

# **Business Start-up Boot Camp**

## **Adult Education Series**

### **Session 1**

#### **Introduction and business planning**

**Source chapters 1-6**

*February 6, 2012*


# Administration

 **2 hours with 10 min break**

 **Restrooms**

 **Cell phones, beepers – off please!**

 **Show 'n tell**  
**showcase business - optional**

 **Who's here? Introductions**

# Seminar series

- Leader** John Purtill - john@purtill.com
- Text** Starting a Small Business in Connecticut
- Sponsor** Community Accounting Aid  
Cheshire Chamber of Commerce
- Make up** **Wallingford Tuesday, 2/7, 14, 21, 28**  
**Cheshire Wed 3/14,21,28, 4/4**  
**Middletown Thu 3/15, 22, 29, 4/5**
1. **Successful business planning**
  2. **Raising money for business**
  3. **Keeping/understanding business records**
  4. **Reduce business taxes**

# Tonight's topics

## Successful Business Planning

Develop a business plan

Selecting a business form

Legal part of setup

Getting insurance



Source - Chapters 1-6

# Overview of business planning

**More important than anything!**

**Why do it in the first place?**

**Set your own direction**

**Getting financing**

**Elements**

**Market plan**

**Financial projections**

**Formats**

**No absolute rules**

**First step is to define**

**Served market**

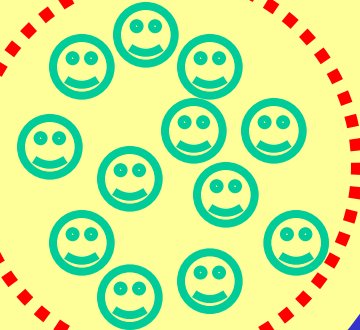
**Differentiation**

# Market terms

Total market

Served market

Target market



# Differentiation

**Goal: customer identification/branding**

**Similar products/services need more**

Evian v. Poland Spring

**Product /service - differentiate for market**

Cars: family v. cool v. prestige

**Services need more differentiation**

Doctors, lawyers

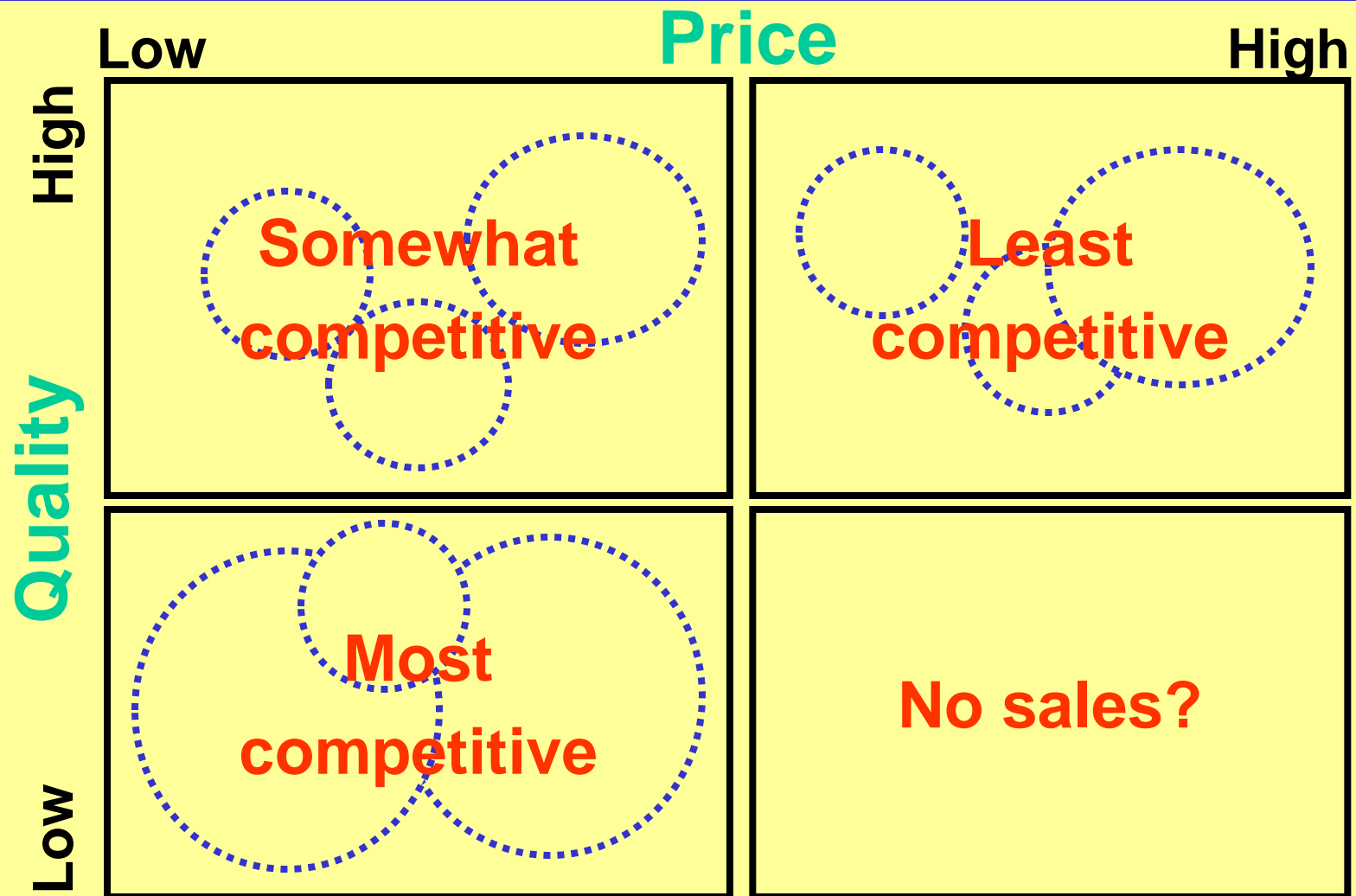
**Types**

Benefits or features - better for you, faster

Price/quality most common



# Price/quality differentiation



# Declaring differentiation

**Claim a benefit first and you own it**

**Volvo crash protection**

**Advertising**

**YP, etc. – specific, not laundry list**

**Benefits statement**

**Be able to recite one**

**Repetition**

**Every chance you get**

**Define yourself  
to customer**

# Defining customer

**Customer represents market segment**

**Most profit, easiest sale, whatever**

**Be able to describe**

**Income**

**Spending power**

**Family**

**Age**

**Occupation**

**Home**

**Decisions**

**Attitudes**

**Habits**

**Needs**

**Expectations**

**If not your customer, whose?**

**Where is customer spending money?**

# Now the evaluation

**How do we find more like this one?**

**What does the customer read?**

**Where does customer spend time?**

**Whose opinion do they value?**

**What is an effective way to meet them?**

**Customer care**

**How do we keep this one?**

**How do we get this one to spend more?**

# Customer is part of market

**Size and behavior**

**Competitive forces**

**Competitive positioning**

**Data sources**

**Published [www.cerc.com](http://www.cerc.com)**

**Unpublished**

**Market size - total v. served**

**Market  
study**

***Recycle study if size too small or large***

# End product = plan

## Market plan

Target market

Service or product

Price point



Related to  
differentiation

## Program to enter market

Organization and personnel

Investment needed to start

Source of money

Projected revenues and expenses

# Creating plan

**Define product/service/differentiation**

**Define customer – slides 10-12**

**Define and size market segment – slide 13**

**Build company financials – next slide**

**Revenues, expenses, profits**

**Plan is partly done**

**Test market – fine tune product, service, market**

**Assemble people, facility, \$, suppliers, etc.**

**Rebuild company financials on paper**

**Plan is done**

**Full product/service rollout**

# Financials

**Given the served market size**

**Customers and what they spend**

**What penetration can I expect?**

**How long will it take?**

**What will it cost to support the sales?**

**Facilities and equipment?**

**Personnel?**

**Materials and supplies?**

**How much money do I need to pay for this?**

**Where do I get it?**

**Projection time frames: 1x12 + 2x4**

# Projection

**Excel spreadsheet**

**D-I-Y? No!**

**Get help from CPA, SCORE, SBA**

**Example chapter 3**

**Income**

**Cash flow**

**Session 2 – the money**

# **Deciding on business form**

## **Business risk issues**

**Legal liability**

**Liability for debts**

## **Income taxes issues**

**More in session 4**

## **Business forms**

**3 main types**

**7 variations**

# Business form

	<u>Lawsuits</u>	<u>Debt</u>	
<b>Not incorporated</b>			
Proprietorship	N	N	}
Partnership	N	N	
<b>Incorporated</b>			
“C” Corporation	Y	Y	
“S” Corporation	Y	Y	
<b>Limited liability</b>			
LLP – partnership	Y	N	
LLC – company	Y	Y	
SMLLC - single-owner	Y	N	

Owner protection

# Forming Connecticut business

## After selecting form of business...

Research business name - CONCORD

Apply for tax ID numbers – IRS, CT, DOL

Register your business with town

Research town zoning restrictions

Insurance policies – next slide

Online setup – slide 86

# Insurance coverage

<b>Business liability</b>	<b>Rider - homeowners</b>
<b>Business casualty</b>	
<b>Business equipment</b>	<b>Rider</b>
<b>Automobile</b>	<b>Declare use</b>
<b>Health</b>	<b>Chamber, CBIA</b>
<b>Disability</b>	<b>AFLAC, CBIA</b>

## Chapter 6

# Next session

**Raising money for your business**

**How much money?**

**Sources**

**How to get it**

## **Homework**

**Review chapters 1-6 as needed**

**Scan chapter 7**

**Bring some show and tell!!**

# **Business Start-up Boot Camp**

## **Adult Education Series**

### **Session 2**

**Raising money to start your business**

**Source chapter 7**

# Tonight's topics

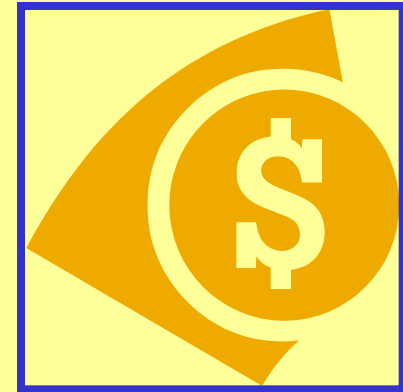
## Raising start-up money

Money sources

How much money?

Convincing lenders/investors

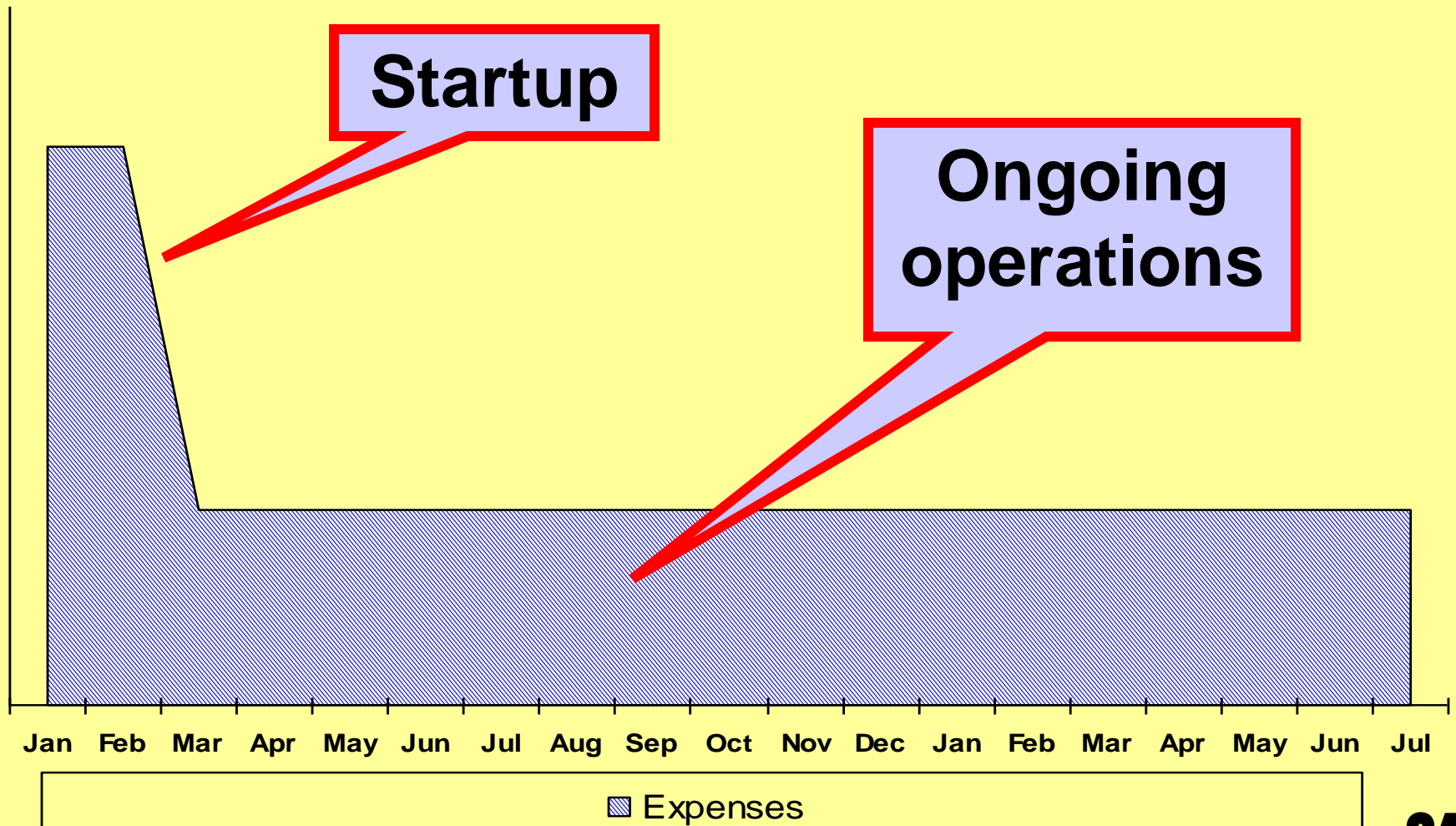
SBA loans



Anyone bring any show and tell?

**Biggest business failure cause:  
No money to get past startup!**

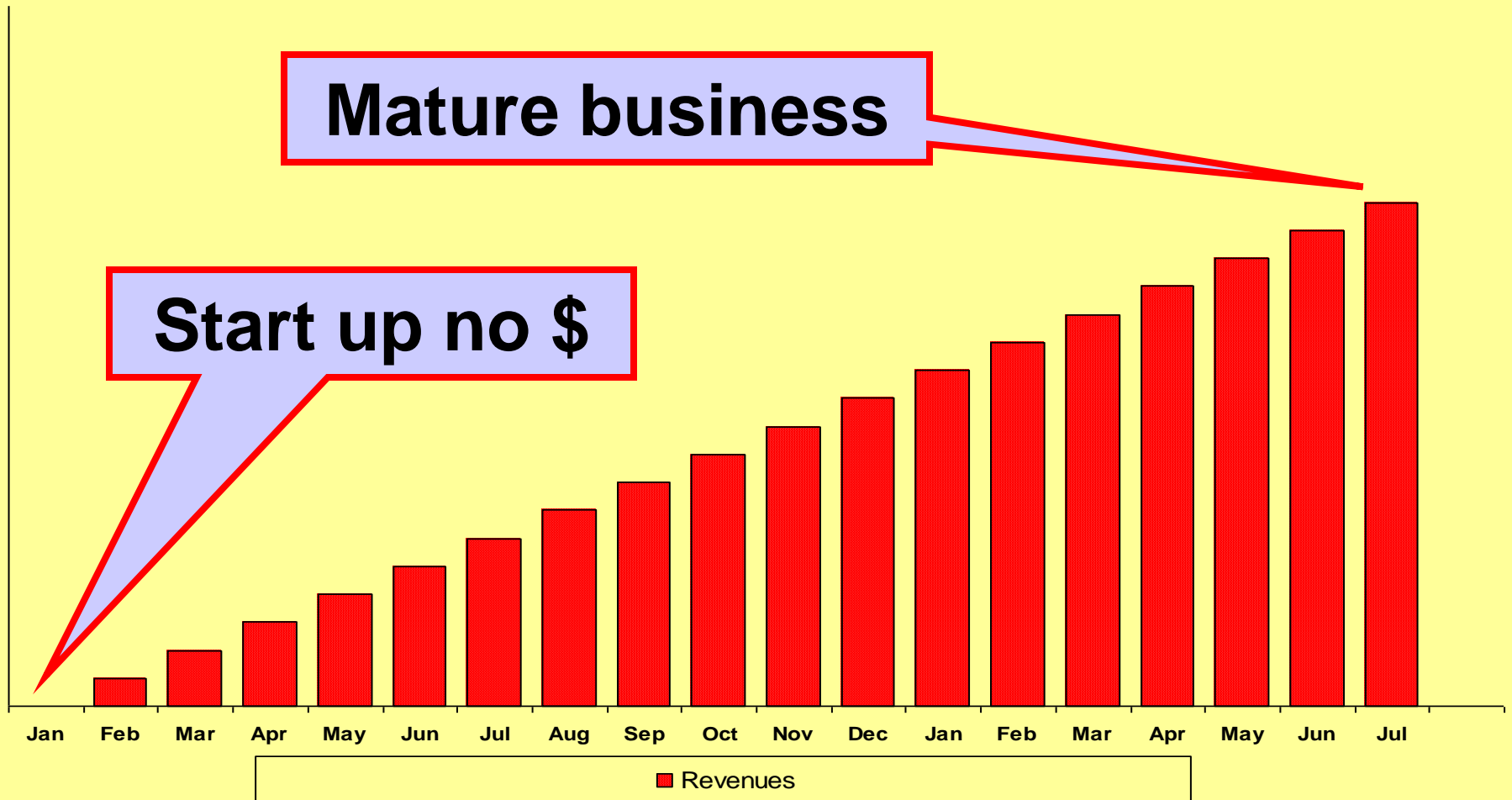
# Money flow – out



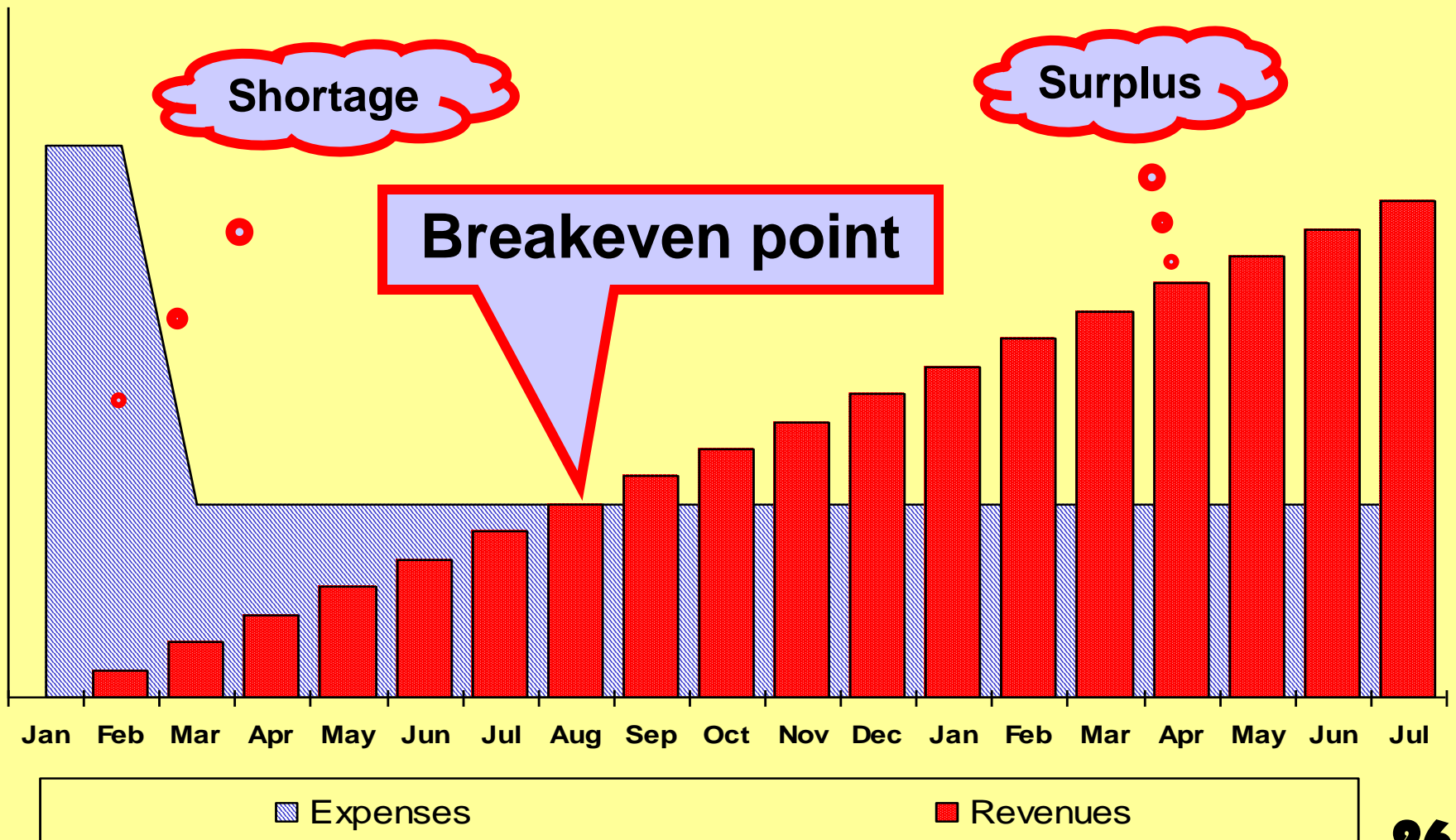
# Money flow – in

**Mature business**

**Start up no \$**



# Money flow – net



# How much money do you need?

## **Start-up**

**(To open the door)**

## **Operating expenses: 6 to 12 months**

**(To keep the door open)**

## **Cushion or contingency fund**

**(For things you didn't plan on)**

# Start up costs

**Computers**

**Copiers/supplies**

**Deposits: rent/util/ins**

**Furniture**

**Machines/tools**

**Security**

**Transportation**

**Communications**

**Decoration**

**FAX/scanner**

**Inventory**

**Office remodeling**

**Signs**

# Operating/overhead expenses

**Advertising**

**Benefits**

**Entertainment**

**Interest**

**Owner's salary**

**Postage**

**Rent**

**Supplies**

**Travel**

**Auto and truck**

**Communications**

**Insurance**

**Maintenance**

**Payroll**

**Professional fees**

**Repairs**

**Taxes**

**Utilities**

**Need 6-12 months!**

# Startup cash - service company

<b>Startup</b>	<b><u>Low</u></b>	<b><u>High</u></b>
<b>Office furnishings</b>	<b>500</b>	<b>2,500</b>
<b>Computer/software</b>	<b>1,200</b>	<b>1,500</b>
<b>Copier/fax/scanner</b>	<b>250</b>	<b>900</b>
<b>Deposits</b>	<b>0</b>	<b>2,000</b>
<b>Telephones and lines</b>	<b>300</b>	<b>500</b>
<b>Supplies</b>	<b>250</b>	<b>1,000</b>
<b>Operating 6-12 months</b>	<b>5,000</b>	<b>50,000</b>
<b>Contingency fund</b>	<b><u>2,500</u></b>	<b><u>10,000</u></b>
<b>Total</b>	<b>10,000</b>	<b>70,000</b>

# Shopping for deals

**Office furniture – Discount Desk Waterbury**

**Computer hardware – Tiger Direct**

**Stationery and supplies – Costco, BJ's**

**Office space - [www.corporatesuitesllc.com](http://www.corporatesuitesllc.com)**

**Free checking – Liberty, Webster, TD**

**Bartering - Barter Business Unlimited, CT**

**Web site – Intuit Homestead, others**

# Money sources

**Personal money/credit**

**Business lenders**

**Investors**

**Grants (free money)**

**Business partners**

**Customers**

**Suppliers**

# Money sources - 1

Source	Cost	Terms
<u>Personal</u>		
Savings	.5-2%	As needed
Credit card (not recommended)	0-18%	1-3 years
Credit union	3-7%	4-5 years
Company savings plan	2-6%	5 years
Home equity loan	3-7%	10 years

# Money sources - 2

Source	Cost	Terms
<b><u>Business</u></b>		
Bank	6-10%	5-7 years
SBA/CEDF	6-10%	5-20 years
CDA (also grants)	6-10%	5-15 years
<b><u>Others</u></b>		
Venture capital	None	2-3 years
Friends/relatives	Varies	Varies
Suppliers	Varies	Varies
Customers	Varies	Varies <b>34</b>

# **Convincing lenders/investors**

**Your first sales experience!**

**Must give lenders/investors**

**Business plan**

**Personal resume**

**Track record – Management is critical!**

**Show and tell is important**

**Know their needs**

**How they look at you and your business**

**Each lender has different needs**

# How they look at your business

## **Banks**

Cash flows should be 3 times debt payment  
No risk – collateral needed as “second way out”  
Fee income (closing fees, etc.) = Profit  
Publicity works

## **SBA/CDA/CEDF**

Job creation  
Some risk - cash out someday  
Cover costs of money and administration  
Grants!!!

## **Venture capital**

Cash out - 3 years  
Big profit - 50%-100% plus  
Risk is OK

## **Family and friends**

Motives differ - Usually make bad partners

# SBA loans

**Right now, SBA has money and looking for business**

**“Small”**

**Wholesale**

**under 100 employees**

**Manufacturing**

**under 500 employees**

**Construction**

**under \$7.0 million**

**Retail and service**

**under \$3.5 million**

**Loan maturity**

**Working capital**

**5-7 years**

**Machinery and equip**

**10-25 years**

**Building**

**up to 25 years**

**Debt refinancing**

**varies**

**Interest rate maximum**

**Wall Street Journal Prime rate plus 2¼%-2¾%**

**Personal guarantee**

**504 loan programs!!!!**

**Sources in Connecticut**

**Banks**

**30-40 in Connecticut**

# Next week - business records

Easy way to good records

What records you have to keep

How long to keep records

Making sense out of financial statements

Selling prices

## Homework

Review chapter 7 as needed

Scan chapter 9

Bring some show and tell!!

# **Business Start-up Boot Camp**

## **Adult Education Series**

### **Session 3**

#### **Keeping good business records**

**Source chapter 9**

# Tonight's topics

## Keeping, understanding business records

What records to keep

Software needs

Understanding financial statements

Pricing strategy

How long to keep records



Anyone have any Show and Tell?

# **Let's run a business!**

**Pat's Hot Dogs – one owner**

**Mobile stand**

**Bushnell Park, Hartford**

**Dogs, soda only**

**No employees**

**Purchase what's needed every day**

**Even Pat's needs accounting!**

# Why accounting?

**Make business decisions**

**Pricing**

**Efficiency**

**Expansion, contraction**

**Report to lenders, investors, partners**

**Follow up on business obligations**

**Provide information for tax**

**Best companies run *by the numbers***

# Accounting tasks and records

## Sales/collections

Amounts received from customers

Amounts receivable from customers

## Payments to vendors

Amounts paid to vendors

Amounts owed to vendors

## Possibly these

Payroll

Inventory on hand

# Rules and outcomes

**Don't mix business and personal funds**

**Tax authorities assess penalties for poor records**

**Revenue building block**

**Types and amounts**

**Tracking for customer/market/location/etc.**

**Support for sales and income tax audit**

**What's due from customers**

**Payment building block**

**Types and amounts**

**Proof of payment**

**What's owed to suppliers**

# Available systems

## Manual methods

## Street price

Shoe box

Paper ledgers

Dome book

One-write

(Bob Cratchit)

\$ 14 OfficeWorld

\$ 95 McBee

## Computer

Spreadsheet

QuickBooks

Peachtree

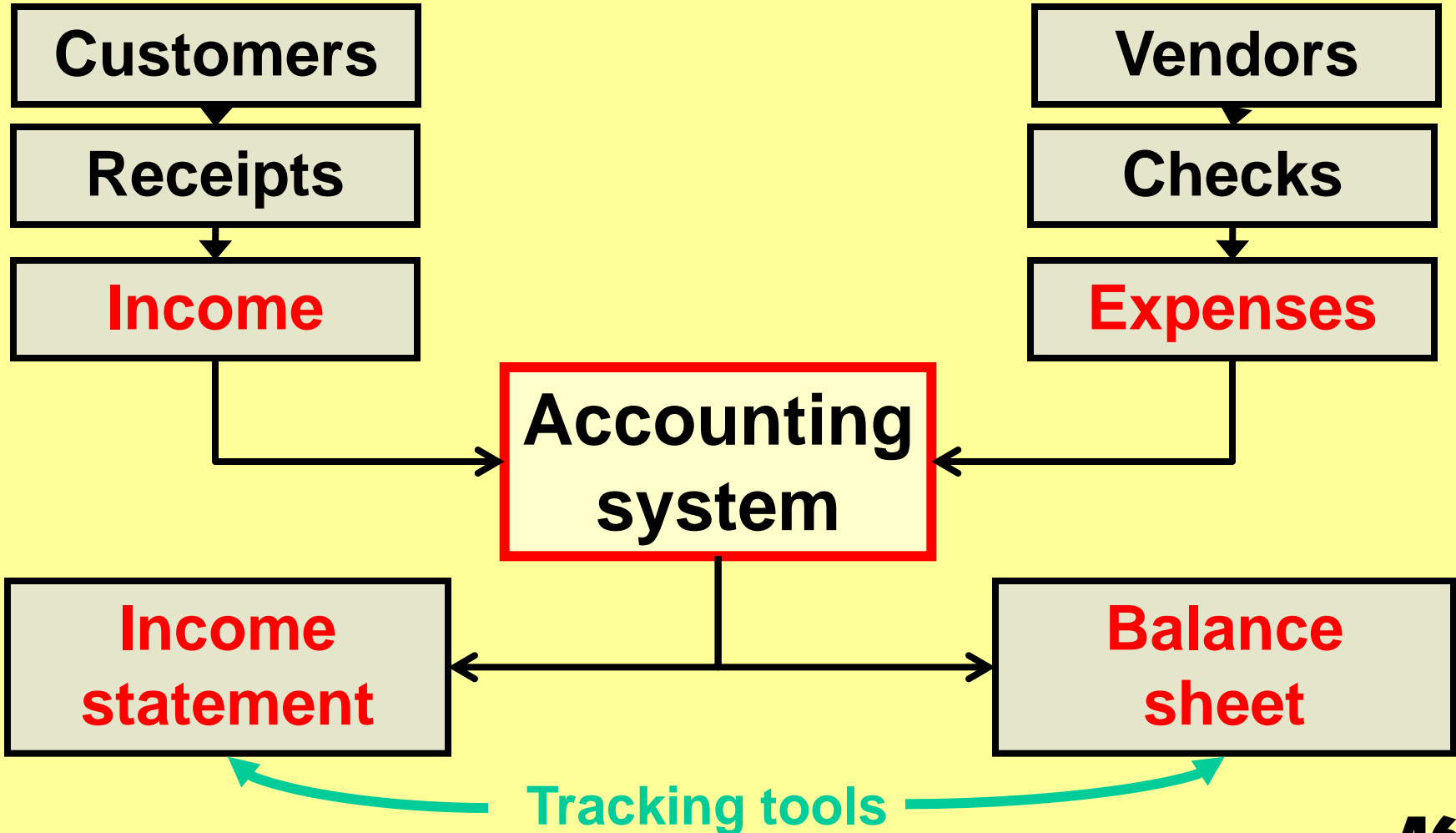
Simply Accounting

\$150

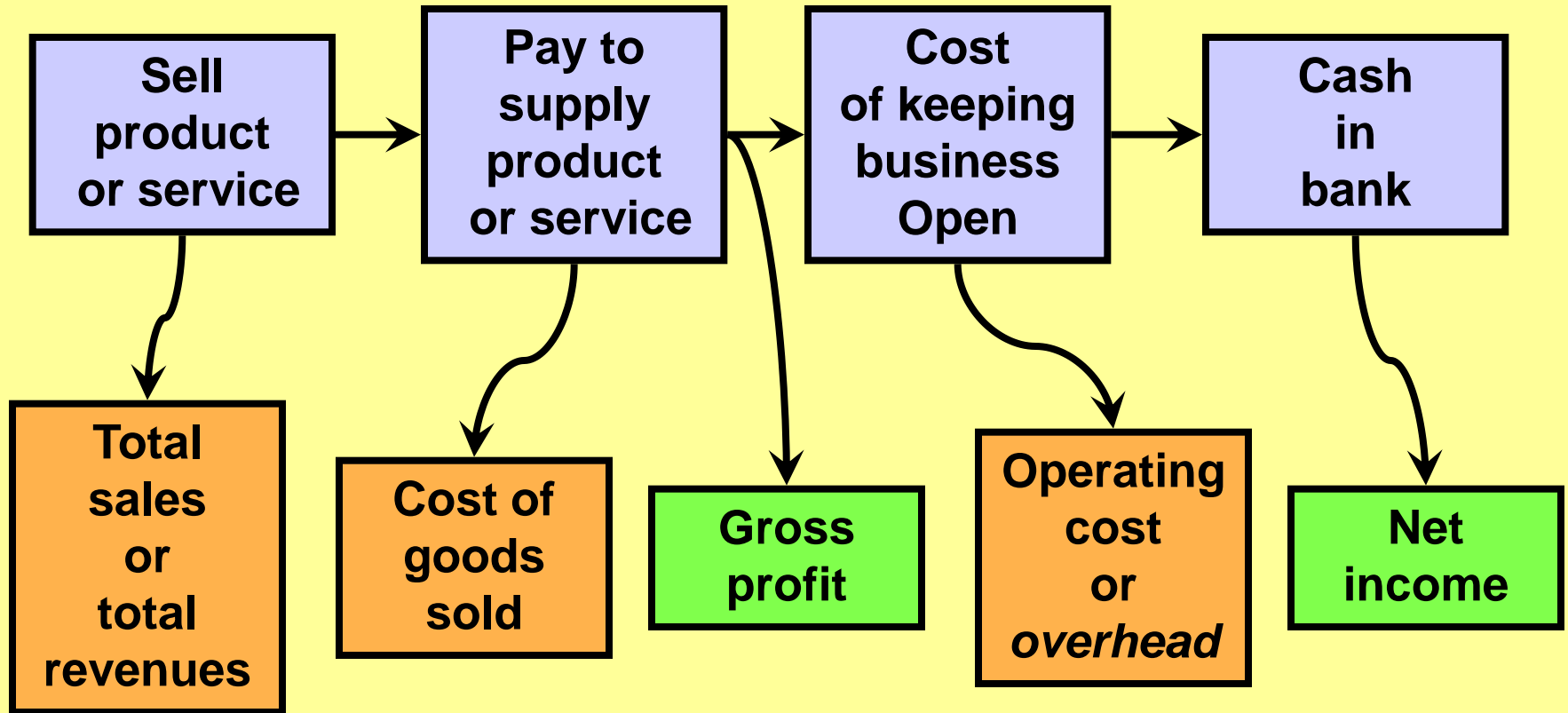
\$299

\$169

# How accounting flows



# Income statement elements



# Hot dog - gross profit each

**Gross sales** 2.50

**Cost of sales**

**Dog** .45

**Bun** .32

**Carrier, napkin** .03

**Mustard, etc.** .05

**Total** .85

**Gross profit** 1.65

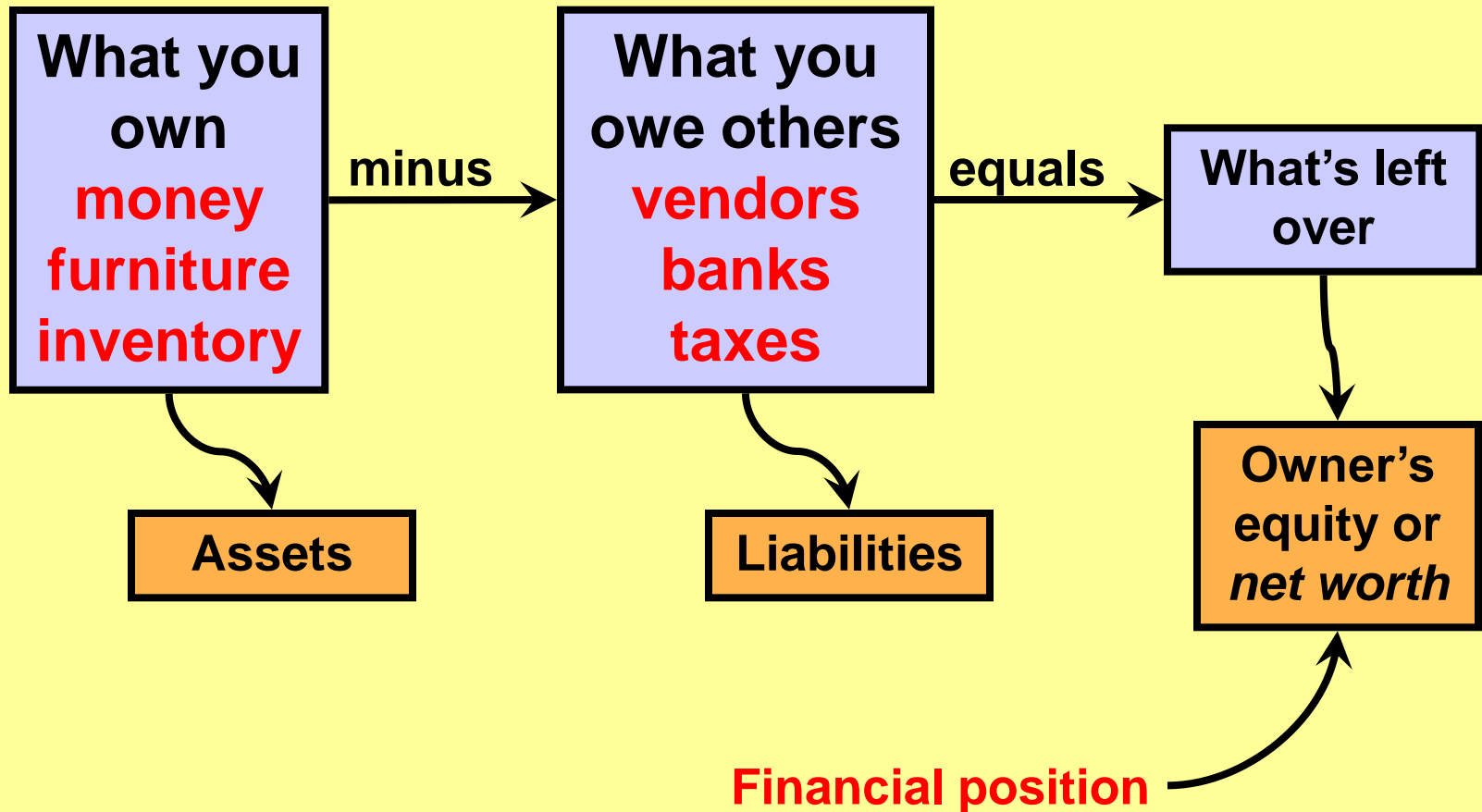
**Also:  
Variable  
expenses**

# Daily hot dog income

<b>Gross profit - 300 dogs @ 1.65</b>	<b>495</b>
<b>Gross profit - 200 sodas @ 1.00</b>	<b><u>200</u></b>
<b>Total</b>	<b>695</b>
<b>Operating expenses</b>	
<b>Cooking gas</b>	<b>35</b>
<b>Fees, licenses, etc.</b>	<b>75</b>
<b>Towing and supplies</b>	<b><u>80</u></b>
<b>Total</b>	<b><u>190</u></b>
<b>Net income</b>	<b>505</b>

**Also:  
Fixed  
expenses**

# Balance sheet elements



# Accounting procedure

**Enter transactions into system**

**Daily**

**Print/view statements**

**Wkly, Mtly**

**Review with CPA/advisor**

**Quarterly**

**Diagnostic**

Are numbers right?

How am I doing?

**Deliverables**

Business decisions

Financial planning

Tax planning

**Let's try it!**

**QuickBooks demo**

**Getting training**

**DIY**

**Adult education**

**Your CPA**

# Pat's balance sheet – June 30

## Assets

Cash bank	15,000
Cash cart	200
Inventory	nil
Equipment	<u>15,000</u>
Total assets	30,200

## Liabilities + equity

Due suppliers	nil
Bank loan	10,000
Sales tax due	500
Equity	<u>19,700</u>
	30,200

  
Balance

# Balance sheet fine points

## Tracking

Enough cash for business?

Managing debts

Customer collections

Control of inventory

## Diagnostic for Pat

No payables - good

Could pay down bank loan

Set aside \$\$ for the sales tax

Get help when doing this at first

# Pat's income statement - June

## Activity for entire month

<b>Sales</b>	<b>23,100</b>	
<b>Cost of goods sold</b>	<b><u>7,810</u></b>	<b>34%</b>
<b>Gross profit</b>	<b>15,290</b>	<b>66%</b>
<b>Operating expenses</b>	<b><u>4,130</u></b>	<b>18%</b>
<b>Net income</b>	<b>11,160</b>	<b>48%</b>

# **Income statement fine points**

**We've omitted some elements**

**Depreciation**

**Income taxes**

**Diagnostic for Pat's**

**Percentages are terrific!**

**Overall GP equals profit model (66%) slide 48**

**Get professional help diagnosing early on**

**Industry models available – IRS – next slide**

# Evaluating profitability

## Published data

IRS benchmark data - next slide; slide 85

Industry associations

Friends in industry

Suppliers

Same business but not competing

Another state

Another town

# IRS profit data – Slide 85

<u>Business</u>	<u>G.P.</u>	<u>Ovhd</u>	<u>Net</u>	<u>AvgSIs</u>
Construction	24%	20%	4%	1,678K
Brewery	57%	45%	12%	26,007K
Ad agency	59%	54%	5%	1,508K
Bakery	39%	35%	4%	8,343K
Hardware	34%	31%	3%	1,337K
All business	37%	29%	8%	3,305K

# How gross profit arises

<b>Units sold</b>	<b>Profit per unit</b>	<b>Gross profit</b>
<b>1</b>	<b>200,000</b>	<b>200,000</b>
<b>10</b>	<b>20,000</b>	<b>200,000</b>
<b>100</b>	<b>2,000</b>	<b>200,000</b>
<b>1,000</b>	<b>200</b>	<b>200,000</b>
<b>10,000</b>	<b>20</b>	<b>200,000</b>
<b>100,000</b>	<b>2</b>	<b>200,000</b>

# Terminology fine points

## Gross profit

Sell for	1.50
Cost	<u>1.00</u>
Gross profit	.50 = 33%

## Markup

Buy for	1.00
Sell for	<u>1.50</u>
Markup	.50 = 50%

# Typical merchandise pricing

<u>Markup on Cost</u>		<u>Gross Profit</u>
300%		75%
200	Specialty retail	66
100	General retail	50
75		42
50	Wholesale	33
25		20
20		17
11		10

# Typical service pricing

Rule of thumb is worker salary times 3 or 4

Base salary	100%
Support costs (rent, utilities, etc)	100%
Profit on investment, employee	<u>100%</u>
Total	300%

**Include your own salary?**

# How long to keep records

## IRS and other tax authorities

Normal audit	3 years
Fraud	6 years
Non-filing	Unlimited

## Lawsuits

Civil statute of limitations	2 years
See your lawyer	

## Practical issues

Company history - some things	Forever
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## Employment related claims

Longer periods	10 years or more
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# Next week - Reducing taxes

**How businesses pay taxes**

**Independent contractors – good or bad?**

**Connecticut state sales taxes**

**Can I write it off?**

**Forgotten write-offs**

**Surviving tax audits**

**Homework**

**Scan chapters 10-13**

**Bring some show and tell**

# **Business Start-up Boot Camp**

## **Adult Education Series**

### **Session 4**

#### **Reducing your business taxes**

**Source chapters 10-13**

# Tonight's topics

## Reducing your business taxes

**Sales**

**Property**

**Payroll**

**Income**



**Anyone have any Show and Tell?**

# Connecticut state sales taxes

**Rates: 6.35% - 7% - 9.35%**

**What's taxable?**

**Exempt**

**Manufacturing, resale, agriculture, out-of-state,  
charity, government, food, others**

**Must have exemption certificates!**

**File, pay online**

**Contracting situations**

**IP 2006!**

**Out of state purchases**

**Use tax!**

**Getting information**

**1-800-382-9463**

# How they audit sales tax

- 1. Covers 3 year period**
- 2. Sales tax returns v. income tax return**
  - Total sales must equal on both forms
  - Exemption certificates
- 3. Credit cards - out of state purchases**
- 4. Business equipment**

# Property taxes

**Covers business property except vehicles**

**“Personal” property**

**About 2% of value**

**Declare November 1<sup>st</sup> – Pay in July**

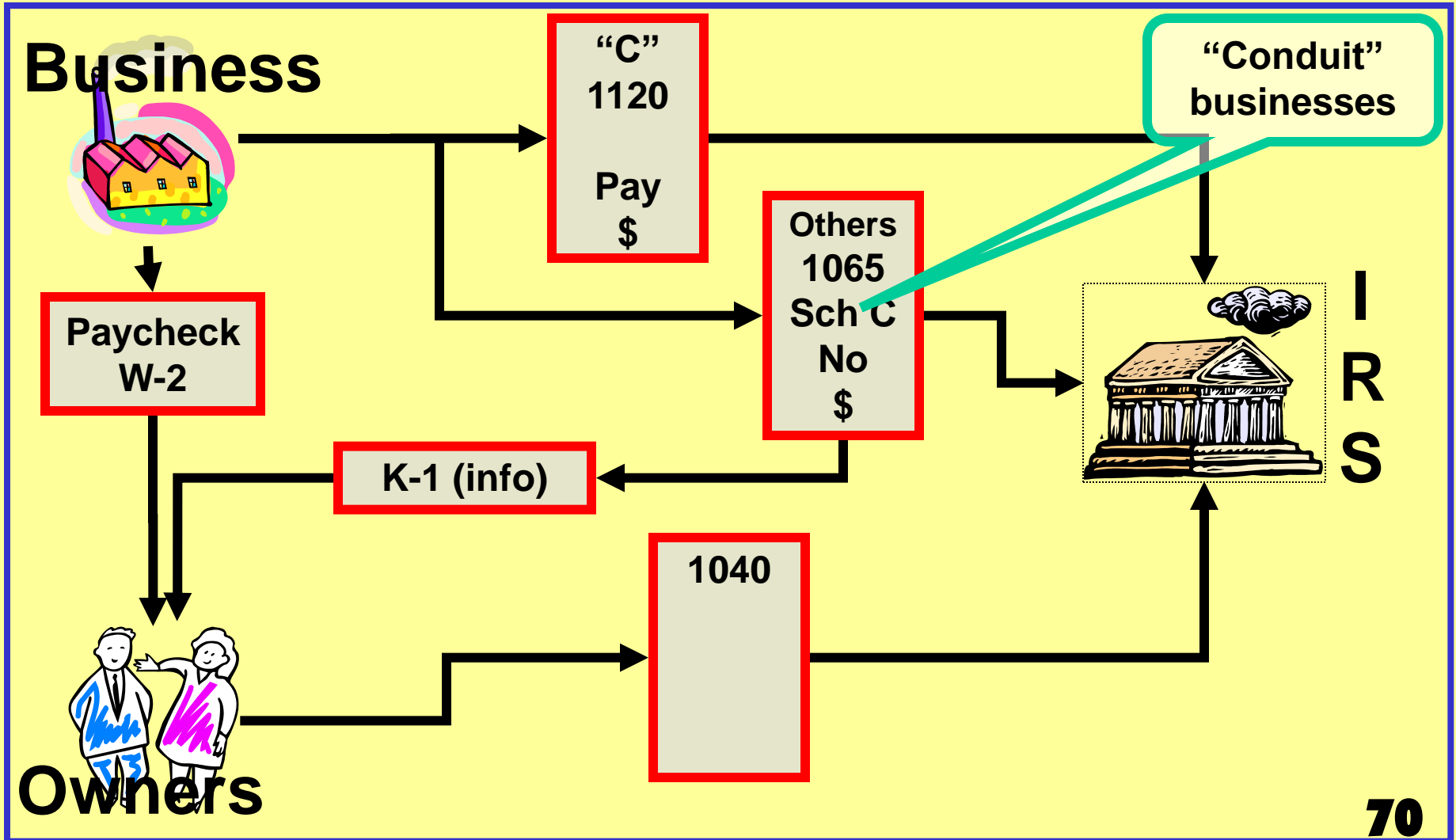
**What to know**

**Bounty hunters**

**Penalties – 25% of tax! Plus interest**

**Manufacturing exemptions available**

# Income tax flow



# Two types of business income

## Ordinary income

Paid by business – “C” only

Paid by owner – salary or draw

Graduated tax – 10%, 15%, 25%...35%

## Payroll - split with employer

Social Security –12.4% up to \$106,800

Medicaid - 2.9% no limit

Total is 15.3%

# What you pay income tax on

	<u>Inc</u>	<u>P/R</u>
<b>Wages (employment)</b>	<b>X</b>	<b>X</b>
<b>Draw</b>	<b>X</b>	<b>X</b>
<b>Children's salary</b>	<b>X</b>	<b>Y/N</b>
<b>Rent</b>	<b>X</b>	
<b>Interest</b>	<b>X</b>	
<b>Fringe benefits</b>	<b>Normally not</b>	
<b>Expense reimbursement</b>	<b>No</b>	
<b>Loan repayments</b>	<b>No</b>	

# What's best for taxes?

**“S” v. “C” v. LLC v. proprietor v. partner?**

**Depends**

**Losses handled differently**

**Fringe benefits handled differently**

# Effect of loss write-offs

**Most businesses generate startup losses**  
**Having other taxable income = tax savings**

**“C” corporation is bad**

**Loss not pipelined to owner’s tax return**

**Loss must wait for future income to be used**

**Conduit forms are best for startup losses**

**Choose prop, part, LLC, “S” Corp**

# Fringe benefits

**Conduit businesses severely limited**

**Medical insurance write-off not as good**

**Wellness programs not possible**

**Most other fringe write-offs ruled out**

**Pension funds not as good**

**“C” corporations get best benefit write-offs**

# Bottom-line

## Start-up phase

Losses - go to owner's personal tax return  
Low cost business formation  
Proprietor, Partnership (LLC if risk)

## Growth phase

Small profit – owner at low tax bracket  
Maximum legal protection  
LLC, “S” corporation

## Mature business

Larger profit – owner's bracket rising  
Need fringe benefits plan  
“C” corporation

# How do I pay for this?

**Owner's income – Proprietor; schedule C,  
LLC/partnership; K-1 form**

**Revenues minus deductible expenses**

**Ordinary income tax – 10% to 35%**

**Self-employment tax – flat 15.3%**

**Quarterly estimated payments, deposit online**

**Employee's wages - Form 1040**

**Withholding tax state, federal, SS, Medicare**

**Social security, Medicare – 7.65%**

**Unemployment, worker's compensation**

**Deposit online, report quarterly**

# Employees are expensive

## Costs of a \$500/wk employee

Employee base pay	500
Employer Social Security, (7.65%)	38
Unemployment (IRS and state)	15
Worker's compensation (varies)	25
Benefits insurance (varies)	<u>50</u>
Total	628

Employee take home = \$386 (500–WH–SS)

Can you cut cost?

Cash payroll – bad idea!

“Independent” contractors

# **Independent contractor benefits**

## **Company**

**No withholding**

**Not eligible for benefits package**

**No insurance coverage**

## **Worker**

**Becomes a sole proprietor**

**Writes off home office**

**Writes off most car expense**

**Can hire children – pay lower income tax**

# Independent contractor?

## CT labor law **ABC** test

- A** – Free from direction and control
- B** – Work outside employer place of business
- C** – Work for other customers

Also DOL fact sheet 13 [www.dol.gov](http://www.dol.gov)

Customary practice

# Can I write it off?

## General rules

Ordinary, necessary, reasonable

Supporting documents needed?

\$75 rule

\$52/\$65 \$108/\$168 rule – overnight – P 1542

Keep a diary

## Deduction categories

0% dues: country club, airline, etc.

50% meals and entertainment

100% ordinary and necessary

# Forgotten write-offs

**Home office expenses**

**Allocate personal v. business**

**Remember maintenance**

**Business equipment – “Sec 179”**

**Medical insurance for self employed**

**Spouse/child as employee**

**Pension contribution**

**Fringe benefits**

# Tax audits

## How they select

Rarely random!

Document matching program on 1099s

Conspicuous items

Hot buttons - travel, entertainment

## Where and when it will be - who should go

## Preparing for audit

Creating records v. summarizing details

Rehearsal

## What to do if you know there's a problem!

## What not to do or say

# Thanks for attending!

**Purtill & Company**

Email – [john@purtill.com](mailto:john@purtill.com)

**Community Accounting Aid & Services**

Free help for qualified business owners

Jack Collins, Executive Director

(203) 235-2333 Ext 7146

# Government data sources

## IRS

Go to: <http://www.irs.ustreas.gov/>

Select tax stats

Select statistics by topic

Select type of business

Select industry data

## State

[www.state.ct.us/ecd/research/index.html](http://www.state.ct.us/ecd/research/index.html)

# On-line formation

<a href="http://www.legalzoom.com">www.legalzoom.com</a>	\$ 99
<a href="http://www.incorporate.com">www.incorporate.com</a>	\$ 99
<a href="http://www.llcexpress.com">www.llcexpress.com</a>	\$375

Many others

**Prices exclude state filing fee, etc.**