CHAPTER 4:

STARTING A BUSINESS

When you are Starting a Business...

This chapter is an excerpt from Tim Berry's classic business planning manual, *Hurdle: The Book on Business Planning.* Hurdle focuses on developing a business plan for a specific business event, such as starting up a new business, or seeking outside funding.

Read this chapter for tips on the basics of starting your business:

- Identifying your customers
- Assessing the real risks of starting your own business
- Choosing a name
- Deciding on a legal structure
- Getting licenses, permits, and tax and employer numbers
- Financial basics: selling on credit vs. cash-sales, getting funding, estimating start-up costs

About the Author

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It's dangerous to fall in love with the idea of starting a business instead of falling in love with the business itself. Go into this with a good idea of reality.

Starting Thoughts

First Things First

A business plan is not the most important single requirement for starting a business. Many other things are much more important. For example:

- **Customers:** The first thing you really need to start a business, maybe even the only thing you really need, is customers. It all starts with at least one customer.
- **Customer needs:** Your business must fulfill some type of customer need in order to be successful. Sometimes customer needs can be intangible, like security or prestige. Some customer needs seem frivolous, but they still matter. Make sure there is a market for your service or product. Your business will fail if it doesn't address a customer need.

Myths About Starting a Business

There are several myths about owning and operating a business that should be avoided at all costs. These common myths cause a lot of problems:

- **The myth of "being your own boss":** You are not your own boss when you own a business. Your customers are your boss. Your bank is your boss. Your fixed costs are your boss.
- **The myth of "independence":** Owning a business doesn't make you independent — not needing money makes you independent. As long as you need money, you can't be independent.

Think it Over

The folklore of business start-ups generally underestimates the risks. Imagine yourself missing mortgage payments when you can't cover your business costs and facing employees when you can't make payroll. Those negative images are also part of business ownership.

Don't go into a business based on the folklore and myths. There are plenty of good reasons to do it. As you start a company, plan ahead. Give yourself the benefit of a real estimate of start-up costs.

- If you can't afford to lose the money, then don't put it at risk.
- If you can't convince somebody else to put up the money, think again about the business you want to start.

Try running through the easy-to-use online starting costs calculator at www.Bplans.com.

About Business Names

We are talking about the name of your business in this section, not your trademarks, or service marks, logos, or slogans. We are not attorneys, we do not give legal advice, so be sure to check with an attorney early on as you build your business. Trademark law protects product names, logos, trade names, and even some slogans as trademarks or service marks. Copyright law protects works of art, fiction, movies, literature, sculpture, and other creative works. Business law, however, does not fully guarantee you the exclusive use of your business name. To get close to exclusivity, you have to be first, you have to be national, and you have to be alert.

Owning and Establishing a Business Name

The most common misunderstanding about business names is about registering, protecting, and reserving business names. You can't reserve a business name completely; you can't have exclusive use. A business name is a lot like a personal name, in that the first or oldest John Smith cannot claim exclusive use of that name. He can't make all the other John Smiths change their names. So too, the first Smith's Restaurant can't stop all other Smith's Restaurants from using that same name. McDonald's Hamburgers can't make McDonald's Hardware Store change its name, and McDonald's Hardware Store in Manhattan can't sue McDonald's Hardware Store in San Francisco.

However, just as you have rights to your own identity, so does your company. One John Smith can sue another John Smith for using his identity, having bills sent to the wrong address, or purposely confusing people. McDonald's Hamburgers can sue just about anybody trying to use McDonald's for a business selling fast foods.

The confusion starts because business names are registered by different authorities in different places and on different levels.

- The first and simplest business name is your own name, which might be enough for John Smith using Smith Consulting or operating Smith's Restaurant. This kind of business name normally requires no additional paperwork, although most business owners end up registering a name anyhow to establish their legal claim to it.
- The second common level of business names is called DBA (for "doing business as") or Fictitious Business Name, which gives an individual the right to operate under a business name with signs, bank accounts, checks, and so on. These are generally registered and legalized by county governments within states. There might be a McDonald's Hardware Store as a DBA in many counties within a given state, and across many different states.

  To register a business with a fictitious business name, call your county government for details. You can expect that you'll have to visit an office in the county government, pay a fee of less than $100, and do some legal advertising, also less than $100, probably using forms you can fill out in the same office.

  Somebody will probably look up the registry to make sure that yours is the first business in the county with that name. Details will vary depending on which state and county you're in.

- The third level is the corporation, regardless of its various corporate entities. Whether they are S Corporations, C Corporations, LLCs, or whatever, a corporation is registered at the state level and only one can have the same name in the same state. However, there is no guarantee that there won't be many businesses registered as McDonald's Hardware Store in several counties in a state, and a corporation registered as McDonald's Hardware Corporation. This kind of duplication happens.

  To establish a corporation, you can use some of the national services such as the Company Corporation (www.corporate.com) or a local attorney. The corporate forms will go to the state, and details will depend on which state you're in.

Even though duplicate business names are possible and quite common, you do still have the right to protect and defend your own business name once you've built the business around it. The key to this is the real or perceived confusion in the mind of the customer. As we said above, one John Smith can sue another John Smith for purposely confusing their identities. So too, McDonald's Hamburgers can and should sue anybody who starts a new restaurant named McDonald's serving any fast foods.

On this point, when one business is confused with another, being first matters. When somebody tries to establish a second McDonald's Hardware where it would confuse people with the first, then the first McDonald's has a legal right to prevent it. If the second store puts up a sign, then the first store should take quick legal action to stop it. The longer the first store ignores the second, the better the case of the second store.

When the whole mess goes to court, the first one to use the name is likely to win, but if the first one sat quietly while the other one built the name, then there is more doubt. An existing business should always watch out for people using the same or confusingly similar names, because the sooner it complains, the better for its legal arguments.

Researching Whether a Name is Available

You can't absolutely guarantee that nobody has the name you want, but you can at least try. You don't want a business name that can cause problems later because it confuses you with some other business. That's obvious, but how do you research a name to make sure there won't be a conflict? There is no single sure way, but here are some suggestions:

- **Search Online.** Start with your favorite search engine and see whether anything turns up on the company name you're considering. You can also go to the U.S. Patent and Trademark Office website, www.uspto.gov or www.knowx.com, or similar sites.
- **Search the Internet domain names.** There are several websites that offer access to the Internet databases using the search term 'whois'. The most traditional site for this is the one at Network Solutions, www.networksolutions.com.
- **See an attorney.** Since you probably want to talk to an attorney about the correct business entities and other start-up matters, you may also ask your attorney about checking on business names. Generally, you want to do your own check first to catch any obvious conflicts.

Ultimately, you really protect your business name by using it. Corporations are registered by states, and fictitious business names are registered in counties. Registering a name doesn't really protect it though, because the same name could legally exist in many other states, many other counties.

You could be Acme Corporation in Illinois and legally own that corporation in that state, but there could be another Acme Corporation in every other state, and every one of them is legal until you win a lawsuit proving that they are trading on the commercial interests you own. When you really get protection is when you find somebody else using the name and you can prove that you had it first, so they are trading on your name. There are lots of McDonald's restaurants around, and McDonald's can't stop them from using that name if they had it early enough, and especially if they aren't pretending to be a fast-foods hamburger joint. The intent and the attempt to confuse is very important.

Choosing a Business Name

The choice of a business name is very important, worth taking time to develop. Don't end up with a name that you can't live with. Look for something that describes your business, is easy to explain, fits on the signs, and works.

Find an Attorney

I'm not an attorney, and I don't give legal advice. I do strongly recommend working with an attorney to go through the details of your company's legal establishment, licenses, and other items covered here. By including this information in this book, I don't mean to imply you should do it yourself.

The trade-offs involved in incorporation vs. partnership vs. other forms of business are significant. Small problems developed at the early stages of a new business can become horrendous problems later on. What's true in one state isn't true in the next one. The cost of simple legal advice in this regard is almost always worth it. Starting a company should not involve a major legal bill except in special cases. Don't skimp on legal costs.

Licenses and Permits are Usually Local Issues

It's hard to generalize on licenses and permits, because some of these depend on where you are and some depend on what you do. When in doubt, you should check with local sources. If you don't want to go straight to the local government and ask your questions directly, then ask at your local Chamber of Commerce, www.chamberofcommerce.com, or Small Business Development Center (SBDC), www.bplans.com/sb/.

For example, many cities have zoning laws that define where you can put retail stores, office space, and industries. Few of these affect the small home-based business, but it's not unusual to have zoning laws prohibit signs on lawns or houses.

Some types of businesses require local or state licenses. This depends on where you are. For example, businesses including day care, hair care, food service, and bars and nightclubs often require special licenses.

Resale Licenses and Sales Taxes

In states that have sales tax, state authorities manage a system that sets reseller businesses into a special category so they don't have to pay sales taxes on items they buy for resale. The required paperwork and the state offices that manage it are different in many states, so you'll have to ask state offices for your state's rules as you establish your business.

Taxpayer ID and Employer Numbers

Employer Identification Numbers (EIN) are assigned by the Internal Revenue Service and state tax authorities. If you don't have employees and you haven't established a corporation, then your social security number is your federal taxpayer ID. If you've established a corporation or you have employees, then you must have a federal EIN, which is assigned by the federal IRS. In most states, the state assigns a separate state number.

The Business Entity

The pros and cons of different business formations are worth understanding. They vary by state — this is not a good area for guesswork, and not a good place to save money — so please go through this with an attorney you can trust. The following is for background information.

Although the details vary, it starts with the choice between sole proprietorship, partnership, corporation, or the more trendy Limited Liability Company, LLC. Within the corporation classification you have some additional choices, between the standard C corporation or the small business S corporation.

Sole Proprietorship

Simply put, your business is a sole proprietorship if you don't create a separate legal entity for it. This is true whether you operate it in your own name, or under a trade name. If it isn't your own name, then you register a company name as a "Fictitious business name," also called a DBA ("Doing Business As"). Depending on your state, you can usually obtain this through the county government. The cost is no more than a small registration fee plus a required newspaper ad, for a total of less than $100 in most states.

The main disadvantage of the sole proprietorship is the lack of a separate entity, which means you have personal responsibility for it. If the business fails, then its creditors can go after your personal assets.

Tax treatment is quite simple; your profit and loss goes straight through to your personal taxes. Your business income is normally on Schedule C of your tax return. This can be good or bad for your tax situation, depending on where you stand with other income.

Partnerships

Partnerships are harder to describe because they change so much. They are governed by state laws, but a Uniform Partnership Act has become the law in most states. That act, however, mostly sets the specific partnership agreement as the real legal core of the partnership, so the legal details can vary widely. Usually the income or loss from partnerships passes through to the partners, without any partnership tax.

The agreements can define different levels of risk, which is why you'll read about some partnerships that have general partners and limited partners, with different levels of risk for each.

The agreement should also define:

- What happens if a partner withdraws
- Buy and sell arrangements for partners
- Liquidation arrangements, should that becomes necessary

If you think a partnership might work for your business, make sure you do this right. Find an attorney with experience in partnerships, and check for references of present and past clients. This is a complicated area and a mistake in the agreement can cause a lot of problems.

Corporations

Corporations are either the standard C corporation or the small business S corporation. The C corporation is the classic legal entity of the vast majority of successful companies in the United States. Most lawyers would agree that the C corporation is the structure that provides the best shielding from personal liability for owners, and provides the best non-tax benefits to owners. This is a separate legal entity, different from its owners, which pays its own taxes. Most lawyers would also probably agree that for a company that has ambitions of raising major investment capital and eventually going public, the C corporation is the standard form of legal entity.

The S corporation is used for family companies and smaller ownership groups. The clearest distinction from C is that the S corporation's profits or losses go straight through to the S corporation's owners, without being taxed separately first. In practical terms, this means that the owners of the corporation can take their profits home without first paying the corporation's separate tax on profits, so those profits are taxed once for the S owner, and twice for the C owner. In practical terms, the C corporation doesn't send its profits home to its owners as much as the S corporation does, because it usually has different goals and objectives. It often wants to grow and go public, or it already is public. In most states an S corporation is owned by a limited number (25 is a common maximum) of private owners, and corporations can't hold stock in S corporations, just individuals.

Corporations can switch from C to S and back again, but not often. The IRS has strict rules for when and how those switches are made. You'll almost always want to have your CPA and in some cases your attorney guide you through the legal requirements for switching.

Limited Liability Company

Be careful with this one, because the Limited Liability Company (LLC) form is different for different states, with some real advantages in some states that aren't relevant in others. An LLC is usually a lot like an S corporation, a combination of some limitation on legal liability and some favorable tax treatment for profits and transfer of assets. This is a newer form of legal entity and often harder to establish than a corporation.

Why would you establish an LLC instead of a corporation? That's a tough legal question, not one we can answer here. In general, the LLC has to be missing two of the four characteristics of a corporation (limited liability, centralized management, continuity of life, and free transferability of ownership interest). Still, with the advisability and advantages varying from state to state, here again, this is a question to take to an attorney who has small business experience.

A Simpler Plan for Start-ups

Don't let me, this book, business-planning software, or any other source force you into doing more of a business plan than you need. A plan can help you move forward, make decisions, and make your business successful. Not every plan is the same, not every business needs the same level of detail.

For a simple example, imagine a woman making jewelry at home and selling it at a local craft market on the weekend. A business plan could give her a chance to step back from the normal flow and look at ways to develop and improve the business. The planning process should help her understand her business. It should help her define what she wants from the business, understand what her customers want, and decide how to optimize her business on her own terms. She might benefit from developing a less detailed sales and expense forecast, maybe even a profit and loss, so she can plan how to use and develop her resources. She might not need to create detailed cash flow, balance sheet, and business ratios. A simple plan may be just what she needs to get going.

Even at the early start-up stage your business plan is very important. The outline below illustrates the contents of a simpler business plan. For many smaller and start-up businesses, this plan outline can cover all the bases.

Simpler Plan Outline

Outline	Topic	Table	Chart
1.0	Executive Summary		Highlights
1.1	Objectives		
1.2	Mission		
1.3	Keys to Success		
2.0	Company Summary	Start-up	Start-up
3.0	Product Description		
4.0	Market Analysis Summary	Market Analysis	Market Forecast
4.1	Market Segmentation		
4.2	Target Market Segment Strategy		
4.3	Market Needs		
4.4	Competitions and Buying Patterns		
5.0	Strategy and Implementation Summary		Annual Sales
5.1	Competitive Edge		
5.2	Sales Strategy	Sales Forecast	Monthly Sales
6.0	Management Summary		
7.0	Financial Plan		
7.1	Break-even Analysis	Break-even	Break-even
7.2	Projected Profit and Loss	Profit and Loss	
7.3	Projected Cash Flow	Cash Flow	Cash Flow

For an example of the very early stages of a plan, review the elements of starting a business plan in the section *Chapter 3: Initial Assessment*. This first stage of a plan focuses only on a few starter elements. The Mission Statement, Keys to Success, Market Analysis, and Break-even Analysis give you a critical head start toward understanding your business.

However, not all start-ups are that simple. Many of them need product development, packaging, retail fittings and signage, office equipment, websites, and sometimes months or even years of payroll before the sales start. Unless you're wealthy enough to finance these expenditures on your own, then you'll need to deal with bank loans or investors or both; and for that you'll need a more extensive business plan. Start-up company or not, the plan has to meet expectations.

One suggestion for getting started is to develop your plan in stages. A few key text topics might be enough to discuss the plan with potential partners and team members, as a first phase. You may then want to add a basic sales and expense forecast, leading to profit and loss, as the next phase. Adding business numbers helps you predict business flow and match spending to income.

Ultimately, the choice of plan isn't based as much on the stage of business as it is on the type of business, financing requirements, and business objective. Here are some important indicators of the level of plan you'll need, even as a start-up:

- Some of the simpler businesses keep a plan in the head of the owner, but every business has a plan. Even a one-person business can benefit from creating a plan document with ideas written down, because the process is valuable. The exercise of producing a plan is a useful process.
- As soon as a second person is involved, the need for planning multiplies. The plan is critical for communicating values, goals, strategies, and detailed implementation.
- As soon as anybody outside the company is involved, then you need to provide more background information as part of the plan. When a plan is for internal use only, you may not need to describe company history and product features, for example. Stick to the topics that add value, that make you think, that help support decisions.
- For discussion purposes, text is enough to get a plan started. Try describing your mission, objective, keys to success, target market, competitive advantage, and basic strategies. How well does this cover your business idea?
- Can you live without a sales and expense forecast? Sometimes the one-person business keeps numbers in its (the owner's) head. However, it's much easier to use tools that can put the numbers in front of you and add and subtract them automatically. That's where a plan helps.
- Do you really know your market? A good market analysis can help you see opportunities that might not otherwise be obvious. Understand why people buy from you. What are the needs being served? How many potential customers are out there?
- Do you manage significant amounts of inventory? That complicates your cash management and requires a more sophisticated plan. You must buy inventory before you sell it.
- Do you sell on credit? If you are a business selling to businesses, then you probably do have to sell on credit, and that normally means you have to manage money owed to you by your customers, called accounts receivable. Making the sale is no longer the same thing as getting the money. That usually requires a more sophisticated plan.
- Do you do your taxes on a cash basis or accrual basis? If you don't know, and you are a very small (one person, maybe two to three people) business, then you're likely to be on a cash basis. That makes your planning easier.

  However, most businesses big enough to work with a CPA and have separate tax statements use accrual accounting because they want to deduct expenses as they are incurred, even if they aren't fully paid for. By the time you are using accrual accounting, you'll probably need more sophisticated cash flow tools and a more extensive business plan.

- As you approach banks and other lending institutions, expect to provide more detail on personal net worth, collateral, and your business' financial position. Some banks will accept a very superficial business plan as long as the collateral looks good. Others will demand to see detailed monthly projections. No bank can lend money on a business plan alone; that would be against banking law. But a bank wants to see a good plan.
- If you're looking for venture investment, take a good look at your plan. Professional investors will expect your plan to provide proof, not just promises. They'll want to see market data, competitive advantage, and management track records. They'll want to see robust and comprehensive financial projections. True, you'll hear stories about investors backing new companies without a plan, but those are the exceptions, not the rule.

So, however you cut it, your business plan is very important, even at the early start-up stage, and even if you can keep it in your head. Before you purchase business stationery, telephones, or rent a location, you should do a business plan.

Realistic Start-up Costs

Start-up expenses are those expenses incurred **before** the business is running. Many people underestimate start-up costs and start their business in a haphazard, unplanned way. This can work, but is usually a harder way to do it. Customers are wary of brand new businesses with makeshift logistics.

Use a start-up worksheet to plan your initial financing. You'll need this information to set up initial business balances and to estimate start-up expenses, such as legal fees, stationery design, brochures, and others. Don't underestimate costs.

This illustration reproduces a typical Start-up table for a home office, service business — in this case a résumé-writing service. The assumptions used in this illustration show how even simple, service-based businesses need some start-up money.

START-UP COSTS

Start-up Plan	
Requirements	
Start-up Expenses	
Legal	$50
Stationery, etc.	$100
Brochures	$450
Consultants	$100
Insurance	$50
Rent	$0
Research and Development	$0
Expensed Computer Equipment	$500
Other	$500
Total Start-up Expenses	**$1,750**
Start-up Assets	
Cash Required	$500
Start-up Inventory	$250
Other Current Assets	$25
Long-term Assets	$0
Total Assets	**$775**
Total Requirements	**$2,525**

Start-up table for a hypothetical home office résumé service.

Understand the Risks

I've spent many years as an entrepreneur and working with entrepreneurs. I understand and sympathize with the urge to create something, to build your own business, and make it work. However, I've also seen the disaster of the business start-up that absorbs more money than it should, and optimistic owners who keep dumping more money into a lost cause, digging themselves deeper into a hole instead of getting out of it.

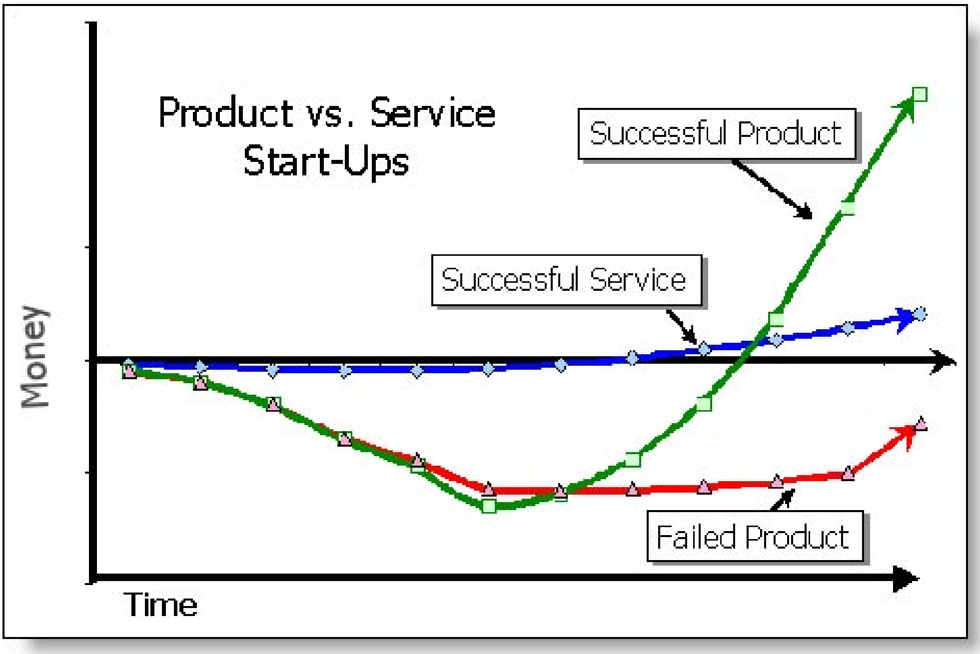
The illustrations on the following pages are hypothetical examples of three classic types of start-up companies. There is the successful product-based start-up, the successful service start-up, and the failed product start-up. It shows simple lines indicating the cumulative balance for each business, over time. This cumulative balance stands for how much money is spent or received and how much money is at risk. The actual times and actual amounts, shown in the tables, are not as important as the relative relationship between the examples.

Both the successful and the failed product company launches look the same in the beginning. The successful launch turns upward and generates money, but the unsuccessful launch never does. The service company, in contrast, generates less money but also risks less money.

This chart comparison makes two extremely important points about the money at risk in different kinds of businesses:

- Product businesses usually require more investment than service businesses.
- "Bootstrapping" (starting the business without start-up capital) is much harder for product businesses than service businesses.

THE START-UP CURVE AND RISK TO INVESTMENT



The lines show the cumulative cash positions for two start-up product companies and a start-up service company. The product companies risk more than the service company.

Successful Product Start-up

Successful Product Example	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales												
Sales	$0	$0	$0	$0	$50,000	$75,000	$100,000	$125,000	$150,000	$150,000	$150,000	$150,000
Cost of Sales	$0	$0	$0	$0	$10,000	$15,000	$20,000	$25,000	$30,000	$30,000	$30,000	$30,000
Expenses												
General Start-up Expenses	$4,500	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Product Work	$0	$5,000	$5,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Packaging Work	$0	$0	$5,000	$5,000	$0	$0	$0	$0	$0	$0	$0	$0
Initial Inventory Build	$0	$0	$0	$10,000	$0	$0	$0	$0	$0	$0	$0	$0
Product Release PR	$0	$0	$5,000	$5,000	$5,000	$0	$0	$0	$0	$0	$0	$0
Running Operating Expenses	$5,000	$5,000	$5,000	$10,000	$10,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
Total Expenses	**$9,500**	**$10,000**	**$20,000**	**$30,000**	**$15,000**	**$20,000**	**$20,000**	**$20,000**	**$20,000**	**$20,000**	**$20,000**	**$20,000**
Accounts Receivable												
Accounts Receivable	$0	$0	$0	$0	$50,000	$125,000	$175,000	$225,000	$275,000	$300,000	$300,000	$300,000
Deposits from Accts Receivable	$0	$0	$0	$0	$0	$0	$50,000	$75,000	$100,000	$125,000	$150,000	$150,000
Payments												
Costs of Sales	$0	$0	$0	$0	$10,000	$15,000	$20,000	$25,000	$30,000	$30,000	$30,000	$30,000
Expenses	$9,500	$10,000	$20,000	$30,000	$15,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
Total Payments	**$9,500**	**$10,000**	**$20,000**	**$30,000**	**$25,000**	**$35,000**	**$40,000**	**$45,000**	**$50,000**	**$50,000**	**$50,000**	**$50,000**
Net Cash	($9,500)	($10,000)	($20,000)	($30,000)	($25,000)	($35,000)	**$10,000**	**$30,000**	**$50,000**	**$75,000**	**$100,000**	**$100,000**
Cumulative Cash	($9,500)	($19,500)	($39,500)	($69,500)	($94,500)	($129,500)	($119,500)	($89,500)	($39,500)	**$35,500**	**$135,500**	**$235,500**

Failed Product Start-up

Failed Product Example	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales												
Sales	$0	$0	$0	$0	$25,000	$27,500	$30,000	$32,500	$35,000	$37,500	$40,000	$42,500
Cost of Sales	$0	$0	$0	$0	$5,000	$5,500	$6,000	$6,500	$7,000	$7,500	$8,000	$8,500
Expenses												
General Start-up Expenses	$4,500	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Product Work	$0	$5,000	$5,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Packaging Work	$0	$0	$5,000	$5,000	$0	$0	$0	$0	$0	$0	$0	$0
Initial Inventory Build	$0	$0	$0	$10,000	$0	$0	$0	$0	$0	$0	$0	$0
Product Release PR	$0	$0	$5,000	$5,000	$5,000	$0	$0	$0	$0	$0	$0	$0
Running Operating Expenses	$5,000	$5,000	$5,000	$10,000	$10,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
Total Expenses	**$9,500**	**$10,000**	**$20,000**	**$30,000**	**$15,000**	**$20,000**	**$20,000**	**$20,000**	**$20,000**	**$20,000**	**$20,000**	**$20,000**
Accounts Receivable												
Accounts Receivable	$0	$0	$0	$0	$27,500	$52,500	$57,500	$62,500	$67,500	$72,500	$77,500	$42,500
Deposits from Accts Receivable	$0	$0	$0	$0	$0	$0	$25,000	$27,500	$30,000	$32,500	$35,000	$72,500
Payments												
Costs of Sales	$0	$0	$0	$0	$5,000	$5,500	$6,000	$6,500	$7,000	$7,500	$8,000	$8,500
Expenses	$9,500	$10,000	$20,000	$30,000	$15,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
Total Payments	**$9,500**	**$10,000**	**$20,000**	**$30,000**	**$20,000**	**$25,500**	**$26,000**	**$26,500**	**$27,000**	**$27,500**	**$28,000**	**$28,500**
Net Cash	($9,500)	($10,000)	($20,000)	($30,000)	($20,000)	($25,500)	($1,000)	**$1,000**	**$3,000**	**$5,000**	**$7,000**	**$44,000**
Cumulative Cash	($9,500)	($19,500)	($39,500)	($69,500)	($89,500)	($115,000)	($116,000)	($115,000)	($112,000)	($107,000)	($100,000)	($56,000)

These two tables demonstrate the difference in cumulative cash and the money at risk between a successful product start-up and a failed product start-up.

SUCCESSFUL SERVICE START-UP

Successful Service Example												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales												
Sales	$0	$0	$1,000	$3,500	$6,000	$8,500	$11,000	$13,500	$16,000	$18,500	$21,000	$23,500
Cost of Sales	$0	$0	$50	$175	$300	$425	$550	$675	$800	$925	$1,050	$1,175
Expenses												
General Start-up Expenses	$2,500	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Product Release PR	$0	$500	$500	$0	$0	$0	$0	$0	$0	$0	$0	$0
Running Operating Expenses	$1,500	$1,500	$1,750	$2,375	$3,000	$3,625	$4,250	$4,875	$5,500	$6,125	$6,750	$7,375
Total Expenses	**$4,000**	**$2,000**	**$2,250**	**$2,375**	**$3,000**	**$3,625**	**$4,250**	**$4,875**	**$5,500**	**$6,125**	**$6,750**	**$7,375**
Accounts Receivable												
Accounts Receivable	$0	$0	$1,000	$3,500	$6,000	$8,500	$11,000	$13,500	$16,000	$18,500	$21,000	$23,500
Deposits from Accts Receivable	$0	$0	$0	$1,000	$3,500	$6,000	$8,500	$11,000	$13,500	$16,000	$18,500	$21,000
Payments												
Costs of Sales	$0	$0	$50	$175	$300	$425	$550	$675	$800	$925	$1,050	$1,175
Expenses	$4,000	$2,000	$2,250	$2,375	$3,000	$3,625	$4,250	$4,875	$5,500	$6,125	$6,750	$7,375
Total Payments	**$4,000**	**$2,000**	**$2,300**	**$2,550**	**$3,300**	**$4,050**	**$4,800**	**$5,550**	**$6,300**	**$7,050**	**$7,800**	**$8,550**
Net Cash	**($4,000)**	**($2,000)**	**($2,300)**	**($1,550)**	**$200**	**$1,950**	**$3,700**	**$5,450**	**$7,200**	**$8,950**	**$10,700**	**$12,450**
Cumulative Cash	**($4,000)**	**($6,000)**	**($8,300)**	**($9,850)**	**($9,650)**	**($7,700)**	**($4,000)**	**$1,450**	**$8,650**	**$17,600**	**$28,300**	**$40,750**

The successful service start-up requires less cash in any month than a product company, and so there is less money at risk.

Summary

I'll always remember a talk I had with a man who had spent 15 years trying to make his sailboat manufacturing business work, achieving not much more than aging and more debt. "If I can tell you only one thing," he said, "it is that you should never leave yourself without an exit. If you have no exit, then you can never get out. Businesses sometimes fail, and you need to be able to close it down and walk away. I wasn't able to do that."

The story points out why the U.S. government securities laws discourage getting business investments from people who aren't wealthy, sophisticated investors. They don't fully understand how much risk there is. Please, as you start your business, make sure that you understand how easily money invested in a business can be lost.

If I could make only one point with budding entrepreneurs, it would be that you should know what money you need and understand that it is at risk. Don't bet money you can't afford to lose. Know how much you are betting.

Thanks for downloading this startup guide.
So, what do you do now?

If you're seriously considering starting up a business, it's time to think about your business plan. As Tim mentioned in this guide, even at the early startup stage, a business plan is very important. But how do you get started?

LivePlan can help. With LivePlan, you can easily **create a unique business plan, with all the financial tables and graphs to go with it**. You'll also be able to:

- View **over 500 complete sample business plans**
- Save time with linked financials (the formulas are built in, so **you don't have to do the calculations!**)
- Benefit from **tons of help**, advice, and resources
- **Collaborate** with a partner or a team
- **Work on your plan from anywhere** and on any computer