

Starting a Business

Designing for Success



viriniasbdc.org



Your Partners in Business

EMPOWERING ENTREPRENEURS



Training



Advising



Resources



The Virginia SBDC Network is funded in part through a cooperative agreement with the U.S. Small Business Administration, George Mason University, and local host institutions. The Virginia SBDC is credentialed in technology by America's SBDC.

Example Services

Armed with **LOCAL**, **STATE**, **FEDERAL** assets:

- Market and Financial Research
- Technical Training
- Strategic Planning Tools
- Government Contracting
- International Trade
- Industry Specialists (retail, craft beverage, etc.)
- Powerful Professionals

SBDCNet
National Information Clearinghouse

vertical IQ®

Bizminer

IBISWorld
WHERE KNOWLEDGE IS POWER


SEMRUSH



profitcents®

AMERICA'S
SBDC
VIRGINIA

IBD
International Business
Development Program

AMERICA'S
SBDC
VIRGINIA

ICAP
Innovation Commercialization
Assistance Program

Agenda

ABOUT YOU

- Personal Preparation for Entrepreneurship
- Skills for the Business
- Skills for the Founder
- Reviewing the Cs of Business

ABOUT THE BUSINESS IDEA

- Business Concept Development
- Market Fit
- Customers
- Research
- STEPS TO START

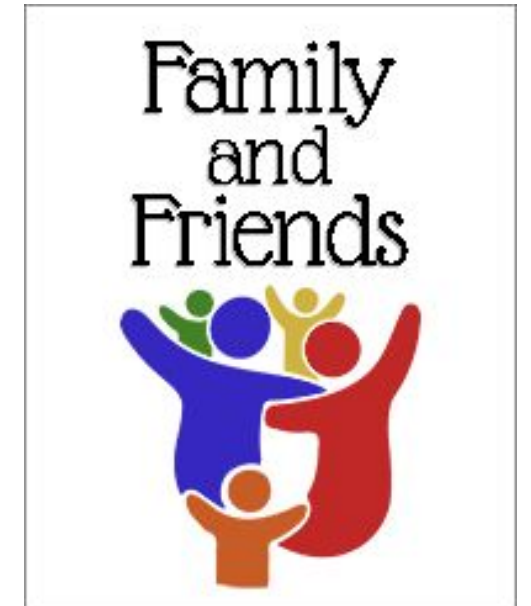
First, 2 critical questions...

Do you have support?

Have you set “startup” limits?

Critical Question 1: Do you have support?

- Have you discussed your ideas with your people?
- Anticipated changes in you life and theirs?
- Listened to your teams' questions/concerns?
- Explored a “life management” plan, together?



Critical Question 2: Have you set limits?

- Your cash investment in your business?
- A borrowing limit you are willing to assume?
- The time you are willing to spend in trying to make your business successful?

Tip: Once you have set a \$\$ number and time limit...write it down and sign and date it and tuck it away. It will help keep you focused and accountable.

Successful Founder Traits:

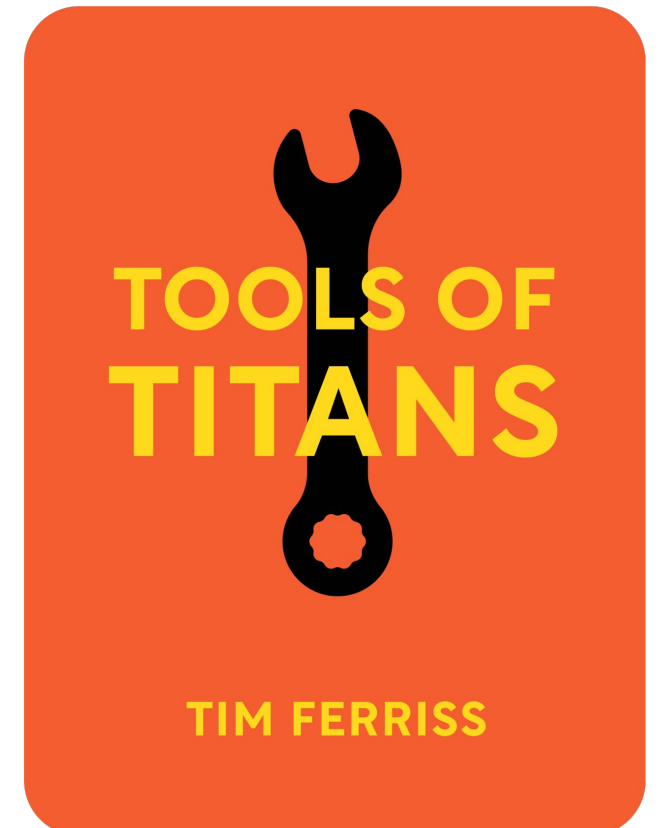
Personal

Physical

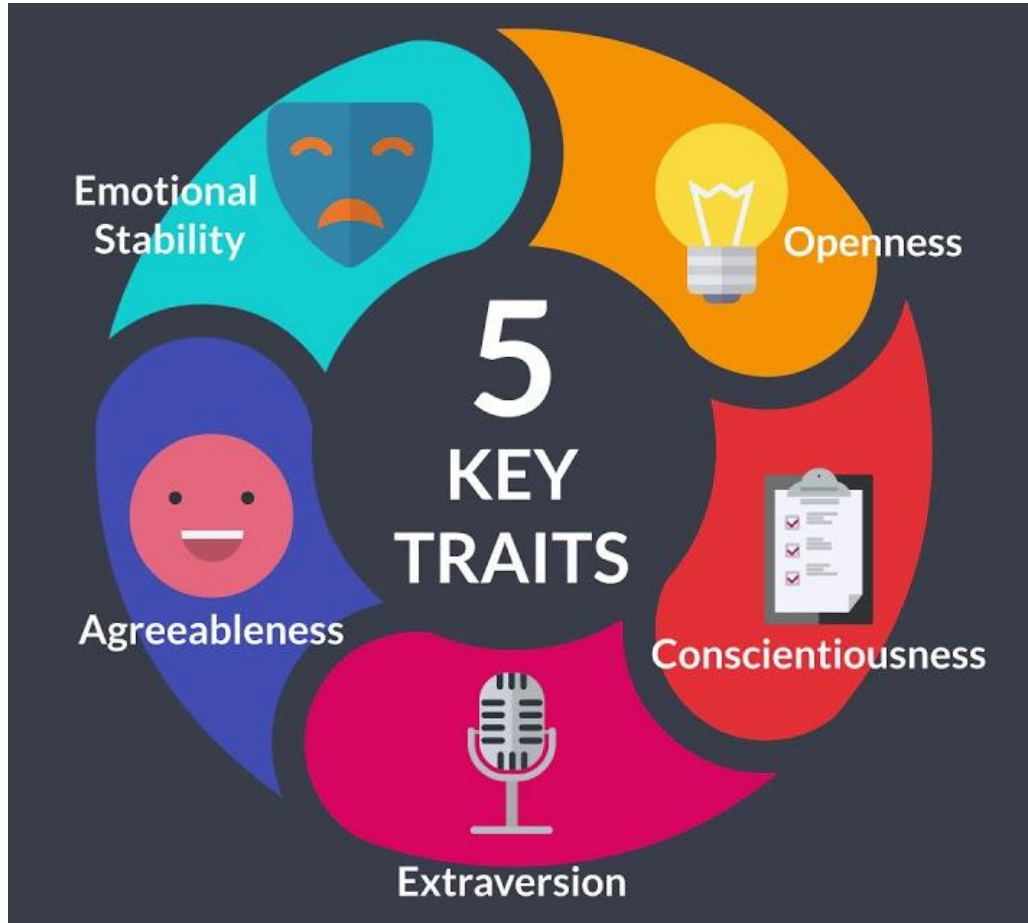
Emotional

Financial

& Skills Launchpad



Personal Traits



Do you

- Consider feedback (coachable)
- Adapt to change (pivot / tenacity)
- Perform outreach, share information
- Communicate in a supportive and effective manner (leader)
- Have Willpower/Discipline/Energy

Physical Ability

Do you understand that owning your own business means:

- 12-16 hour workdays
- 6-7 days a week
- & often holidays



Emotional/Spiritual Traits

Do you know how to operate in chaos....able to get centered, calm and ready to face challenges?



Personal Finances and Credit

After household bills are paid, is there adequate cash?

- For 3-6 months of operation
- Lenders will want 10-30% cash
- Reserve funds or access to capital

If not: a plan to obtain capital prior to opening should be prioritized.

Personal Finances and Credit

More on this topic...

- Do you know your monthly personal expenses (to write a check from the business each month)
- Credit score above 650? (if not explore strategies to improve)
- Keeping separate accounts with a business appropriate bank

What Skills Will Your Business Need?

- Product or service
- Information Technology /Cyber Security
- Recordkeeping / accounting
- Financial statements
- Personnel management-HR
- Market analysis and marketing strategies
- Legal structures, permitting, taxes
- Communications



The 9 big C's...of Business Success



Customer
Credit
Character
Capacity
Collateral
Cash Flow
Capital
Conditions
Commitment

Customer



Customer Discovery:

is the process of learning, who is a customer that cares enough to part with their money and give it to you.

- Who are they? Where are they? How much do they buy?
- Have you defined your ICP (ideal customer profile) so you can find and engage them? Are your “ideal customers” what the market defines?

“Everyone is my customer” is never true.

Attend our **Understanding Your Customers and Market** class to explore further



Credit

Credit score in low 600s? Loans may be possible with:

- a demonstrated business track record
- sufficient collateral
- a well thought out business plan

Typical minimums for business credit:

- **≥680** for small loans
- **650** for veterans and
- **≥ 700** for larger loans



Better scores improve loan success and lower interest rates.

Character

Character considerations:

- Are you viewed as a thoughtful professional?
- Are you employed or employable?
- Are you coachable / willing to connect and learn from customers / experts?



Capacity

YOUR capacity = ability to personally repay any money you've borrowed.



- What can you pay or earn if you must go back into job market and earn your living plus repay the loan?

The BUSINESS capacity = how much cash the business generates.

- Will your business cash flow support both your living expenses, operation expenses and repayment of the loan?

Collateral

Collateral is something of value that the lender can sell should the business default on a loan.

- Assets may include property, long life equipment or machinery, IRAs, CDs, etc.
- When providing a personal guaranty, assets may include your home, vehicles, etc.

Note: microloans under \$50k might not require collateral

Cash Flow



Positive Cash Flow = a good night's sleep

- loan payments & operating expenses are covered
- how much in sales will keep the business healthy (with net income)
- how much net income allows you to pay yourself



Attend our **Money & Recordkeeping** class to explore further

Capital

Capital is your CASH investment



Lenders expect demonstration that you have “skin in the game”

- Expect to invest 10% to 60% of total costs. [Borrowing from friends or family member is considered debt, not capital.]
- Why? Lenders, investors want to know you are motivated to succeed.

The old lender's saying: “If this goes belly up, it should hurt you worse than it hurts me.”

Conditions

Conditions can result in turmoil or opportunities in your business, typically in the industry or local economy, such as:

- Government Regulations
- Weather Changes
- Financial Turmoil
- Even Political or Social Unrest



Commitment



Your personal WILL to succeed... grit, guts, determination.

May be answered by WHY you got into this business, as well as your track record.

Have you tried and failed before? That is experience!

What are you putting in (capital or time) vs. giving up (opportunity cost) to launch this business?

In summary

Until the business is well established (as a cash machine)
YOU are the business

- Not the product/service
- Not the building
- Not the equipment
- Not the inventory



ABOUT THE BUSINESS IDEA

- Business Concept Development
- Market Fit
- Customers
- Research
- STEPS TO START



5 minute break

Concept Development: Where do Ideas come from?



- A Problem You've Experienced
- Your Talent or Available Assets
- Friends or Relatives
- Family Business Connection
- Education or Training
- Hobbies and Personal Interests
- Prior or Current Jobs

Concept Development:

Can My Idea Turn Into a Business?

- Product or Service with a strong **value proposition**
- Accessible Market
- Management Capability
- Access to Capital

Critical Question: Does My Business Idea Make...



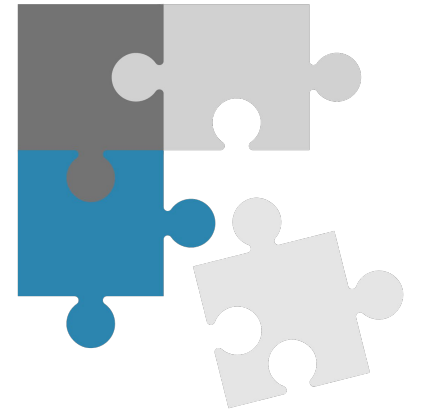
- Personal Sense?
- Business Sense?
- Marketing Sense?
- Financial Sense?

**Is it the RIGHT idea
At the RIGHT time
In the RIGHT place
By the RIGHT person(s)?**

Concept Development

Start with the problem - not the solution

- What is the problem/opportunity that you see in the market?
- How would a potential customer say it to you in their words?
- Does the customer see it the way you do? What value do they perceive? key: listen openly



Product or Service Offering

WHAT are you selling?

- Product or service: what is it, in plain language
- Describe it clearly from a 'user experience' perspective
 - What does it do for your customer or give to your customer
- How will your product / service create **value** for the customer

WHY is it of value?

- Cost, quality
- Convenience, ease of use
- Status, style, sensory
- Sustainable, green
- Risk factor, warranty
- Health, wellness, safety
- Efficiency, productivity

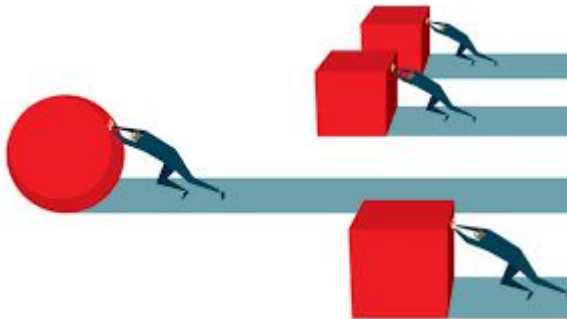
VALUE

What is the unique value in relation to other similar products/services in the market or vs. doing nothing?

Market Fit

Yes or No?

Can your product/service/business successfully compete with the existing competition because of “advantageous situations”, such as:



- Better Pricing?
- More Convenient Location?
- More Extensive or Unique Service Offerings?
- Better Customer Service?
- Financial, Social, Environmental, Emotional ROI?

Market Fit: Do Enough Customers Care?

“WHO CARES?”

How are current needs satisfied?

Do customers care enough to change? [Humans resist change.]

What is your Unique Selling Proposition (USP)?

- What differentiates your business idea and the goods or services you will provide from others in the market?

Market Fit: Ideal Customer Profile

- For whom your solution is highly valuable & potentially irreplaceable.
 - Describe them. Consider a customer persona.
- Where are they?
 - In person? Online? Describe geographic territory?
- How many of them are there? = market size
- What are their buying habits?
 - Loyal? Light vs heavy user?
 - Is product/service needed or a splurge?

Research can answer....

- Is there a need for my product or service?
- Who is likely to buy? How many and how often?
- Is there competition? Who? Where?
- What will it cost to start this business?
- Can I afford to this? How? When?
- What is at risk?
- If I decide not to do this or not to do it now.....have I failed?

Market Research Tools

- Industry Publications & Trade & Professional Associations
- Suppliers
- Study the Competition (Observe, Research websites, zoominfo and LinkedIn accounts, check social media, talk with customers, read comments/testimonials)
- Entrepreneurial Support Organizations Research Tools via one-on-one consultations-in person and/or online.
 - CV SBDC access to IBISWorld, BizMiner, Vertical IQ, ProfitCents Reports
 - Data from STATISTIA, Mindel, Barnes, Research USA, First Research, D & B, GIS Ring Studies, etc.



Market Research Tools

- Internet Search
- Libraries (online and off)- Reference Librarian
- FEDERAL AGENCIES-<https://www.usa.gov/federal-agencies>
- Ex: Bureau of Economic Research- specialist from every industry
 - <https://www.ers.usda.gov/subject-specialists.aspx>
- State Agencies-<https://www.virginia.gov/agencies/>
- Local Resources –Locality Economic Development Offices, Chambers of Commerce



Primary Market Research

Customer conversations with ACTUAL potential buyers?

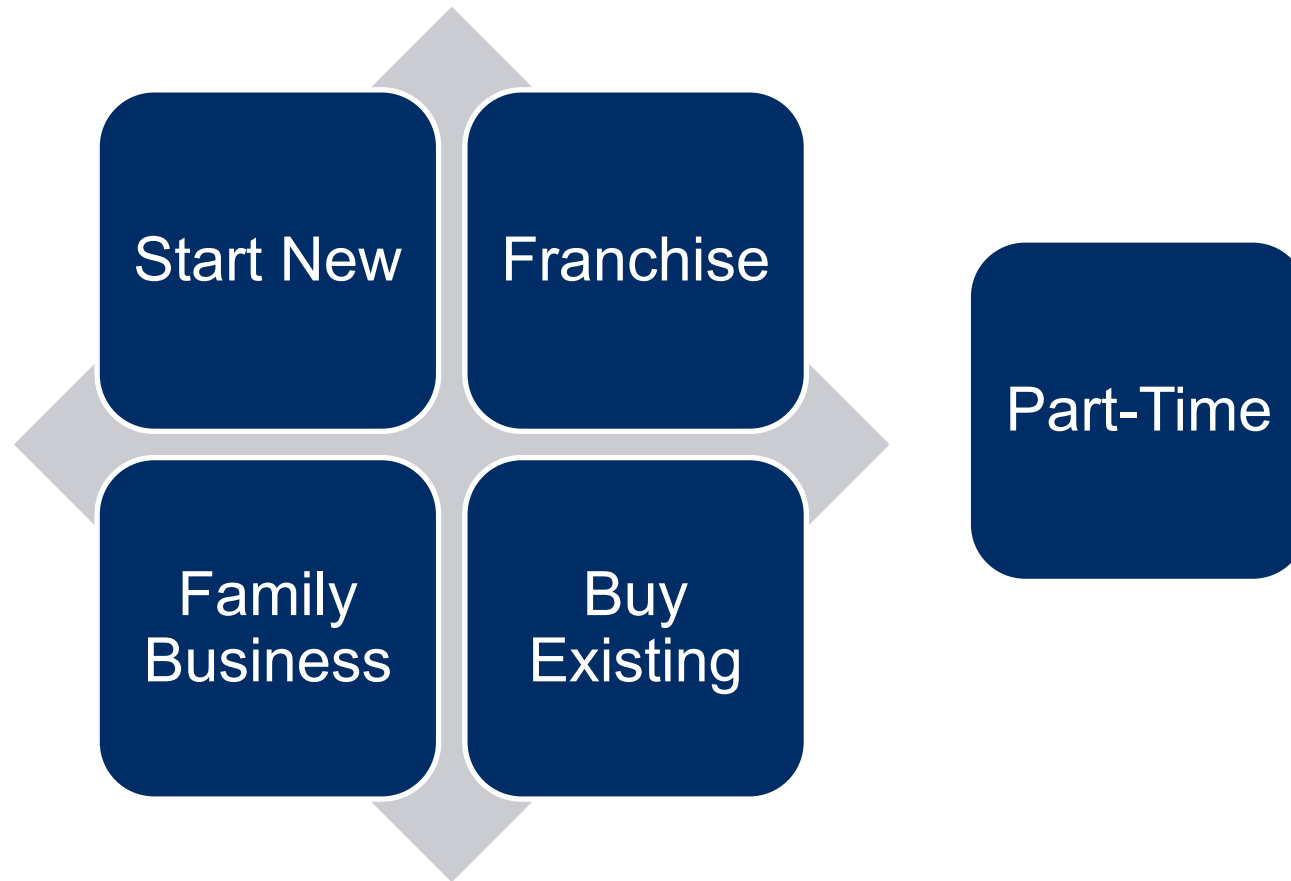
If you haven't spoken with many customers yet and need help, consider a customer discovery class.

Goal: learn what elements of your value proposition are REAL/PROVEN and what customers should you target.

Next Up: Business Operations

- Routes to Ownership
- Management Team
- Marketing
- Logistics
- Personnel
- Risk Management

Routes to Business Ownership



Legal Structure

The Choices

- Sole Proprietorship
- Partnerships
- LP's, LLP's, LLC's
- C Corporations
- S Corporations
- B Corporations



Considerations

- Ease of Formation
- Taxes
- Personal Liabilities
- Continuation & Dissolution

Management Team-Formal

Sole Proprietors & 1 Person Entities

- Be kind to yourself
- Know which temp services you could use if needed
- Learn about what you can and cannot do with a 1099 contractor

Incorporated Entities With 2 or More Owners

- Draw up an OPERATING AGREEMENT
- Have clearly defined responsibilities
- Develop a policy for hiring –can use a temp service to start with
- Set up a simple employment process and build a simple employee manual

Good Management builds good teams

Management is to business as location is to real estate.

Good management builds strong teams

Good management provides strong leadership

- Carefully consider employment agreements, operating agreements or bylaws.
- Complement your skill sets.
- Consider contractors or temps when you first get started.
- Experienced advisors can speed success and reduce errors.

Management Team: Professional Advisors

Trusted professional partners should have a vested interest in seeing you succeed.

- CPA, Accountant or Bookkeeper
- Attorney
- Banker
- Insurance Agent/Financial Planner
- Industry contact/Supplier
- SBDC, CIC, SCORE Counselors

Entrepreneurship can be lonely and challenging. Connecting with advisors and professionals leads to better outcomes.

Operations: Marketing

Take Into Account

- Demographics
- Psychographics
- Generational Differences
- Targeted Service Area
- Co-Promotions

Marketing Strategy

- Select Media channels
 - Social Media Platforms
 - TV? Radio? Print?
- WOM-know how to develop
- Website – design, hosting, maintenance, cost
- Business Name and Logo need to appeal to customers
- Signage



Attend our **Marketing, Sales & Your Brand** class to explore further

Logistics

What do you need to successfully operate?

- Product or other supplies (multiple sources)
 - Are the products you need accessible at a reasonable cost and in a reasonable timeframe?
- Facilities management (utilities & systems backup)
- People (duplication for coverage and clear instructions)
 - Are the people you need available in your area? Have you factored in required training/certifications costs?
- Safety (cyber and physical)
- Recordkeeping (financials, customer, shipping, costs)

Logistics

For example

You **must** know if there are unreasonable costs of basic materials that will impact the profitability of your business.

- Metals
- Fuels
- Food
- Wood
- Plastics
- Disposables
- Packaging & Labeling

Logistics: Price Sensitivity

- Will varying energy costs significantly impact your business?
- Have you adequately accounted for all direct costs?
 - Cost and price fluctuation in utilities and/or gasoline for vehicles
 - Delivery surcharges
 - Vehicle maintenance expense and replacement needs
 - Price of “disposables” that go into your product/service
- Indirect costs: the prices you will pay for goods and services needed to run your business. Do exchange rates impact your business?
- Are you prepared to meet expense challenges: When you have to raise your prices, hire or fire, deal with bad reviews or unscrupulous lawsuits?

Personnel

- Are the skills you need hard to find?
- Can you pay at least minimum wage \$12.00 per hour? Or the appropriate wage for the skills you need?
 - Keep in mind base pay is only the base. You also pay the employer's portion of SS/FICA plus the cost of processing payroll, providing space, tools, etc.
- Have you considered company culture? Will you be able to retain employees and encourage them to represent your brand through good management and incentive practices?



Personnel: benefits

Startups often offer limited benefits that improve with success.

Over 30 hour/week = staff

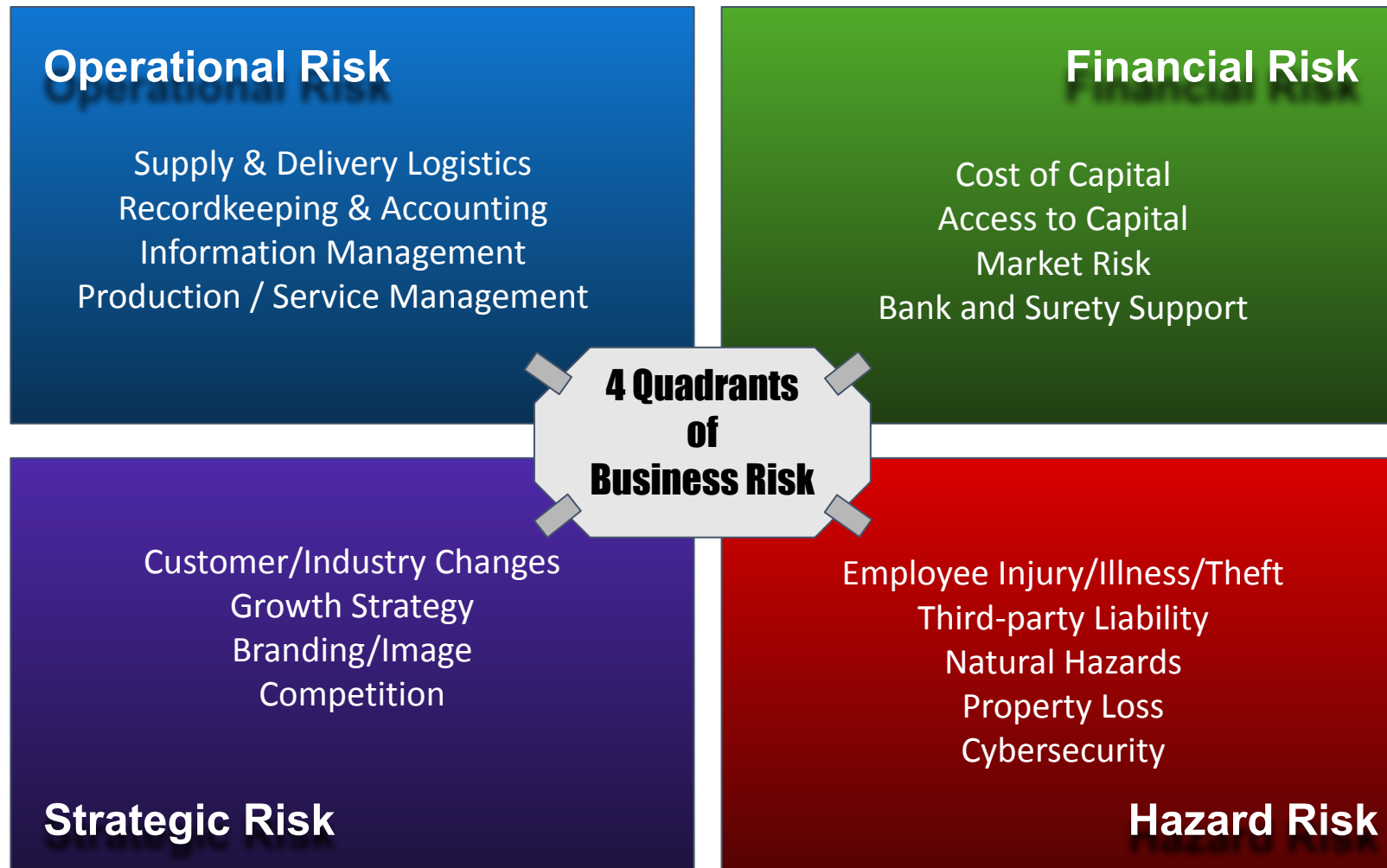
Have you considered cost of health insurance, IRA, vacation/sick leave time?

Other benefits may include:

Life insurance, business cards, uniforms, company vehicle, membership dues, continuing education and training, company picnics/parties, bonuses, etc.



Risk



Regulatory and Environmental Risk

- Are there any potential detrimental environmental effects from your product/service?
- Is your business subject to regulations?
- Are there other factors that prevent effective marketing? Lack of distribution channels? Difficulty targeting the decision maker (which may be different than the buyer)?
- Is the business subject to seasonality, weather, security concerns, health concerns, etc.?

Contingency Plans

A contingency plan is a blueprint for how to deal with unusual events.

- Examples of unusual events:
 - Fire destroying a business
 - Floods caused by bad weather or a dam break
 - Tornado, earthquake or other naturally occurring events
 - Loss of a key employee or owner
 - loss of a computer or other electronic system

FINANCING THE BUSINESS

MONEY IS THE LIFEBLOOD OF A BUSINESS

The Cost of Capital

Varies widely by sources and economic conditions

- What is interest rate on borrowed money?
- Will credit cards be used? If so, for what terms do you qualify: rate and lending limit?
- If relevant, what is the cost to you of using third party processors or payment processors?
- Grants and equity investments have costs as well



Sources of Funds



Friends & Family

Loans or equity-based capital used early, often from supporters of the entrepreneur. May include crowdfunding.



Cash Flow Tactics

Optimizing use of accounts payable, receivable and supplier terms to improve accessible cash for operations.



Grants

Most for research and development or businesses located in target areas or working in targeted industries.



Equity Capital (Angel and Venture)

Capital for businesses designed to achieve significant growth and exit in 3-10 years (depending on industry) May include crowdfunding.



Strategic Alliances

Sources of capital or access to assets of other companies



Loans & Lines of Credit

Useful for building a credit foundation for the business, for a wide range of business needs

Exit Strategy

Why do I need an exit strategy?

- Who lives forever, or who stays healthy forever?
- Who would you pass the business to; family, key employees?
- Will there be a need to protect personal assets if the business fails?
- The orderly liquidation of business assets usually provides a higher return of capital.

The formation of an exit strategy should be completed and reviewed annually.

You are ready to move forward ...now that you

- Know yourself and what is needed for running a business
- Know your credit score
- Know your compensation from the business
- Have personal buy-in (you and those in your inner circle)
- Have allocated some amount of your own money to invest in the business
- Truly understand rewards and the drawbacks of owning a business
- Have an idea for the business and can describe what you want to do
- Know the routes to business ownership and have chosen one
- Have a realistic idea of where you can find the money for your business



Reasons founders cited for their startups' failure



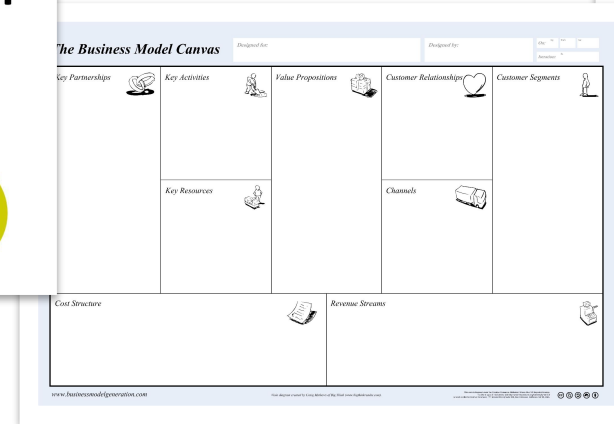
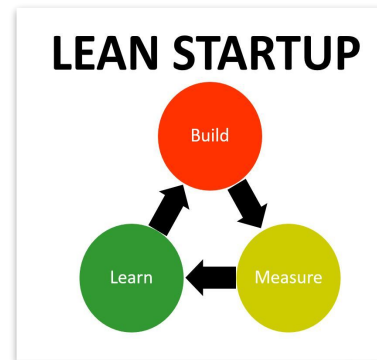
TIME TO MAKE A PLAN

Why Have a Written Plan?....

- It is a **tool** for effective management.
- It forces you to research and **answer** important questions.
- It **focuses** your attention on **critical issues** –a reality check.
- The upfront research is a feasibility study and serves to underpin and support the written plan. (**Validates**)
- It **communicates your ideas** to bankers, investors, future key employees, and keeps you on track when the world goes topsy turvy.
- It becomes your **CORNERSTONE**...so you can always find your way back homethat safe place where you started and you knew what was what!

Recommended planning methodologies

- Lean Startup
- Business Model Canvas
- GrowthWheel
- Business Pitch
- Business Plan
- Financial projections & assumptions



Nuts & Bolts - put it all together!

- Choose route to business ownership
- Incorporate or register fictitious name with SCC [State Corporation Commission](#)
- Obtain EIN number from IRS: [Internal Revenue Service](#)
- Register with [VA Tax Department](#)-(if collecting sales taxes)
- Register with [DPOR](#) if you have/need professional licenses
- Register with [Virginia Employment Commission](#) if you will have employees
 - employee manual & job descriptions are key assets for operations, hiring and firing
- Obtain a business license from your locality (localities if within a larger footprint)
- Set up a business bank account
- Obtain proper insurance for your industry
- Obtain local business license, inspections, other required activities
- Set up recordkeeping system and check [IRS Recordkeeping Requirements](#)



Next Steps

- Decide if Starting a Business is Right for YOU!
- Personal Budget Statement (your income)
- Break-even Analysis
- Monthly Business Expenses
- Business Plan Outline
- Business Model Canvas

For assistance getting started contact:



Central Virginia Small Business Development Center

434-295-8198

cvsbdc.org or contact@cvsbdc.org



Community Investment Collaborative

434-218-3481

cicville.org or info@cicville.org



Central Virginia SCORE

434-295-6712

centralvirginia.score.org or help@score.org