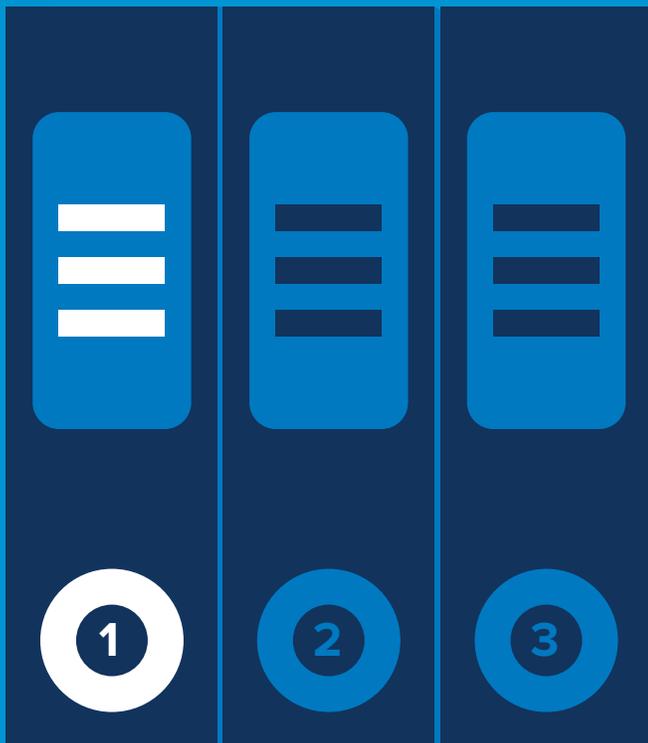


BRAC BUSINESS GUIDE

Getting Started



Baton Rouge Area Chamber®

*Leading Economic Development
in the Baton Rouge Area*

brac.org/bbg

Welcome

Building a business from the ground up is an exciting venture. But it can also be a lengthy, time-consuming process, and unfortunately, can result in a headache or two for entrepreneurs. The information in *Getting Started* is intended to make the startup process simpler so that you, as a business owner, can be more successful in your business venture.

In this guide, you will find the following sections:



[Are You Ready?](#)



[Preparing a Business Plan](#)



[Business Structure](#)



[Name, Registration, and Tax ID](#)



[Financing Your Business](#)



[Occupational License](#)



[Permits and Inspections](#)



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[Unemployment Insurance](#)



[Workers' Compensation](#)



[Business Insurance](#)



[Protecting Your Ideas](#)

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Are You Ready?

Do you know who your customers will be and what sets you apart from your competition? Are you prepared to work for over a year without getting a day off? What is your personal credit history?

These are some of the many questions entrepreneurs need to be prepared to answer when deciding whether to start a new business. The best way to increase your chance of success is to find out as much as possible before you start your business. Investing the time to learn what is actually involved in running a business will increase your chances of success.

Talk to successful business owners and be sure to have a realistic understanding of the financial, time management, and organizational resources needed to be a successful business owner. Rather than focusing on the daunting figures of business failures, understand the very real demands of operating a business.

In reviewing your motivation and readiness to start a business, evaluate issues including:

- What has motivated you to start your own business?
- What personal characteristics do you have that will help you as a business owner?
- What characteristics do you not possess that are important to the success of your business and how will you address this?
- Can you describe your product or service and why a customer would want it?
- What does the market look like for your product or service?
- Who will your customers be and how much information do you have about them?
- What competitors offer similar products or services?
- What experience do you have and what experience do you lack?
- What is your personal financial position?
- What are the projected startup costs?
- What are the projected revenues and sales?

An honest examination of these questions will give you a sense of how prepared you are to start a business. Certain skills and experience are critical to the success of a business. Knowing which skills you possess and which you will need to hire others to provide will be helpful in structuring a successful company.





Preparing a Business Plan

Once you have determined that you are up to the challenges of starting and running your own business, your next step will be to develop a business plan.

The saying goes that you only get one chance to make a first impression and that thinking certainly applies in the business world. A business plan is often what people see and remember about a company.

A business plan is one of the most important documents for a business because it allows you to convince potential investors and employees that you know what it will take for a business to succeed. A well-organized business plan presents a clear and convincing description of a company that can be shared with others.

There are several resources available to assist with preparing a business plan. Additionally, sample business plans, a business planning workbook, and business plan software can be found online. Some companies will offer to write a business plan for a fee, but turning over the entire plan to a third party is usually not in the best interest of a business owner, a great deal of insight into the nuts and bolts of what makes your company work can be gained through the process of writing a plan.

Business Plan Overview

There are variations on how to organize a business plan, but the Small Business Administration (SBA) recommends the following:

1. [Executive Summary](#)
2. [Market Analysis](#)
3. [Company Description](#)
4. [Organization and Management](#)
5. [Marketing and Sales Management](#)
6. [Service or Product Line](#)
7. [Funding Request](#)
8. [Financials](#)
9. [Appendices](#)



Executive Summary

The executive summary is the most important section of a business plan. It provides a concise overview of the entire plan along with a history of your company. This section tells a reader where a company is and where it is headed. It is the first thing your readers see; therefore it is the thing that will either grab their interest and compel them to invest in or embrace your concept or make them abandon it. More than anything else, this section is important because it tells the reader why you think your business will be successful.

The executive summary should be the last section you write. After all the details of the plan have been worked out, you will be in a better position to summarize it—and it should be a summary (e.g. no more than four pages).

Contents of the Executive Summary

- The mission statement – The mission statement briefly explains the concept of a business. It could be two words, two sentences, a paragraph, or even a single image. It should be as direct and focused as possible, and it should leave the reader with a clear picture of what your business is all about.
- Date business began
- Names of founders and the functions they perform
- Number of employees
- Location of business and any branches or subsidiaries
- Description of the offered plant or facilities
- Products/services
- Banking relationships and information regarding current investors
- Summary of company growth, including financial or market highlights (e.g. your company doubled its worth in twelve-month period; you became the first company in your industry to provide a certain service)
- Summary of management's future plans – With the exception of the mission statement, all of the information in the executive summary should be highlighted in a brief, even-bulleted fashion. Remember, these facts are laid out in-depth further along in the plan.

If you are just starting a business, you will not have a lot of information to plug into the areas mentioned above. Instead, focus on your experience and background, as well as the decisions that led you to start this particular enterprise. Include information about the problems the target market has and what solutions can be provided. Show how your expertise will allow you to make significant inroads into the market. Tell your reader what you are going to do differently or better, and how. Convince the reader that there is a need for your product or service, then address your company's future plans.

To assist the reader in locating specific sections within the business plan, include a table of contents directly following the executive summary. Make sure that the content titles are very broad—avoid detailed descriptions.

Market Analysis

The market analysis should convey knowledge of the particular industry business. It should also present general highlights and conclusions of any marketing research data; however, the specific details of the marketing research should be included in the appendix section of the business plan.

This section should include an industry description and outlook, target market information, market test results, lead times, and an evaluation of your competition.

Industry Description and Outlook

This overview should include a description of the primary industry, the current size of the industry, as well as its historic growth rate, trends and characteristics related to the industry as a whole (e.g. what life cycle stage the industry is in, its projected growth rate), and the major customer groups within the industry (e.g. businesses, governments, consumers, etc.).

Identifying A Target Market

A target market is simply the market (or group of customers) that you want to focus on and sell to. When you are defining a target market, it is important to narrow it to a manageable size. Many businesses make the mistake of trying to be everything to everybody. Oftentimes, this philosophy leads to failure.

In this section, gather information that identifies the following:

- Distinguishing characteristics of the major/primary market you are targeting – This section might include information about the critical needs of potential customers, the degree to which those needs are (or are not) currently being met, and the demographics of the group. It would also include the geographic location of the target market, the identification of the major decision makers, and any seasonal or cyclical trends which may impact the industry or the business.
- Size of the primary target market – Here, it will be necessary to quantify the number of potential customers in the primary market, the number of annual purchases they make in products or services similar to your own, the geographic area in which they reside, and the forecasted market growth for this group.

- The extent to which you feel you will be able to gain market share and the reasons why – Estimate market share percentage and number of customers the business is to obtain in a defined geographic area. Specify how these estimates were derived; document assumptions.
- Pricing and gross margin targets – Here, define the levels of your pricing, gross margin levels, and any discount structures that will be set up for the business, such as volume/bulk discounts or prompt payment discounts.
- Resources for finding information related to your target market – These resources might include directories, trade association publications, and government documents.
- Media you will use to reach the target audience – These might include publications, radio or television broadcasts, blogs/podcasts, or any other type of credible source that may have influence with the target market.
- Purchasing cycle of the potential customers – Here, identify the needs of the target market, do research to find the solutions to their needs, evaluate the solutions, and finally, identify who actually has the authority to choose the final solution.
- Trends and potential changes that may impact your primary target market and key characteristics of the secondary markets – Just like with the primary target market, identify here the needs, demographics, and significant trends that will influence the secondary markets in the future.

Market Tests

When including information about any of the market tests completed for the business plan, be sure to focus only on the results. Any specific details should be included in the appendix. Market test results might include the potential customers who were contacted, any information or demonstrations that were given to prospective customers, how important it is to satisfy the target market's needs, and the target market's desire to purchase the business' products or services at varying prices.

Lead Times

Lead time is the amount of time between when a customer places an order and when the product or service is actually delivered. When researching this information, determine what the lead time will be for the initial order, reorders, and volume purchases.

Competitive Analysis

When performing a competitive analysis, identify the competition by product line or service as well as by market segment; assess their strengths and weaknesses; determine how important the target market is to the competitors; and identify any barriers which may hinder the business are entering the market.

Be sure to identify all the key competitors for each of the products or services offered. For each key competitor, determine their market share, then try to estimate how long it will take before new competitors enter the marketplace. In other words, what is the window of opportunity? Finally, identify any indirect or secondary competitors that may have an impact on the business' success. The strengths of competitors are also competitive advantages that you, too, can provide. The strengths of competitors may take many forms, but the most common include:

- An ability to satisfy customer needs
- A large share of the market and the consumer awareness that comes with it
- A good track record and reputation
- Solid financial resources and the subsequent staying power which that provides
- Key personnel

Weaknesses are simply the flip side of strengths. In other words, analyze the same areas as before to determine what the competitors' weaknesses are. Are they unable to satisfy their customers' needs? Do they have poor market penetration? Is their track record or reputation not up to par? Do they have limited financial resources? Can they not retain good employees? All of these can be red flags for any business. If you identify weaknesses among the competition, be sure to find out why they are having problems. This way, similar mistakes can be avoided.

If the target market is unique, then you will most likely enjoy a competitive advantage—at least for a while. However, if the competition is high for the target market, be prepared to overcome some barriers.

Barriers to any market might include:

- A high investment cost
- The time it takes to set up a business
- Changing technology
- The lack of quality personnel
- Customer resistance (e.g. long-standing relationships, brand loyalty)
- Existing patents and trademarks that cannot be infringed upon

Regulatory Environment

The final area for consideration is the regulatory environment. This includes information related to current customer or governmental regulatory requirements, as well as any changes that may be upcoming. Specific details needed include the methods for meeting any of the requirements which will affect your business, the timing involved (e.g. how long do you have to comply, when do the requirements go into effect), and the costs associated with regulatory compliance.

Company Description

Without going into detail, this section should include a high-level overview of how the different elements of the business fit together. The company description should include information about the nature of the business, as well as primary factors that you believe will make the business a success.

When defining the nature of your business (or why you are in business), be sure to list the marketplace needs that you are trying to satisfy; include the plan to satisfy these needs using the products or services offered. Finally, list the specific individuals and/or organizations that have been identified as having these needs.

Primary success factors might include a superior ability to satisfy the customers' needs, highly efficient methods of delivering your product or service, outstanding personnel, or a key location. Each of these would give your business a competitive advantage.

Organization and Management

This section should include the company's organizational structure, details about the ownership of the company, profiles of the management team, and the qualifications of the board of directors.

Who does what in the business? What is their background and why are they qualified to serve on the board or as employees? For what are they responsible? These may seem like unnecessary questions to answer in a one- or two-person organization, but the people reading your business plan want to know who is in charge. Give a detailed description of each division or department and its function. This section should include who is on the board (if there is an advisory board) and how you intend to keep them there. What kind of salary and benefits package is in place for employees? What incentives are being offered? How about promotions? Reassure the reader that the people on staff are more than just names on letterhead.

Organizational Structure

A simple, but effective way to establish the structure of your company is to create an organizational chart with a narrative description. This will prove that nothing is being left to chance, you have thought out exactly who is doing what, and there is someone in charge of every function of the company. Nothing will fall through the cracks, and conversely, efforts will not be duplicated. To a potential investor or employee, that is very important.

Ownership Information

This section should also include the legal structure of the business along with the subsequent ownership information it relates to. Has the business been incorporated? If so, is it a C or S corporation? Or perhaps you have formed a partnership with someone. If so, is it a general or limited partnership? Or maybe you are a sole proprietor.

Important ownership information that should be incorporated into a business plan includes:

- Names of owners
- Percentage ownership
- Extent of involvement with the company
- Forms of ownership (e.g. common stock, preferred stock, general partner, limited partner)
- Outstanding equity equivalents (e.g. options, warrants, convertible debt)
- Common stock (e.g. authorized or issued)

Management Profiles

Experts agree that one of the strongest factors for success in any growth company is the ability and track record of its owner/management. Therefore, inform the reader about the key people in the company and their backgrounds.

Provide resumés that include the following information:

- Name
- Position (include brief position description along with primary duties)
- Primary responsibilities and authority
- Education
- Unique experience and skills
- Prior employment
- Special skills
- Past track record
- Industry recognition
- Community involvement
- Number of years with company
- Compensation basis and levels (make sure these are reasonable—not too high or too low)

Be sure you quantify achievements (e.g. managed a sales force of ten people, managed a department of fifteen people, increased revenue by 15 percent in the first six months, expanded the retail outlets at the rate of two each year, improved the customer service as rated by our customers from a 60 percent to a 90 percent rating).

Also highlight how the people surrounding you complement your own skills. If you are just starting out, show how each person's unique experience will contribute to the success of your venture.

Board of Directors' Qualifications

The major benefit of an unpaid advisory board is that it can provide expertise that your company cannot otherwise afford. A list of well-known, successful business owners/managers can go a long way toward enhancing your company's credibility and perception of management expertise.

If you have a board of directors, be sure to gather the following information when developing the outline for your business plan:

- Names
- Positions on the board
- Extent of involvement with company
- Background
- Historical and future contribution to the company's success

Marketing and Sales Management

Marketing is the process of creating customers and customers are the lifeblood of your business. In this section, the priority is to define the marketing strategy. There is no single way to approach a marketing strategy; your strategy should be part of an ongoing self-evaluation process and unique to your company. However, there are simple steps that will help you think through the most appropriate strategy.

An overall marketing strategy would include a:

- Market penetration strategy
- Strategy for growing your business – This growth strategy might include an internal strategy such as how to increase human resources, an acquisition strategy such as buying another business, a franchise strategy for branching out, a horizontal strategy where the same type of products would be provided to different users, or a vertical strategy where the same products would continue to be provided but offered at different levels of the distribution chain.
- Channels of distribution strategy – Choices for distribution channels could include original equipment manufacturers (OEMs), an internal sales force, distributors, or retailers.
- Communication strategy – How are you going to reach your customers? Usually some combination website, social media, direct marketing, promotions, advertising, public relations, personal selling, and printed materials such as brochures, catalogs, flyers, etc.

Once the marketing strategy is defined, a sales strategy can be created. How will you actually sell your product?

The overall sales strategy should include:

- A sales force strategy – If you are going to have a sales force, do you plan to use internal or independent representatives? How many salespeople will you recruit for your sales force? What type of recruitment strategies will you use? How will you train your sales force? What about compensation for your sales force?
- Your sales activities – When defining a sales strategy, it is important to break it down into activities. For instance, identify your prospects. Once there is a list of prospects, prioritize it. Next, identify the number of sales calls planned over a certain period of time. From there, determine the average number of sales calls needed per sale, the average dollar size per sale, and the average dollar size per vendor.

Service or Product Line

What are you selling? In this section, describe the product or service, emphasizing the benefits to potential and current customers. For example, do not tell readers which eighty-nine foods are carried in the “Gourmet-To-Go” shop. Tell readers why busy, two-career couples will prefer shopping in a service-oriented store that records clients’ food preferences and caters even the smallest parties on short notice.

Focus on the areas where you have a distinct advantage. Identify the problem in your target market for which your service or product provides a solution.

Give the reader hard evidence that people are, or will be, willing to pay for your solution. List the company’s services and products and attach any marketing/promotional materials. Provide details regarding suppliers, availability of products/services, and service or product costs. Also include information addressing new services or products that will soon be added to the company’s line.

Overall, this section should include:

- A detailed description of the product or service (from the customers’ perspective) – Include information here about the specific benefits of your product or service. Talk about the product’s or service’s ability to meet consumer needs, any advantages the product has over that of the competition, and the development stage the product is in (e.g. idea, prototype, etc.).
- Information related to your product’s life cycle – Include information about where the product or service is in its life cycle, as well as any factors that may influence its cycle in the future.
- Any copyright, patent, and trade secret information that may be relevant – Include

information related to existing, pending, or anticipated copyright and patent filings along with any key characteristics of the product or service in which you cannot obtain a copyright or patent. Also incorporate key aspects of the products or services that may be classified as trade secrets. Last, but not least, be sure to add any information pertaining to existing legal agreements, such as nondisclosure or noncompete agreements.

- Research and development (R&D) activities you are involved in or in which you plan to become involved – R&D activities would include any in-process or future activities related to the development of new products or services. Also include information about what the expectations of future R&D activities are. Be sure to analyze the R&D efforts of not only your own business, but also that of others in your industry.

Funding Request

In this section, specify the amount of funding needed to start or expand your business. If necessary, include different funding scenarios, such as a best and worst case. Later in the financial section, these requests and scenarios should be backed up with corresponding financial statements.

Include in this section, current funding requirements, future funding requirements over the next five years, how funds received will be used, and any long-range financial strategies that would have any impact on the funding request.

When outlining current and future funding requirements, be sure to include the amount desired now and the amount desired in the future, the time period that each request will cover, the type of funding (e.g. equity, debt), and the terms requested.

How you will use the funds is very important to a creditor. Is the funding request for capital expenditures? Working capital? Debt retirement? Acquisitions? Whatever it is, be sure to list it in this section.

Last of all, make sure to include any strategic information related to the business that may have an impact on your financial situation in the future, such as going public with the company, having a leveraged buyout, being acquired by another company, the method with which debt will be serviced, or whether there is a plan to sell the business in the future. Each of these is extremely important to a future creditor, since they will directly impact your ability to repay your loan(s).

Financials

The financials should be developed after the market has been analyzed and clear objectives have been set. Then you can allocate resources efficiently. The following is a list of the critical financial statements to include in a business plan packet.

Historical Financial Data

If you own an established business, you will be required to supply historical data related to the company's performance. Most creditors request data for the last three to five years, depending on the length of time the business has been in operation.

The historical financial data includes the company's income statements, balance sheets, and cash flow statements for each year in operation (usually for up to three to five years). Often creditors are also interested in any collateral that could be used to ensure the loan, regardless of the stage of the business.

Prospective Financial Data

All businesses, whether startup or growing, will be required to supply prospective financial data. Most of the time, creditors will want to see what you expect your company to be able to do within the next five years. Each year's documents should include forecasted income statements, balance sheets, cash flow statements, and capital expenditure budgets. For the first year, supply monthly or quarterly projections. After that, move to quarterly and/or yearly projections for years two through five.

Make sure that the projections match the funding requests; creditors will be on the lookout for inconsistencies. If assumptions have been made in projections, be sure to provide documentation. This way, the reader will not be left guessing.

Finally, include a short analysis of the financial information. Include a ratio and trend analysis for all financial statements (both historical and prospective). Since pictures speak louder than words, adding graphs of the trend analysis (especially if they are positive) may be helpful.

Security Note

Any copies of your business plan should be controlled. Keep a distribution record. This will allow you to update and maintain your business plan on an as-needed basis. You should include a private placement disclaimer with your business plan if you plan to use it to raise capital.

Appendices

The appendix section should be provided to readers on an as-needed basis. It should not be included with the main body of a business plan. Your plan is your communication tool; as such, it will be seen by a lot of people. Some of the information in the business section is not intended for everyone to see, but, specific individuals (such as creditors) may want access to this information in order to make lending decisions. Therefore, it is important to have the appendix within reach.

The appendix should include:

- Credit history (personal and business)
- Resumes of key managers
- Product pictures
- Letters of reference
- Details of market studies
- Relevant magazine articles or book references
- Licenses, permits, or patents
- Legal documents
- Copies of leases
- Building permits
- Contracts
- List of business consultants, including attorney and accountant

Business Plan Tips

- Do your homework – Learn all you can about your industry to demonstrate that you understand your market.
- Be realistic – Do not overestimate sales and underestimate costs. Being realistic will allow potential investors to have more confidence in what you say and realistic projections are easier to defend.
- Know your customers – Do not just assume that you will be able to sell your product or services to a certain percentage of the market. Show that you know who your customers will be, how you will reach them, and how you will keep them coming back.
- Acknowledge the competition – Research who is offering similar products and services and be up front about why you think you have a competitive advantage. Ignoring the competition will appear naive.
- Be clear and concise – Starting a new business is an exciting process, but do not rely on hype to win over investors. Keep your explanations professional and focused.
- Check yourself – Writing a great business plan is a lengthy process. Be sure to check and

recheck your plan and have others review your work to make sure the information you present is consistent and error-free.

- Be open to feedback – Being too committed to offering certain products or structuring your business a certain way can be harmful. Be open to the feedback that you get when you present your plan and be willing to consider making modifications based on suggestions you receive.

Business Plan Workbook

SCORE has a very useful business planning workbook that outlines in writing a business plan and also includes all of the financial worksheets needed for putting together a business plan.

Sample Business Plans

The internet is a source for numerous sample business plans. Reading through a few will give you an idea of what your plan may look like.

You can visit the following websites for sample business plans:

- www.entrepreneur.com/businessplan
- www.bplans.com

Who Is SCORE?

Counselors to America's Small Business (SCORE) is a nonprofit association dedicated to entrepreneurial education and the formation, growth, and success of small business nationwide. SCORE is a resource partner with the U.S. Small Business Administration (SBA) that has 364 chapters in locations throughout the United States and its territories, with 13,000+ volunteers nationwide. Both working and retired executives and business owners donate time and expertise as business counselors. The Baton Rouge Area is served by SCORE Chapter 141, one of the largest and most active chapters in the country.

More information is available at www.scorebr.org.



Business Structure

Choosing the right business structure is an important part of starting a new business and it will likely be one of the first decisions entrepreneurs make. The business structure chosen will have an impact on taxes, liability, ability to raise capital, ownership succession, and other factors.

In making this decision, it is important to seek professional advice from an attorney and accountant or other advisor, as the structure chosen will have long-term implications on a business.

There are four basic business structures and the links below detail the positive and negative elements of each:

- [Sole Proprietorship](#)
- [Partnership](#)
- [Corporation: Subchapter S Corporation](#)
- [Limited Liability Company \(LLC\)](#)

Sole Proprietorship

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibilities for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one in the same with the business.

Advantages of a Sole Proprietorship

- This is the easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.



Disadvantages of a Sole Proprietorship

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
- Owners may be at a disadvantage in raising funds and sole proprietors are often limited to using funds from personal savings or consumer loans.
- These businesses have a hard time attracting high-caliber employees or those that are motivated by the opportunity to own a part of the business.
- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

Partnership

In a partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, and what steps will be taken to dissolve the partnership when needed. Yes, it is hard to think about a breakup when the business is just getting started, but many partnerships split up amid crisis, and unless there is a defined process, there will be even greater problems. It must be determined up-front how much time and capital each will contribute.

Advantages of a Partnership

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal tax returns.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

Disadvantages of a Partnership

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Types of Partnerships

- General Partnership – Partners divide responsibility for management and liability as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.
- Limited Partnership and Partnership with Limited Liability – Limited means that most of the partners have limited liability (to the extent of their investment), as well as limited input regarding management decisions, which generally encourages investors for short-term projects or for investing in capital assets. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.
- Joint Venture – A joint venture (JV) acts like a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership and will have to file as such, as well as distribute accumulated partnership assets upon dissolution of the entity.

Corporation

A corporation chartered by the state in which it is headquartered is considered by law to be a unique entity, separate and apart from those who own it. A corporation can be taxed, it can be sued, and it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

Advantages of a Corporation

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- A corporation can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

Disadvantages of a Corporation

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state, and some local agencies and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus it can be taxed twice.

Subchapter S Corporations

An S corporation (S-corp) is a tax election only; this election enables the shareholder to treat the earnings and profits as distributions and have them pass through directly to their personal tax return. The catch here is that the shareholder, if working for the company, and if there is a profit, must pay him/herself wages, and must meet standards of “reasonable compensation”. This can vary by geographical region, as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages and you will be liable for all of the payroll taxes on the total amount.

Limited Liability Company

A limited liability company (LLC) is a hybrid type of legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. The owners of an LLC are referred to as members. Depending on the state, the members can consist of a single individual (one owner), two or more individuals, corporations, or other LLCs.

Unlike shareholders in a corporation, LLCs are not taxed as a separate business entity. Instead, all profits and losses are passed through the business to each member of the LLC. LLC members report profits and losses on their personal federal tax returns, just like the owners of a partnership would.

Like a corporation, an LLC can also apply for S-corp status. The organization remains a limited liability company from a legal standpoint, but is treated as an S-corp for tax purposes. For more information on the pros and cons of S-corp status for LLCs, visit the SBA’s website.

Advantages of an LLC

- Members are protected from personal liability for business decisions or actions of the LLC. This means that if the LLC incurs debt or is sued, members’ personal assets are usually exempt. This is similar to the liability protections afforded to shareholders of a corporation. Keep in

mind that limited liability means “limited” liability - members are not necessarily shielded from wrongful acts, including those of their employees.

- An LLC’s operational ease is one of its greatest advantages. Compared to an S-corp, there is less registration paperwork and there are smaller start-up costs.
- There are fewer restrictions on profit sharing within an LLC, as members distribute profits as they see fit. Members might contribute different proportions of capital and sweat equity. Consequently, it is up to the members themselves to decide who has earned what percentage of the profits or losses.

Disadvantages of an LLC

- In many states, when a member leaves an LLC, the business is dissolved and the members must fulfill all remaining legal and business obligations to close the business. The remaining members can decide if they want to start a new LLC or part ways. However, provisions can be included in operating agreements to prolong the life of the LLC if a member decides to leave the business.
- Members of an LLC are considered self-employed and must pay the self-employment tax.



Name, Registration, and Tax ID

Another important step in getting a business ready for opening day involves securing a business name, registering the business with the appropriate authorities, and getting tax identification numbers from the federal, state, and/or local government. It is important to take care of these issues early in the process, as this information may be needed to secure permits, licenses, and potentially financing.

Many of these same services are provided by the Louisiana Secretary of State through the [GeauxBiz](#) business assistance tool. [GeauxBiz](#) is a clearinghouse for all business-related information including a database of company names, filing a business online, discovering business licensing information, and much more.

Naming Your Business

Naming your business requires more than creativity and good spelling skills. After determining the name you would like to use for your business, do a preliminary check of the name's availability through the secretary of state's commercial database. This can be done in a matter of minutes. Preliminary checks may be made online or by calling 225.925.4704.

Corporations and LLCs must secure their names through the secretary of state's office. This can be done at the time of incorporation or a name may be reserved for sixty days if you are not ready to incorporate. Reserving a name costs \$25.

Do not rely on a preliminary check of a name's availability. Formally reserve the name and wait for confirmation from the secretary of state's office before obtaining stationery, business cards, phone listings, bank accounts, etc.

Trade names can be registered through the parish clerk of court.

Registering Your Business

Where you register your business depends on your business structure. Corporations, LLCs, and

LLPs need to register at the secretary of state's office. Forms for registering a business can be found on the secretary of state's website. Corporations will need to file articles of incorporation at the time of registration. Samples can be found at the secretary of state's website, but professional assistance from an attorney is recommended for this process.

Companies that are not incorporated, such as sole proprietorships, register at the clerk of court's office in the parish where the entity is doing business.

Any business that engages in any type of sales must also register with the Louisiana Department of Revenue. The office can be found at www.rev.state.la.us or visit 617 North 3rd Street, Baton Rouge, LA 70801, or call 225.219.7462.

The Louisiana Secretary of State's [GeauxBiz](#) business assistance tool is also available.

Getting Your Tax ID

Federal Taxes

Contact the Internal Revenue Service (IRS) for assistance with:

- Federal tax I.D. number
- Federal income tax withholding
- Federal unemployment insurance tax

An Employer Identification Number (EIN) is also known as a Federal Tax Identification Number and is used to identify a business entity. Generally, businesses need an EIN. An EIN can be applied for in various ways, including online. This is a free service offered by the IRS. You may also download the form SS-4, "Application for Employer Identification Number," and fax or mail it in.

For questions about this process or to apply over the phone, call 800.829.4933 from 7:00 a.m. – 10:00 p.m. local time, Monday through Friday. The local IRS office is located at:

Internal Revenue Service
2600 Citiplac Centre
Baton Rouge, LA 70808
225.343.8625

Many of these same services are provided by the Louisiana Secretary of State through the [GeauxBiz](#) business assistance tool.

State Taxes

All new businesses must contact the Louisiana Department of Revenue for the following:

- Sales tax registration
- State I.D. number
- State income tax withholding

Louisiana Department of Revenue and Taxation
617 North 3rd Street
Baton Rouge, LA 70801
225.219.7462
www.rev.state.la.us

Forms and instructions for securing a state tax ID number can be found in the forms section of their website. Be sure to bring:

- Picture identification
- Corporate charter (if corporation)
- Partnership agreement (if partnership)

Local Taxes

To apply for a local sales tax identification number, contact the parish sales tax division. In East Baton Rouge Parish, the local sales tax business registration form is available here.

You may also contact the office at:

City-Parish Finance Department
Revenue Division
222 St. Louis Street
Governmental Building, Room 404
Baton Rouge, LA 70802
225.389.3084

You will need:

- Cash or certified funds only
- Picture identification
- Corporate charter (if corporation)
- Partnership agreement (if partnership)



Financing Your Business

Securing the funding necessary to start and grow a business is one of the biggest challenges to launching a successful startup. Careful planning and an understanding of the financial options available will improve the chances of securing financing.

Preparation is critical. No one just walks into a bank with a great idea and walks out with a loan. Research, planning, and preparation are key to making the best impression you can when you finally meet with a lender.

To ensure you are successful in obtaining financing, understand:

- What type of funding best fits your needs
- What lenders consider
- Critical questions you need to be able to answer
- Loan package components

Types of Funding

It is important to explore all of your financing options before making a decision about which option is best for you. Several sources of financing to consider are:

Personal Savings

The primary source of capital for most new businesses comes from savings and other personal resources. While credit cards are often used to finance business needs, there are usually better options available, as the interest rates on credit cards can be very high.

Friends and Relatives

Many entrepreneurs rely upon private sources of capital such as friends and family when starting out in a business venture. Often, money is loaned interest-free or at a low interest rate, which can be beneficial when getting started. It is important, however, to put the terms of the loans in writing to avoid any misunderstandings that could harm your personal relationships.



Banks and Credit Unions

The most common sources of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound. For startup companies, however, the burden of proof is much higher than for an existing business seeking for a loan to expand current operations. Conservative projections and careful attention to the assumptions that underlie these projections are critical to increasing the chances of receiving startup funding.

Angel Investors and Venture Capital Firms

These individuals and firms help expanding companies grow in exchange for equity or partial ownership of the company. Under the Angel Investor Tax Credit Program offered by the state of Louisiana, a 35 percent transferable tax credit is available to angel investors.

There are programs targeted to help startup businesses secure financing by reducing the risk to traditional lenders who make loans to small businesses. These programs, run by the Small Business Administration (SBA) on the federal level and Louisiana Economic Development Corporation (LEDC) on the state level, do not make any direct loans to business owners. Yet, as a business owner, be sure your lender is aware of these programs that aim to make lending to small businesses more attractive to improve your chances of securing funds. Again, both the SBA and LEDC's programs are administered through traditional lenders such as banks.

Small Business Innovation Research Program

Program Description

The Small Business Innovation Research Program (SBIR) program, established in 1982, provides an exceptional opportunity for any innovator who is capable of conducting high-quality research and development. The SBIR program is a competitive grant program for small business concerns to engage in research and development that has the potential for commercialization. Phase one awards are up to \$100,000 and phase two awards are up to \$750,000.

Requirements

Proposal guidelines are issued by federal agencies. Phase one duration is approximately six months and phase two duration may not exceed two years.

Louisiana Business and Technology Center
225.578.7555

Research and Development Tax Credit

Program Description

Companies who receive federal grants through SBIR are eligible for a refundable tax credit equal to 40 percent of the SBIR award.

Requirements

Company must be a recipient of a federal SBIR grant.

Louisiana Economic Development

225.342.3000

Research & Development Tax Credit

What Lenders Consider

Your bank is in business to make money and keeping that in mind will help you understand what your lender is looking for when deciding whether or not to make a loan. The bank must consider the 5 Cs of credit each time it makes a loan.

Capacity to repay is the most critical of the five factors. The prospective lender will want to know exactly how you intend to repay the loan. The lender will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships—personal and commercial—is considered an indicator of future payment performance. Prospective lenders also will want to know about contingent sources of repayment.

Capital is the money personally invested in the business and is an indication of how much you will lose should the business fail. Prospective lenders and investors will expect you to contribute your own assets and to undertake personal financial risk to establish the business before asking them to commit any funding. If you have a significant personal investment in the business, you are more likely to do everything in your power to make the business successful.

Collateral or guarantees are additional forms of security that can be provided to the lender. If the business cannot repay its loan, the bank wants to know there is a second source of repayment. Assets such as equipment, buildings, accounts receivable, and in some cases, inventory, are considered possible sources of repayment if they are sold by the bank for cash. Both business and personal assets can be sources of collateral for a loan. A guarantee, on the other hand, is just

that - someone else signs a guarantee document promising to repay the loan if you cannot. Some lenders may require such a guarantee in addition to collateral as security for a loan.

Conditions focus on the intended purpose of the loan. Will the money be used for working capital, additional equipment, or inventory? The lender will also consider the local economic climate and conditions both within your industry and in other industries that could affect your business.

Character is the personal impression you make on the potential lender or investor. The lender decides subjectively whether you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background and experience in business and in your industry will be reviewed. The quality of your references and the background and experience of your employees will also be considered.

Critical Questions

Before you meet with a bank or credit union, it is a good idea to call and ask a few questions about their business lending history. After you have chosen a few banks to meet with, call and ask questions like:

- What types of business loans do you offer?
- Do you only make business loans of a certain size?
- What is your application and review process?
- How long does it generally take to fund a loan?
- What is your approval rate for business loans?

Use the answers to prepare the best loan package for each bank. When preparing to meet with a lender, keep some critical questions in mind to increase your chances of successfully obtaining a loan. Any materials prepared should answer the following questions:

- How much are you looking for?
- What will the money be used for?
- How will the loan benefit your business?
- When will you pay back the loan?
- How will you generate sufficient cash flow to repay the loan?
- Are you a good credit risk?
- What happens if your business fails and you can not repay the loan?

Most of these answers should be readily available, particularly if you have carefully prepared a business plan and a financial loan package, but it is always best to make sure the answers are clear in the materials you present.

Loan Proposal

Different lenders may require or prefer various pieces of information when reviewing loan proposals, so it is always best to call ahead and inquire about each bank's application and review process to be sure that you put together a loan proposal that meets their expectations. Generally, a loan proposal will include the following information:

- I. Cover**
 - Name of business
 - Your name and contact information
 - Date
 - Name of lending institution ("Prepared for xxxx")
- II. Executive Summary**
 - Brief description of your business
 - How the proposed loan will be used
 - How and when the loan will be paid back
- III. Business Description**
 - Brief overview of company history
 - Description of products
 - Strengths and accomplishments
- IV. Industry/Market Analysis**
 - Research on the industry
 - Analysis of competition
 - Target consumer base
 - Sales and marketing plan
- V. Top Management Profiles**
 - Summary of experience, qualifications, and credentials of top management
 - Resumes
 - Professional and financial references
- VI. Financials » [View samples](#)**
 - Projected Balance Sheet
 - Projected Cash Flow
 - Projected Profit and Loss
 - Twelve-month Sales Forecast
 - Personal Financial Statements
 - Tax Returns
 - Credit Reports (Equifax, Experian, and TransUnion are the three major credit bureaus and each has a process for requesting and obtaining a copy of your credit report.)
- VII. Summary of Loan Package**
 - Reiterate exactly how much you need and what you will do with it
 - Summarize reasons why you should get the loan
- VIII. Appendices**
 - Letters of reference, letters of intent, supplier agreements, etc.





Occupational License

Any business that operates out of a facility (as opposed to out of a home or vehicle) needs an occupational license. The license is renewable on a yearly basis and can be obtained from the municipal government.

If the business will be located in the City of Baton Rouge, the occupational license form can be downloaded online.

If not, you can find out where to register using the Louisiana Secretary of State's [GeauxBiz](#) business assistance tool. [GeauxBiz](#) is a clearinghouse for all business-related information including a database of company names, filing a business online, discovering business licensing information, and much more.

This form, along with the necessary fee, must be submitted.

Once your application is processed by the Revenue Division Taxpayer Assistance Section, an occupational license certificate will be mailed to you to be posted in the place of business.





Permits and Inspections

Each city and/or parish has individual regulations on what permits are necessary for new businesses and your facility will determine what type of inspections are required. All business owners must contact their municipal permit and inspection authorities to inquire about necessary permits and inspections.

Many of these same services are provided by the Louisiana Secretary of State through the [GeauxBiz](#) business assistance tool. [GeauxBiz](#) is a clearinghouse for all business-related information including a database of company names, filing a business online, discovering business licensing information, and much more.

Fire Marshall

If the occupancy of your building changed, you are building a new building, or substantially renovating an existing building, building plans must be submitted to the state fire marshall's office. They will review plans for compliance with the building codes and issue a review letter concerning the project. There is a review fee that starts at \$55 and is based upon the square footage of the building. The fire marshall's office will perform a final inspection prior to a certificate of occupancy being issued.

8181 Independence Blvd.
Baton Rouge, LA 70806
Plans Review Department
225.925.4920
1.800.256.5452
www.dps.state.la.us/sfm

Parish Health Units

The parish health unit must be contacted if you are selling food, beverages, and/or alcohol. The sanitation services unit will furnish you with a packet of materials to get the required health permit. The Louisiana Department of Health and Hospitals website is also available to identify the specific parish health unit.

Alcohol Permits

Any establishment serving alcohol or tobacco needs to secure an alcohol and/or tobacco license. A state and a local license must be obtained and the law states that an applicant shall mail or deliver both his applications for state and local permits within twenty-four hours of each other. The state laws governing alcohol and tobacco licenses may be renewed here.

The best way to begin this process is to contact the local alcohol permit administrator. The state Alcohol and Tobacco Control (ATC) office may also be contacted at 225.925.4041 and request a new business packet. ATC can mail this packet or you can go by their office at 8585 Archives Avenue, Suite 220, Baton Rouge, LA 70809.

Some important tips about this process:

- Anyone applying for an alcohol license **MUST HAVE** a state and local sales tax clearance before they will be issued a permit.
- ATC **ONLY** accepts money orders, cashier's checks, or certified checks. No other form of payment is acceptable.

Upon receipt of a new business application, ATC has thirty-five days to issue or deny the permit. The thirty-five days begins on the date ATC receives the application. If you have not received your permit by the thirty-fifth day, you should contact your regional office.

Louisiana Office of Alcohol and Tobacco Control

8585 Archives Avenue, Suite 220

Baton Rouge, LA 70809

225.925.4041

www.atc.rev.state.la.us



Regulations

Several occupations are regulated by a licensing board that maintains professional standards for that particular occupation, including certified public accountants, athletic trainers, cosmetologists, nurses, plumbers, and many others. To find out whether you are required to have a particular license to operate in your field, you can download and review the [Louisiana Workforce Commission's Licensing Guide](#).





Unemployment Insurance

Unemployment Insurance (UI) is a program designed to provide temporary financial assistance to workers who are unemployed through no fault of their own and who meet the requirements of the Louisiana Employment Security Law. UI benefits are paid as a matter of past employment and legal entitlement and are not based on need. In Louisiana, employers pay all of the costs of UI through a payroll tax or reimbursable program. Employees do not pay any part of their wages to finance the UI program.

Every employing unit operating in Louisiana is required to complete and submit a Louisiana Employer Unemployment Account application for an official determination of liability or non-liability under the Louisiana Employment Security Law. If liable for unemployment tax, you will receive an unemployment tax Employer Account Number (EAN), also known as a State Identification Number (SID), will be used when filing and paying unemployment taxes.

Unemployment taxes are due no later than the last day of the month immediately following the end of each quarter. Late taxes are assessed an additional penalty and interest.

Example: For quarter ending March 31, taxes are due no later than April 30.

UI Call Center

866.783.5567

www.laworks.net/UnemploymentInsurance/UI_Employers.asp





Workers' Compensation

All employers must provide workers' compensation insurance for their employees. The employer must submit proof of the financial means of insuring his/her employees.

Workers' compensation insurance can be provided by one of the following ways:

- Workers' compensation insurer
- Self-insurance
- Group self-insurance

If you have any questions, call the office of workers' compensation administration 225.342.7555.

Louisiana Workforce Commission
Office of Workers' Compensation
1001 North 23rd Street
Baton Rouge, LA 70802
225.342.3111





Business Insurance

As a business owner getting started or growing, it is important to think about what types of business insurance will be needed. Be sure that an outside event does not close your business down or keep you and your employees from being paid.

Can you still be paid if a fire causes your business to shut down temporarily? What if a customer claims that the work you did for them caused them harm or was not what you agreed to? Is there a way to recover your losses if a freezer broke and you lost all your perishable merchandise? What if a customer comes in and slips in your store?

These are some of the many questions a qualified insurance broker or agent can discuss with you to craft the policy that will best protect you, your business, and your employees. The exact package that best meets your needs will depend upon your particular business, but commercial general liability insurance is usually a “must have” for any business.

Whether it is business property and income insurance, commercial liability insurance, business interruption coverage, workers’ compensation, commercial auto insurance, bonding or umbrella insurance, it is important to secure the coverage that best protects your business before you need it.

To find licensed insurance agents in the area, visit the Louisiana Department of Insurance’s website at www.lidi.louisiana.gov.





Protecting Your Ideas

If your business idea is built around intellectual property, you may need to consider acquiring a patent or trademark. The best option is to seek legal counsel from an intellectual property attorney and most law firms in the region have attorneys who specialize in this field.

According to the United States Patent and Trademark Office (USPTO), a patent is a property right granted by the government of the United States of America to an inventor “to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States” for a limited time in exchange for public disclosure of the invention when the patent is granted. A patent may be applied for only in the name(s) of the actual inventor(s). Only certain things can be patented—utility patents are provided for a new, non-obvious, and useful:

- Process
- Machine
- Article of manufacture
- Composition of matter
- Improvement of any of the above

A trademark is a word, phrase, symbol or design, or a combination of words, phrases, symbols or designs, that identifies and distinguishes the source of the goods of one party from those of others.

A service mark is the same as a trademark, except that it identifies and distinguishes the source of a service rather than a product.

Trademarks, copyrights, and patents do not all protect the same thing. A copyright protects an original artistic or literary work; a patent protects an invention.

For more information on protecting your ideas, you may consult an intellectual property attorney or visit the inventor’s resource website of the U.S. Patent and Trademark Office.

