I. INTRODUCTION

A. Context

According to the Bureau of Labor Statistics in 2015 approximately 9.6 million people in the United States were self-employed. These entrepreneurs own businesses ranging from home childcare businesses to international consulting businesses. If you are interested in starting your own business or buying a franchise or existing business, this Article will help you get started and point you in the direction of more specific advice.

You should not rely on this Article as a substitute for proper legal, tax, or other specific advice for your particular business and special circumstances. This Article provides a broad overview of the various topics relevant to a new entrepreneur. It is always advisable to seek answers from professionals regarding specific questions that require the application of legal, financial, or similar specialized principles to a specific set of facts.
B. The Inspired, the Tired, and the Fired

People become entrepreneurs for different reasons. Some entrepreneurs are consumed by a business idea that they simply must see become a reality. Others would rather work for themselves instead of a boss. Many entrepreneurs want to escape poverty, dependence, or the inflexibility of their current jobs through business ownership. Also, an increasing number of Americans today are entrepreneurs not out of choice, but out of necessity.

II. BUSINESS IDEAS, MARKET RESEARCH, TECHNOLOGY, AND ALTERNATIVES

A. Business Ideas

All entrepreneurs start with a business idea. If you already have a vision for your new business, congratulations! You have completed the first step towards owning your own business. If you have not determined what your business idea should be, but know that you want to be your own boss, you may need a little help narrowing your focus to businesses that may be right for you.

Consider Lee, an underpaid clerical worker, who wanted to be her own boss, but had not yet come up with a business idea:

I took some classes sponsored by a local community college on starting your own business, and started talking to local business owners in our community about how they got started, what their greatest challenges were, and what new products or services they perceived as a need or opportunity in our area. I read newspaper and magazine articles and started thinking about ways that I might make money while I went back to school to explore my long-term career plans. I spent a lot of time trying to think of ways in which I could make my personality and skills work for me.

Lee focused on her experience and background and then realized that she needed more education to successfully choose a business idea.

Your experience and background should also play an important part when developing a business idea. You should choose a business with which you are familiar and with which you have some experience. For example, it is not a good idea to open a restaurant if you have never
worked in one. Although you may appreciate fine food and good service, you do not possess the necessary knowledge or experience to produce either. Specific industry knowledge and experience prepare an entrepreneur for the challenges that lie ahead on the road to business ownership.

When searching for or evaluating business ideas, ask yourself some questions: What skills do I have that may be marketable or may help me run this business? What skills do I need to learn? You need to make a conscious effort to evaluate your skills and experience and determine what you need to learn—then start learning. This Article should help you get started with business basics and with ideas of where to go for more information. There are many sources to draw upon; you do not need to go at it alone and travel down the risky path of pure trial and error.

It is also wise to explain your ideas to others. Your friends can be a valuable place to start. Also, be sure to take advantage of the Tennessee Small Business Development Centers (“TSBDC”). Throughout Tennessee, TSBDCs offer a wide range of assistance to established small businesses and entrepreneurs engaged in start-ups. The specialists in these TSBDCs offer free one-on-one counseling and can help you through each step of the start-up process. The TSBDCs do not have start-up funds, but they do provide start-up seminars that discuss the different types of business entities, organization, tax requirements, business licenses, and financing options. TSBDCs also offer workshops on developing your business plan and provide question and answer sessions with professionals, such as certified public accountants and attorneys. The consultants at TSBDCs’ resource centers can help you access databases, software training programs, the United States Small Business Administration’s (“SBA”) publications, books, and manuals. For more information and the TSBDC office nearest you go to https://www.tsbdc.org.

The Service Corps of Retired Executives (“SCORE”) also provides excellent mentoring, counseling, and training services. SCORE volunteers are experienced in many business areas, and the organization strives to match prospective and established business owners with a SCORE member who has expertise in a comparable area. SCORE members also conduct counseling sessions via e-mail. To find the SCORE chapter near you and links to business resources visit the SCORE web site at http://www.score.org.
Like it or not, you must engage in market research to succeed as an entrepreneur. Conducting market research does not have to mean utilizing high-priced consultants or crunching numbers. Market research boils down to whether there are enough potential customers for your product or service, and whether those potential customers will buy from you in quantities large enough and at prices high enough for you to make a profit. If you have done more than merely think about an idea for a business, chances are you have engaged in market research already. If the idea is related to your current employment, you have learned and continue to learn about industry structure, distribution, and product placement on the job. If you have whipped up batches of gourmet doggie treats and made your family, friends, and pets eat them, you have tested a prototype (Don’t laugh; some doggie bakers are now millionaires). If you have talked to several potential clients regarding their likes and dislikes, you have already completed a focus group survey.

However, when entering a field where you have little experience, it may be necessary to rely upon formal marketing studies, study trade-specific journals, use a formal focus group, or compare competitors.

Once upon a time, getting your hands on databases that yielded useful information for start-up businesses was expensive, difficult, and time-consuming. Now, using market research is as simple as going to your local TSBDC or public library. You can also access the information online through your own computer. These databases contain the information necessary to locate suppliers, trade associations, and potential clients; attain information about industry fairs, trade shows, and seminars; and, perhaps most importantly, to assess your competition.

An entrepreneur cannot afford to be without the information that the competition utilizes. Nor can an entrepreneur ignore the national and international trends that shape the chosen industry. This does not mean that you should forego entering a crowded market. However, you must know your competition, particularly if you have resolved to buck a trend. You must know who the competition is likely to be in the future, and know how you can do more for less than the others can. Your customers are likely to focus on how you will add value to their endeavors.

The kind and amount of research you must do before sinking capital into an idea varies depending on the type of market you enter. Many entrepreneurs will tell you that real test marketing begins with
opening a business, and, once started, never ends. They may also tell you that all the market research in the world will not do any good if you are unwilling to apply it to your goals. Applying that lesson may require substantial alteration of your original vision. While commitment to a quality service or product is important, ignoring the preferences of your customer base is an altogether different—and unprofitable—matter. As a provider of goods and services, you need to focus on your customers’ needs, and remember that these needs do not necessarily coincide with your own assessment of what is needed.

One thing that you must do, regardless of resources, is to test your idea by talking to others. Many ideas for new businesses spring from personal frustration with the unavailability of a desired product or service. If other consumers share your frustration, or you perceive that a segment of the market is underserved, you may have just found the idea you need for your new business. Be aware, however, that as markets get more specialized, the vulnerability to changing consumer tastes increases. You may be concerned about someone stealing your fabulous idea, which can and does happen. However, you will never get the critical information you need by using the “cloak and dagger” method. Take comfort in the fact that those inclined to steal your idea probably will not. Usually, the hard work is in the execution of the idea, not the conception. Competitive copying starts after you have both a proven idea and a viable business model.

C. Technology

Utilizing available technology enables entrepreneurs to push a business to the forefront of the market. You should investigate the pros and cons of the technology available in your chosen field, and then decide if it will benefit your business. The globalization of the economy and the rise of the information era are very much on the minds of business analysts and lenders these days. Your acknowledgment of the role that these issues play in your business—and your demonstration that you are prepared to adapt to the changing tides—will rest favorably with such people. Technology can also be a great (and often inexpensive) way to get your new small business off the ground. In fact, the data a business generates, controls, and analyzes may become as important to its success as the products it sells.
D. Entrepreneurial Alternatives to Starting from Scratch

If starting from scratch with a brand new business idea is not what you had in mind, franchising or purchasing an existing business may be an excellent alternative.

1. Franchising

Purchasing or leasing a franchise provides the entrepreneur with valuable operations assistance. Many franchises offer market research, standardized procedures, and products or services that are already in demand. The costs associated with franchises may be considerably smaller than those associated with a brand new business, although up-front costs may be substantial.

There are two basic kinds of franchises: business format franchises and product and trade name franchises. In a business format franchise, the entrepreneur buys the right to purchase inventory and trademarked goods, as well as the right to take advantage of national advertising campaigns. Business format franchising includes a continuing relationship with the parent company. As the franchisee, you might buy inventory, sell trademarked goods, enjoy national or regional advertising, or receive bookkeeping help or training assistance from the franchisor. Most fast food giants are business format franchises. Business format franchisees agree to considerable operational integration with the franchisor—from standardized accounting procedures to required employee training. The diminished autonomy for the entrepreneur that comes with purchasing an established franchise is counterbalanced by a reduction in market risk, and there is usually room for entrepreneurs to express their commitment to their own brand of outstanding attention and service.

The other type of franchise, a product and trade name franchise, involves the purchase of the right to sell the franchisor’s products or services in an exclusive territory. There is traditionally less operational control on the part of the franchisor with product and trade name franchises. Auto dealerships and bicycle retailers are two examples of this kind of franchise. However, the distinction between the two types of franchises is becoming blurred as auto manufacturers and other product and trade name franchisors seek to exert greater control over operations in their contracts with franchisees.

A franchise can be expensive, and you may be expected to come up with a twenty-five percent (25%) to thirty-five percent (35%) equity stake in the operations. The qualification process can also be slow and
frustrating. The Federal Trade Commission ("FTC") requires franchisors to provide a Franchise Disclosure Document, which details the financial, legal, and operational terms of the franchise agreement. The FTC has an informative publication: "Buying a Franchise: A Consumer's Guide" which can be found at https://www.ftc.gov/tips-advice/business-center/guidance/consumers-guide-buying-franchise. Franchise contracts can be complex and sometimes deceptive and may include surprising terms such as termination fees. You should consider having an agreement reviewed by an attorney experienced in franchising.

A word of caution is necessary: Do not confuse a pyramid or multi-level marketing scheme with a legitimate franchise. If the pitch involves the recruitment of other investors or salespeople and little to nothing about the product itself as the source of profits, beware. The Tennessee Department of Commerce and Insurance can assist you in determining a franchisor's legitimacy. The telephone number is (615) 741-2241. You should also contact the Federal Information on Franchises hotline at 1-800-688-9889.

2. Purchase an Existing Business

Purchasing an existing business may also be a good way to begin your entrepreneurial career. Existing businesses do not require start-up capital beyond the purchase price, which may be deferred through seller financing. Existing businesses have customers, employees, vendors, and products on the shelves.

If you are interested in purchasing an existing business, there are a few things you should know before you make an offer and execute an asset or equity purchase agreement. First, you must research the particular business’s worth. Although real estate, business equipment, and other tangible items may be worth a considerable amount on paper, a business is not valued simply by its tangible assets. It is important that you analyze the business’s ability to make money with those assets, especially when those assets are operated in your hands. The business must be able to generate cash and make a profit for you or it is not worth your money—no matter what the value of its assets is on paper.

The best way to determine whether the business will be able to generate continuing profits is by analyzing its income statement for at least the past three years. Examining the statements will enable you to anticipate the business cycle, income, expenses, and profitability. Also, consider whether the business relies on the personal attributes of its
current owners. Make sure the expected cash flow will be available to you. These indicators are necessary to forecast whether the business will be able to withstand new debts and still create a profit.

If you purchase the business, do not assume its liabilities unless necessary. You should check your buyer’s agreement carefully to make sure you are not assuming unknown liabilities by signing the agreement. If you do assume liabilities in the purchase, consider those possible liabilities when establishing a purchase price. It is a good idea to have an attorney look over the paperwork before signing the agreement.

After purchasing the business, you should make sure that everything in the former owner’s name is reissued in your name, as required under bulk transfer laws. You must also get your own business license, tax numbers, and insurance. See Section VI for more information about these items.

III. A BUSINESS PLAN AND YOUR BUSINESS

A. Business Plans

A business plan is a document that describes the business and outlines your plans and prospects for success. Do not neglect this step in the process. If you cannot clearly explain how the enterprise is going to work, then you have not engaged in sufficient analysis to justify spending your hard-earned money. The business plan serves internal and external purposes, each of which are important. Determining your expectations and defining your goals will help you make important decisions about your new business—including whether the time, effort, and money invested will be worth the risk in the long run. Creating a business plan will help you do this. A business plan is also vital to procure capital should you seek investors or support from outside sources to finance your venture.

Writing a business plan forces you to solidify your ideas, which provides a check against giddy enthusiasm. Writing a business plan is not fun or easy, but the process raises issues that might have otherwise been overlooked and challenges you to come up with creative, preventative ways of dealing with those problems. You may end up keeping your old job while you start your new business on a part-time basis, postponing your plans, changing the type of business you start, or not starting a business at all. You risk losing your dream by thinking it through, but such a loss is better than losing your dream as well as your house and other assets.
Your start-up business plan can serve as a yardstick by which to measure your success over a period of time and as a starting point for further planning. Planning for the future is necessary. Business people frequently analogize a business plan to a road map or game plan, and the analogies work. Business plans serve as guides to reach goals and allow for obstacles and alternate routes. Operating without clearly defined goals and strategies does not prepare you or your business to anticipate or solve problems that come along. As the old adage says, “Those who fail to plan, plan to fail.”

Because no two businesses are alike, their structure and content are not set in stone. A start-up plan will rely on educated guesswork and projections much more than a plan for an established business. Most plans are outlined like the example found in Appendix B. You will have many of the answers you need to prepare your own business plan if you refer to the Appendix B example while working through the corresponding sections below, which describe each section of a business plan. Appendix B is annotated with footnotes to explain the purpose of each section of the plan. These footnotes are not part of the business plan. The footnotes are comments for purposes of this Article’s discussion.

B. Your Business

1. What Kind of Business is Right for You?

Whatever the sources of your decision to have your own business, the same amount of work is required in order to succeed. If your journey begins with “the idea,” you will need to subject both the idea and yourself to careful scrutiny. Can you clearly articulate what you want to do? Does the idea’s power over you begin to fade after the initial infatuation? If your conviction remains strong after the passage of weeks and months, then you need to ask yourself whether you are ready to commit yourself to that idea for the next five years and beyond. If the answer is no, you might still be able to turn that idea into a profit-making venture for yourself. For example, you might have a great idea for a new home craft product, but you are not interested in mass producing it or selling it at regional craft shows. You might, instead, market the plan and instructions for the craft to a national craft publishing company or magazine.
If, on the other hand, you believe you are committed to starting your own business, you need to ask yourself the following questions:

- How does being an entrepreneur serve my personal goals?
- How much time do I have to devote to my new business in order to make it successful?
- Do I have the support of my family?
- In what ways can I make my previous work experience work for me?
- What sorts of things am I familiar with?
- Where are the holes in my knowledge, either in general business or in my area of interest, and how can I fill the gaps?
- Am I doing this to get rich quick? (If the answer is yes, you’re probably not going to achieve your goal. While the magazines are full of stories about overnight millionaires, they are the exceptions.)
- Do I have a solution for a pesky problem, or an idea for an untapped niche market?
- What do others recognize as my talents?

If you have not picked a particular idea for a business, the following discussion of business types and concepts might help narrow the field. There are several broad categories of businesses, including retail, service, and manufacturing. This list is not exhaustive, and one business may combine elements of several types.

i. Retail

Retail businesses generate money by selling products to customers. Profits are generated through markups or margins. The most familiar form of retail operation is a store in a fixed location. Other retail operations bring products to the customer on a route or, increasingly, through catalog sales or electronic ordering. Mail order companies depend upon the strength of their web site or catalog and on identifying and reaching the right customer base. For a traditional store, one of the most important factors is location. Finding a location that is both appealing to your customers and affordable is quite a challenge, but for a retail business this spells the success or demise of an operation.

A fabulous, well-targeted catalog, web site, or a great location alone will not guarantee success. Other crucial factors relate to the skills of the entrepreneur. They include managing production costs, inventory costs and turnover, marketing, customer service, hiring the right people and managing them well, projecting sales and seasonal fluctuations, and planning and managing cash flow.
Entrepreneurs considering a retail enterprise must be prepared for spending much of their lives at their business, particularly during its inception. If you and your family run the store or supervise the warehouse, vacation time can be scarce to nonexistent. If there are long hours of operation, family members may only see each other as they swap places at the cash register. Labor costs may be the one variable in a small retail operation that you have the power to influence. Cost control, however, is not the only reason that small retailers spend a significant amount of time at their stores. Retailers also gain their customers’ trust and loyalty and receive valuable marketing information.

ii. Service

In a service business, the owner sells his or her expertise and skill. The service provider makes use of either knowledge or equipment, or both, that consumers do not have or cannot use on their own. Maid services are an example. Some service businesses, like medical practices or accounting firms, do business by having customers come to them. Still other service businesses, like landscaping, construction, and carpet-cleaning businesses, bring their services to the consumers. In addition to most of the skills outlined above for retailers, service providers must adequately supervise employees and enforce work standards, as well as make bids on projects that will be both competitive and profitable.

Not all service businesses will rely entirely upon the owner’s particular skill or expertise for its total value. However, in the early days, a service business of any kind will be linked intimately to its owner’s identity. The demands on an entrepreneur’s time are likely to be as large as those of a retailer, but may be more fluid because of shorter operating hours or seasonality.

iii. Manufacturing

Manufacturers produce and sell products to retailers or wholesalers, either as finished goods or component parts; they generate profits by selling products for more than their fixed and variable costs. It is very important to consider all costs, including general administrative support and overhead, and not just those direct costs necessary to produce the product. Manufacturers need the customer service and marketing skills of the retailer and the ability to project costs of the service provider, but they must also engineer and design the product, manage its production, control quality, evaluate its commercial lifespan,
and become adept at labor relations. The manufacturing business may require more start-up capital than a service or retail business; it generally requires more start-up fixed costs for plants and equipment and takes longer to generate profits.

2. Business Name

After determining the right type of business, you must name it. The business’s name says everything about the business and can be as practical or as catchy as you determine it needs to be. After you have decided on a potential name, you should check with the Tennessee Secretary of State ("Secretary of State") by telephone at (615) 741-2286 or by web site, at http://www.sos.tn.gov, to run a business name availability search. From the web page, after clicking on the business services link, you can type in the proposed business name to see whether it is already being used. The web page also provides information concerning business name availability guidelines.

If you determine that the perfect name is available, but are not yet ready to file the appropriate documents to create the business entity, if any (more about choosing and creating your entity in Section V), you, as a representative of the prospective business, may file an application to reserve the chosen business name with the Secretary of State. A representative of a corporation, a limited liability company, or a limited partnership may file an application for name reservation.

3. The Overall Purpose of the Company: The Mission Statement

The company description sets out the underlying approach of your company and the strengths that distinguish it from the competition. You might consider breaking the overall strategy and mission statement into three sections—past, present, and future. In discussing your business’s origins, you can explain the overall purpose of the company, when it was founded, and your original strategy for breaking into the market. In discussing the present, you can outline how you have adapted your initial plans in the face of test marketing, research, or other changes, and explain your current needs and strengths. You can be honest about your current challenges and difficulties without being negative. Your discussion of the future should outline the means by which you seek to reach your objectives, which should be cast in plain, active language. Although you will be relying on projections, you should state very clearly where you expect to be in a finite period of time. As much as possible, your projections should be supported by research.
4. Offices and Locations

i. Home-based

Home-based businesses represent an increasingly important segment of new businesses. The majority of self-employed people own home-based businesses. The rise of home-based businesses can be attributed to technology that allows information sharing without the need for a traditional office, and to the entry of large numbers of women into the entrepreneurial field on at least a part-time basis.

Most home-based businesses are so intimately dependent upon the skills of the entrepreneur that they cannot be successfully separated from the owner. Child caregivers, artists, writers, craftsmen, photographers, and consultants in specialized fields are examples of home-based businesses. Their profitability depends on the degree to which the entrepreneur can identify and access small, niche markets. Also, the entrepreneur must price the product or service so that it generates revenue in excess of fixed and variable costs and provides adequate compensation for the time expended.

Initially, anyone considering a home-based business should check local licensing, zoning, and land use restrictions because some communities have outlawed home-based businesses altogether. Common restrictions affect sign placement and customer volume. Home-based businesses can provide additional tax benefits to entrepreneurs; check current tax regulations to see if the expenditures you plan for your home office will be deductible.

Because of the flexibility they offer, home-based businesses have special appeal for entrepreneurs who place a high priority on time spent with family. Benefits of home-based businesses include: freedom, flexible work hours, being your own boss, creating your income, and escaping the corporate lifestyle. However, there are real challenges in maintaining a professional image and work routine, as well as organization in the home. Today, home-based businesses are competitive in the marketplace, and the advent of voice mail, email, and mobile phones has made professional services much less expensive and more accessible than in the past.
The Internet can be the exclusive location for your business, an excellent tool to assist a conventional business, or even a great way to make your business accessible to a broader customer base. If you choose to develop a business web site, it is important to limit exposure to web-related liability for both yourself and your business (depending on your chosen form of business entity). Your web site will need, at minimum, a Terms of Use/Conditions Agreement and a Privacy Policy. You will need both of these items, as each serves a separate and distinct purpose.

A Terms of Use/Conditions Agreement sets the rules for use of your web site by others and is typically presented to web site visitors as a hyperlink. Your hyperlink to the Terms of Use/Conditions Agreement must be conspicuous so that the visitor will notice and read this document. If your hyperlink is not conspicuous then a visitor can claim he or she did not know it was there and therefore that he or she should not be subject to its conditions.

The Terms of Use/Conditions Agreement itself should spell out the terms that a visitor to your web site agrees to abide by. It should clearly explain a visitor’s rights and obligations, as well as the rights your business reserves regarding the web site and its use, including reservation of all intellectual property rights. A typical Terms of Use/Conditions Agreement provides for arbitration (binding dispute resolution), waiver of jury trial, choice of law (designates governing jurisdictional law), and choice of jurisdiction (designates proper state or country to exercise jurisdiction) in the event a dispute stemming from use of the site results. It would also be a good idea to include a limitation of liability statement in your Terms of Use/Conditions Agreement and use language that an average visitor to your web site can understand.

Most importantly, your Terms of Use/Conditions Agreement must be structured so that the visitor agrees to its terms before completing a web site transaction, rather than simply having the option to peruse the agreement without assenting to its contents. You should seriously consider paying an attorney to draft these provisions.

You will also need a Privacy Policy to explain to your web site visitors exactly what your business does with the personal information that they provide during transactions or web site registration. Your business should create and abide by a Privacy Policy even if it does not solicit visitor information—for example, if your business receives visitor questions and comments via e-mail. A Privacy Policy should take into consideration the business and legal effects of that policy.
If your business utilizes employees that have access to your web site and/or e-mail, you should prepare an official, written policy and require employees to sign that policy before they receive access to the system. This policy is intended to limit potential liability that stems from your employees’ use of your network. The policy should include rules concerning the types of e-mail that may be sent from business computer systems or e-mail addresses and the types of web sites that employees may visit. If you choose to monitor your employees’ Internet and e-mail usage, this policy and the range of your oversight must be clearly stated in the employee-signed company policy. All of the above documents are best drafted with legal guidance.

iii. Based outside home

Many businesses must be based in a location other than the entrepreneur’s home. Some businesses may need to be located outside the home due to zoning restrictions, while others may need more space for equipment and products than an entrepreneur’s home provides. Still others simply may be located outside the home because the entrepreneur feels he or she can reach a broader customer base from a different location.

If you choose to locate your business outside your home, you will most likely need to lease business space. Your lease agreement should be negotiated to include all the terms you desire and then reduced to writing. This written agreement will generally supersede all other agreements between you and your landlord. It cannot be modified unless the modification is in writing and is signed by the party that the modification detrimentally affects. Therefore, you should be certain that all terms that have been agreed upon are included in the final written agreement. It may be helpful to consult an attorney to make sure that your desires and concerns are properly addressed in the document before you sign it. Be wary of signing a preprinted “standard” lease. Anything that you and your landlord agree upon verbally will be superseded by the provisions in this one-size-fits-all lease. Make sure your commercial lease agreement reflects your understanding of the lease arrangements and suits your business’ needs.
C. The Market

This section of the business plan identifies what benefits your business has to offer and demonstrates whether there are enough customers out there who will buy from you in order to support your business. Essentially, you must convince your audience (banks, investors, and other sources of financing and support) that your company, by virtue of some benefit it confers on its customers, has an edge on the competition. Identifying the particular appeal of your product or service is the relatively easy part. The ability to demonstrate the existence of a base of customers may come from newspaper articles, economic or census data, market studies, test sales, and the like. This is one statistical area for which you can actually provide real numbers, unlike much of your financial projections later in the plan. If you do not have those numbers, seek them out online, at the library, or Small Business Development Center.

Answering the following questions will assist you in completing the marketing section of your business plan.

• What do you sell? (products or services)
• How does what you sell fit the needs of the marketplace?

Whatever your product or service, you will need to be able to describe it in terms that appeal to the marketplace and those reading your business plan, rather than in terms that merely appeal to you. If it is a technical product geared for mass consumption, you will want to focus on its uses and not its fabulous inner workings. If your customers are lower to middle class consumers, you will want to avoid terms that will make it look as if your service or product is too expensive. You must be able to identify the kinds of customers that will be interested in the product or service, your target market, the projected number of customers in the area, and those customers’ willingness and ability to purchase the product or service.

1. How Will You Break Into The Market (If You Are Not Buying an Existing Business)?

This section details your marketing approach. Your marketing approach should explain how you will create a demand for the products or services your business sells. Now that you have identified your customers, describe how you are going to reach them in a cost-effective manner. You should consider any possible venue for advertising, as well
as the use of in-house sales forces, telemarketers, direct mail, and exhibitions at trade shows. Your plan should outline the costs of any such strategies. If you are making a product, you will need to discuss your sources of supply, the capacities of any subcontractors, equipment, and quality control. As with sales and promotion, you need to include cost information. You should also be able to define your target market, and whether it is local, regional, national, or international in nature.

2. Who Are the Industry Participants?

To answer this question, you must learn all you can about your competition in the industry. Every business has competition. If the target market has a need, it is being fulfilled in some manner, perhaps by a substitute or another type of business. When researching your competitors, you should find out who they are and where they are located. You should also determine how long they have been established and how big they are. Knowing how many competitors you have and exactly what they do will help you develop your own successful marketing strategy. Studying this information will also make unfilled market niches more apparent to you—some of which you may want to target your business to fill. Your business plan should also discuss the state of the industry, explaining whether it is new, growing, maturing, declining, etc.

3. What Distinguishes You From Your Competition?

After you have determined what competition is out there, you should determine what strengths and weaknesses your business has in comparison. When answering this question, you should be able to list the business advantages you have over each of your competitors.

D. Managing Your Business

1. Your Management Team

For a start-up business with little or no history, selling your management team is critical. In the absence of a company track record, the skills and attributes of the entrepreneur may be the only known factor. Your resume (and that of any other person playing a management or key role in the business) should include all educational and employment information and can be introduced by a short personal
statement. You must be honest and complete in the information you provide, but write your personal materials with attention to demonstrating success in applicable fields, leadership ability, or a proven track record with other start-up operations. You may not have started a business before, but you may have worked in close association with another successful entrepreneur, or even founded a volunteer organization.

2. Other Owners or Investors

If there are other owners or investors, identify them, the amount of their investments, and the percentage of each one’s ownership control. For a corporation, list the names of directors and officers. Also, include information on any employment contracts you have already executed and break down labor costs by person and position. You should include a separate stock option description if you have one planned or in place.

E. The Present and the Future

Your business plan should also include information about the present state of your business and its future goals. You should list the current needs of the business, cast in positive terms. Identifying your needs helps you focus on meeting those needs, and lets lenders and investors know that you have thought through your business operation. You should also explain where your business expects to be in five years and ten years, using projections gleaned during market research.

You may still be doubtful about the benefits of a business plan for your own purposes, but a business plan is also a tool for use in obtaining financing, investors, and even contracts with other businesses. After the real estate fiascoes of the late 1980s, banks and other lending institutions became much more cautious about business lending. It is not enough to fill out a loan form and expect to ride on your personal and credit references. You will also be expected to present as comprehensive a business plan as is possible. If you are approaching investors, even those close to home, it is reasonable for them to expect to see your plans in writing. How else are they to evaluate the merits of your proposal? And, if you are lucky enough to have the possibility of a sale to a large corporation, you will need a business plan to instill confidence in your ability to deliver as promised and to convince them that you have given thought to the next several years.
Sharing a business plan with a bank is an important feedback opportunity. Even if you plan to self-finance, the process of applying for a loan will put your business plan under the scrutiny of experts and give you invaluable, objective information about any problems in your plan or items you may have overlooked. Besides, you can always turn down a loan offer or postpone acceptance. Applying for financing allows you to meet reality. Jeffrey Bezos, the founder of Amazon.com, sums this up well, “[y]ou know the business plan won't survive its first encounters with reality. It will always be different. The reality will never be the plan. . .”.1

IV. FUNDING

A. Financial Plans – Determining Your Specific Business Needs

How much money do I need? More than you think. Generally, the government does not provide free money to start-up businesses. Also, remember that lenders do not provide 100% financing for business start-ups. Banks will be interested in the origins of initial start-up money; in other words, you will not be able to borrow on borrowed equity. It is essential that you demonstrate to your sources of financing that you (and perhaps your family) have put your own resources at risk.

B. Explanation and Practice Forms

Three basic financial statements should be included in this section: cash flow, income statement, and balance sheet. You should also understand the role of a Statement of Owner’s Equity. These financial statements should provide, as completely as possible, a picture of your business’s present and predicted financial condition. They should discuss your expected date for reaching the break-even point and profitability. Your financial statements should make clear what the biggest expenses are likely to be over the next five years. If you are making a loan application or seeking investment, state exactly how much you seek, the form of financing you want, and detail exactly how you intend to use the funds.

In preparing these statements, rules of financial accounting should be used, since these statements are being prepared for outside sources. Be aware that different rules and guidelines apply to financial accounting than tax accounting. Five basic rules will help you prepare or interpret financial statements:

- **Be comparable and consistent**: Once you choose a method, use only that method so that comparisons in subsequent years will be possible. If you change methods, you must tell the user in the financial statement footnotes.
- **Materiality**: When a financial statement is presented, the statement must not be incorrect by a material amount.
- **Conservatism**: Do not overstate assets or income.
- **Full Disclosure**: Your financial statements represent that you are disclosing everything that has happened to the business, in this company, etc. from the starting date of the statements through the ending date. Failure to disclose or the misstatement of material facts can have very serious civil and criminal repercussions.
- **Cost versus Benefit**: Do not do anything that costs more than it benefits the company.

A comprehensive discussion of these kinds of statements is impossible in an Article like this. Hopefully, the following overview will help you learn the basics of how to use them in order to function as an entrepreneur.

1. **Cash Flow**

   There is no magical formula that will accurately gauge your real start-up needs, but engaging in several month’s to a year’s worth of cash flow projections can help you arrive at a reasonable estimate. Cash flow is a term that refers to the measuring of the difference between the movement of money in and out of your business over a period of time. Cash flow does not equal sales or profits. Crudely put, cash flow determines your ability to pay the light bill at the end of each month. It will be an experience. The short introduction that follows should help you start thinking in cash flow terms, but you will need to do more homework before you start making big commitments.

   During each month for which you can make projections, you will begin with “starting cash” (or starting balance). That is the money you will have on hand. For the months that follow, you will use the same number as the previous month’s ending balance. “Cash in” includes all
sources of cash received this month, including cash sales and paid receivables. Paid receivables are made up of previously invoiced sales for which you actually get paid. When you project paid receivables, you will need to estimate, with as much accuracy as possible, the lag time between the sale and its collection. “Cash in” also includes interest payments (probably not an issue for the struggling entrepreneur), as well as “other” sources of cash, such as bank loans, stock sales, or the sale of a company asset (like equipment). A total of the sources equals the “cash in” total.

Next, you will need to estimate “cash out.” Money leaves your business in essentially two ways, either as fixed or variable expenses. Fixed expenses arise regularly and are not very flexible. They include rent, payroll, payroll taxes, utilities, loan interest and principal repayment, and insurance payments. Variable expenses change from month to month, and frequently vary with seasonal changes, sales volume, or production. Supplies, advertising expenses, legal expenses, consulting, and commissions are some examples of variable expenses. Add fixed and variable expenses together to calculate the “cash out.”

Adding “starting cash” and “cash in” together, then subtracting “cash out” from that total equals “ending balance.” The cash you have at the end of the month is the cash you have on hand for next month’s projection. It becomes your “starting cash” entry for the next statement. Great, you say, but I thought this was a “cash flow” projection. And so it is. To get your “cash flow,” which simply measures the amount of net cash that flowed into your business that month, subtract “cash out” from “cash in.”

By creating a cash flow projection, you will be able to determine the amount of capital necessary to get started. For your initial projections, use a zero balance for “starting cash,” and continue month-to-month projections until your ending balance is positive. Then, you look back over the monthly statements and find the largest negative balance. The largest negative balance tells how much money is needed to cover your expenses until the break-even point. This amount is what you must have to get started (provided, of course, that you do not have any unforeseen expenses and that your sales go as planned). If the largest negative balance is plugged in as “starting cash,” your cash flow numbers will remain the same. This is so because cash flow simply measures what
goes out and comes in during any given month. What will change in those statements is that you will not have negative balances at the end of any given month. Therefore, you can pay your bills and payroll.

Your projections about your start-up needs are only as good as your estimates. Your start-up need estimates should include initial start-up expenses (money spent before you open for business) and working capital (what keeps the door open). Most entrepreneurs make the mistake of underestimating their needs, in part, because it is scary to throw numbers about. You might consider drawing up three cash flow projections: best case, worst case, and somewhere in between. Then, at least you will have a better sense of the possible scenarios. It will probably take longer than you expect to start generating good sales numbers. It takes time for word to get out that you are in business and even longer for people to start taking you seriously. Also, keep in mind that you will be operating at the low end of the learning curve for a while. At first, you will make mistakes and some tasks will initially feel very foreign. Rest assured that these same tasks will eventually become second nature to you.

Engaging in cash flow exercises can also encourage you to come up with creative ways to keep costs in control, or it can suggest alternate paths for entering your business. If the prospect of meeting monthly lease payments for your retail business seems unworkable, you could consider operating out of your home, leasing a space in an antique or craft mall, selling at shows or special events, or purchasing a seasonal kiosk at a traditional mall.

2. Balance Sheets

A balance sheet is a picture of a business’s financial position at a specific point in time, much like a snapshot. It consists of three major categories: assets, liabilities, and owner’s equity. The basic balance sheet formula is Assets = Liabilities + Owner’s Equity.

Assets are things of value that you own and can measure in dollar amounts. Assets include cash, inventory, equipment, land, prepaid insurance, prepaid rent, buildings, and accounts receivable. Accounts receivable represent money your business has earned but has not yet received. Each of these is a separate line item in the assets section of the balance sheet.
Liabilities are the amounts you owe someone else. For example, your accounts payable represent money you actually owe to creditors and suppliers. Owner’s equity is capital the owner has invested in the business; it is discussed below.

A statement of owner’s equity (O/E) is a separate statement that must be prepared prior to preparing the balance sheet. A statement of owner’s equity is an analysis of capital invested in the business. Basically it shows what the business has accumulated minus what it has used. To prepare an O/E: (a) start with beginning capital, (b) add net income (revenue – expenses = net income), (c) add investment (Ex: interest earned), (d) subtract any dollar amount the owner withdrew for personal use. The final number will be used as O/E on the balance sheet. For your start-up business, this number may simply be the beginning capital amount if no net income, investments, or withdrawals exist. Remember that an owner’s investment in the business is considered capital in the equation, not an investment. See Appendix B for a balance sheet example.

3. Income Statements

If balance sheets are like snapshots for a particular point in time, income statements are like videos of the entire year. Income statements report net sales minus costs and expenses.

Income statements are made up of two accounts: revenue and expenses. Determining revenue depends upon which accounting method your business uses, accrual or cash. Most businesses use the accrual method. Using the accrual method, revenue is not what your business has received in cash, but what it has earned. Small businesses, churches, and some nonprofit organizations use the cash method, which recognizes revenue as it is paid—not when it is earned.

Expenses are the amount your business incurs to generate its revenue. Expenses include: rent, utilities, salaries, advertising, tax expenses and depreciation, among others. For an example of an income statement, see Appendix B.

C. Where Do I Get It? (Securing Capital)

Think close to home, like your own money, your spouse’s money, your parents’ money, and so on. Contrary to popular belief, banks and venture capitalists are not the most common sources of
capital for start-up businesses. Institutional sources of money regard start-up firms with wariness. After all, your business is an unproven commodity. Even if they are willing to extend credit or make an equity investment in your business, they will want to see evidence of your (or your family members') confidence—that is, your own investment in the business. In addition, a business loan or the participation of a venture capitalist carry a heavy price, either in the form of high interest rates or a significant ownership interest. Your small size makes you less attractive to banks and venture capitalists as well because there are significant transaction costs associated with striking a deal. Your financing needs simply may not be large enough to interest a traditional banker or venture capitalist. Venture capitalists are looking for proven management skills and big returns (i.e., millions of dollars) on their investments over short periods of time.

If you are approaching a bank for a loan, be forewarned that it is likely to be granted on your personal credit history, or on the strength of a relative or friend’s credit, not on the strength of your business. Expect the bank to extract a personal guarantee of repayment and possibly require another person to guarantee repayment as well.

The SBA administers loan guarantee programs throughout the United States, but the availability of these funds to the beginning entrepreneur is extremely limited. To find out more about SBA programs, contact the agency’s Small Business Answer Desk at 1-800-U-ASK-SBA (1-800-827-5722) or visit their web site at http://www.sba.gov.

The SBA guarantees loans to finance small businesses for both long term and short-term cyclical working capital needs. SBA guaranteed loans are granted for up to twenty-five years for real estate, ten years for equipment and seven years for working capital. Loans are granted based on the borrower’s ability to repay the loan, the loan’s purpose, and the useful life of the assets financed. Financial institutions and lenders usually request the guarantee from the SBA.

The SBA and lenders favor entrepreneurs with management expertise and sufficient funds and cash flow to operate the business and pay back the loan. Adequate equity or investment in the business and sufficient collateral, as well as the commitment to success, are also important. The SBA and lenders approve loans based upon how well the entrepreneur presents herself, the business, and its financial needs. Make sure you prepare the essential well-written and well-thought out business plan to support your loan application, regardless of whether it will be SBA guaranteed.
The most common sources of funding for entrepreneurial start-up costs are those closest to home: personal resources and those of family and friends. From one perspective, it would be nice to use “other people’s money,” but relying on your own resources has its value. If your idea seems too risky to stake your personal resources on, then it probably needs to be reworked or even abandoned. That does not mean that it makes sense to stake all the resources you have on your idea, because even the most carefully planned and executed business ventures sometimes fall prey to circumstances beyond the control of the entrepreneur.

As you seek start-up money, consider the following personal sources and the advantages they offer. Personal savings, including retirement funds and profit-sharing plans, are frequent sources of start-up capital. There are tax penalties associated with using sheltered money, as well as the sacrifice in security you make by using existing savings, but you may be more willing to risk losing them if you are not near retirement. Keep in mind that if the business fails, you may find yourself in search of employment without the benefit of a savings cushion.

You may also choose to finance your start-up costs with personal borrowing. Whole life insurance policies can be borrowed against, and the interest rates are not horribly onerous. If you default on the loan principal, it would be deducted from the benefit paid to your survivors upon your death. Believe it or not, many entrepreneurs use credit cards as a source of start-up capital. However, the interest rates are usually very steep, and should you default, your credit rating will be shot, making it very difficult to secure additional financing.

Personal assets are funds that are already in your possession. For start-up businesses, lenders usually expect you to provide 20% to 30% of your own financing. You will have to use your personal assets to provide that money.

1. Yourself
   i. Savings

   If you have enough money saved to fund your new business, you are in much better shape than most would-be entrepreneurs. If you do not have that much money, then the rest of this section should help you explore other options available to you.
A personal loan, rather than a business loan, is a source of borrowed funds. This kind of borrowing is only available to entrepreneurs with significant collateral (stock, life insurance, real estate, or savings accounts), and you may be forced to repay part of the principal early if the value of the pledged asset declines, or if the bank has good reason to doubt your continued ability to pay. However, personal loans do make it possible to use the muscle of your assets without liquidating them. This advantage may be important when the liquidation of a particular asset, like stocks, results in heavy tax burdens to the entrepreneur.

If you are considering borrowing money, it will be important to know the difference between the terms “secured debt” and “unsecured debt.” Secured debt refers to pledging specific collateral in exchange for the loan. The collateral will be lost if you do not fulfill your obligation to pay the loan back. Unsecured debt simply means that your obligation to repay is not secured by any collateral. Credit cards are a good example of unsecured debt. If you are considering using credit cards to finance your new business, keep in mind that credit cards carry a higher interest rate than conventional loans and may end up costing you a lot more money in the long run.

Second mortgages on your home are another frequently used possibility, and the interest rates will usually be lower than those on a credit card. All or part of the interest paid may be tax deductible as well. Many homeowners have significant equity in their property, so the amount you can borrow is potentially large. Home equity is the difference in your home’s market value (what it is worth) and the principal (what you still owe on your mortgage). However, and this is a big however, defaulting on your mortgage in the event that the business goes bust can result in foreclosure and the forced sale of your home to satisfy the outstanding debt. Second mortgages are heavily advertised and aggressively marketed, and the application process may be shorter and easier than other loan arrangements, but do not make the mistake of thinking that banks and other financial institutions do this for charity. Rates on second mortgages are generally higher than first mortgages because of the greater risk for lenders. Also, remember that your home is at risk if for some reason you are unable to repay the loan. For more information about

iv. *Retirement plan*

If you plan to continue working for your current employer while getting your new business off the ground, borrowing against your retirement plan is also an option. The person in charge of benefits at your place of employment can help you arrange a loan. Like life insurance borrowing, borrowing from your retirement plan is borrowing from and repaying yourself. The terms for borrowing from your retirement plan include low interest rates and a repayment period of up to five years. The downside of a retirement plan loan is that while you are using the funds for your business, they will not be growing in your retirement plan, which will decrease its growth rate. Also, your take home pay will decrease by the payment amount each pay period. Another downside is that in the event you are terminated or decide to quit your job, you must pay off the loan or pay taxes and penalties for an early distribution.

Remember that you cannot borrow from a traditional IRA. Borrowing from your traditional IRA is considered a distribution and you will be responsible for paying taxes on the amount that you “borrow.”

v. *Life insurance*

There are two ways that your life insurance could help fund your new business. First, you could use the “surrender” or “cash value” of your whole life insurance policy. However, to use the surrender or cash value you would have to cancel your policy and then the insurance company would pay you the equity that you have built up through payment of your premiums over the years. Although you would then have the necessary money to start your new business, you would also be without life insurance, which could be a very bad thing. You might consider procuring a new term life insurance policy to replace the whole life policy prior to cancelling the whole life policy. A second, more prudent, option is to borrow against your life insurance equity. The money is yours, so qualifying for a loan would be unnecessary. Further, these loans offer low interest rates and very flexible repayment plans.
Another way to borrow against your own money is by “going on margin” or “margin agreement.” Rather than selling your stocks or bonds and incurring taxes, and possible losses, you can use your stocks and bonds as collateral for a loan from your brokerage firm. As with home equity loans, you will not be able to get the full amount of their current value because of the risk, but they offer low rates and flexible repayment plans. You should know that if the stocks fall in value, you could experience a “margin call” and be forced to pay off all or part of the loan and see your stocks sold to cover the debt.

Obviously, none of these options are without risk or cost, and you may not have access to them all. You must remember, no matter what kind of borrowing you might choose, your cash flow projections have to take interest payments into account. Moreover, the degree to which your business is leveraged can seriously affect your ability to respond to changes in the future. Those interest and principal payments are serious obligations, tied not only to your business, but also to your personal creditworthiness and security. Do not undertake them without due consideration to the consequences that can follow.

2. Others

i. Family and friends

In addition to using the credit strength of a family or friend to secure a loan from a bank, many entrepreneurs rely on direct funding from relatives and friends. There are real dangers associated with borrowing money from and/or granting ownership interests to family and friends, but this approach does make it possible to overcome some of the risk aversion obstacles that you might face in getting a loan from more traditional sources. Only you and your family or friends can decide if you are willing to accept the baggage that comes with the mix of love and money, but there are ways to minimize the risk of fallout should the business or the relationship sour.

The most common problem with this kind of funding is the tendency for both parties to avoid defining the nature of the transaction out of a misguided sense of delicateness. It is irresponsible from both a personal and business standpoint not to spell out the nature of your obligations ahead of time. The terms of your agreement should be put in writing by signing a promissory note. The promissory note is a legally binding document that sets out the terms of the loan including the loan
balance, the interest rate, the repayment schedule, and the rate of repayment. Forms for promissory notes are available on the Internet and some personal finance computer programs also have them. The form should only be used as a template; you should add the specific terms for your agreement by filling in the blanks and otherwise modifying the document to reflect the terms of your deal.

To illustrate some of the difficulties that can arise in undocumented family funding situations, consider the following:

Suppose Mackenzie needs money to finance her restaurant business idea and her parents are willing to see that Mackenzie receives the money she needs. Although Mom and Dad believe they are granting Mackenzie a loan, Mackenzie treats their money as a capital investment in the corporation. Mackenzie will be surprised when Mom and Dad start asking for interest and principal payments three months after the business opens. In fact, Mom and Dad want their payments, and they also want Mackenzie to switch suppliers and change her menu.

If Mackenzie had taken the time to talk to her parents about specifics before she took their money, she would have also discovered that Mom and Dad, who stick to bonds and certificates of deposit as investments, are extremely risk averse in spite of their desire to help their daughter. As such, Mom and Dad have an emotional need to see at least portions of their money returning to them on a regular basis. Mackenzie also might have discovered that although her parents wanted to treat the money as a loan, they expected child-parent roles to apply when making business decisions. It does not matter to Mackenzie’s parents that their own expectations about managing the business are inconsistent with traditional loan transactions. Ultimately, Mackenzie is unhappy and her parents are unhappy, which strains their family relationship.

Although Mackenzie did not have success in her family loan endeavor, with proper planning, securing funding from family and friends can actually be beneficial to both parties. The process of creating a loan agreement or a partnership agreement (as discussed in Section V(C)) and the agreement itself are important. Negotiating with your family or friends over using their money can reveal those situations in which no deal makes sense, and for a deal that does happen, creates a shared set of expectations that reduces the chances for disaster. If the money is given as an investment in the business, you need to decide ahead of time the degree, if any, to which your family or friends will be involved in management. If the money is given as a loan, you must agree
when repayment is to begin, the rate of interest, the amount of the principal payments, and the consequences that will follow if you fail to repay on time.

Remember that your acceptance of money and the role your family or friends play in the business can affect the way the law defines your business structure and can have profound consequences for them. For example, if you operate a sole proprietorship, and your best friend invests in the business, she may have become your general partner and may be liable for all the debts of the business. Forming a partnership may be exactly what you both desired—or not. Making these decisions without planning for them may create unfortunate circumstances.

ii. Commercial lenders

To obtain a commercial loan, you should expect a lengthy application process. Businesses must provide collateral to secure the loan—an asset that the bank can foreclose upon to recover its losses in case of default, preferably real estate or other assets that depreciate slowly over time. Most start-up businesses do not have much that can be used as collateral. As a result, banks generally require your personal guaranty and collateral from your personal assets, even if you form a separate entity to house the business. Essentially, you will have to secure the loan with your home or other valuable property to get funding. Again, keep in mind that you can lose your house and other collateral if you default on the loan.

There are two general types of commercial loans—term and seasonal. A term loan is a fixed asset loan, meaning that it is used to purchase fixed assets like real estate and equipment. The assets purchased are then collateralized. Usually, the loan is an installment loan, which is paid monthly. The second type, a seasonal loan, is used to satisfy a business’s need for working capital. Because most businesses face a lag or delay between when it must pay expenses (such as when purchasing inventory) and collecting income (such as when selling inventory), a working capital loan or line of credit is used to bridge the gap. These loans allow the purchase of inventory, the payment of rent, wages, and the like. Many lenders require that all company assets be pledged as collateral. A seasonal loan generally allows small businesses to repeatedly draw and pay down the loan over the course of the year. Essentially, the seasonal loan works like a secured credit card arrangement.
iii. **Government loans**

The SBA offers loans and lease programs to encourage banks and other financial institutions to lend money to small businesses. The SBA does not make the loans itself, rather it guarantees a high percentage of the amount lent, thereby encouraging banks to make loans that they might not normally make. See the SBA web site at http://www.sba.gov or call 1-800-U-ASKSBA (1-800-827-5722). You can also get information at the SBA office that is closest to you.

iv. **SBA micro loan programs**

The SBA Micro Loan Program provides funding to nonprofit intermediaries who then make loans to entrepreneurs. The loans are typically small, ranging from under $500 up to $50,000. For more information on the SBA Micro Loan Program in Tennessee, see http://www.sba.gov for contacts that can help you.

v. **Special loans (women, minorities and veterans)**

Some private loan programs encourage business development by minorities, women, and people with disabilities. Also, the SBA offers special programs for veteran owned businesses. These programs help to develop viable loan application packages. Socially or economically disadvantaged individuals may also benefit from some SBA licensed Specialized Small Business Investment Companies.

For information on minority business opportunities, see the U.S. Department of Commerce Minority Business Development Agency web site at http://www.mbdagov, which contains helpful information about minority business development. A woman or minority business owner may also benefit from the Tennessee Valley Authority’s (“TVA”) long history of support. See the TVA web site for information at http://www.tva.gov. Also, Appendix A includes contact information regarding loan financing and other helpful contacts for women and minorities, including contact information for minority businesses interested in securing government contracts.

The SBA, most states, and many non-profits have dedicated resources to support veteran owned businesses. SBA resources for veterans include start up guidance, loans, as well as educational programs like “Boots to Business.” For more information on SBA veteran
programs visit https://www.sba.gov/content/veteran-service-disabled-veteran-owned. Tennessee also offers programs for veterans that include educational support and funding through programs such as Vet-Tech and the Veteran’s Entrepreneurship Program (“VEP”). Information for these programs can be found at https://www.tn.gov/veteran/topic/business-resources.

vi. Investors

If you have found potential private investors, you are giving them a slice of the pie. Under this scenario, you do not have to repay their investment, but you will have to share the profits with them, and, perhaps, allow them to have input or even control over management decisions.

a. Active

An active investor is actively involved in the business either in management or in day-to-day operations.

b. Passive

Passive investors put up money, but do not take part in running the business on a day-to-day basis.

V. CHOOSING A BUSINESS FORM

A. Introduction and Fundamental Considerations – Limitation of Liability and Tax Consequences

Whether you mean to or not, at some point you, and perhaps your co-venturers, will elect a form of business structure. If the business begins without a designated form, it will, by default, be either a sole proprietorship or a general partnership, because to be a sole proprietorship or partnership all you have to do is start operating as one. Limited partnerships, limited liability partnerships, corporations, and limited liability companies are among the other forms of business entities available to Tennessee entrepreneurs. The election of each of these business forms requires deliberate action, including making or causing to be made by filing with the Secretary of State in accordance with Tennessee statutory law. Each business form is organized and maintained differently. Therefore, before forming a business, you should first determine which form of business best serves the reasonable expectations of everyone involved in the venture.
When choosing a business form, evaluate the governance structure, third-party liability, and tax consequences of each option to determine which form best suits the goals of the business. The level of personal liability to which a business venturer subjects herself is an important consideration when choosing a business form. Operating your business through certain forms means you, and perhaps your co-venturers, are personally liable on an unlimited basis for all business liabilities, while operating your business through other forms shields any personal liability other than the loss of initial investment and liability for personal acts.

Business tax management is also an important job for an entrepreneur. This Article outlines the most basic types of business taxes and points the entrepreneur in the right direction for more specific tax advice. No entrepreneur should go forward with a business venture without specific tax advice. Each business form has a different tax structure and may be taxed by several different tax authorities, potentially including foreign, federal, state, and local governments. Specific taxes are discussed in Section VI of this Article.

The U.S. government levies an income tax on business earnings. Business earnings are reported on a business’s federal income tax return (if applicable) or on the owner’s personal tax return, and may be taxed at one or both of these levels depending upon the business form you choose to operate. Basically, the structure of your business determines the way your business income is reported, taxed, and paid. In this regard, it is important to remember that laws and regulations change from year to year, and whether one business form benefits you from a tax perspective will depend on your personal tax bracket, whether or not you can or wish to take advantage of preferences for employee benefits, and other factors. Tax treatment is one important factor, but do not allow it to be the only factor you consider when choosing a structure for your new business.

The next sections describe the tax and liability features of various forms of business available to entrepreneurs in Tennessee.

B. Sole Proprietorship

Only one person may own a sole proprietorship; thus, shares of stock are not needed to represent ownership. All transactions are actually conducted by the owner, directly or through one or more agents, even though the business may operate under a business name. Although only
one person runs a sole proprietorship, employees can be hired. Sole proprietorships cannot exist for people who share ownership (see Section V(C)). A sole proprietorship may not be a desirable entity if the nature of your business exposes you or your business to significant actual or potential liabilities or if potential business losses could exceed the value of your personal assets. It is also important to note that banks and professional investors favor the limited liability afforded by limited liability partnerships, limited liability companies, and corporations.

Sole proprietorships are easy to form and operate. You simply obtain a business license and/or permit from the county, city, and/or municipality where the business will be located and start operating. All control of the business is in the hands of the owner.

While it is easy to operate a sole proprietorship, and all business assets and profits belong to the sole proprietor, remember that you are subject to all debts and legal liabilities of the business. Therefore, if the business owes money and cannot pay, you must pay those debts with your own assets. If you do not pay, creditors can proceed against you and your personal assets.

You and your business are one-in-the-same entity, so any income must be reported as income on your personal income tax return. No periodic filings with stock regulators or the Secretary of State are required. Therefore, the business earnings of a sole proprietorship are taxed only once. A business operated as a sole proprietorship does not have to pay corporate income tax because the business is not incorporated, and the business’s net income is already reported as ordinary income on the individual owner’s personal income tax return on Form 1040. However, the income and loss of the business must be calculated and reported on Schedule C of Form 1040 (or Schedule C-EZ if the business has no employees or losses, and business expenses do not exceed predetermined amounts). Additionally, if business earnings are expected to exceed a specific amount, then quarterly estimated federal income tax payments should be made. Quarterly federal income tax payments are required to be made by April 15th, June 15th, September 15th, and January 15th for the immediately preceding calendar quarter. The aggregate annual amount of estimated taxes paid is based on your estimated income tax liability for that year. Paying quarterly estimated tax payments prevents you from having to pay all your taxes in one lump sum at the end of the year. If you over-estimate, you will receive a refund, and if you under-estimate, you will be responsible for paying the difference and any penalties that may apply. Your estimated tax payments include self-employment tax, which is discussed in Section VI.
Since Tennessee does not have a state income tax, a sole proprietor has no state income tax liability. Depending on the nature of your business, this may offer an advantage over other forms of business organization. However, taxes are not the only consideration and other liability exposure may offset this advantage.

C. Partnerships

1. Introduction and Basic Tax Information

Three types of partnerships are discussed in this Article: general partnerships, limited partnerships, and limited liability partnerships. In Tennessee, a stand-alone statute modeled after the Revised Uniform Partnership Act governs partnerships. Partnerships allow for flexible distribution of ownership and income and for the addition of new partners over time. Partnerships can be very useful for entrepreneurs who lack sufficient capital or expertise outside their own field or who are overwhelmed by the workload; the different people who make up the partnership each can bring capital, expertise, and extra hands to the business venture.

All three types of partnerships discussed in this Article have the same basic federal income tax structure. Partnership tax is discussed in this section, followed by specific structural information regarding each type of partnership entity.

Regarding federal income tax, check-the-box provisions allow the business income that an unincorporated entity generates, whether or not distributed, to be subject to tax at either the entity level or member level, depending on whether the entity elects to be taxed as a partnership or a corporation. To make this election, the entity files IRS Form 8832. General partnerships, limited partnerships, and limited liability partnerships (and other unincorporated entities) are subject to the Internal Revenue Service (“IRS”) check-the-box provisions.

Like sole proprietorship income, partnership income is treated as the personal income of the business owner. Income and losses “pass-through” the partnership to the partners. However, the partnership itself must file an informational income tax return with the Internal Revenue Service using Form 1065. On Form 1065, the partnership reports both its business earnings and how those earnings are allocated to each partner using its Schedule K-1, a copy of which is furnished to each partner for use in preparing the partner’s personal federal income tax
return. The partnership simply allocates the tax to the partners—it is not responsible for paying the income tax itself. The partnership’s business earnings are taxed only once for federal income tax purposes, at the partner level. Each partner’s personal federal income tax return will show the partner’s share of the business income and his or her share of the business losses. Accordingly, each partner is responsible for the associated taxes on that partner’s allocated share of the partnership income (whether or not the partnership actually distributes or pays this income to the partner). Individual partners may elect to remit quarterly estimated tax payments, as discussed above.

In addition, Tennessee imposes franchise and excise (“F&E”) taxes on all businesses, except for sole proprietorships and general partnerships. The Tennessee franchise tax is equal to twenty-five cents per one hundred dollars of either a business’s net worth or the actual value of the property owned or used by a business, whichever is greater. The Tennessee excise tax is a 6.5% tax on business earnings. Corporations, limited partnerships, and limited liability partnerships generally are subject to the F&E taxes. If your chosen business entity is subject to the F&E taxes, then your business is required to file an annual F&E tax return with the State of Tennessee. For more information on the F&E tax in Tennessee visit http://www.tn.gov/revenue/topic/franchise-excise-tax.

2. General Partnership

General partnerships have two or more owners, each of whom bears personal responsibility for all the operations and liabilities of the business and shares equally in both profits and losses, unless otherwise agreed. Each partner, as an agent of the partnership, has the power to bind the partnership. A general partnership is created by an agreement among the co-owners called a partnership agreement. While a partnership agreement can be oral, it is strongly recommended that a written agreement be used to set out all the terms of the partnership. The use of a written agreement is beneficial because it will help to avoid later confusion and inter-partner disputes, and because it is easy to create a partnership inadvertently—even when a partnership is not what you or your “partner” had in mind. Your partnership agreement should, at a minimum, address the following: the expectations of the partners as to the goals and nature of the business; the contributions of each partner (cash, labor, experience, sales leads, loans, etc.) and the valuation of those contributions; the responsibilities of each partner; the authority to sign documents on behalf of the partnership; compensation; record keeping; dissolution; recruitment of additional partners; and amendment
of the partnership agreement. Operating under a partnership agreement is the best way to develop shared expectations, uncover potential problems, and set up the mechanisms by which disputes will be resolved. Although the advice or participation of an attorney is not required to produce a valid partnership, such advice or participation can be very helpful and is recommended.

The personal liability of each partner for the obligations of the partnership is the same as that of the sole proprietor for the obligations of his or her sole proprietorship—unlimited. As a member of a partnership, however, your actions taken in the business, as well as those of your partner(s), can legally bind the partnership and, therefore, you. Each partner is responsible for the acts of other partners who act in the name of the business. Each partner is also personally liable for all debts and other obligations of the business.

3. Limited Partnership

A limited partnership allows general partners to raise needed capital by granting ownership interests to investors in exchange for money, property, or other assets through a limited partnership agreement. All business co-owners share equally in all profits and losses of the business, unless otherwise agreed. A limited partnership must be comprised of at least one managing business co-owner (a general partner) and one passive business co-owner (a limited partner). There can be more of either type of partner, but there must be at least one of each.

The general partner is a managing co-owner who is an agent of and has the power to bind the limited partnership, while limited partners are passive investor co-owners who generally do not have management or agency power or authority. General partners retain control over business operations and have unlimited liability to third parties for all business obligations, as in a general partnership. Conversely, limited partners enjoy limited liability. Generally, the most that is at risk for each limited partner is his or her capital investment in the business. However, when a limited partner participates in the control of the business, the limited partner may be treated as a general partner for personal liability purposes, making that limited partner personally liable for all partnership obligations. In addition, a limited partner who participates in the control of the business is personally liable to anyone who transacts business with the partnership and reasonably believes (based on the limited partner’s
conduct) that the limited partner is a general partner.

In Tennessee, a stand-alone statute based on the Uniform Limited Partnership Act governs limited partnerships. Limited partnerships must register with the Tennessee Department of Commerce, and a certificate of limited partnership must be filed with the Tennessee Secretary of State. If you are considering the formation of a limited partnership, you should consult an attorney. There are many rules and restrictions that apply to the formation, maintenance, and operation of a business as a limited partnership. Ignoring or breaking those rules and regulations can subject you to civil, or in some cases, criminal liability.

4. Limited Liability Partnership

A limited liability partnership ("LLP") is created through a partnership agreement between co-owners and a filing with the Secretary of State. All co-owners share equally in both profits and losses of the business, unless otherwise agreed. Each limited liability partnership co-owner (partner), as an agent of the partnership, has the power to bind the business entity. However, the entity solely assumes all business obligations, thus limiting the liability of the co-owners. While co-owners risk losing their capital investments in the business, the LLP protects any money or other assets they have not invested in the business. Nevertheless, a partner will remain liable for his or her own omissions, negligence, wrongful acts, misconduct, or malpractice. Basically, a LLP shields a limited partner from a partner’s wrongdoing, misconduct, or poor business decisions. Each partner is not liable for certain acts of other partners. LLPs are best suited for professional businesses such as medical, legal, accounting practices, and venture capital firms.

Generally, the LLP provisions are found in the same statute as the general partnership provisions, Tennessee Code Annotated Title 61, and the laws of partnerships govern LLPs. However, three main exceptions exist: (a) distributions are limited to circumstances in which the entity is not insolvent, Tennessee Code Annotated section 61-2-607 (2001); (b) filing and related fees are required during formation and maintenance, Tennessee Code Annotated section 61-1-1001 (2007); and (c) as discussed above, partners are not personally liable for the obligations of the partnership.
D. Corporation

Corporate status suggests success and legitimacy to some outsiders. The truth is that incorporating can be a mechanical, relatively inexpensive process, and the fact of incorporation does not mean that the business is more legitimate or likely to succeed.

Ownership interests in corporations are represented by shares of stock (which, most commonly, are evidenced by stock certificates). Therefore, the owners of a corporation are its stockholders, or in Tennessee, shareholders. The shareholders meet periodically to elect a board of directors and make decisions regarding other major matters. The board of directors oversees the business affairs of the corporation and meets from time to time to plan and approve corporate actions. The directors generally meet as a board under the leadership of a chairman. The board also selects corporate officers, who are management agents for the corporation. The statute that governs Tennessee corporations mandates certain officer positions. In a small business, one person could be the sole shareholder, chairman of the board of directors, and president of the corporation simultaneously. In Tennessee, you only need one other human in order to run a corporation, a corporate secretary, whose responsibilities include keeping minutes at meetings, maintaining records, and signing stock certificates with the resident. Despite the title, the corporate secretary is not the same thing as a clerical secretary—the corporate secretary does not need (and typically does not have) any clerical skills at all.

Corporate organization can create flexibility in obtaining capital for both operational start-up and growth. Almost any combination of debt and equity financing is legally possible, and for businesses with employees, stock incentives can substitute for money to reward or encourage productivity. Prospective investors are attracted to the corporate form because it provides them with ownership, indirect (but fundamental) control over the business, and limited personal liability. If you incorporate, remember that your corporation must comply with all meeting, recording, filing, and other requirements, and the rules and regulations that govern corporations. In certain cases, a failure to comply with legal requirements may lead to the dissolution of the corporation and a loss of limited liability status. Compliance may require the assistance of an attorney, as there are many requirements. The corporate shield is a great thing, but make sure you are actually carrying it.
A business incorporates by filing its charter (sometimes referred to in Tennessee as articles of incorporation) with the Tennessee Secretary of State. In order to incorporate a business in Tennessee, you should first select a name and check its availability with the Secretary of State’s Office (see the “Business Name” section above). Next, you will have an organizational meeting at which the charter is ratified, bylaws are adopted, directors and officers are selected, the corporate seal is approved, and stock is initially issued. The corporate records should also be set up at this time. These records should include copies of all filings with the state (including the charter), permits, bylaws, minutes, IRS election forms, stock certificates, and a list of stockholders, directors, and officers.

As incorporation generally is an unfamiliar and time consuming process, consultation with an attorney is recommended if you choose a corporation as your business entity. Choices you make regarding the charter, bylaws, board of directors, and the authorization and issuance of stock have long-term implications for the structure of your business.

A corporation shields its shareholders from personal liability for the obligations of the corporation. Shareholders do not risk personal money or assets beyond what they have invested in the businesses. Only the corporation is responsible for its debts, liabilities, and other obligations. In this way, the corporate shield protects the shareholders. However, when acting in an official capacity as an agent of the corporation (e.g., by signing checks or executing documents), remember what hat you are wearing. You should take pains to identify yourself at all times as an agent acting on behalf of the corporation. Otherwise, you may find that you have incurred a personal—not corporate—obligation. Again, you cannot use the corporate shield if you are not carrying it.

Assume Jack and Jill decide to start a coffee house called Jittery Joes, Inc. They each receive a 50% interest—or 100 shares of stock—in their new corporation, in exchange for $10,000 that each invests in the corporation. In addition, they arrange for the corporation to borrow $50,000 from the bank. Two months after they open shop, a worldwide coffee blight destroys every plant, and they are driven out of business. Under those circumstances, the bank will only be able to proceed against the corporation and its assets. Jack and Jill will lose their collective $20,000 investment, but Jack’s personal bank account and Jill’s antique jewelry collection will be safe. Keep in mind, however, that this “corporate shield” can be pierced (for example, in cases of fraud or
failure to properly form, maintain, and administer the corporation), and it does not protect individuals who provide personal guarantees for corporate loans.

Since most banks and other major financial institutions only grant small businesses loans if they receive personal guarantees from business owners or others with significant financial assets, the corporate shield will be of little help to protect entrepreneurs from this sort of liability. It is useful, however, in shielding them from claims of suppliers and customers, who generally do not obtain personal guarantees. Furthermore, the corporate shield is very useful in insulating the shareholder from liability for torts (like personal injury) that the business—but not the shareholder—has caused. The limited liability of a business does not insulate the business owner for his or her own tortious acts.

There are important distinctions. The corporate shield protects shareholders from liabilities and other obligations of the corporation for which the shareholders are not otherwise responsible in their individual personal capacities. Shareholders that personally guarantee debt or independently commit a tortious act (running down a pedestrian while driving a corporate vehicle, for instance) are responsible for those individual actions and will remain subject to personal liability. Adequate insurance for both the corporation and the shareholders should always be maintained.

1. Taxation of a C Corporation

For federal income tax purposes, most corporations are called C Corporations (referring to the subchapter of the Internal Revenue Code that applies). A C Corporation may have more than one class of stock and different kinds of shareholders (unlike an S Corporation, discussed in the next section). C Corporations are subject to double taxation, but wages and other compensation, as well as the cost of health insurance, dependent care assistance, and some term life insurance, are deductible. In Tennessee, any business organized as a corporation is generally subject to the Tennessee F&E tax.

A corporation is considered a separate legal entity and, as such, files its own federal income tax return, Form 1120, to report business income and pay federal income tax on business earnings. After the corporation pays income tax on its earnings, the shareholders and employees must pay tax on their dividends and wages. Wages are an
expense to the corporation and generally are deductible for federal income tax purposes. The IRS effectively taxes some or all of the corporation’s earnings twice: at the corporate level and at the shareholder level. This tax structure is referred to as double taxation. One way that small corporations can minimize the effects of double taxation when transferring funds from the operations to the employee owner is by paying these funds as wages or compensation, rather than as dividends. This may lower corporate taxable income and, as a result, corporate income tax due. The funds are taxed only at the individual—not the corporate—level. There are limits to this practice, and the advice of a tax professional can be indispensable in structuring the corporation to minimize the total federal income tax paid. Tax brackets for corporations differ from individual tax brackets. The IRS web site, http://www.irs.gov, provides further information on this subject.

If you incorporate, you will have to decide what sort of corporation you will be for IRS purposes. You need not be a C Corporation. It is possible to be an S Corporation and avoid double taxation while still enjoying the limited liability that incorporation provides.

2. S Corporation

To encourage small business development, federal income tax laws allow for the S Corporation. The S Corporation is named for its decision to be taxed under subchapter S, rather than subchapter C, of the Internal Revenue Code. The S Corporation passes its income, losses, deductions, and credits to its shareholders for inclusion on their personal returns. A corporation can thus be taxed as a partnership—on a “pass-through” basis—and is taxed at the individual rate instead of the corporate rate. Therefore, shareholders benefit during the early years of a business when losses are likely, and their earnings avoid double taxation. To be eligible for S Corporation treatment, the corporation must: (a) be a domestic corporation with only one class of stock, (b) have no more than 100 shareholders, (c) have only citizens or legal residents of the United States as shareholders, and (d) gain the agreement of all its shareholders. For most start-ups, S Corporation status is most desirable if the corporate form is chosen. However, the S Corporation limitations on the number and kind of shareholders and classes of stock may be unachievable with certain investor bases and is likely to reduce venture capitalist interest.
The corporation files Form 2553 with the Internal Revenue Service to elect subchapter S status. Although an S Corporation does not pay income tax, it is required to file its own informational tax return, Form 1120S. Each S Corporation shareholder pays tax on his or her share of the corporation’s business earnings and reports those business earnings on his or her individual income tax return. In Tennessee the S Corporation is required to pay F&E taxes.

E. Limited Liability Company

A limited liability company ("LLC"), like an LLP, blends the limited liability of the corporation with the tax benefits of a partnership. It maintains its status as a legal entity separate from its owners, yet can choose to be taxed as a partnership. An LLC is owned by its members, who select from one of three possible LLC management structures. The first is a member-managed structure, in which all members have agency powers like those of general partners of a general partnership. Member-managed LLCs are most appropriate for start-up businesses in which only a few people, all active in the business, hold ownership interests. The second structure is a manager-managed structure, in which the members elect managers that have powers similar to those of general partners of a limited partnership. The third is a director-managed structure, in which the LLC has a board of directors and officers like a corporation. The articles of organization shall set forth the management structure of the LLC.

Because of their flexibility, LLCs have significant benefits for many entrepreneurs over S Corporations. There are no statutory restrictions on the number or nature of an LLC’s shareholders, and LLCs may have more than one class of membership interests (similar to a C Corporation, which may have more than one class of stock).

To create an LLC, you must file articles of organization with the Tennessee Secretary of State. Visit the Secretary of State’s web site, http://www.sos.tn.gov, and search “LLC” for more information on meeting specific filing requirements. On the website, you can find forms for filing the articles electronically, or you may choose to print and mail.

An LLC provides its owners the protection of limited liability, just like a corporation. Although each co-owner has the power to bind the LLC as one of its agents in a member-managed LLC, the entity’s obligations are solely its own. Therefore, LLC co-owners, like corporate shareholders, enjoy limited liability and can consequently protect both
personal money and assets not invested in the business. An LLC co-owner risks only his capital investment.

The business income an LLC generates, whether distributed or not, is subject to federal income tax at either the LLC or member level, depending on whether the LLC elects to be taxed as a partnership or a corporation. To make this election, the LLC files IRS Form 8832. If the LLC elects to “check the box” to be taxed as a partnership, its federal income tax is reportable and payable by the business co-owners just like a partnership. The LLC files an informational return (Form 1065) and issues Schedule K-1 to its members, who each report the income or loss and pay applicable taxes. Alternatively, the LLC may choose to be taxed as a corporation, in which case both the business and its members will pay applicable tax on business income. An LLC is generally subject to the Tennessee F&E tax, but some exceptions do exist.

VI. REGULATIONS

A. Business Licenses

Depending on the nature of your business and its location, it may be required to have various types of licenses, certificates, or permits. As different licenses are administered by various agencies, it is best to check with the County Clerk in the county in which your business is located or your city taxing authority and with the Tennessee Department of Revenue. In Tennessee there is a $15 fee for an initial business license. If your business has taxable sales in a given location that are more than $3,000, but less than $10,000, you must obtain a minimal activity license from your city or county. If taxable sales are $10,000 or more, you must obtain a standard business license. For more detailed information, please visit the Tennessee Department of Revenue at http://tennessee.gov/revenue/article/business-tax-registration-and-licensing.

B. Business Insurance

Any prudent business owner should carry business insurance to protect his or her business against fire, theft, flood, and other losses. Many types of insurance exist including: property, liability, business interruption, worker's compensation, group health, life, disability income, “key person” insurance, and others. The most common insurance mistake is not carrying enough liability coverage. It is unwise to believe that a judgment will not hurt you because your business has little revenue or assets. At a minimum, you will need property insurance,
liability insurance (including motor vehicle insurance on all business vehicles), and if you have more than five employees, worker’s compensation insurance. If you have a business loan, your banker also may require “key person” insurance, which protects key individuals in the business. “Key person” insurance helps the lender ensure that the bank will get its money back if something happens to the key individual responsible for making the business generate a profit.

It may also be a good idea to secure business interruption insurance, also known as business income insurance. In the event your business is the victim of fire, flood, or other specified catastrophes, business interruption insurance will provide money to compensate for the period your business does not operate.

Also, be aware that if your business provides products for public use, you should carry products liability insurance. Products liability insurance indemnifies claims from third parties who claim your product injured them. It also provides defense benefits.

C. Federal Employer & Employee Identification Numbers

In most instances, a business must file IRS Form SS-4 to obtain a Federal Employer Identification Number (“EIN”). Obtaining an EIN allows your new business to comply with federal income tax regulations, as well as with Social Security and Unemployment Insurance regulations. To obtain an EIN online, visit http://www.irs.gov, search “EIN” in the search window, and then choose “Apply for an Employer EIN.” Of course, you may print out a form SS-4 and mail it in, but this will likely take a considerable amount of time.

D. Federal Self-Employment Tax

If you are an employee, your employer withholds a portion of your income tax from each paycheck. As a business owner, you are responsible for paying self-employment tax. Self-employment tax is comprised of Social Security taxes and Medicare taxes. You should calculate and report your self-employment tax on Schedule SE of Form 1040. In 2014, the self-employment tax rate was 15.3% and applied to the first $117,000 of income. Earnings in excess of $117,000, either from self-employment or other employment, are only taxed at the Medicare rate of 2.9%. If you expect your estimated annual tax on self-employment income to be less than $1,000.00, you are not responsible
for making estimated payments. The good news is that you can deduct 50% of the self-employment tax you pay on your personal tax return. Also, as a business owner, you are not responsible for Federal Insurance Contributions Act ("FICA") tax—the self-employment tax replaces it.

E. Sales and Use Tax

The State Department of Revenue requires the taxation of sales, use of tangible personal property, and certain services. You will need to register with the Tennessee Department of Revenue at http://tn.gov/revenue/article/sales-and-use-tax-registration. If your business is subject to this tax, the business must collect and then remit the tax to the State of Tennessee. As of October 2013, all sales and use tax returns and payments are submitted electronically. The State will then remit the local or county portion of the tax to the appropriate local or county agent. If you are exempt under any of the numerous exemptions to the sales and use tax, you should maintain file copies of the appropriate documentation, such as resale or tax-exempt certificate of the purchaser in your files. See the Tennessee Department of Revenue’s web site for more information at http://www.tn.gov/revenue/topic/sales-and-use-tax.

F. Employee Considerations

If you hire even one employee, you must follow applicable state and federal guidelines. You should be familiar with the Fair Labor Standards Act ("FLSA"), which establishes guidelines for minimum wage, overtime pay, child labor standards, and record keeping. The FLSA guidelines apply to employers of both full and part-time employees. Visit the Department of Labor’s web site at http://www.dol.gov/whd/flsa to learn more. For more information regarding FLSA and the State of Tennessee, visit http://tn.gov/workforce/topic/hiring-regulations, or contact the Tennessee Department of Labor and Workforce Development, Division of Labor Standards.

As an employer, you must confirm each employee’s eligibility to work in the United States. This employment verification is accomplished through completion of the U.S. Citizenship and Immigration Services ("USCIS") Form I-9. Form I-9 is available at http://www.uscis.gov/i-9. You are also required to obtain each employee’s social security number and ensure they complete IRS Form W-4. The Form W-4 will assist you in computing their federal income tax withholding and can be found at http://www.irs.gov/pub/irs-pdf/fw4.pdf. The Internal Revenue Service

In Tennessee, if you hire more than six employees, you must participate in the E-Verify program to ensure that all of your employees are legally employed. Information on E-Verify can be found at http://tn.gov/workforce/article/employment-verification.

You should also be familiar with Title VII of the Civil Rights Act of 1964 and the Tennessee Human Rights Act, which are the federal and state anti-discrimination laws that apply to employers. You should also be aware of the Occupational Safety and Health Act (“OSHA”) and the Tennessee Occupational Safety and Health Act (“TOSHA”), which require employers to provide safe workplaces for employees. Visit the following web sites for more information: OSHA at https://www.osha.gov, and TOSHA at http://www.tn.gov/workforce/section/tosha.

1. Federal Withholding and SSI

As an employer, you must ensure that your business fulfills its responsibility to withhold income tax from your employees’ paychecks. This withholding is based upon each employee’s filing status, the number of dependents he or she has, and the amount of wages or salary the employee is due. Federal law also requires that your business withhold each employee’s share of Social Security tax and Medicare tax, which together comprise the employee’s share of the FICA tax. Your business must also pay the employer’s share of the FICA tax. IRS form W-4 is used to determine the amount of withholding. Generally, these taxes are paid quarterly and reported on IRS Form 941. The Internal Revenue Service’s Publication 15, also known as Circular E is a comprehensive guide to employment taxes available at http://www.irs.gov/pub/irs-pdf/p15.pdf. This guide explains federal withholding and SSI in detail.

2. Federal and State Unemployment Taxes

Your business is also responsible for paying the federal unemployment tax (“FUTA”) on your employees. If your business is subject to FUTA payment, use IRS Form 940 for calculation and payment of the tax.
The State of Tennessee also imposes a state unemployment tax ("SUTA"). Your business must register for this tax with the Tennessee Department of Labor and Workforce Development if it utilizes employees.

Generally, if you have one or more employees, you are required to have a Tennessee Employer Number and pay unemployment taxes. To procure your Tennessee Employer Number, visit http://www.tn.gov/workforce/topic/unemployment-insurance-tax and complete the Report to Determine Status Application for Employer Number. The SUTA and Tennessee Employer Number are different from the Federal Identification Numbers discussed above.

VII. PROTECTING YOUR INVESTMENT – A PRIMER ON INTELLECTUAL PROPERTY

Patents, copyrights, trade secrets, and trademarks are some of the most important forms of intellectual property, and the protections and pitfalls each presents to entrepreneurs are very different. Intellectual property laws recognize intangible rights in the exploitation of tangible things like new machines or industrial processes, software programs, secret recipes, business names, or plays. Understanding intellectual property provisions enables you to protect yourself from exposure to lawsuits by other business owners and to protect your own intellectual property from unauthorized use by others.

The short explanations that follow outline the basic types of intellectual property rights recognized in the United States and highlight their competitive advantages and disadvantages.

A. Trademarks

As soon as you start thinking of a name, logo, or package design for your business, you have entered the trademark zone. Trademarks are symbols used to represent the commercial reputation of a product or service. For example, a trademark may be a logo, word, name, initials, slogan, drawing, likeness of a person (dead or alive, real or fictitious), literary character, music, package design, or architectural feature. Trademarks used by service businesses are called “service marks,” but we will use “trademarks” or “marks” to refer to both types of marks to keep it simple.

As a business owner, understanding trademark protection will be important to you in two ways. First, you must be careful not to infringe on the trademark protection enjoyed by other business owners. Using a
mark that is already being used by someone else, or using a mark that is so close in appearance to someone else’s mark that consumers will be confused by the similarity, constitutes infringement. Second, you can protect your own designs and logos through trademark registration on a federal and/or state level. Trademark registration protects against other business owners’ use of your distinctive mark or a confusingly similar mark for their profit. In sum, trademarks have important commercial significance and both offensive and defensive implications for the entrepreneur. Understanding trademark protection will help you gain the greatest protection possible for your new business identity and avoid being sued by another trademark holder.

1. Trademark Search

Before you select your mark, you should conduct a trademark search at both the state and federal levels to be sure that your mark will not infringe on an existing mark. To establish your business identity with a minimum of risk, do not select a name, design, or logo for your business, service, or product that is identical or similar to one already being used by a competitor. Basically, you are infringing on another business owner’s rights when you use, for example, a design or logo that “belongs” to that business owner. Ignorance or independent creation of a confusingly similar mark will not protect you! Trademark owners do not have to prove you stole their work to claim infringement. Trademark owners only have to prove that you are using a confusing mark, which constitutes infringement.

If you choose to develop your business identity without proper research, you could end up owing another business owner money damages and profits, being forced to recall products produced under the infringing mark, compelled to destroy packaging and advertising materials, and forced to cease using what you thought was your own mark.

Before you commission a professional to complete a trademark search, you can take inexpensive steps to narrow your choices or eliminate ideas. Visit the United States Patent and Trademark Office or (“USPTO”) website at http://www.uspto.gov to begin your research. The Trademark Electronic Search System (“TESS”) allows you to search words as well as designs online. The USPTO also has customer service representatives available to provide free basic information at (800) PTO-9199. Remember, however, that these directories list only those marks
federally registered with the USPTO, not unregistered marks or state-registered marks. Since use of a mark is enough to create trademark rights, other business owners who are using unregistered or state registered marks have trademark rights that you must respect.

Instead of searching directories yourself, you may prefer to commission a search by a firm that specializes in investigating the availability of trademarks. An investigation firm should report both conflicting registered marks and potential problems with unregistered or state-registered marks. You should employ an attorney to interpret the results. If your attorney advises you that your mark is available for use, then you should register the mark federally with the USPTO and/or at the state level. Trademark registration is discussed below.

2. Trademark Registration

Although trademark rights spring from use and not registration, registering a trademark at the federal or state level can help prove that you have the right to use the mark and puts others on notice, which means that others are aware that the mark is yours, not theirs, to use. Your registered mark will be available to others conducting trademark searches (discussed above). Essentially, registration prevents others from infringing on your rights.

Remember that your ability to use a mark depends on whether anyone else can successfully claim that they have wider use of the mark or have been using the mark for a longer period of time. Basically, your right to use a mark is determined in comparison to the rights of a competitor. Due to the “use it or lose it” nature of trademarks, registration alone does not protect you. You must use the mark to claim ownership!

i. Federal registration

You can register your trademark at both the federal and state levels. Federal registration can be a tortuously long process, and, unlike Tennessee trademark registration discussed below, it is not a do-it-yourself proposition. The USPTO has complicated filing requirements and required application forms and procedures. As stated above, trademark registration is not available to marks that are confusingly similar to a previously registered mark. Other reasons trademark registration would not be available include marks in the form of words or symbols that do not identify the source of goods or services and marks that disparage or falsely connect with people, institutions, beliefs,
or national symbols. Marks that imitate or consist of the U.S. flag or other national insignia, the flag or insignia of a state, municipality, or other country are also not available to be registered.

Some marks may not be registered unless a secondary meaning is shown. For example, without showing a secondary meaning, if your mark is a surname, name, portrait, or signature of a living or dead person who has not granted permission for use, then you are out of luck. The same is true for a mark that only describes the goods or services it names, for example, “Housekeeping Services” or “Hamburgers.” Conversely, a mark that is deceptively misdescriptive also cannot be registered without showing a secondary meaning. Finally, a mark that basically describes or misdescribes a geographic area will not be accepted for federal trademark registration, unless a secondary meaning can be shown.

Federal registration offers the broadest protection that you can get for your trademark. Owners of federally registered trademarks have immediate access to federal courts, and both courts may issue injunctions to stop infringers. Federal registration also puts your mark in the sight of other searchers, who must avoid using your mark. Even if you cannot afford to register your mark during the start-up process, you should register it at the federal level as soon as feasibly possible. If you are not yet ready to open your business but want to secure your mark, the USPTO allows you to file an “intent to use” registration. Contact the USPTO for more information.

ii. State registration

If your business will be limited to the State of Tennessee, you may prefer to register only in Tennessee. State registration is a faster and less expensive alternative to federal registration. In Tennessee, you can check the availability of a business name by calling the Secretary of State’s Trademark Office at (615) 741-0531 or using the search engine at http://www.tennessee.gov/sos/bus_svc/trademarks.htm. Unlike the USPTO, you cannot file an “intent to use” registration in Tennessee. To register a mark, it must already be in use. Once in use, you may apply to register the trademark within the State.

If you do not choose to seek federal registration or are waiting for your approval, you can start using a TM symbol whenever your mark appears on something. This symbol has no legal effect, but it does serve as a no-trespassing sign to indicate that you claim ownership of the
mark. Some marks, however, cannot be registered until they become closely associated with an established product or service through use. Campbell's Soup probably would not make it if it was a new product, but its mark power trumps the "surname" problem.

Do not make the mistake of thinking that TM and the ® symbol are interchangeable. The ® symbol is available only to federally registered trademarks. If you use the ® symbol, or other alternate forms of it, without being registered, you could lose your right to recover for trademark infringement and be denied federal registration.

B. Copyrights

Federal copyright statutes grant creators of literary or artistic works the exclusive right to copy or reproduce the work, to prepare derivative versions of the work, to sell copies, and to perform or display the work publicly. No state copyright laws exist. Copyright protection starts when an idea is fixed in tangible form. This means that copyright protection is yours as soon as you write it, draw it, or make it, regardless of whether you seek copyright registration. This right continues until a set period of time has passed. The statute governing copyrights sets out time periods depending upon the circumstances surrounding the copyright. This statute can be found at 17 United States Code section 101, which can be accessed for free at www.law.cornell.edu. When perusing this statute, remember that works created prior to 1978 may be subject to different time limits.

Having rights under the statute and enforcing them are two totally different things. Although copyright registration is not required to have rights under the copyright statute, registration is required to enforce copyright rights in court. You should register with the United States Copyright Office and put the public on notice for any work that is published or made public. Early registration allows you to enforce your rights. Enforcement can be difficult without proper proof that you are indeed the copyright holder. You can handle the copyright registration yourself without resorting to an attorney. Public notice just means adding the © symbol, or simply the word "copyright," followed by the year and your name, on whatever you seek to protect. You want to do all that you can to avoid the nightmare of enforcing your copyright against other people.

Basically, the significance of copyright terms for the entrepreneur is two-fold. First, copyright offers the creator of a work protection rights that extend far into the future. Second, from a
defensive perspective, the entrepreneur must exercise great caution to avoid trampling on someone else’s rights—rights that may be decades old.

To understand the basic scope of copyright protection, remember that authors have the right to control their own particular expressions of ideas, but not the ideas themselves. If this were not the case, network television would not be swamped with multiple situation comedies that feature tight-knit groups of beautiful twenty-something characters with low-paying jobs living in fabulously spacious apartments in high rent cities. That example might lead you to wish for stricter copyright protection. However, it illustrates the flexibility left open to you and your competitors to exploit a commercially attractive idea.

From a different perspective, how do you avoid getting a nasty “cease and desist” letter, or worse, a lawsuit brought against you by a copyright holder? You should know that your independent creation of an identical or similar work is not copyright infringement. To establish infringement, a copyright holder must prove two things: first, that you had access to their work, and second, that your work is substantially similar to theirs.

What if your idea builds from, or takes a portion of, someone else’s work? The public policy exception of “fair use” allows the use of small portions of someone’s copyrighted work without infringing on their rights. Basically, this means that you can build on someone else’s work, even using character names, settings, or famous phrases (e.g., “Frankly my dear, I don’t give a damn.”) without being guilty of copyright infringement. However, some of these uses may raise trademark problems in certain instances. Also, be warned that the fair use doctrine is only rarely available in a commercial setting.

Entrepreneurs most frequently get into copyright trouble with advertising and promotional materials, and it is foolish to rely on your advertising firm or graphic artist to protect you from that peril. Before using a photograph or picture, find out who owns the rights to the work. You must then either pay a fee or seek permission to use it. Also, be advised that the photographer, as well as the artist, may hold the rights to a photograph of an artist’s painting. Make sure you gain permission from all appropriate parties.
Advertising is not the only area in which entrepreneurs can run into copyright troubles. Consultants, writers, designers, and manufacturers of products also have to be aware of copyright issues. For example, one could not take an embossed floor tile purchased in a store, hand it to an artist and instruct the artist to make an impression of the tile, reduce it in size, and start cranking them out by the thousands. However, it is permissible to say to the artist, “I like these ornaments made out of porcelain. Let’s use porcelain in our designs,” or, “These stone carvings pictured in this book are beautiful. Will you make a mold that uses some of the same symbolic elements, with a similar, primitive feel?” If your “taking” is merely “inspired” by the interpretation of an item, then you are not infringing. Copying, however, or in some instances paraphrasing, is prohibited.

C. Trade Secrets

Trade secret law protects the privacy of commercial businesses by ensuring that secrets are not misappropriated (used by others for personal gain without proper consent). The purpose of trade secret law is to reward the person who created the formula, recipe, and the like, rather than rewarding the person who steals it. Trade secret protection is really the best protection you can get for the product of your intellectual labor, assuming it is possible to economically exploit that idea without disclosing it, because no expiration date exists for trade secret protection. Trade secret laws protect an important area of intellectual property, and the protection lasts as long as the information remains secret. Trade secrets can continue into eternity, and can protect processes or products that do not meet patent requirements. For example, the exact formula for Coca-Cola is not patented. It is simply a secret that the company guards very closely.

On the other hand, not all information that is valuable to a company will be considered a trade secret under state law, and you must protect the secrecy of the information in order to claim trade secret protection. To properly protect your trade secret, at the very least, you should set up careful protective measures such as employee nondisclosure agreements and document labeling and tracking procedures, and follow them. Also, remember that the trade secret doctrine does not protect you against another company’s independent creation of the same formula, or recipe, as long as they have not stolen it from you. An independent duplication will not be a violation of trade secrets laws.
Tennessee has adopted the Uniform Trade Secrets Act ("UTSA"), which governs misappropriations occurring after July 1, 2000.

D. Patents

A patent gives its holder a monopoly on the use of an invention or ornamental design for a limited period of time and requires a grant of patent by the USPTO. Like copyrights, patents are creatures of federal law, and there are no state patents. The holder of a patent can sell the patent, license it, exploit it directly, or just sit on it until the patent expires—which is usually twenty years from the filing date of the patent application.

The patent type most familiar to the general public is the utility patent. A utility patent extends monopoly protection to inventors of novel, useful, and non-obvious products or processes. Those three adjectives in the last sentence might appear to be self-explanatory, but under patent law, these terms have complex meanings. The USPTO web site is a very good source of information for non-lawyers. You can visit this web site at http://www.uspto.gov.

Design patents safeguard newly created, original, and ornamental designs in the manufacturing area. For example, design patents can protect the designs for car bodies and furniture. Design patents expire more quickly after the original filing date than do utility patents.

If you think you have created something patentable, or you plan to create something you hope to patent, you will need to do two things. First, go to your library, Small Business Resource Center, preferably one of the technology centers, or bookstore and get your hands on a comprehensive book on patents. Then, if you still think you have a decent shot at meeting the patent requirements, you will need to consult an attorney. Do not waste your money talking to a lawyer until you feel confident that you can make good use of the time and money you will spend to do so. On the other hand, do not make the mistake of thinking that you can navigate these waters on your own. Obtaining a patent is not a do-it-yourself project by any stretch of the imagination.

If your business accepts ideas from others, it is important to note that you should have a policy in place to assure that submissions your company receives are confidential and will not be disclosed without consent. You should also have all submitters sign appropriately drafted
release forms. Conversely, if you send your personal idea to a company, you should make sure that the company has a similar confidentiality and disclosure policy in place. Protecting your original idea or the original idea of others should be one of your primary concerns if you engage in idea submission or receipt.

VIII. DOING BUSINESS IN DIFFERENT STATES OR IN FOREIGN COUNTRIES

The circumstances for each business that operates in states other than Tennessee or in countries other than the United States will be different. This Article cannot fully address this issue and has confined its discussion to businesses operated solely in Tennessee. At a minimum, you need to look into the following areas before crossing state or national lines. First, you need to register in the foreign locale. Second, once you begin to do business in that locale, you will need to comply with local laws and regulations, including tax regulations. Also, be aware that when you expand your business into another state or country, you expose yourself to suits in multiple jurisdictions. Further, these days you can cross state and national lines without even knowing it through the use of the Internet. Consult a legal or other appropriate professional for answers to specific questions regarding doing business out of state.

IX. WHERE CAN I GET HELP?

The resources section that follows will provide you with all of the contact information you need to start moving towards your goal of owning a business. Keep in mind that success is up to you. Success is more certain if you educate yourself on the specifics of business start-ups. For example, if you are unfamiliar with concepts like target market, working capital, break-even point, and cash flow, you are going to have to learn to understand and speak the language of the business. Forget long-term success; you probably will not get beyond pitching your concept to sources of debt or equity financing if you do not master these and related matters. Do not despair. You may find that you have some understanding of how businesses work, but you are just unfamiliar with the labels. Even the truly unfamiliar concepts are not that hard to understand once you get access to all of the information. Bringing yourself up to speed does take discipline and self-motivation, but also a willingness to ask for help. There are many sources available to help you with this task. Most of them do not cost the entrepreneur anything but time and can provide a wealth of information. You do not need to “reinvent the wheel.” Draw on the resources that are available to you
and use the compilations, shortcuts, and other tools that are at your disposal.

Do not get defensive if someone suggests that you do some basic educational groundwork before you move on to the concrete details of starting your own business. The volunteers and professionals who staff the agencies devoted to small businesses are simply trying to help. They want to ensure that you have the best chances to succeed in a competitive market. There are great sources of printed and online information available to you; however, you should also consider the benefits of small group or classroom training. Most people learn more effectively when written input is combined with audible information, and classmates can be a great source of support and honest feedback. Many of the instructors are local business owners with great ties to the informal networks that are so important for entrepreneurs. Also, Business Incubation Centers can be a great resource for new business owners. New entrepreneurs can lease space and use shared resources like fax machines, computers, telephones and more. Appendix A contains websites for Business Incubation Centers in Tennessee.
APPENDIX A
RESOURCES

Comprehensive Guides

Tennessee Smart Start Small Business Guide
Informative guide to starting a business in Tennessee.
http://tn.gov/assets/entities/ecd/attachments/TNSmartStartupGuide.pdf

Small Business Guide – Tennessee
Comprehensive guide from the Small Business Administration specifically designed for Tennessee small businesses.

Small Business Association Resource Guide

Tennessee Government Guides and Websites

Tennessee Small Business Development Centers
There are 20 centers across Tennessee that assist small businesses with free one on one counseling, training seminars and business advice.
https://www.tsbdc.org

Tennessee Department of Economic and Community Development
Contains information and links to resources for Veterans, Entrepreneurs with Disabilities, minority-owned businesses, women-owned businesses, youth entrepreneurs and rural entrepreneurs.
http://tn.gov/ecd/topic/bero-resources
Tennessee Secretary of State
Information on registering your business entity, Trademarks, Uniform Commercial Code, and Worker’s Compensation.
http://www.sos.tn.gov

Tennessee Department of Revenue
Information on business taxes and registration including Franchise and Excise Taxes, Business Tax, Sales and Use Tax, and electronic filing.
http://www.tn.gov/revenue/section/revenue-doing-business

Tennessee Department of Labor and Workforce Development
Information on labor laws, workplace safety and health, staffing, and training.
http://www.tn.gov/workforce

Also available is a Tennessee Handbook for Employers

The Small Business Advocate
Office serves as a point of contact to state government for small businesses. The Small Business Advocate answers questions, provides information, and assists small businesses in resolving issues concerning Tennessee government and agencies.
http://www.comptroller.tn.gov/OSBA

The City of Memphis Renaissance Business Center
“One-Stop-Shop, provides entrepreneurs and small businesses in Memphis with training, one-on-one counseling and information to assist their success.”
Tennessee Valley Authority
“Doing Business with TVA” offers opportunities for small businesses to work with TVA as suppliers or contractors.

Tennessee Business Incubation Centers

Emerge Memphis
www.emergememphis.org

Nashville Business Incubation Center
http://nbiconline.com

Technology 2020
http://www.tech2020.org

TTU Business Media Center's Technology Incubator
www.ttubusiness.com

TDC of Knox County
http://www.knoxdevelopment.org/BusinessIncubator.aspx

Halcyon at Oak Ridge National Laboratory
http://www.halcyoncc.com

UTRF Business Incubator for UT alumni, students, faculty and staff
http://utrf.tennessee.edu/inventor-resources/entrepreneurship/business-incubator/

National and Federal Government Websites

Small Business Administration
Outstanding resources for small businesses delivering on SBA mission to aid, counsel, assist, and protect the interests of small businesses.
www.sba.gov
Small Business Association – Tennessee Local Office
The SBA webpage for Tennessee District Office that includes local events, newsletters, and resources.
https://www.sba.gov/offices/district/tn/nashville

SCORE
Non-profit dedicated to mentoring and assisting small businesses. You may find a SCORE office near you by entering your zip code. Also, if you fill out an online form, you will be matched to a mentor.
https://www.score.org

Internal Revenue Service Small Business and Self Employed Tax Center

Federal Trade Commission – Consumer Guide to Buying a Franchise

Department of Labor
Information regarding employment laws such as the Fair Labor Standards Act.
http://www.dol.gov/whd/flsa

U.S. Citizenship and Immigration Services (USCIS)
Forms required to verify citizenship of newly hired employees.
http://www.uscis.gov/i-9

United States Patent and Trademark Office
Information and access to online databases for patents and trademark.
http://www.uspto.gov
Capital and Micro Lending

TNInvestco

Pathway Lending
Partners with TSBDC provides funding. TSBDC works with client application.
https://www.pathwaylending.org

SBA’s Small Business Innovation Research (“SBIR”) program
“America’s Seed Fund.”
https://www.sbir.gov

South Central Tennessee Development District
Geographically targeted to specific counties.
www.sctdd.org

Resources for Women-Owned Businesses

Small Business Association Website for Women-Owned Businesses
https://www.sba.gov/content/women-owned-businesses

National Association of Women Business Owners
http://www.nawbo.org

Women’s Business Enterprise National Council
http://www.wbenc.org

Women’s Business Enterprise Counsel South (Tennessee)
http://wbecsouth.org
Resources for Minority-Owned Businesses

Small Business Association Website for Minority-Owned Businesses
https://www.sba.gov/content/minority-owned-businesses

Minority Business Development Agency
http://www.mbda.gov

Tennessee Small and Minority-Owned Business Assistance Program
http://treasury.tn.gov/smob/index.html

Nashville Minority Owned Business Center
http://minoritybusinesscenter.com

TriState Minority Supplier Development Council
http://tsmsdc.com/about

SBA 8(a) Business Development Program
http://www.sba.gov/category/navigation-structure/8a-business-development-program

Resources for Veteran-Owned Businesses

Small Business Administration Veteran-Owned Businesses
https://www.sba.gov/content/veteran-service-disabled-veteran-owned

Tennessee Veterans Business and Resource Planning Guide

Veteran Entrepreneurial Portal – US Department of Veteran Affairs
http://va.gov/osdbu/entrepreneur/index.asp

Entrepreneurship Boot-camp for Veterans with Disabilities
National Veteran Owned Businesses Association
http://www.navoba.com

Resources for Disabled Entrepreneurs

Small Business Association People with Disabilities Webpage
https://www.sba.gov/content/people-with-disabilities

Chamber of Commerce for Persons with Disabilities, Inc.
http://disabilitychamber.org/index.html

Disabled Business People’s Association
http://disabledbusiness.org
APPENDIX B

BASIC BUSINESS PLAN

A proper business plan is essential to the success of your new business, as previously discussed in Section III of this Article. The TSBDCs, SCORE, SBA and other resources can assist you preparing in this important document. The sample plan that follows should help you understand the components of a simple business plan. However, there is no substitute for tailoring your business plan to fit your business or for using available resources, some of which are listed in Appendix A.

Most business plans are organized similarly to the sample business plan located below. Keep in mind that the footnotes are not part of a business plan. Footnotes have been inserted in this example to explain key points about each section.

SAMPLE BASIC BUSINESS PLAN

This Sample Business Plan is an actual award-winning plan developed by Brandi King and Jenifer Sanabria, included to demonstrate what your business plan might look like when completed. Your actual business plan may be more complex or include other sections, as discussed in Part III of this Article. The Business Plan should be titled as a business plan and should include the name of the business and may include the business logo as this business plan does.

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2 This Sample Business Plan is an actual award-winning plan developed by Brandi King and Jenifer Sanabria, included to demonstrate what your business plan might look like when completed. Your actual business plan may be more complex or include other sections, as discussed in Part III of this Article. The Business Plan should be titled as a business plan and should include the name of the business and may include the business logo as this business plan does.
Business Plan

Executive Summary

Company Overview

The world of fashion is ever-changing. Women have used clothing as a way to differentiate themselves for decades. With advancements in technology and a more aggressive marketplace, the fashion and apparel industry has grown rapidly. One critical issue for buyers in the marketplace is the inability to keep up with new trends while staying within an affordable price range. Often times, women purchase a garment and only wear it once before retiring the item to their closet to be forgotten. The markup on high-quality garments makes their purchase unattainable by many buyers. These issues have led to a buying behavior that focuses on low-cost garments without a focus on quality.

Rentique is an innovative company founded with a desire to empower a woman's image and revolutionize the fashion industry. We rent quality garments to our customers on a one-time or monthly basis through our mobile fashion truck that travels throughout the Knoxville area. We aim to give women the ability to wear beautiful, high-end clothing at a price that is attainable by any woman who desires our product. We ask our customers to allow us to be their closet. Instead of purchasing a low quality garment you only wear once, rent one of our designer garments. By having rental options we hope to shift our customers buying habits back to quality over quantity. We plan to launch with three rental options to insure each customer can find a plan that fits them best. Women can now purchase quality clothing to be the foundation of their wardrobe and allow us to fill in the trending pieces. Rentique will carry ready-to-wear designer and casual/contemporary apparel. We believe that our business model will not only give women the ability to wear beautiful clothing without the commitment to the high cost but will transform the fashion and apparel industry with our

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3 When a business plan is presented to lenders and other potential investors, the Executive Summary presents the first impression of your business. As such, it needs to highlight strengths and communicate what your business is, where you see it going, and how it will get there. Most experts agree that this is the most critical part of a plan. Since it is a summary, it is usually best to write this section last. Rentique subdivides the Executive Summary into five sections: Company Overview, Products and Services, The Market Opportunity, Competition, and Exit Strategy. Your business may require a different approach.
customer focused strategy. Rentique is in the start-up phase of the business cycle with plans to launch in August 2015.

Products and Services

Rentique plans to carry quality garments from local designers in the southeast. The company will also design garments to cater to the local market using Jeni D. Designs, Inc. We value a top quality product that is not only fashionable, but wearable and comfortable. We also aim to give local designers an outlet to showcase their designs in the marketplace. Through our rental concept, we plan to offer three different rental options to our customers, including rental subscriptions. The benefits of each rental option vary, but all options follow our company mantra: Clothing without Commitment.

Personalized customer service is a cornerstone of our business model. Our model focuses on cultivating strong customer relationships with direct involvement from the staff, including our designer. We plan to create a customer profile for each individual by taking their measurements, learning their style, obtaining customer feedback, and giving our customers an all-inclusive retail shopping experience. Through our network of local businesses, we plan to create co-marketing events that give our customers variety and accessibility. Our goal is to offer the best quality products with personalized customer service techniques to gain and keep market share.

The Market Opportunity

Two of the most common downfalls in small retailers and start-ups are excessive inventory and/or excessive overhead cost. Our company plans to avoid tying up needed cash in a large inventory and overhead through the fashion truck. Instead, we intend to focus on select amount of quality merchandise. This also leaves us the option of increasing our inventory as our clientele grows.

Rentique, LLC realizes that we will not hold thousands of customers at a time like larger competitors. However, we will have the ability to build personal relationships with each customer. In the apparel industry, the customers have the purchasing power. We plan to lavish our customers with quality products and exceptional service that is geared towards their personal preferences.
Our company feels that there are positive long-term prospects for the women’s rental apparel industry. Over the past years, percentages are growing and are expected to maintain growth in the coming years. Retail is one of the largest industries worldwide. Therefore, by focusing on our key success factors our business will not only fill a gap in the market but will also bring innovativeness to the industry.

**Competition**

Clothing rentals has only recently made a splash into the fashion industry. The companies who are already in field have been extremely successful with their business models. Most of these businesses operate only online. This can be really unappealing to most women. Women want to make sure what they are purchasing not only fits right but also looks good on them. Rentique will offer its customers peace of mind by allowing them to try on our inventory at the fashion truck. Fashion trucks are also an emerging trend that have been operating in most major cities and gaining traction nationwide. Our plan to merge these two rising fashion trends gives us a competitive advantage over current vendors.

**Exit Strategy**

Rentique, LLC plans to sustain a growing business and expand over the next three years. Depending on the level of growth and expansion, the members of the LLC will decide whether to sell the company or franchise the concept. Depending on the growth of our customer base in one area, transitioning into a brick and mortar store may also be an option. In case of a life event or change of either partner, the shares of the company can be sold to an agreed upon party, or the company may choose to dissolve with the profits and losses equally divided to each member.
Rentique, LLC Business Plan

The Company: Values and Mission

Our innovative twist on the retail and apparel industry is spurred by our desire to create an all-inclusive shopping experience for all women. We want to empower a woman’s image through beautiful clothing without hitting her in the wallet. We believe that all women should have the ability to obtain the image they desire. We focus on our customers and aim to give them a personalized and rewarding experience when they shop with us. Our core value is to “democratize” the fashion industry by giving the power of retail to the buyers and aligning our goals with our customer needs. We believe that creating a woman’s image and individualism shouldn’t cost more than she can afford. Every woman should be able to experience a quality good, even if she doesn’t want to commit to ownership.

Brandi King and Jenifer Sanabria founded Rentique, LLC. Brandi King has an entrepreneurial background and saw the potential in merging two industry trends into one. Jenifer Sanabria is a local fashion designer behind the brand Jeni D. Designs. The concept gives Jenifer an outlet for her high-end designs by allowing customers to rent them for a fraction of the retail price. Together they strive to give their customers purchasing flexibility within this fast paced fashion industry.

Our mission is to revolutionize the fashion and apparel industry through innovative accessibility to quality garments and an all-inclusive customer buying experience. In a nutshell, we are clothing without commitment.

Rentique has worked to build an extensive network of local business owners and industry experts to fine-tune the business concept. We plan to work with a well-known local dry cleaner, Prestige Cleaners, to ensure a clean and re-wearable garment. The dry cleaner will also serve as a customer rental return location. Prestige Cleaners has 11 locations throughout Knoxville, which gives our customers ease of access to return their rentals. Discussions with other local business have

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The “Values and Mission” section expresses exactly what Rentique is all about. It describes the owners and what they plan to accomplish with their business. A business plans for an existing business may include information about the company history in this section. Rentique is a start up business, the owners chose to focus on building confidence in their skills and abilities.
also given our truck access to parking lots. We plan to reach out to businesses with a similar market as ours (hair salons, spas, etc.) to develop co-marketing campaigns and access to parking for the truck. The company has also sought guidance for the concept through the TSBDC and University of Tennessee’s Anderson Center for Entrepreneurship and Innovation. These connections will give Rentique a competitive advantage in the marketplace.

The company’s strategic goals and objectives are to grow the business and receive a return on investment by the first year. We hope to grow at a rate of at least 25% yearly and expand the business. We will either decide to purchase more trucks in order to reach other markets or transition into a brick and-mortar location. There isn’t enough information about our market to be able to predict which decision will be best suited for the growth of the company. We are also considering a franchise option, dependent on the growth rate of the business and the need for expansion.

The Market

Rentique’s product and concept are geared towards college women and young professionals. Most of our market research has been primary research in which we have conducted surveys and talked directly with our target customer. In particular, we have narrowed our college market to those involved in a sorority because they so often attend panhellenic events and functions. Many of these women are also young professionals or will become young professionals. We have also conducted surveys geared towards a younger generation (ages 14-17), although the results are much more promising for college-aged women. The general breakdown of our market is as follows:

The city of Knoxville has a population of 183,270 with 52% of the population women, according to a 2013 census. The population of women between the ages of 15 and 34 is around 35,000. The median household income for this population is $33,595. Total retail sales for the city of Knoxville according to a 2007 census were $35,264 per capita, which is $22,701 over the state average retail sales per capita. In general,

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“The Market” section sometimes called “Market Analysis” details the owners’ understanding and knowledge about the industry and is based on extensive research. It should include information about your industry and the outlook for growth, it should identify your target market, identify what characteristics distinguish you from competitors, what market share you expect to gain, and provide an analysis of the competition.
our target population is large enough to sustain the necessary sales needed to operate our business.

The University of Tennessee currently has 13 sororities on campus. The university also recently completed sorority village, which houses 535 sorority members in one central location on campus. Outside of the sororities, the UT student body currently consists of 27,410 students with 49.9% female students. We issued a survey to 110 women at the university to better understand our buyer’s intentions and overall view of the concept. 98% of women said they would shop in a fashion truck and rent garments if given the option (compared to 75% of high school students). We believe the financial restraints on college aged women give our concept accessibility to this market. Access to the university’s student body will allow us to reach a large percentage of our target market.

We have also noted the impact that social media has on our target market. Our customers are constantly sharing and posting pictures of themselves and others on their social media pages. Not only do we plan to use social media throughout our marketing campaign, but we believe that the push towards creating an online image benefits our business model. After all, no woman wants to wear the same outfit in every picture. We have also integrated the photo-sharing concept into our website in order to create an outlet for our customer base.

Products and Services

Rentique offers a variety of quality garments that are focused on our local customer segments. We have options for social events, game days, date nights, and everyday casual wear. Our collection changes throughout the year in order to align with new and changing trends while also giving our customer base more options. By incorporating designs from local designers into our collection, we are able to give our customers a unique buying experience. Not only does our customer get a quality and distinct product but they can also obtain knowledge about the designer and give them their support by renting their garments.

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6 The “Products and Services” section emphasizes the benefits that your product or service line will offer customers. This section underscores why your product will satisfy the demand for the target customers that you identified in your Market Analysis. The Product and Services section may describe in detail your products, your products’ life cycle, any intellectual property that your company has, and Research and Development goals and activities.
Between 25% and 35% of our clothing selection will be designed by part-owner Jenifer Sanabria (Jeni D. Designs). This will enable our company to focus on the needs of our local customer base and design garments according to the customer feedback received. The remaining portion of our designs will be purchased at the Atlanta Apparel Mart with a focus on quality, local designs, durability for dry cleaning purposes, and emerging trends.

The customer product and service packages will be offered on a one-time rental or monthly rental subscription basis. In order for the customer to rent an item, they must give the company permission to keep their credit card information on file to hold as collateral. The customer will also sign a contract detailing the rental process and the consequences of any damages or failure to return:

**Single sale rentals – (‘No strings attached’)**
Customers will have the option for a single sale 4-day rental. Single rentals will be priced at $24.99. They will receive their rental at the truck with a return date. Once their rental period is over, they can simply return the item either to the truck or to any dry cleaner location. To avoid late fees of $10.00 a day, customers must return the garment by the marked return date.

**2 garments a month subscription – (‘Second Date’)**
This subscription will allow customers to have two garments a month for $39.99. They may only have one garment out at a time. However, with this plan there are no late fees. They are able to build a queue on our website and reserve their next pick. The customers have the option to cancel at any time, but must return the garment no later than 5 days after cancellation to avoid being charged.

**Unlimited Monthly Subscription – (‘The Perfect Match’)**
This subscription allows customers to have an unlimited amount of rentals a month for $64.99. They are only allowed one garment out at a time. There are no late fees and memberships can be cancelled at any time. Again, they must return the garment no later than 5 days after cancellation to avoid being charged. These subscribers will also be able to build a queue and reserve their next picks online.

**Waiting List**
To ensure our rental subscribers have plenty of options to choose from we plan to put a cap on our subscriptions. New customers who wish to be a part of the service will be put on a waitlist until there is a space available. As we grow our inventory our cap will increase. We
believe this will both project exclusivity and increase excitement within our target market. We are also using this method to project and sustain our growth by gaining insight into our growing customer base.

We will have an initial inventory of 194 dresses. The table below breaks down the initial inventory:

<table>
<thead>
<tr>
<th>Designer</th>
<th># Styles</th>
<th># Dresses</th>
<th>$</th>
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<tr>
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<tr>
<td>Darling</td>
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<td>12</td>
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<td>Areyah</td>
<td>3</td>
<td>18</td>
<td>$457.50</td>
</tr>
<tr>
<td>EndlessRose</td>
<td>3</td>
<td>18</td>
<td>$636.00</td>
</tr>
<tr>
<td>EndlessRose</td>
<td>3</td>
<td>18</td>
<td>$576.00</td>
</tr>
<tr>
<td>SkiesAreBlue</td>
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<td>18</td>
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</tr>
<tr>
<td>DoubleZero</td>
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<td>15</td>
<td>$240.00</td>
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<tr>
<td>BluPepper</td>
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<tr>
<td>2BTtogether</td>
<td>1</td>
<td>6</td>
<td>$108.00</td>
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<td>GamedayGS</td>
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</tr>
<tr>
<td>MarineBlu</td>
<td>1</td>
<td>6</td>
<td>$141.00</td>
</tr>
<tr>
<td>Ezra</td>
<td>3</td>
<td>18</td>
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</tr>
<tr>
<td>TheClothingCo</td>
<td>3</td>
<td>18</td>
<td>$360.00</td>
</tr>
</tbody>
</table>

Jewelry

Rentique will not be renting jewelry, but we will be taking on local designers as consignment. The company will develop a contract with each jewelry designer we take on detailing the percentages of each sale that the company will allocate. Rentique will take on designers that coincide with our style and market offerings.

Website

The website will be used to display our inventory for potential/existing customers to view. Customers will be able to create a
profile online that will inform them of return dates or their current subscription choice. They will also be able to make a review on their current rental. A form of payment will be included in their profile because to make any rental purchase a debit/credit card must be on file. Customers will also have the ability to upload a photo of themselves in their rental outfit within their review.

Monthly subscriptions will have the option to build a queue on their profile. They will also be able to use this queue to reserve their next rental choice. The queue will give us the ability to track our customers’ interests and style preferences.

In order to get new and fresh designers on the truck, we will also incorporate an application on the website for emerging designers who would like for us to carry their designs. This will allow us to see what our area has to offer and bring new and local clothing items to the truck.

Our website will also include the latest news about our business including: where we will be located next (including a map of our locations), a link to our social media pages, and any recent news or information regarding our business. We feel integration of the website with the customer base in a vital aspect of our business model. Our target market is particularly adept to technology and the online environment. Our website will not only be smartphone friendly, but will also be integrated into our social media outlets. Giving our customers the ability to communicate the use of our products through the Internet will be an advantage in our market.

Blog

A blog will be attached to our website. It will include information such as our newest items added to our collection, new fabrics that are about to be created into designs, fashion how-to’s (Example: how to transform your look from day to evening, how to know what style is best for your body type), examples of all the ways you could style our garments. The blog will also serve as a marketing outlet announcing new events, sales, etc. We will also have a customer of the week section to include a photo of the customer in their custom design and how they feel about it.

Private Parties

Women are always looking for new ways to get together with their friends. Rentique will allow customers to book private events in which our mobile fashion truck will come to the customer’s private
property for our services. All you have to do is go to our website and submit an event request. We ask that there be, at minimum, five ladies in attendance. As a gift for hosting, we will bring you a complimentary bottle of wine (if 21 or older). We plan to book private parties to help obtain new places to park the truck, while also giving personalized event service.

Examples of parties:
- Girls’ night in
- Girls’ night out (Let us help you get the night started right with the perfect outfit.)
- Bachelorette parties

**Distribution**

When we launch, we will first only allow rentals to be initiated at the truck, because we want our customer experience to be personalized and to ensure the fit of the garment. Once the item is rented, the customer has the option of returning the garment to any dry cleaner location in which we partner with or directly to the truck. For on-campus students who may not have a vehicle, we will offer a pick-up service on certain dates to ensure they can return their garment.

Our partnership with Prestige Cleaners will be vital to the distribution of our business. Not only will Prestige dry-clean each of our garments, but they will often be the “middle-man” between the customer and our company for returns. Prestige will inspect the garment for any damages or flaws before cleaning it to ensure that any fees charged to the customer are their liability. We will have sewn-in tags on our garments to distinguish Rentique apparel from all other apparel at the dry cleaner and to be able to easily track our garments.

**Packaging**

Rentique will package each rental in a branded dress bag. We feel that packaging items in a dress bag, rather than simply bagging them up, will give the guests a sense of pride in taking care of the garment. We will also co-brand the dress bags with Prestige Cleaners in order to advertise the business and remind our customers the value in dry cleaning the garments.
Damaged Items

A chart will be created to determine the fee associated with the damage. Each fee would be based on how much it would cost to repair the garment. If the garment is not repairable, the customer will be charged the full price of the garment.

Lost Items

If a customer loses a garment, they will be charged for the full value of the dress.

No Returns

Single Rental: If a single rental isn’t received or marked by its return date the customer will be charged a late fee of $10.00. This fee will be applied for each additional day it is not returned. If the fees continue and add up to the full value of the garment the garment will then be theirs to keep. No additional fees will be applied.

Monthly Subscribers

These subscribers do not have any late fees while still members. However, if they cancel their membership and do not return the garment within 5 days, the same late fees of $10.00 for each additional day will apply. Again, if the fees continue and add up to the full value of the garment, the garment will then be theirs to keep. No additional fees will be applied.

Location

Rentique is operated through a mobile fashion truck. The truck we have purchased is an 18’ step van that will be remodeled and painted to look and feel like a high-end boutique. Because of our mobility, we are able to go to our customer. We also don’t have the high overhead cost of a building lease or utilities, giving us the ability to keep our prices low for our customers. One downside to the truck is the lack of space and city regulations regarding mobile business. Our truck can only hold a maximum of around five customers inside the truck at a time. We will have one dressing room inside the truck. Currently in Knoxville, mobile businesses are only permitted to park on private property with permission from the owner. In order to resolve these pitfalls of our mobile strategy, we plan to create ways to bring our inventory outside of the truck and expand our space and to cultivate relationships with local
businesses to obtain a parking area for the truck. We currently have one business who has committed to allowing use of their parking lot, Consign to Design in Farragut.

Some ways to address our space issue include not only expanding our inventory outside of the truck, but also keeping customers entertained outside of the truck when we are at capacity. We will do this through an offering of beverages and snacks, the ability to browse inventory through tablets, taking customer measurements, and developing personal connections. For special events such as our grand opening, we will work with local hair stylists and makeup artists to offer customers an all-inclusive styling experience. Our customers will have the option to get their hair styled and makeup done while waiting to browse the truck for garments.

In much the same way, we plan to establish relationships with local businesses that have a similar market and will benefit from our presence. These include but are not limited to hair salons, spas, tanning salons, and college focused businesses. We will also use our partnership with Prestige Cleaners for parking and ease of access for our customers. Because customers will already be returning their garments to Prestige for cleaning, we plan to be available for our customers at Prestige locations to browse for their next rental.

Marketing Plan

Rentique is currently working on building connections with local news channels. Making a morning/evening show appearance would be highly beneficial in growing brand awareness. On the show viewers will receive a tour of the truck and how it operates. At the end of the show viewers will be reminded to check out Rentique’s social media pages for truck locations and more information. We acknowledge the importance of having a social media presence and will push creative posts/ads to gain a following. Rentique will set up a “Clothing without Commitment” booth on campus to allow students a chance to preregister for memberships. This will urge them to sign up before we reach our

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7 After introducing the service or product line, the “Marketing Plan,” details the marketing and sales strategy for the company. An overall marketing strategy usually includes a growth strategy, a market penetration plan, a distribution framework, and a communication strategy. A sales strategy should address both the company’s sales activities and a sales force strategy. Rentique describes exactly how they plan to sell their business to their target market.
member cap. Handouts such as branded sunglasses and key chains will be present at the booth. The “Clothing without Commitment” campaign will continue to include a launch party (Fashion show, raffles, photo shoot, etc.), as well as set-up locations at sorority village, privately owned properties, and game day tailgating events. With our marketing campaign we plan to build brand awareness, but most importantly educate the market on our innovative business model.

**Competition**

We have competitors both locally and internationally. Our national competitors operate through an online interface. Although many of the companies differentiate slightly in their business models, they all are capitalizing on the clothing rental concept through an online market. Many of the companies have been coined “Netflix for Fashion.” The way that we differentiate ourselves from these competitors is by focusing on a local market, instead of economies of scale, and giving more personalized service by allowing in-person rentals only (no online rentals). We have chosen to make these decisions to avoid customers getting the wrong fit, problems with shipping and receiving, and uncontrollable demand through the internet. We believe that the growth of clothing rentals online is healthy competition for our new concept. Our online competitors, including Rent the Runway, The MSCollection, and Le Tote, are growing quickly, which gives our business model market validation. Although our competitors have access to our market, we believe that we give ourselves competitive advantage through our focus on local needs of customers and personalized service. Our customers have the ability to try on the garments before making a rental decision, unlike our online counterparts. We believe that by focusing on a local market, we can tailor our garments to the specific needs of our customers, instead of appealing to all customers across the nation.

Our local competitors fall into the boutique and fashion truck industry. Our clear competitive advantage over these businesses is our rental concept. There aren’t any boutiques locally who rent clothing items although we feel that boutiques that carry similar styles could be indirect competition, including Altar’d State, Anthropologie, and Elle Boutique. There are two fashion trucks that we are aware of in Knoxville, Vagabond and A.N. Gray Boutique. Both trucks, however, focus on vintage-style clothing and sell only. Through our rental concept and focus on market research, we believe that we will be able create a larger and more loyal customer base than our competitors. We believe that our calculated approach and intended local partnerships will also create barriers to entry for our local competitors.
Brandi King and Jenifer Sanabria are the co-founders of Rentique, LLC. Brandi is currently a senior at the University of Tennessee studying Human Resource Management with a focus in Entrepreneurship, anticipated graduation May 2015. Brandi’s connections through the Haslam College of Business and her background in business studies, specifically start-ups, provide a wealth of information and strategies to succeed in an ever-changing marketplace. Moreover, her knowledge of Human Resources will be effective in building a team that will align with our business strategy and offer a competitive advantage. Jenifer Sanabria is a college graduate from UTC with a degree in Business and a local clothing designer from Knoxville, Tennessee. Jenifer’s knowledge of the fashion industry and in-depth knowledge of the design process are key resources to developing our concept. Jenifer’s experience as a brand ambassador also provides the promotional expertise needed to properly market and advertise our business.

Rentique has also made several connections throughout Knoxville to aid in the development of the business plan. We are currently working with Trademark Advertising to complete our logo and truck design, website development and hosting, and marketing management. The founders also sought advice from Laura Overstreet at the Tennessee Small Business Development Center. Brandi is currently working with a team of entrepreneurial minded students to help develop this business plan at the University of Tennessee. We will continue to add to our network of business minded people to polish our business plan and reach our strategic goals.

The “Management” includes ownership information such as the names of the owners, percentage of ownership, the owners’ involvement with the running of the company, the form of ownership (i.e. Rentique is an LLC) as well as education of owners, their experience, and special skills. Information about owner’s past employment, industry recognition, as well as information about key people that will be involved with business may be included in the Management section. Some businesses title this section “Organization and Management” and include information about the organizational structure. This is a good place to include an organizational chart.
Rentique needs a start-up budget of roughly $38,000 to launch in August 2015. Currently, the company's owners have invested $13,000 of their own capital into the business. This money was used to establish the company, design a logo, purchase the truck, and to obtain the first set of inventory in March 2015. We aim to obtain the remainder of the required funds through debt financing and business plan competitions offered through the University of Tennessee, including the Boyd Venture Fund. The remainder of the funds will be used as follows:

**Pre-Launch Activities:**
- Truck Build Out and Wrap: $5,000
- Website Design: $11,750
- Marketing Materials: $700
- Licenses and Permits: $400
- Initial Office Supplies: $450

**Post Launch Activities:**
- Estimated Working Capital (2 mos): $7,638

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9 The “Financial Summary” section is sometimes called “Financial Projections.” It is prepared after analyzing the market and determining business objectives and includes historical financial information (for already established businesses) and projected financial data (for all businesses). The financial data should include forecasted (aka Pro-Forma) Income Statements, Balance Sheets, Cash Flow Statements, and Capital Expenditure budgets for at least three years. Many lenders expect projections for five years.
Rentique, LLC

*Pro-Forma Financial Statement: Income Statement Years 1-3*  

*NOTE: 20% growth to Year 2; 25% growth to Year 3*

<table>
<thead>
<tr>
<th>SALES</th>
<th>Year 1</th>
<th>25.1%</th>
<th>Year 2</th>
<th>25.1%</th>
<th>Year 3</th>
<th>25.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Sale</td>
<td>$20,000</td>
<td>25.1%</td>
<td>$24,000</td>
<td>25.1%</td>
<td>$30,000</td>
<td>25.1%</td>
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<td>2 month</td>
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<td>$25,920</td>
<td>27.1%</td>
<td>$32,400</td>
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<td>Unlimited</td>
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<td>39.2%</td>
<td>$37,440</td>
<td>39.2%</td>
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<td>Late Fees</td>
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<td>1.6%</td>
<td>$1,500</td>
<td>1.6%</td>
<td>$1,875</td>
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<td>Consignment</td>
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<td>7.5%</td>
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<td>7.5%</td>
</tr>
<tr>
<td>Gift Cards</td>
<td>$2,000</td>
<td>2.5%</td>
<td>$2,400</td>
<td>2.5%</td>
<td>$3,000</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Net Sales</strong></td>
<td>$79,589</td>
<td>100.0%</td>
<td>$95,506</td>
<td>100.0%</td>
<td>$122,147</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

|                      | Year 1   | 4.9%  | Year 2   | 4.2%  | Year 3   | 3.5%  |
| Direct Pay           | $3,865   | 4.9%  | $4,058   | 4.2%  | $4,261   | 3.5%  |

|                      | Year 1   | 4.9%  | Year 2   | 4.2%  | Year 3   | 3.5%  |
|                      | $3,865   | 4.9%  | $4,058   | 4.2%  | $4,261   | 3.5%  |

|                      | $75,723  | 95.1% | $91,448  | 95.8% | $117,886 | 96.5% |

| EXPENSES              |         |       |         |       |         |       |
| Payroll               | $9,011  | 11.32%| $9,462  | 9.91% | $9,935  | 8.13% |
| Dry Cleaning          | $20,582 | 25.86%| $22,641 | 23.71%| $24,905 | 20.39%|
| Advertising           | $360    | 0.45% | $396    | 0.41% | $436    | 0.36% |
| Office Supplies       | $260    | 0.33% | $286    | 0.30% | $315    | 0.26% |
| Web Hosting           | $1,960  | 2.46% | $2,156  | 2.26% | $2,372  | 1.94% |
| Business Taxes        | $1,560  | 1.96% | $1,716  | 1.80% | $1,888  | 1.55% |
| Business Insurance    | $3,000  | 3.77% | $3,300  | 3.46% | $3,630  | 2.97% |
| Workers Comp          | $292    | 0.37% | $306    | 0.32% | $321    | 0.26% |
| Vehicle Fuel/Maintenance| $3,600 | 4.52% | $3,960  | 4.15% | $4,356  | 3.57% |
| Credit Card Fees      | $2,149  | 2.70% | $2,579  | 2.70% | $2,837  | 2.32% |
| Interest              | $642    | 0.81% | $399    | 0.42% | $413    | 0.12% |
| Travel                | $1,200  | 1.51% | $1,320  | 1.38% | $1,452  | 1.19% |
| Supplies              | $240    | 0.30% | $264    | 0.28% | $290    | 0.24% |
| Miscellaneous         | $1,920  | 2.41% | $2,112  | 2.21% | $2,323  | 1.90% |
| **Total Expenses**    | $46,776 | 58.77%| $50,896 | 53.29%| $55,202 | 45.19%|

|                      | $28,947 | 36.37%| $40,552 | 42.46%| $62,684 | 51.32%|

10 On a typical start-up business income statement, Year 1 is broken down by month.
The estimated sales on the income statement are based on an operating schedule of 240 days. We have estimated 3-4 single rentals per day along with a total of 75 subscriptions per month each month. The dry cleaning expense is our largest expense with an estimation of $6 cost per dress.

Rentique, LLC

Statement of Cash Flows: Years 1-3

<table>
<thead>
<tr>
<th></th>
<th>Cash Available at Year-End</th>
<th>Cash Available at Year-End</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year 1 w/ Start-Up Cost</strong></td>
<td><strong>Year 2</strong></td>
<td><strong>Year 3</strong></td>
</tr>
<tr>
<td>Beginning Cash</td>
<td>$10,800</td>
<td>$33,125</td>
</tr>
<tr>
<td>+Sales</td>
<td>$79,589</td>
<td>$95,029</td>
</tr>
<tr>
<td></td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Total Cash In:</td>
<td>$90,389</td>
<td>$128,153</td>
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<tr>
<td>-Operating Expenses</td>
<td>$52,546</td>
<td>$50,896</td>
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<tr>
<td>-Inventory Purchases</td>
<td>$3,865</td>
<td>$4,058</td>
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<tr>
<td>Loan Payments</td>
<td>$4,753</td>
<td>$4,996</td>
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<tr>
<td>Startup Cost</td>
<td>$28,300</td>
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<tr>
<td>Capital Expenses</td>
<td>$1,700</td>
<td>$0</td>
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<tr>
<td>Owner’s Draw</td>
<td>$0</td>
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<tr>
<td>Total Cash Out:</td>
<td>$61,164</td>
<td>$59,950</td>
</tr>
<tr>
<td>Cash Available</td>
<td>$29,225</td>
<td>$68,203</td>
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</table>

On a typical start-up business Statement of Cash Flows, Year 1 generally is broken down by month.
Rentique, LLC  
*Business Balance Sheet*  
*Years 1-3*

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>JUL-16</th>
<th>JUL-17</th>
<th>JUL-18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$33,125</td>
<td>$70,716</td>
<td>$125,636</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Inventory</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$33,125</td>
<td>$70,716</td>
<td>$125,636</td>
</tr>
<tr>
<td><strong>Fixed Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Buildings</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Equipment</td>
<td>$1,700</td>
<td>$1,700</td>
<td>$1,700</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Net Fixed Assets</strong></td>
<td>$1,700</td>
<td>$1,700</td>
<td>$1,700</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$34,825</td>
<td>$72,416</td>
<td>$127,336</td>
</tr>
</tbody>
</table>

| LIABILITIES | | | |
| **Current Liabilities** | | | |
| Accounts Payable (accured expenses) | $6,948 | $8,338 | $10,422 |
| Other Taxes Payable | $101 | $106 | $110 |
| Other Accrued Expenses | | | |
| Short-term notes payable | $0 | $0 | $0 |
| **Total Current liabilities** | $7,050 | $8,444 | $10,533 |
| Long-term Debt | $10,247 | $5,251 | $0 |
| **TOTAL LIABILITIES** | $17,297 | $13,696 | $15,784 |

| OWNERS EQUITY | | | |
| $17,528 | $58,720 | $111,552 |
| **TOTAL LIABILITIES AND EQUITY** | $34,825 | $72,416 | $127,336 |