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# Starting or Buying a Business

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# Starting or Buying a Business

## Planning for your own business

Before you start your own business or buy an existing business, you should do some initial planning. You may have already decided what type of business you want--your own restaurant, retail outlet, service, or manufacturing plant. You need to choose a suitable location--can you work from home, or do you need a separate facility? You should assess your financial requirements, schedule daily activities, and plan for contingencies, which may be included in your business plan. Planning your business usually requires the help of any number of professionals--an attorney or accountant, for example. The success or failure of your business may depend on your initial planning, but how do you plan and what do you plan for?

## Factors to consider when starting your own business

### *Legal structure*

You will have to decide upon the legal structure of your business. For example, will you conduct business as a sole proprietor, or will you instead create an entity separate from yourself, like a corporation, partnership, or limited liability company? Each type of entity has its own characteristics, and the structure you choose will depend on which ones you need. Certain forms of business entity offer limited liability protection, allowing you to protect your personal assets from lawsuits involving the business.

### *Taxation*

Uncle Sam takes a special interest in your business! How you and your business will be taxed is an especially important factor to consider. For example, if you choose a C corporation as your legal structure, you may be subject to a double tax--one tax when the corporation makes a profit and another when those profits are distributed to the owners (shareholders). Alternatively, if you choose a partnership, only the owners (partners) are taxed. For this and many other reasons, tax considerations must be weighed carefully.

### *Accounting and record keeping*

Contrary to what many may believe, accounting serves an important purpose. Accounting statements are used to help you and others gauge how the business is doing. To keep your accounting information up-to-date, as well as to prepare for an unexpected visit by the Internal Revenue Service (IRS), you must be sure to keep thorough records.

In addition to record keeping, you'll need to choose a method of accounting, such as cash-basis or accrual method. Moreover, you must decide when your business's financial or fiscal year begins and ends. Usually businesses use the calendar year (January 1 to December 31) as their fiscal year, though your accountant or the IRS may suggest otherwise.

### *Insurance*

You will need to purchase different types of insurance. Your insurance needs may include property and casualty insurance, life insurance, and liability insurance. If you have employees, you need to think about whether to provide medical insurance and benefits; worker's compensation insurance is typically required in most states.

### *Staffing*

Are you going to do all the work in your business yourself? If not, whom will you hire? What skills must your employees possess? What tasks will they be responsible for? Keep in mind that the more employees you hire, the more your company will be subject to laws at the state and federal level. Some federal laws that address discrimination in the workplace are based on the number of employees in the business. Certain employee benefits may be mandatory, depending on the size of your company. You may be subject to certain tax rules when employing family members.

### *Marketing and advertising*

Every business markets and advertises. Whether by word-of-mouth for a sole proprietor or through a global campaign in the case of a giant corporation, marketing and advertising are invaluable ingredients for success. In order to market yourself effectively,

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you'll need to think strategically. It helps to have a written marketing plan. Be prepared to answer questions like: Who are your competitors and what are your company's advantages over them? How will you price your product or service? Who is your target market and what is the best way to reach them? What is the key message you want to convey (i.e., your "value proposition")? It might help to conduct market research before putting together a marketing strategy. This research will help you gauge market perceptions and may help you identify new opportunities for product, pricing, and promotion.

## ***Financing***

Insufficient financing is probably the most common obstacle to starting a business. In addition to calculating how much money (capital) you'll need to start and run your business, you have to figure out where to get the funds. Will you borrow from a bank or family member (debt), or will you take money from investors in exchange for a share in the ownership of the business (equity)? If you intend to seek equity financing, you will be subject to securities regulations. Moreover, you have to decide on how to structure the financing--will you have more debt than equity, for example?

## ***Patents, trademarks, and copyrights***

How will you protect your intangible assets--your company's name, for example (trademark)? Perhaps you have an invention you wish to protect (patent). Or maybe you've written a book and wish to protect your written words (copyright). Whatever your concern, you'll need to think about protecting your creation. An experienced attorney can help you with these issues.

## ***Licenses, permits, and registration***

You may need to obtain licenses or permits, or even register with a governmental agency. For example, if you choose to create a corporation, you must register with the secretary of state. If instead you are a sole proprietor, you might be required to obtain business permits from, and/or register your business's name with, the municipality. To find out more, contact the office of the secretary of state or the chamber of commerce in your state or municipality.

## **Factors to consider when buying an existing business**

In addition to all of the factors to consider when starting your own business, there are other considerations when buying an existing business--is it a stock purchase or are you buying company assets? How is the business being valued? In addition to finding a business and arranging for the purchase and financing, you may also be reconsidering the form of business entity. Just because you bought the assets of a sole proprietorship doesn't mean you can't change the entity to some form of corporation.

## **Factors to consider when buying a franchise**

If you are considering buying a franchise, there are important additional considerations. In exchange for assistance from the business granting you the franchise, you are obligated to pay certain fees and accept a certain level of control from the franchisor.

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