish to do business in the State of Ohio under any name other than your legal name, then you must register this business name with the Ohio Secretary of State's office. First, you must contact the Secretary of State's office to make sure the name you wish to use is not already being used by someone else. Call the Ohio Secretary of State's office at (877) 767-3453 or visit online at [www.sos.state.oh.us](http://www.sos.state.oh.us).

There are three types of business name registrations: trade name, fictitious name and corporate name. A trade name offers protection from anyone else who also wants to register under that same business name. A fictitious name registers your business name but does not offer any protection. If you are not concerned about someone else using the same name for their business, then you may want to register as a fictitious name. You must register the fictitious name if you are not operating under your legal name. The cost for registering either a trade or fictitious name is \$50. The registration for a trade or fictitious name is effective for five years.

A corporate name is protected much like the trade name and only can be used upon incorporation. The name must include "Company," "Co.," "Corporation," "Corp.," "Incorporated," or "Inc." The corporate name is effective as long as the corporation remains in good standing. To register any of these three types of names call the Ohio Secretary of State's office at (877) 767-3453 or visit online at [www.sos.state.oh.us](http://www.sos.state.oh.us), Ohio Secretary of State, 30 East Broad Street 16th Floor, Columbus, OH 43215.



## ***Licensing***

The following is a list of the approximately 40 trades and professions that require special licensing to do business within the State of Ohio:

- Accountants
- Ambulance Services
- Architects
- Athletic Agents
- Attorneys
- Auctioneers
- Audiologists
- Barbers
- Broiler Operators
- Cemetery Registrars
- Chiropractors
- Commission Merchants
- Cosmetologists
- Counselors
- Debt Pooling Companies
- Dental Hygienists
- Dentists
- Dieticians
- Dispensing Opticians
- Embalmers
- Emergency Medical Services
- Funeral Directors
- Gristmillers
- Hearing Aid Dealers
- Innkeepers
- Junk Yards
- Motor Vehicle Salvage
- Nuclear Medicine
- Technologists
- Nurses
- Nursing Home Administrators
- Occupational Therapists
- Optometrists
- Pawn Brokers
- Pharmacists
- Physical Therapists
- Physicians
- Physicians' Assistants
- Precious Metal Dealers
- Private Investigators
- Professional Engineers and Surveyors
- Psychologists
- Radiation Therapy Technologists
- Radiographers
- Real Estate Appraisers
- Real Estate Brokers
- Respiratory Care
- Restaurants
- Sanitarians
- Secondhand Dealers
- Security Services
- Social Workers
- Speech Pathologists
- Steam Engineers
- Veterinarians
- X-ray Machine Operators

Certain kinds of businesses may require additional licenses, as with the sale of alcohol or cigarettes. If you have any questions regarding a special permit, tax or other licensing requirements for your business, consult your city licensing office and the First Stop Business Connection at (800) 248-4040 or visit online at [www.development.ohio.gov/edd/1ststop/onestop/index.cfm](http://www.development.ohio.gov/edd/1ststop/onestop/index.cfm).

## ***Sales Tax Issues***

### ***Vendor's License***

The regular vendor's license notifies the state treasurer's office that your business will need to collect and remit sales tax for the retail sales of tangible property. You can obtain a vendor's license from the county auditor's office for the county in which your business is located. A limited vendor's license can be obtained for a reduced fee and it is valid for 20 days. This temporary license is for the purpose of short-term fairs, trade shows and other special events.

If you are going to sell goods at locations away from a fixed place of business, you may obtain a transient vendor's license. This license will have a reduced annual fee. Contact the Ohio Department of Taxation at (614) 466-7350 or the county in which your business resides to see if you fall within a business classification that must collect and remit sales tax. For more information visit online at [www.tax.ohio.gov](http://www.tax.ohio.gov).

## ***Service Vendor's License***

The State of Ohio now requires many service businesses to collect and remit sales tax on the services that the businesses provide. The businesses required to get a service vendor's license are the following:

- automatic data processing and computer services
- information services (including 1-900 services)
- building maintenance and janitorial services
- employment services
- employment placement services
- landscaping services
- security services
- exterminating services

Contact the Ohio Department of Taxation at (614) 466-7350 or the county in which your business resides to see if you fall within a business classification that must collect and remit sales tax. For more information visit [www.tax.ohio.gov](http://www.tax.ohio.gov).

## ***Certificate of Exemption***

A common misconception about sales tax is that you must have a vendor's license to purchase goods wholesale (without paying sales tax). What you actually need to purchase goods for the purpose of reselling is a certificate of exemption that can be obtained in most office supply stores. If you are selling to a business that is not the end user of the product and will resell the item, then that business does not pay you sales tax; instead, they must provide you with a certificate of exemption that you keep on file.

## ***Zoning***

If you will be starting a business in your home or any other out-of-the-ordinary location, check with your local zoning administration to determine if the neighborhood zoning laws allow for that type of business in that location.

# Health Department

If you will be doing any food preparation or handling of food items, check with the Lucas County Health Department at (419) 213-4100 to determine if your business needs any special health permits or inspection. For more information visit online at <http://co.lucas.oh.us/index.aspx?nid=665>.

## Business Entities

### Sole Proprietorship

A sole proprietorship is a business operated and owned by a single person where this person is legally and financially liable for all activities which occur within the business.

A sole proprietorship is formed by simply registering the business name (if applicable); getting a business bank account; obtaining any necessary licensing and permits; and taking care of your taxes. The taxation details for a sole proprietorship are as follows:

■ **Social Security and Medicare Taxes** are paid through self-employment tax due annually (Schedule SE Form). Payments for this tax are due in estimated quarterly installments to the Federal Government (Schedule ES Form). For more information, call the IRS at (800) 829-1040 or visit online at [www.irs.gov](http://www.irs.gov).

■ **Federal Income Tax** is reported on a Schedule C Form to be filed with your Form 1040 at the end of the year. For more information, call the IRS at (800) 829-1040 or visit online at [www.irs.gov](http://www.irs.gov).

■ **State Income Tax** is figured by the amount of profit found on the Form 1040 of the Federal Income Tax. File a Form IT-1040 with the Ohio State Department of Taxation at (888) 405-4039 or visit online at [www.tax.ohio.gov](http://www.tax.ohio.gov).

■ **Local/Municipal Income Taxes** may be due for your business. Contact the City of Toledo at (419) 245-1662 or other local tax departments or visit online at [www.ci.toledo.oh.us](http://www.ci.toledo.oh.us) for more information.

You may use your social security number for the transactions of the business and as a Tax ID Number (it is not necessary for you to obtain a separate Tax ID Number unless you have employees). It is optional to have workers' compensation for yourself, but you must have it for any employees. If you would like Workers' Compensation, call (800) 644-6292 or visit online at [www.ohiobwc.com](http://www.ohiobwc.com).



## *Partnership*

It takes two or more people to form a partnership. There are two types of partnerships: General and Limited. When starting either type of partnership you will need the following: a Tax ID Number, which can be obtained by filing an SS-4 Form with the IRS at 1-800-TAX-FORM (800-829-3676) or visit online at [www.irs.gov](http://www.irs.gov); a business bank account; and the following tax filings:

- The partnership itself does not pay income taxes, but does file an annual Form 1065 for **Federal Income Tax** for informational purposes only. For more information, call the IRS at (800) 829-1040 or visit online at [www.irs.gov](http://www.irs.gov).
- The partnership may pay **Local/Municipal Income Tax** on behalf of the partners. Contact the City of Toledo Income Tax information line at (419) 245-1662 or your local tax department or visit online at [www.ci.toledo.oh.us](http://www.ci.toledo.oh.us) for more information .
- The partners must pay **Federal and State Income Taxes** based on the profits of the business on their own individual returns. See the **Sole Proprietorship** section of this guide for tax information, **page 6**.

Issues specific to the two types of partnership are the following:

### *General Partnership*

■ In a general partnership, all partners are personally liable for the activities of the business and have the right to be involved in the management and operations of the business. Each partner contributes to the start up of the business. A partnership does not necessarily need a written agreement, but one is highly recommended.

### *Limited Partnership*

■ A limited partnership can be created when you have two classes of partners – general partners, who are responsible for the management and operations of the business, and limited partners, who are passive investors and do not participate in the management of the business. A limited partner's liability is limited to the amount of his/her investment, whereas the general partners are fully liable for the activities of the business. The investment of the limited partners cannot be bought and sold without first considering the federal and state securities laws on limited partnership interests. Contact an attorney regarding these securities laws.

## ***Corporation***

An individual or group of people can form a corporation. The advantage of a corporation is that if managed appropriately, a corporation offers personal liability protection to the involved party/parties.

A corporation is created by filing the Articles of Incorporation and Appointment of Statutory Agent, along with a filing fee, with the Secretary of State of Ohio's office at (877) 767-3453 or visit online at [www.sos.state.oh.us](http://www.sos.state.oh.us). There are certain formalities for creation of the Articles of Incorporation and with maintaining a corporation such as rights of owners, adoption of bylaws, annual shareholder and board of directors meetings, etc. It is for this reason that it is recommended that you hire an attorney for assistance with filing and understanding what is necessary for your business.

You will need a Tax ID Number, which can be obtained by filing an SS-4 Form with the IRS at 1-800 TAX-FORM (1-800-829-3676) or visit online at [www.irs.gov](http://www.irs.gov). The corporation must also maintain its own bank account, separate from your own personal account.

If you are incorporated, even as a one-person operation, you are considered an employee. All employee requirements and payroll taxes apply. Please see the **Employees** section of this guide for tax and workers' compensation information, **page 10**.

There are two ways a corporation's taxes can be handled: as a regular corporation (commonly known as a C-corporation) or as a subchapter S-corporation.

## ***C-Corporation Taxes***

In a C-corporation, the corporation pays income tax based on the profits of the business and then the shareholders are taxed on the dividends they receive from the corporation. For the owner/shareholder this double taxation is often a concern.

The taxation details for a C-corporation are as follows:

■ For **Federal Income Tax**, file FORM 1120, 1120A or 1120 EZ for Federal income tax, due annually. File estimated payments on FORM 8109, worksheet 1120W, due quarterly. Call the IRS at (800) 829-1040 or visit online at [www.irs.com](http://www.irs.com).

■ **Corporate Franchise Tax** (State of Ohio income tax) is filed on FORM FT-1120, 1/3 due Jan 31, 1/3 due March 31, 1/3 due May 31. Call the State of Ohio at (888) 405-4039 or visit online at [www.tax.ohio.gov/divisions/corporation-franchise](http://www.tax.ohio.gov/divisions/corporation-franchise). *Corporate Franchise Tax is being phased out to be replaced by the Commercial Activity Tax (CAT). See pg. 13 for more information on CAT.*

■ **Corporation pays Local/Municipal Income Tax** based on net profits of the business. Contact the City of Toledo Income Tax information line at (419) 245-1662 or other local tax departments or visit online at [www.ci.toledo.oh.us](http://www.ci.toledo.oh.us) and click on **City Departments** and then **Divisions of Taxation and Treasury** for more information.

■ Shareholders pay **Income Tax** on the dividends paid by the corporation from the leftover profits of the business on their own individual income tax returns.

## ***Subchapter S-Corporation Taxes***

You can elect S-corporation status within 75 days of forming the corporation by filing FORM 2553 with the IRS. If you do not file for S-corporation status, you will be taxed as a regular C-corporation. Unlike the C-corporation, S-corporation income profits and losses are passed on to the shareholder. Profits are taxed only at the shareholder level; the corporation pays no federal or state income taxes (single taxation). There are other restrictions with an S-corporation such as a maximum number of shareholders and the way your health care costs can be deducted, so you should consult an accountant and attorney before selecting S-corporation status. The taxation details for an S-corporation are as follows:

■ For **Federal Income Tax** File FORM 1120S for informational purposes only, due annually. Contact the IRS at (800) 829-1040 or visit online at [www.irs.gov](http://www.irs.gov).

■ **Corporate Franchise Tax** (State of Ohio income tax) is filed for informational purposes only on FORM IT-1040 annually. Call the State of Ohio at (888) 405-4039 or visit online at [www.tax.ohio.gov](http://www.tax.ohio.gov). *Corporate Franchise Tax is being phased out to be replaced by the Commercial Activity Tax (CAT). See pg. 13 for more information on CAT.*

■ **Corporation pays Local/Municipal Income Tax** based on net profits of the business. Contact the City of Toledo Income Tax information line at (419) 245-1662 or your local tax department or visit online at [www.ci.toledo.oh.us](http://www.ci.toledo.oh.us).

■ Shareholders pay **Income Tax** on their share of the S-corporation profits on their federal and state income tax returns.

## ***Limited Liability Company (LLC)***

An LLC is a hybrid of a partnership and a corporation. The State of Ohio recognizes a one-person LLC. The liability protection is similar to a corporation and the taxes are similar to a partnership. An LLC can be created by filing the Articles of Organization and Appointment of Statutory Agent, along with a filing fee, with the Secretary of State of Ohio's office, at (877) SOS-FILE or visit online at [www.sos.state.oh.us](http://www.sos.state.oh.us). There are certain formalities of the Articles of Organization and with maintaining an LLC. A member operating agreement is required. It is recommended that you hire an attorney for assistance with filing and understanding what is necessary for your business.

When starting an LLC you will need a Tax ID Number, which can be obtained by filing an SS-4 Form with the IRS at 1-800-TAX-FORM (1-800-829-3676) or visit online at [www.irs.gov](http://www.irs.gov). See **Partnership, page 7**. Workers' compensation coverage may be required for all parties of an LLC depending on the Bureau of Workers' Compensation's four factor test. Contact the Bureau for information at (419) 245-2474 or (800) 644-6292 or visit online at [www.ohiobwc.com](http://www.ohiobwc.com).

## ***Employees***

If you are hiring anyone to work for you as an employee, then you need to take care of payroll taxes and workers' compensation for those employees. If you are incorporated, then all involved parties are considered to be employees (including yourself).

### ***Tax Responsibilities for Employers***

■ **Federal Withholding Income Tax** is the tax withheld for Social Security and Medicare. Employees file FORM W-4 to determine amount of withholding. The business must file FORM 941 (quarterly returns of taxes due) and FORM 8109 (Federal Tax Deposit Coupons), for each deposit due on the 15th of the following month. For forms or more information call the IRS at (800) 829-1040 or visit online at [www.irs.gov](http://www.irs.gov).

■ **Employers' Match to Federal Withholding Income Tax.** Employers must match the social security and medicare taxes withheld from the employee's paycheck. File FORM 941 (quarterly returns of taxes due) and FORM 8109 (Federal Tax Deposit Coupons), with each withholding deposit due on the 15th of the following month. Call the IRS at (800) 829-1040 for forms and more information or visit online at [www.irs.gov](http://www.irs.gov).

■ **State Withholding Income Tax** is the portion of the employee's paycheck that the employer must withhold for state income tax. To apply to be a withholding agent with the State of Ohio, file FORM IT-1. The business files FORM IT-941 annually for tracking the withholding and FORM IT-501 quarterly or monthly for depositing the withholding tax. For forms and more information, contact the Ohio Department of Taxation at (800) 282-1780 or visit online at [www.tax.ohio.gov](http://www.tax.ohio.gov).

■ **School District Withholding Income Tax** is withheld from the employee's paycheck depending on the laws of the school district of the employee's residence. Employees must furnish the employer with FORM IT-4 to determine amount of withholding tax. If applicable, employers must register as a withholding agent on FORM IT-1S and deposit the employee's withholding tax. Contact the City of Toledo Income Tax information line at (419) 245-1662 or other local tax departments for information or visit online at [www.ci.toledo.oh.us](http://www.ci.toledo.oh.us).

■ **Federal Unemployment Tax** must be filed annually by the employer on FORM 940. Deposits to the IRS should be made on FORM 8109. These deposits should be made quarterly on FORM 8109 if greater than \$100. Call the IRS at (800) 829-1040 or visit online at [www.irs.gov](http://www.irs.gov).

■ **State Unemployment Tax** is paid by all employers to the State of Ohio Unemployment Insurance Fund. Initial payments should be paid on FORM UCO-1 and all later payments should be paid quarterly on FORM UCO-2E or UCO-2R. For information contact the State of Ohio at (888) 405-4039 or visit online at [www.tax.ohio.gov](http://www.tax.ohio.gov).

## ***Other Employer Responsibilities***

■ **Workers' Compensation** is the state insurance fund for all employees paid by all employers. The employer's premium is based on number of employees, risk on the job and total payroll. There is a \$10 minimum deposit. Premiums are due twice a year. Contact the Bureau of Workers' Compensation for more information at (800) 644-6292 or visit online at [www.ohiobwc.com](http://www.ohiobwc.com).

■ If you have employees, you must give them a **Summary of the Total Dollars Withheld** for the prior year on a FORM W-2 by January 31. You must also submit FORM W-2 for each employee and FORM W-3 for all employees to the Social Security Administration by February 28. Call the IRS for more information at (800) 829-1040 or visit online at [www.irs.gov](http://www.irs.gov).

■ You must keep a record of your **Employees' Eligibility** for work in the United States with a FORM I-9 from the U.S. Citizenship and Immigration Service. Call (800) 375-5283 or visit online at [www.uscis.gov](http://www.uscis.gov) for more information.

■ Other responsibilities such as **Disability Policies, Family and Medical Leave Policies, COBRA, and New Hire Background Checks** depend on your number of employees. Check with the Ohio First Stop Business Connection at (800) 248-4040 or with the specific regulatory agencies or visit online at [www.odod.state.oh.us/onestop](http://www.odod.state.oh.us/onestop) for more information regarding compliance.

## ***Employee vs. Independent Contractor***

There are 20 guidelines that the IRS looks at when determining the status of an employee versus an independent contractor. Basically, if you are working with someone on a contractual basis, where that person can hire additional help, can make his/her own hours, set his/her own schedule and determine his/her own profitability on the job, then he/she is probably an independent contractor.

If you set the hours, give specific instruction, have control over the technique for the job and supply the tools for the job, then the relationship is employee/employer. An independent contractor handles its own taxes, workers' compensation, etc. It is your responsibility to issue a FORM 1099 to the independent contractor by January 31 and to the IRS by February 28 stating the total dollars paid to the independent contractor for the year. Call the IRS at (800) 829-1040 or visit online at [www.irs.gov](http://www.irs.gov) for more information.

# ***Taxes***

## ***Tangible Personal Property Tax***

**Tangible Personal Property Tax** is tax paid on the tangible assets of the business. (Not land, buildings, licensed motor vehicles or aircraft, jigs, dies or drawings used in business.) The first \$10,000 is exempt, but you must file for informational purposes even if you do not owe any money. If your assets exceed \$10,000, you pay a percentage in tax to the State. Unincorporated businesses and single-county corporations file FORM 920 with the County Auditor. Multi-county corporations file with the State on FORM 930. A return is due 90 days after you start the business and by April 30 each year. Contact the Lucas County Auditor at (419) 213-4406 or visit online at [www.co.lucas.oh.us/index.aspx?nid=331](http://www.co.lucas.oh.us/index.aspx?nid=331) for more information.

## *Real Property Tax*

All businesses that own buildings, land and improvements must remit to the County administration **Real Property Tax** that may be levied by the school district, municipality or other taxing jurisdiction. Contact the Lucas County Auditor's office at (419) 213-4406 or visit online at [www.co.lucas.oh.us/index.aspx?nid=331](http://www.co.lucas.oh.us/index.aspx?nid=331).

## *Commercial Activity Tax (CAT)*

The Commercial Activity Tax (CAT) is an annual business privilege tax measured by gross receipts from business activity in Ohio. Businesses in Ohio with Ohio taxable gross receipts of \$150,000 or more per calendar year must register for the CAT file returns and make corresponding payments.

- The CAT applies to all entities (sole proprietor, LLC, etc.) regardless of form.
- The CAT tax applies to all type of businesses: retailers, service providers, manufacturers and other types of businesses. For more information visit [www.tax.ohio.gov](http://www.tax.ohio.gov).
- Businesses subject to the CAT must register. On-line registration at Ohio Business Gateway ([www.business.ohio.gov](http://www.business.ohio.gov)). Information on filing and payment of the CAT will be sent to all registered taxpayers.

## *Financing Your Business*

You will need to research and list all costs associated with getting your business started and keeping it running until you are turning a profit, including projected monthly revenue and expenses. Some of the major sources of funding are the following:

- **Banks** – primary source for lending money. Talk to the lending officer in your bank for information about obtaining a business loan. You will need to have a good credit history and some of your own money to invest. You will also be personally responsible for paying back all loans. You will most likely be required to write a business plan. See **Business Planning, page 15** for more information.

- **Loan guarantees** – SBA loan guarantees are available to the bank to add additional collateral to a loan. Contact your local bank or the SBDC for more information.
- **Friends and family** – may be a good source of funding for your business. Be careful of the amount of control they are seeking and the nature of your relationship regarding paying them back.
- **Local government/enterprise groups, etc.** – check with your local Department of Economic Development or Community Development Corporation for possibilities of start up business lending. Stipulations like geographic location may exist.
- **Grants** – limited money given typically for businesses involved in research and development. Check your local library for a list of available grants.
- **Venture capital investors** – private equity funding requiring ownership in your company.

## *Insurance*

You will need to insure your business and its assets. Some possible types of coverages are business property, business interruption, computer equipment, vehicles, liability, employee dishonesty, burglary and personal life and health. Contact your personal insurance agent to obtain a quote or a recommendation.

## *Marketing*

You will need to do extensive research on the demographics of your market before you start your business. The who, what, where, when and how of your customers need to be answered before you can know for sure if there is sufficient demand for your products or services. You should identify your competitors and their strengths and weaknesses. You need to fully understand the industry segment that will be using your products or services. Other marketing decisions you will need to make include location, advertising and promotion strategies, selling, customer relations, and pricing. Market research resources include libraries, surveys of potential customers, industry research, the internet and analysis of your competition.



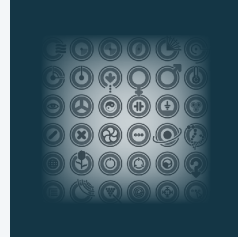
# *Business Planning*

Once you have gathered all of the necessary information for your business, you should write a business plan. A business plan is the basic road map for your business and includes topics such as a description of products/services, marketing strategies, operations and management, and financial issues of your business. If you are writing the plan with the intention of getting a bank loan, you must also include how much of a loan you need, for what purpose and when you will be paying the loan back. It is recommended that you write the business plan yourself and not hire someone to do it for you. There are many business planning guides in libraries and bookstores and software programs to help you with writing your plan. See pages 16-34 of this guide for detailed information on writing a business plan.

## *Choosing Professional Advisors*

When starting your business, you will want to consider hiring professional help such as attorneys, accountants, insurance agents, etc. This professional “team” can be instrumental in the success of your business. The best method of locating these necessary professionals is through referrals from other business owners, friends, your banker, other professionals or a small business or trade organization. Call (419) 243-8191 for a list of professionals who belong to the Toledo Regional Chamber of Commerce.

# *Building Your Business Plan*



# *Preparing a Business Plan*

## *Introduction*

Going into business for yourself is a very big step. Careful planning on the front end can save you thousands of dollars down the road. It's true that entrepreneurs are risk takers. However, successful entrepreneurs are those who use the business planning process to minimize the risk!

A written business plan is the foundation of the planning process. It serves as the blueprint for developing the who?, what?, where?, when? and why? of a business venture. It requires research, careful thought, numerous revisions, and time. Entrepreneurs can spend several months developing the various components of their business plan.

The business plan is essential to the start-up and growth of a small business. The plan serves three primary functions. First of all, it is a feasibility study for your business idea. The business planning process allows you to evaluate, based on sound assumptions, whether or not your idea can be turned into a profitable business venture.

Secondly, a written business plan is necessary to obtain financing from a bank, private investor or the government. A potential lender or investor will read your plan to determine if you have researched the industry, the competition, your costs, and potential market. They will be looking to see if you will be able to pay back the loan or investment.

Thirdly, the business plan serves as a management tool. This road map helps you evaluate performance and make adjustments once you're in business. If properly utilized, it can alert you to potential problems before they become costly mistakes. It can also identify potential opportunities for growth.

## *SBDC & MCBAP Services*

The Ohio Small Business Development Center (SBDC) and the Minority Contractors and Business Assistance Program (MCBAP) at the Toledo Regional Chamber of Commerce is ready to help. The SBDC is funded by the U.S. Small Business Administration, the Ohio Department of Development, and the Toledo Regional Chamber of Commerce. The SBDC/MCBAP certified business advisors will meet with you to go over the elements of a business plan, as well as answer any other questions you might have. The advisors will not write the business plan for you, however, they will make specific recommendations and assist in the preparation of your financial statements if needed.

This publication was developed to assist you with the construction of your plan and hopefully simplify the business planning process for you. As you read through this publication, keep in mind that it was written for start-up and existing businesses in many different industries. Some of the information may not pertain to your business idea.

# *An Outline of a Business Plan*

A complete business plan should contain these basic elements in this general order:

**Cover Page**

**Table of Contents**

**Executive Summary**

**Business Concept**

**Description of Products and/or Services**

**Industry Characteristics and Environment**

**Operations**

**Ownership Structure**

**Management and Personnel**

**Marketing Plan**

- Market Analysis
- Competitive Analysis
- Marketing Strategies

**Financial Information**

- Start-Up Requirements
- Projected Profit and Loss Statement
- Projected Cash Flow Statement
  - Balance Sheet

**Supporting Documentation**

# *The Business Plan in Detail*

## *Cover Page*

The cover page should include vital information such as business name, owner's name, address, phone, fax, e-mail, as well as the date the plan was completed or last updated. You may also want to add a statement that the information contained in the business plan is proprietary and confidential. It is a good idea to number each copy of the business plan and keep track of who receives each copy.

The entire plan should be typed and professional looking. Be sure that it is proofed for spelling and grammatical errors before it is distributed.

## *Table of Contents*

A standard table of contents should be included, listing the topic or section and the corresponding page number so items can be easily referenced. The table of contents should only be one page in length.

## *Executive Summary*

This section should be written last and contain a clear and concise summary of the most important sections of the business plan. Keep in mind that this may be the first, and possibly only, section read by potential lenders or investors. As a general rule, the executive summary should not exceed two pages in length. The following items should be emphasized in the executive summary:

- Amount needed to finance start-up of the business;
- Description of business product and/or services;
- Estimate of market potential;
- Assessment of the competition;
- Your competitive advantage;
- Legal form of business;
- Location of business;
- Estimate of potential revenue.

***These items should be stated briefly in the executive summary and expanded on with supporting detail in later sections. Again, this section is written after the completion of the plan to summarize the business plan.***

## ***Business Concept***

In this section, write a simple, but complete statement of what kind of business you are in; what key products or services will be offered; why you believe there is a market for the business; how the business will be operated; and what future growth you anticipate.

If you are already in business this section should state the history of the company. It should include things like: legal form of the business and when it was formed; pertinent background information on the owners of the company; current customer base; yearly sales; assets acquired by the company; changes in location; and any expansion. This section should not only describe the company, but also address its past performance if applicable.

## ***Description of Products and/or Services***

In this section you should explain in detail about the products and/or services your company will offer to the customer. Do not assume that your name explains what your company does. You need to be specific about the products and/or services you provide.

You will want to explain the relative importance of each product line or service including design, styling, and trademark considerations. You will also need to discuss quality, product life, packaging, and durability issues.

This is also the section to address your competitive advantage by product or service. Discuss any research and development activities currently underway, or anything relating to technology that would give you a competitive advantage. Explain your distribution and sales systems. Any trademarks, copyrights or patents relative to your products should be included in the supporting documentation section.

## ***Industry Characteristics (The Research Phase)***

This section is the cornerstone of the business plan. It is the basis for the rest of the plan and should be one of the first sections completed. This is the section that requires many hours of research.

Industry information can be found from numerous sources including trade associations, business publications, government reports, as well as your own observations and experiences. The library is a great place to find publications that provide industry information. Some of these publications include: Market Profile Analysis, Robert Morris Associates (RMA), Standard & Poor's, and U.S. Industry and Trade Outlook. You can also use the internet as a source for some general industry information.

First, you need to determine what industry you are in and then research that industry by its Standard Industry Classification (SIC) code to gather information on the competition, industry standards, governmental regulations, etc. You may also want to reference the government's new NAICS or North American Industry Classification System.

Your research should give you an overall picture of the industry you plan to enter. The information you collect will also be used in other sections of the business plan, specifically when you prepare your projected financial statements. Research definitely is the least exciting and most time intense part of your business planning process. However, if you do not make the time investment in the research phase, your plan will not be thorough or well thought out and your business may suffer in the long run.

In this section you should include the following: a brief description of the industry in terms of sales volume and number and size of firms in the industry; how products/services are currently packaged and sold; average profit margins; and whether the industry as a whole is growing, mature, or declining. Also explain any cyclical or seasonal changes in the industry. If the industry supplies other industries you should also briefly describe the characteristics of the other industries and how changes may affect your industry.

In this section, you should also discuss any current or future trends in the industry. Define the growth of the industry in relation to the growth of the economy. You should also research and include in your plan any federal, state or local laws or regulations that pertain to your business.

## ***Operations***

The first element you need to address in the operations section of the plan is your location. You should briefly describe the actual location of your business. If you're home-based say that and describe how it's feasible for your business. If you will occupy a commercial location, give the address of that location or proposed location.

You need to discuss the location in terms of square footage and the arrangement of office space, assembly space, storage space, etc. Will you buy or lease the building? Also include information on available parking, traffic counts, signage, etc. Describe what type of equipment or machinery will be required. How will you obtain the necessary equipment? Again, will you buy or lease? How often will equipment need to be repaired or replaced and what costs will be associated? Talk briefly about any future needs, as they relate to the business location and equipment (i.e. possible expansion plans).

Discuss your production or service operations by describing your manufacturing process or the method of performing your service. This information should include production or operating advantages, quality control procedures, purchasing procedures, production or service capacity, availability of raw materials, and other supplier considerations.

Be sure to discuss your actual hours of operation. (i.e. Monday-Friday, 9 a.m. to 5 p.m.) This will be important to establish whether or not your hours match the buying habits of your market and if you are a service business, whether your hours of operation are sufficient to support the amount of sales you propose. Also, consider the standard hours of operation within your industry.

Discuss issues relating to inventory if it applies to your type of business. How much inventory will you need to support anticipated sales? Discuss the labor force that will be needed. Is there an available workforce? Discuss any training that may be required and the cost of such training. Will you be using sub-contractors for any of the work?

## ***Ownership Structure***

Your business plan needs to state the legal structure of your business. That is, are you a sole-proprietorship, partnership, limited partnership, s-corporation, c-corporation, or limited liability company? This is one of the most important decisions to make when starting a business. The legal structure of your business governs how the business will operate. Several factors must be considered when choosing a legal structure including taxes, potential exposure to liability, and the number of owners. For more information on the forms of ownership structure contact the SBDC or an attorney. In most cases, you will need to hire an attorney to file the necessary paperwork.

Be sure to name the owners or partners of the business in your business plan and include the pertinent details of your structure. You should include a copy of the partnership agreement, articles of incorporation, articles of organization, etc., depending on your legal structure in the Supporting Documentation section of your business plan.

## ***Management and Personnel***

In this section, you will want to briefly describe your management style/philosophy, as well as provide all pertinent information in regards to employees, if applicable.

You should provide information on key management personnel including responsibilities and professional background. If you are starting small, this section may just be about you, the owner. Be sure to discuss all personnel compensation structure and include that amount in your monthly expenses on the financial statements. Include your professional resume as an attachment to your business plan.



Describe the employees, if any, you will need to operate your business. You may want to include specific position descriptions outlining the duties and responsibilities of each employee as an attachment to your business plan. If not, discuss each position briefly in this section. You will also need to include the actual employee costs in the financial section of the plan. Remember that employee costs include more than their hourly rate of pay. You need to compute taxes, worker's compensation, and any other benefits you plan to offer such as health insurance. Make sure that you are in compliance with all local, state, and federal employment regulations.

If you are in a manufacturing business, you'll need to discuss the number of shifts needed for production and labor union issues. Remember when you increase sales, you will need to increase production so you may need to add shifts which will also increase employee costs.

You should explain your employee compensation policy in greater detail including: how and when employees will be paid; the number of hours they will work; overtime considerations; and holiday pay. It is a good idea to develop an employee handbook that will outline these and other issues. This will save you a lot of hassle down the road. If you have developed such a handbook, include it as an attachment to the business plan and be sure to have your attorney review such a document.

You may also want to discuss how you plan to recruit, train, retain, and evaluate your employees. Give the recruitment issue some careful consideration because in many situations your business can not run without employees. Try to determine the pay and incentives offered by similar businesses. After all, you will be competing with them for employees as well as customers.

If you will not have employees at first, discuss when you think you may need to add employees as part of your growth strategy.

## ***Marketing Plan***

This is a very important section that is often overlooked by potential business owners. If you don't consider marketing issues such as product and pricing, location, advertising, selling, etc., you may not have a business at all. The marketing plan is an indication of your overall business potential.

Marketing is at the core of why you are in business. That is, to satisfy customer wants and needs. So, you must first explain what want or need your product or service is satisfying and for whom. Be as specific as you can. Are you selling to other businesses or to the consumer market?

You will want to begin this section by briefly explaining your product(s) and/or service(s). Specifically, explain your product in terms of pricing. If appropriate include a copy of your price list, menu, catalog, or related materials. You will need to elaborate on your pricing strategy. How does it compare to overall

industry pricing and that of your competitors? You must also take into consideration all the costs associated with making or selling your products and services. The SBDC/MCBAP advisors can discuss with you issues that need to be considered to develop your pricing.

In this section, you need to include significant information about your target market. Who are your customers and why are they going to buy from you? This information should include customer needs, demographics, buying behaviors, etc. You need to clearly state your market niche and competitive advantage. You should also discuss any external factors that may affect your business such as industry changes, technological changes, and so on.

Next, you need to complete a competitive analysis for your business. This ties in with your market niche and competitive advantage. You need to explain why customers will buy from you and not the competition. One thing to consider is that small, start-up companies usually can't compete on price with larger, more established businesses. However, a small business is usually able to compete on superior quality and/or customer service. You will want to include specific information about your competitors. Name your competitors and discuss their competitive advantage in the market.

One of the most important parts of your marketing plan should be your promotional efforts. This includes advertising, trade promotions (discounts, coupons, sales), and public relations. You will probably want to focus mainly on advertising. Be sure to list the types of advertising media that you plan to use along with the associated costs. Advertising media includes television, radio, newspaper, magazines, trade journals, signage, yellow pages, and classified ads. Your target market will determine which forms of advertising media your business will need to implement. Again, the SBDC/MCBAP advisors can help you decide which advertising media will be most appropriate for you, given your customers and budget constraints. Be sure to include any costs associated with your advertising efforts in your financial statements.

In the marketing plan you should include some information about the distribution aspects of your business. If you are a service business, your distribution channel is direct. However, if you sell via catalog or over the Internet you will want to discuss issues such as shipping. If you are a retailer, you'll want to discuss your relationship with wholesalers, agents, brokers, etc. Basically, you need to describe how your product will reach the consumer.

Sales are another important issue to address in this section of your business plan. We will discuss sales again in the financial section of the plan. However, your sales goals should be realistic and obtainable while sufficient enough to cover your operating costs. You should have a monthly sales figure in mind that takes into consideration any seasonality your business may experience. For instance, in many retail businesses, sales increase dramatically during December. Your research efforts should have uncovered such trends that may affect your industry. Ideally, sales should increase over the first several months as a result of your marketing efforts.

## ***Financial Information***

This is a crucial section of the business planning process. It is the numerical equivalent of the written text that has been discussed so far. It should be consistent with the text part of the business plan. In this section, you must detail not only what it will cost to “open the doors,” but also what your monthly operating expenses and cash flow will be for your business. This can be a tricky process if you are a start-up business. Likewise, you must also project the amount of sales, by product, you expect to generate each month. Estimating these numbers requires research and educated guesses based on industry standards and your knowledge of your business.

Clearly state in your plan how much money you need to borrow, listing all potential funding sources, including any contributions by the owner. Also list what the capital will be used for. Funds may be needed to purchase equipment, make leasehold improvements, or perhaps for working capital. You may not realize how much working capital may be needed until you have completed your projected financial statements.

As you work through the various aspects of the business, you should consider the costs associated with each element. For example, when creating the marketing plan you should be able to determine when and how much you’ll spend for advertising. Be sure that the sales figures and expenses you include in the financial statements correspond to the items included in the text of the plan. Again, inconsistencies between the narrative part of the plan and the financial data might be an indication that your plan is not well thought out.

Once you have a good handle on your projected revenue or sales and monthly expenses, you can prepare the financial statements that have been mentioned throughout this document. You need to prepare projected or proforma financial statements including: a profit and loss statement, balance sheet, and statement of cash flows for the first three years of operation of your business. You will also need a detailed account of your start-up costs. If you are not familiar with these accounting items, sample statements have been included. Most often you will see these statements presented at year-end, however, your statements should be presented on a monthly basis for the first three years.

An SBDC/MCBAP advisor or your accountant can be of assistance with developing these statements. There are also many software packages on the market that will assist in creating financial statements. The following pages contain a very brief description of each of the financial statements.

# *Projected Financial Statements in Detail*

## *Start-Up Requirements*

You must identify expenses that will be incurred in order to open for business. These are generally one-time expenses including: purchase of building or equipment; legal fees; supplies; leasehold improvements; rent deposits; etc. Monthly expenses like rent payments; telephone charges; or payroll will be shown on the profit and loss statement.

You must also estimate the amount of working capital that will be needed to operate the business during the period covered by the projections. Working capital refers to the financing needed to cover the time between when expenses are incurred and revenue is received. This is really a factor of the billing cycle, terms of sale, collection, and inventory policies. To begin with, you can estimate two or three months of projected expenses as the amount needed for working capital. You may have to adjust this number after you complete the projected cash flow statement.

You also need to consider any start-up inventory that will be needed. This amount will depend heavily on your estimated inventory turnover and the nature and seasonality of your industry and the perishability of your products. You may be able to get a better estimate by analyzing the industry statistics you gathered in your research phase.

Once you have calculated your start-up costs and working capital requirements, you need to subtract the owner's contribution (the amount of capital you are putting in) to come up with the amount needed to be financed or borrowed. A sample breakdown of start-up requirements follows:

# Sample Breakdown of Start-Up Requirements

Annual Lease Exp. **or** Purchase Cost

Computer Network					
Computer Software					
Computers					
Paint Booth					\$ -
Equipment					\$ -
Monitor					\$ -
Paint & Misc					\$ -
Furniture & Fixtures (attach list FA-5)					\$ -
Point of Sale Register					\$ -
Telephone System					\$ -
Furniture & Fixtures (attach list FA-5)					\$ -
Misc. Equipment					\$ -
Security System					\$ -
Goodwill					\$ -
Delivery Truck					\$ -
Signage					\$ -
Building					\$ -
Land					\$ -
Capital Improvements					\$ -
<b>Total Fixed Asset Additions</b>					
	#	cost/unit	=	Ann. Lease Exp.	<b>or</b> Purchase Cost
Inventory/Supplies					\$ -
Inventory /Paper					\$ -
Lease Deposit					\$ -
Architect					\$ -
Deposits Utility					\$ -
Permits / License					\$ -
Pre Advertising					\$ -
Pre Pay Insurance					\$ -
Total Other (attach list CAA-1)					\$ -
<b>Total Current Asset Additions</b>					\$ -
Attorney					\$ -
Paper Products					\$ -
Paint					\$ -
Office Supplies					\$ -
Labor Start Up					\$ -
Kitchen Supplies					\$ -
<b>Total Start-Up Expenses</b>					\$ -
<b>Initial Working Capital (cash) Requirements</b>					\$ -
<b>Total Start-Up Requirements</b>					
<b>Project Financing:</b>					
Term Loan		Term		Interest %	Principal
Bank Loan					\$ -
					\$ -
<b>Total Loan Requests</b>					\$ -
Line of Credit Requested					\$ -
<b>Total Capital Contributions by Owner</b>					\$ -
<b>Total Project Financing Required</b>					\$ -

## ***Profit and Loss Statement (Income Statement)***

This statement shows the income (revenue) of your business and expenses occurred in generating the income, and the resulting profit or loss. This information is typically shown on a monthly, quarterly, or yearly basis. For the purposes of a start-up business, you will want to show the projected income and expense on a **monthly** basis for the first three years of operation. The income statement shows all activities that affect profit and loss, including non-cash items like depreciation.

The most common revenue item is, of course, **sales**. You will need to project the amount of product in dollars that you expect to sell each month by major product line or by using an average price. It is helpful to break your sales down by product line or service to be used as a decision-making tool. By doing so, you'll be able to see which products or services sold as expected and, conversely, which ones did not. Other revenue items may include interest income, the sale of equipment, or rent payments to the company.

If you plan to sell on account, that is invoice customers for payment after the sale, you will want to show accounts receivable as a revenue item on the income statement, separate from cash sales. As a start-up business, it is best to get all sales in cash when possible. However, larger commercial customers may wish to be invoiced. When deciding to whom to extend credit to you must carefully weigh the benefits of the sale against possible collection problems. Again, you must consider your billing cycle, terms of sale and collection policies.

The most obvious type of expenses are those directly related to purchasing or producing the product or service you sell. This is referred to on the income statement as the cost of goods sold. If you are manufacturing a product you must consider direct materials, direct labor, and overhead. If you are a retail business, **cost of goods sold** refers to what it costs you to buy the products from your wholesaler or distributor.

Other **operating expenses** include things such as rent, wages, advertising, insurance, and utilities. You should spend a significant amount of time considering these monthly expenses. Many people do not include all expenses or estimate them too low. This will cause significant problems down the road.

Another item to be considered is **depreciation**. This refers to an accounting item that represents the allocation of the cost of fixed assets (a balance sheet item) to expense over the estimated period of usage. It does not require an actual cash outlay but is shown on the **income statement** because it is related to profit.

Finally, expenses are deducted from the revenue items to determine the **net profit** or loss from the business. Generally the projected tax burden is then deducted from the profit. A good rule of thumb to consider when estimating revenue and expense is to estimate the revenue lower and the expenses higher than anticipated. This gives you a conservative financial picture. A sample income statement follows:

### *Sample Income Statement*

<b>Accounts</b>	<b>September</b>	<b>October</b>	<b>November</b>
Sales	13,940	16,390	18,090
Full Time / Part Time Wages	5,751	5,751	5,751
Payroll taxes	748	748	748
Food Cost	2,230	2,622	2,894
Cost of Sales	8,729	9,121	9,393
Gross profit	5,211	7,269	8,697
Accounting	250	250	250
Advertising	150	150	150
Amort other	111	111	111
Amort. of advertising	25	25	25
Automobile	54	54	54
Bank charges	50	50	50
Cablevision	113	113	113
Contract Labor/ Special Events	625	625	625
Depreciation	850	850	850
Donations	20	20	20
Dues & subscriptions	33	33	33
Electric	325	325	325
Gas	826	826	826
Insurance/Building & Business	767	767	767
Interest credit line	151	170	182
Interest on term debt	1,172	1,165	1,159
Replace Furniture & Equipment	154	154	154
Miscellaneous	29	29	29
Office supplies	100	100	100
Other supplies	425	425	425
Other supplies	20	20	20
Postage	333	333	333
Repairs & maintenance	192	192	192
Taxes property	0	0	0
Telephone	250	250	250
Water / Sewer	183	183	183
Total department 4.	7,208	7,220	7,225
Net before tax	(-1,997)	49	1,472
Income tax	(-559)	14	412
Net Income/Loss	(-1,438)	35	1,060
EBITDA	312	2,370	3,798

## ***Cash Flow Statement***

The cash **flow statement** is just what it sounds like. It shows what happened to cash over a certain period of time. In other words, it shows the sources and uses of cash, similar to a checking account. This statement is very important because although the income statement shows profit, it includes the impact of changes in non-cash items like accounts receivable, accounts payable, and depreciation which can have significant impact on cash flow. If the accounts receivable amount is high, your income statement will show a profit, but until you collect on those accounts, you may not have enough cash to pay your bills.

A cash flow statement contains adjustments to the income statement for changes in accounts receivable, accounts payable, and non-cash items such as depreciation. In the start-up phase, you must prepare a projected statement to ensure that you will have enough cash to keep your business running. It is very important that you understand what this statement means to you as a business owner. A sample cash flow statement follows:



### *Sample of Cash Flow Statement*

<b>Accounts</b>	<b>September</b>	<b>October</b>	<b>November</b>
Collections	13,940	14,896	17,053
Full Time / Part Time Wages	5,571	5,751	5,571
Payroll taxes	748	748	748
Food Cost	2,230	2,622	2,894
Subtotal	8,729	9,121	9,393
Accounting	250	250	250
Advertising	150	150	150
Automobile	54	54	54
Bank charges	50	50	50
Cablevision	113	113	113
Contract Labor/ Special Events	625	625	625
Donations	20	20	20
Dues & subscriptions	33	33	33
Electric	325	325	325
Gas	826	826	826
Insurance/Building & Business	767	767	767
Interest credit line	122	151	170
Interest on term debt	1,727	1,165	1,159
Miscellaneous	154	154	154
Office supplies	29	29	29
Other supplies	100	100	100
Other Supplies	425	425	425
Postage	20	20	20
Repairs & maintenance	333	333	333
Replace Furniture & Equipment	192	192	192
Taxes property	0	0	0
Telephone	250	250	250
Water / Sewer	183	183	183
Total department 4.	6,227	6,215	6,227
Total Cashout	15,620	15,336	15,620
Loans from others	(1,210)	(1,210)	(1,210)
Line of credit	4,086	2,654	1,684
Total other receipts	2,876	1,444	474
Estimated tax payments	897	0	897
Term loan paid	997	1,003	1,010
Subtotal other payouts	1,894	1,003	1,907
Net cash change	0	(0)	(0)
Beginning cash balance	(0)	0	(0)
Ending Cash	0	(0)	(0)

## Balance Sheet

The balance sheet will show your company's financial situation on a given day. It lists the assets (what your company owns) and your liabilities (what you owe). It also shows the owners' equity, or the amount you have personally invested in your business.

Specifically, the balance sheet shows current assets, including cash and other items such as inventory and accounts receivable, that can be converted to cash or used up within one year. Any property or equipment that the company owns is also shown on this statement. Depreciation, which is not an actual expense but the spreading of the cost of an asset over a period of its usage, is also included on the balance sheet.

The balance sheet also shows all liabilities of the company. These liabilities are generally broken into two categories: short and long-term, depending on when debts need to be paid. For example, credit card debt would be a short-term liability while your business loan from the bank would be considered long-term.

The balance sheet is very important since it shows your company's ability to pay debts based on your assets. This also indicates your company's ability to borrow. A bank will be particularly interested in this statement.

### Sample Balance Sheet

Accounts	September	October	November
Cash	0	0	0
Accounts receivable	8,503	9,998	11,035
Prepaid taxes	3,446	3,432	3,917
Prepaid expenses	7,607	7,471	7,335
<b>Total</b>	<b>19,556</b>	<b>20,901</b>	<b>22,287</b>
Property & equipment	258,250	258,250	258,250
Accumulated depreciation	3,399	4,249	5,099
Net property	254,851	254,001	253,151
<b>Total Assets</b>	<b>274,407</b>	<b>274,902</b>	<b>275,438</b>
Accrued expenses	151	170	182
Due on credit line	21,319	23,973	25,657
Term debt payable	174,801	173,797	172,787
Loans from others	83,692	82,482	81,272
<b>Liabilities</b>	<b>279,963</b>	<b>280,422</b>	<b>279,898</b>
Paid in capital	1,000	1,000	1,000
Net income	-6,555	-6,520	-5,460
Ending Retain. Earn.	-6,555	-6,520	-5,460
<b>Stkholders' Equity</b>	<b>-5,555</b>	<b>-5,520</b>	<b>-4,460</b>
<b>Liabilities And Stkholders' Equity</b>	<b>274,407</b>	<b>274,902</b>	<b>275,438</b>

## ***Projected vs. Historical Financial Statements***

If you are an existing business or are purchasing a business, preparing the projected financial statements becomes much easier since you can use historical financial data as a basis for your projections. You may want to increase or decrease numbers by a certain percentage based on changes you foresee (i.e. increasing sales by 20% due to the new owner's connections in the industry or a more aggressive marketing plan).

Lastly, you are probably used to seeing financial statements for a specific period of time (usually annually or quarterly). These are generally historical statements. The difference in the projected statements you will be preparing is that they are done on a monthly basis for a period of three years. Since a start-up company has no history or performance record, a monthly statement will allow you to keep a close eye on how your business is performing and allow you to make changes quickly.

## ***Using Your Financial Statements***

There are several ways in which your projected financial statements will be used both internally and externally. First, you should analyze these statements to decide whether or not you should, or can, go into business. Secondly, a bank will analyze these statements to determine if you are a good credit risk. They will take your statements and prepare some ratios to compare with industry standards. Once you're in business, you will use your actual financial statements to track your business performance as compared to your projections. You will also use these statements to budget for future years. Once you're in business for a few years, you'll be able to use your statements to compare your performance over a period of time to predict trends. You'll also be able to compare your business to others in your industry.

## ***Supporting Documentation***

In this section of the business plan, you should include any supporting information that will strengthen the business plan. Keep in mind that you do not want to overwhelm your reader with extraneous paper. So, make sure that the information included in the section is relevant and easy-to-read.

Supporting documentation may include: tax returns (existing business); your resume; industry data; articles or studies relating to your industry; patents; detailed market studies; photo of your products; professional references; photo or rendering of location; employment contracts; leases; commitment letters from customers; and pertinent legal documents such as your ownership agreement and/or vendor's license.

## ***Still Have Questions?***

You can meet with one of the SBDC/MCBAP certified business advisors to discuss your overall business idea. We also have information on sources of funding and other important issues. Best of all, our services are free of charge thanks to our funding partners: the U.S. Small Business Administration, Ohio Department of Development, and the Toledo Regional Chamber of Commerce.

Good luck with your business planning process! Contact the Business Development Services at the Toledo Regional Chamber of Commerce at 419/243-8191 if you have questions about how to start a business, would like to meet with one of our advisors.

***Remember the business owner who fails to plan, plans to fail!***

*Notes...*

*Notes...*



Business Development Services at the  
Toledo Regional Chamber of Commerce  
300 Madison Avenue, Suite 200  
Toledo, Ohio 43604-1575  
*Your Entrepreneurial Support System*



Business Development Services are funded in part through a cooperative agreement with the U.S. Small Business Administration, and the Ohio Department of Development.

All opinions, conclusions, or recommendations expressed are those of the author(s) and do not necessarily reflect the views of the SBA or ODOD.

Reasonable accommodations for persons with disabilities will be made if requested at least two weeks in advance. These programs are provided on a non-discriminatory basis.