

# **The New Business Start Up Guide**



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## **Starting a business?**

That's great. Controlling your destiny is a good thing.

Along with your new-found freedom comes responsibility. You have make sure that your business is set up the right way- and that your accounting is accurate.

This guide will give you some of the basics. You should research your new venture thoroughly before making a large investment, and you'll find that when you do-your chances of success are far greater.

Whatever business you decide to pursue-we wish you luck!

**Ronnie Talent**

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## **Small Business-Definition**

For all research purposes the office of advocacy defines a small business as independent business having lesser than 500 employees. Firms wishing to be designated small businesses for government programs such as contracting must meet size standards specified by the Small Business administration (SBA) Office of Size Standards. These standards vary by industry

## **Choosing a Business**

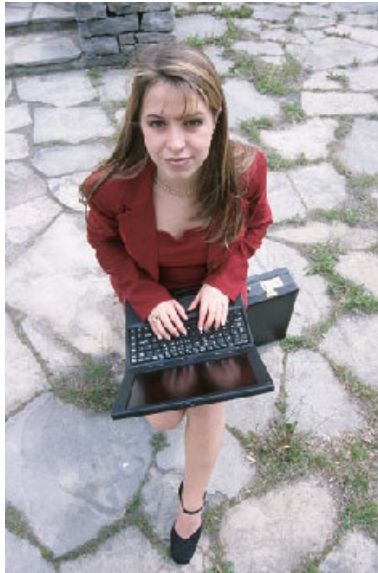
Remember, you are going to take a vital decision in your life. This necessitates great care from your part simply because it is going to affect to you any way. Checking the following points can be really rewarding.

### **Can I enjoy doing it?**

This is the first question one should explore to put it right. An assessment of the current interests will certainly be a useful tool. Many successful small businesses grow out of hobbies because hobbies are chosen for right reason. Here is where enjoyment comes to picture .The task, the challenge and the time spent , all comes from one's heart.

### **Do I have the required technical expertise?**

It is suicidal to enter in to an area which is completely alien to you. With right technical expertise you can ask the right questions, make good business decisions and can absorb other "expert" opinions.



### **Is the revenue guaranteed?**

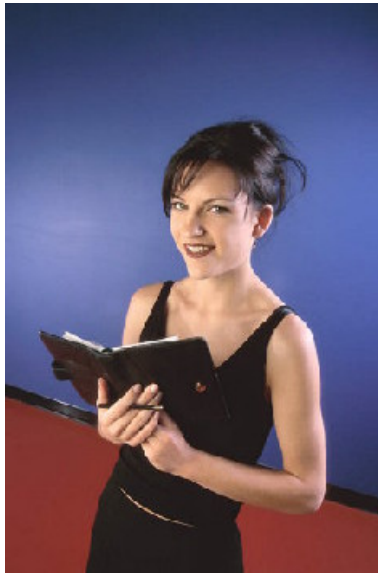
The ladder should be put on the right wall. The financial goals must be realistic. The best way is to look around the similar businesses and analyze their progress. Better, if you can talk to some owners. This will help in selecting one which is capable of quenching your financial thirst.

### **Can I get the help I need?**

To survive in any fields without help is quite difficult. It will be highly beneficial to find out whether the right kind of help is available in the immediate area. Also an enquiry on similar businesses in the area will be quite useful.

## **Can you sense the vibration of the market?**

Ultimately, what it matters is customers. Will you be able to find customers? Do you have the knowledge required to set prices appropriately? Will you be able to direct a marketing program? Of course, you might not do this yourself, but you may have to manage the effort.





### **Small business legal structure.**

The legal structure for all small business need not essentially be the same – it can take the simple structure of a Sole Proprietor or a complicated one such as a Partnership, Corporation or a Limited Liability company (LLC). The success of your business is by and large governed by factors such as size and profitability of the business, how many people own it and whether it entails liability risk not covered by insurance.

## **Types of ownership structures.**

The most common forms of doing business include

- ❖ Sole Proprietorship
- ❖ Partnership
- ❖ Limited Liability Company(LLC)
- ❖ Corporation (for-profit)
- ❖ Nonprofit corporation (not-for-profit)
- ❖ cooperative

### **Sole Proprietorship And Partnership**

This simple structure works best for many new businesses. A sole proprietorship doesn't require any filing of papers – it is just venturing into the business. Legally inseparable from its owner – the profits, losses, debts or court judgments – all are his very own.

A partnership structure is just the same as Sole Proprietorship with two or more people, The structure starts when you start a business with another person. Sole Proprietorship and Partnership should be adopted in a business where it doesn't require personal liability.

### **Limited Partnership**

Being costly and complicated, this is least recommended for the average small business owner. The ' General Partner' who creates the Limited Partnership can be a person or a company; and solicits investments from others who are the limited partners. Unless a cooperation or an LLC, the General Partner is personally liable for business debts and controls the day to day operations of the Limited

partners. Consulting an expert in limited partnership is always recommended before venturing into the same.

## **Corporations and LLCs.**

Though complicated and costly, this structure has the merit of limiting owner's personal liability for business debts and court judgments against business. Being an independent legal and tax entity, it is separate from the people who own, control and manage it. The separate status also ensures that the owners do not require their personal tax returns to pay on personal income tax on the money they draw from the corporation in the form of salaries, bonuses and the like.

The similarity of LLCs to corporation is that they also provide limited personal liability for business debts and claims. However, with regard to taxes, LLCs are more like partnerships; the owner of an LLC pays tax on their shares of the business income on their personal tax returns. Corporations and LLCs can be adopted by business owners who either run the risk of being sued by clients or piling up business debts and have personal assets which need to be protected from business creditors.

## **Non Profit Corporations**

This is normally formed for charitable, educational, religious, literary or scientific purposes. The fund can be raised through public/private grant and donations. Non profit corporations are generally exempted from tax, considering their contribution to society.

## **Cooperation**

While starting a new business, it is important to choose the most suitable ownership structure . While deciding on the legal structure of your business, the following factors need to be considered.

### **Potential risk and liability of your business**

The formalities and expenses involved in establishing and maintaining the various business structure Your income tax situation and Your investment needs.

### **Risk and liability**

The best ownership structure needs to be decided on, considering the type of services or products offered. For a business engaged in risky activities , it is advisable to have liability insurance and form a business entity that provides personal liability protection that shields your personal assets from business debts and claims.

### **Formalities and Expenses**

Sole proprietorship and partnerships are the easiest ones to start on – they are completely free of the forms , fee or concrete rules of operation.

Setting up an LLC or Corporation requires much more attention and investment. The formalities include filing the document within the state along with a fee that ranges around \$540 and \$800, depending on the locale of your business. Important business decisions need to be recorded and all the set processes should be followed. Appointment of officers through election also is necessary.

While a business is being set up, the normal tendency is to invest the minimum. Considering the effort and investment required in an LLC or a corporation, it is not worth the complexity unless the risk element is very high.

## **Income Taxes.**

The returns from the business, whether profit or loss comes to the owners in the case of Sole Proprietorship. On the personal income tax returns, the owners report their share – which means as far as the tax part is considered, the complexity, paper work and cost is the same for Sole Proprietorship.

Regardless of the actual profit, owners of unincorporated business need to pay tax on the net profit. This means, even when the whole profit is reinvested in the business, the owners have the onus of reporting their share of these profits as their income.

The owners of a corporation pay taxes only on the profit paid to them as bonuses, salaries and dividends.

## **Registering the Sole Proprietorship**

Sole Proprietorship has the benefit of getting started without filing of any forms or documents or fees. On completing the general registration requirements applicable to all new businesses, your business has to be declared as Sole Proprietorship.

Normally, even the smallest business, even if home based, is required to register in many a cities. You benefit with a business license or Tax Registration certificate. An employer identification number, a seller's license and a zoning permit are the other

documents you should possess. The name, which you give to, the business also needs to be registered.



## Filing a Tax Return.

In Sole Proprietorship, the business profit or loss information on Schedule C also needs to be submitted to IRS along with Form 1040. As all the profits get taxed, keeping money in the company's bank account or spending all the profit doesn't particularly help.

The money spent in pursuit of profit and expansion are given exemption. A well-maintained record hence becomes important.

The self employment taxes can be compared to the payroll tax for employees of a business – only regular employees have it through deduction from their pay checks while Sole Proprietorship have them when paying their income taxes. Also, employees pay only half as much for this due to the contribution by their employers, where as Sole Proprietorship bears the total payment themselves.



Being a separate entity from its owners, Corporation owners pay tax on money earned as salary, bonus and dividends. The responsibility of paying tax on all profits is of the corporation. Hence, Corporation owners

who invest the profit in the business itself benefit on tax rate. The first \$50,000 of profit attracts a tax of 15% and 25 % for the next \$25,000 which is actually lower than the share holders personal income brackets.

The Corporation is required to file a Corporation tax Return , IRS form 1120 and pay taxes at Corporate income tax rate on any profits. The payment to the IRS is on a quarterly basis – in April, June, September and January.

If the Corporation owners work for the corporation, they will be paid income taxes on their salaries and bonuses like any other regular employee, hence tax will be deducted on them.

Coming to the dividends – it is taxed to the Corporation and the shareholders. I.e. On receiving the dividend the owner needs to pay personal income tax. As dividends are not tax excepted, the corporation also pays tax on them. This mode of taxation is applicable to all C Corporations. Normally, without facing tax penalties, corporations can leave the profit of upto \$250,000 in the corporation.

## Running a business with your Spouse.



A Sole proprietorship is normally recognized for its single owner. However, even when a joint tax return is filed, it is possible to maintain the Sole owner status. Only, make a point to list all your income on Schedule C while filing a joint return. IRS, in this case, treats all the business income belonging to both of you and you will have one tax bill. In effect, the business will have just one formal owner.

The spouse can volunteer at the business; but doesn't have to be in pay roll and face resultant taxes. This saves money and time with regular record keeping. However, when the volunteer work becomes too frequent, you run the risk of IRS considering your spouse an employee and high penalty.

If you would like to pay your spouse for the service you avail, it is advisable to hire him or her as in independent contractor who pays on self employed taxes. This is more applicable if he or she has a private business.

### **Partnerships**

This has the benefit of simplicity and less expense than an LLC. Partnership can be looked at as a business with more than one

owner and has not filed papers with the state to become a corporate or LLC.

To have an ordinary partner, filing of any paper is not required. However, local regulations required for any new business is applicable. Some of the essentials include Employer Index from IRS, a seller's license from the state and zoning from the local plan board. If you are naming your business with a fictitious or assumed one, that needs to be registered with the country.

Though not legally essential, it is recommended to have the details of the ownership, including the partners' responsibilities as a written agreement. The disadvantage of partnership is, when one party wants to move out of the company, the partnership gets dissolved. This results in paying off the assets and profits to fulfill the business obligation. This problem can be fixed by using a Buy Sell agreement.

The Buy Sell agreement should be part of your partnership agreement. This agreement will take care of situations like Retirement, Death or disability of one partner. This will allow buying the share of the departing partner.

The State laws, The Uniform Partnership Act or the Revised Partnership Act is applicable unless a written partnership is filed. Being rigid, the State law may not suit every situation and hence it is most advisable to have your own rules and conditions of the partnership to be documented.

Your partnership agreement should essentially have name of the partnership – While choosing a fictitious name make sure it is not

already in use and is registered by you. Contributions of partners –  
Have well defined and clear agreements on ownership percentage

- ❖ Allocation of profits and losses.
- ❖ Partners authority
- ❖ Partnership decision making.

Reaching an unanimous decision each time a topic is consulted is not possible. Hence the agreement should be clear on the major or minor decisions and the ones which require unanimous decision.

### **Management Duties**

Though having a hard and fast rule is impossible, it is most advisable to have a clear idea on the responsibilities of each person. This requires a time consuming contemplation.

### **Admitting New Partners.**

With the expanding business, you may bring in new partners. Having a set process, this will be an easy hurdle, when you face it. This is also applicable to the withdrawal or death of a partner.

### **Resolving disputes**

The chances of difference in opinion between you and other partners are high, as in every normal partnership. Hence to have an alternative dispute resolution, other than court such as Mediation or arbitration needs to be contemplated.

### **Buy Sell Agreement**

This safeguards the downfall of a business due to some reasons like death, divorce, bankruptcy or retirement of one owner.

This functions as a binding contract between the partners. The

Buy Sell agreement clarifies on who can buy the share of a departing partner, what can lead to a buy out and while buying out what would be the price paid.

## **Forming a Corporation**

Filing of 'Articles of Incorporation' with the corporation division is one of the pre-requisites of forming a corporation. The filing fee would be around \$100. The rules for your corporation need to be mentioned in the bylaw, which will in turn help in the general rule applicable to the corporation.

Normally, the name you take for the Corporation cannot be one of the existing one. Also, while naming it should end with 'Corporation', Incorporated' or 'Limited'. The words reserved by the state – such as Bank, Cooperative, Federal, National or Reserve will not be permitted. Once decided on the name, it is highly recommended to reserve the same with your state. Registering the company name happens with filing of Articles of Incorporation.

The director of the corporation acts as a major decision-maker. The Director of the corporation, in most cases, is the owner of the company. However, it is not mandatory that the director should be the owner of the company.

Before the start of the corporation, make sure that the articles are filed, the directors' first meeting is held and the stock is issued. The License for a new business, called Tax Registration Certificate, an Employer Identification number issued from IRS, a seller's permit from state or a zoning permit from your local planning agent is also essential.

Holding Shareholders meet, Directors' meeting, maintaining Corporate records and documentation of the major corporate decisions are your responsibilities, as the owner of a corporation. If not meticulously done, it may lead to legal trouble, resulting in the loss of corporate status.

In corporate decision making, the shareholders are entrusted with the right to decide on election and removal of directors, amendment of articles of incorporation and bylaws, approval of sale of corporate assets, approval of reorganization, merger or dissolving the corporation.,

## **START, BUY, OR FRANCHISE?**

There are basically three ways to start a business.

- ❖ Start your own business
- ❖ Purchase an existing business
- ❖ Invest in a franchise operation.

As usual with any options each alternative has its own advantages and disadvantages. But the most popular option is the first one because of its small investments requirement. Purchasing An existing business or franchise requires a significant capital investment.

There are thousands of franchise opportunities. Be cautious and get educated before you make any decisions. Whether purchasing a business or franchise, the best advice is to investigate everything with great care. Once you have signed on the dotted line, it's almost always too late for second thoughts.



## **Small Business Licenses**

The first thing, that comes to any bodies mind when talking about business licenses is the government regulations that has to be met for starting a business. In fact truly speaking there are some formalities to be carried out to do the business. Some of the licenses are permissions by nature. If you want to start any business you may require a sanction from the local authority of that particular area. You have to comply with regulations of three governments; Federal, state and local.

### **The necessary Small Business Licenses**

The basic small business licenses you would need in practically all cases are:

**Registration of business name:** You will have to register the name under which you do business, unless you are going to do business in your own name. This is an essentiality under Trade Name Registration Act and is implemented by state or local government.

**License from City or County office:** The zoning regulations will have to be complied with for starting a business.

**Sales Tax Number:** If the business includes selling of any commodity then have to pay sales tax, and state governments require that you obtain a sales tax number before you start business.

**Obtaining Tax ID numbers:** It is mandatory that, the taxes has to be paid for all earnings and the taxes has to be deducted from the

wages from the employees pay. As per the federal Internal Revenue Service businesses should obtain Tax ID and Employer ID numbers.

If your business necessitates the occupying of a building you would have to get a Certificate of Occupancy from the city or county zoning office before your small business start.

According to the type of industries that has to be started , small business licenses from different government departments are also to be obtained. For example, in case of the industries that discharge pollutants would have to get environment compliance clearances.

### Incorporation Of Your Small Business

Among the different organizational forms- sole proprietorship, partnership or as a corporation, one is free to select the type that suits him/her the most. There are also different kinds of partnerships and corporations. Each form has different tax and liability implications.

Doing business as a corporation could limit the personal liability to the stock one has taken in the corporation. But at the same time, this form of organization would involve complying with a lot of government regulations - both at incorporation and consequent operations.

For those who do business as a corporation, all that is required concerning a business license is a Certificate of Incorporation.

### **Labor Laws**

Mostly the matter of concern is not obtaining a small business license but compliance with numerous regulations that labor laws

impose upon the entrepreneur .Even if the number of employees are minimum (just one employee in some case),the laws are applicable.

There are state and federal regulations that have to be complied with. An unemployment insurance tax has to be paid to the state even if only one person is employed. Income taxes would have to be withheld from the wages given to the employees and remitted to the government on behalf of the employees.

The federal minimum wages and immigration act regulations are also to be taken care of. Health and safety regulations relating to safe working conditions also need to be complied with.

If three or more employees are there the employer has to pay for workmen's compensation insurance, to the state government.

#### Trademark, Patent And Copyright

In case the some valuable trade asset, such as a brand, a product innovation or a new book is there, it is better to protect that asset. If unprotected, these could be copied by competitors.

In order to protect such assets, it is necessary to register these with the government. Trademarks could be registered with the state or federal government. Patents are registered with the Patent Office. Copyrights are registered with the Library of Congress.

### **Consequences Of Non-Compliance**

What happens if some one is not complying with compulsory regulations? He/she could lose the protection that law of the land provides. He/she might be unable to enforce their rights. Secondly, penalties might be levied , sometimes quite heavy. Lastly, the business itself could be closed compulsorily, leaving one with nothing to show for all those efforts (except a bad name). All those

hard work involved in obtaining the small business license or otherwise complying with government regulations is more than just worthwhile.

## **Finance**

For any business the best way is to start it, without any outside funding. There is no problem with a slow start if possible coupling with the present employment. A good start can be effectuated even by working in the evenings and weekends while the present job is kept alive. This makes sure that even if the business does not meet the expectations no debt is incurred. The job is also not lost.

The nature of the business, often have a big say in the equation. In some cases there is no other go than to have some external source. Most of the business necessitates some equipment or initial stock. Some of the important items that has to be kept in mind while preparing the start up budget is given below.

- Production equipment (for manufacturing)
- Office equipment (Fax machine, computer)
- Business licenses or permits
- Office or production furniture
- Office supplies
- Legal and CPA fees
- Insurance
- Lease deposits
- Remodeling costs
- Utility deposits (this can be quite large!)
- Salaries

- Shipping
- Advertising and promotion
- and the big one ... contingency!

Care should be taken to avoid any additional financing during the starting stage.

Comparatively it is easier to obtain financing during the initial stage. There are two major forms of business financing.

1. DEBT FINANCING. This means that you are getting a loan from someone or somewhere and going into debt! You are obligated to repay the money.
2. EQUITY FINANCING. This facilitates selling a portion of your company to an outside investor. You have no obligation to repay the funds. Generally this type of funding is provided by venture capital firms.

The fact is that majority of the small businesses will utilize debt financing since most "equity lenders" (venture capital companies) are interested in lending large amounts of money, generally a million dollars or more. Here we will only consider sources for obtaining debt financing for your venture.

## **SOURCES FOR DEBT FINANCING**

1. **YOURSELF!** (Savings) You are your own best lender if you have the savings. This approach can be quick and easy.
2. **FRIENDS and RELATIVES.** It is at this type of situations that the relationship counts. If they believe in you and your idea, friends and relatives are sometimes willing to fund you. Choose this route with care and ensure you execute a formal loan document stating loan terms (interest, terms of repayment). This type of lending has got it's negative side also. If anything goes wrong you may loss your relationship with them.
3. **BANKS and CREDIT UNIONS.** Most of the banks and credit unions (check with your own first and with you local chamber of commerce for alternate possibilities) will loan money for starting a small business. The pre-requisite for such an approach is that you present a formal plan to the bank showing justification for the amount you are borrowing.
4. **THE SMALL BUSINESS ADMINISTRATION (SBA).** SBA often guarantees a loan (normally up to 90%). This path makes it a lot easier to obtain a bank loan since the bank's risk is lowered considerably. The exception is that the SBA does provide direct loans to certain groups including Vietnam-era and disabled veterans and handicapped individuals. But normally SBA will not offer any assistance until you have been turned down for a loan by a commercial bank.

5. **VENDOR FINANCING.** Certain vendors help for your cause. After all, they want you to use their product and therefore have an interest in helping you to be successful.
6. **STATE.** Small business financing authorities of some states issue tax-exempt development bonds that can be used to finance land, buildings and equipment for manufacturing businesses. An enquiry with your local government office may provide the details.
7. **HOME EQUITY LOAN.** Low Interest rates for this kind of loan makes it an attractive option. Other than this, the interest is fully deductible for the first \$100,000 borrowed.
8. **LIFE INSURANCE.** Certain insurance policies (whole life and universal) have cash value which can be borrowed at very low interest rates. You are not obligated to pay this money back but if you don't, your policy payout is reduced by the amount borrowed.
9. **GRANTS.** Grants are provided by many foundations. Check "The Foundation Directory" at your local library or visit their website at <http://fdncenter.org> to find out what foundations may have an interest in your specific business idea.
10. **CREDIT CARDS.** These should be used with care because of the excessively high rates of interest usually charged.

## **PROFESSIONAL ADVICE**

Resources of professionals are always helpful in having a successful business. Most of the time this helps in avoiding problems. It is important to find business professionals whom you are comfortable with.

## **SELECTING AN ATTORNEY**

Advice of an attorney is recommended on various matters. It is better not to use the help of attorney referral services, including the bar association in your area, since these services are generally "name brokers." A referral by someone who knows that a certain attorney is well versed in the problems of small businesses is preferred. This source can be your banker, accountant, and other owners of small businesses.

Meet with the maximum possible and interview at least three attorneys. This is the person you are going to have a close relationship and once selected it can be difficult and expensive to switch over. You should make use of the interview time in an efficient way and try to determine if the attorney has an understanding of the problems associated with your type of small business and is interested in working with you. You should also make certain you understand the rates and how you will be charged for services. Also, determine before the interview if you will be charged for the interview time. If you are not completely comfortable during the interview, move along to your next choice. Remember that you may get better service from one of the smaller law firms.

## **WORKING WITH YOUR ATTORNEY**

Attorneys are trained in solving problems and may not understand business ramifications. As such they may not have any

admirable entrepreneurial qualities. Keep this in mind when asking for their advice.

Do not blindly follow your attorney's advice ... ask lots of questions so that you fully understand the basis for the advice. Ask for any documents to be prepared in "plain text" and not "legalese." If legal terminology is used, make certain you understand the meanings. After you fully understand the advice and any associated documents, you may decide against it for reasons of your own. Your attorney's job is to ensure you

## **SELECTING AN ACCOUNTANT**

Here also your common sense must prevail to have a suitable person. Your prospective accountant should be a member of the American Institute of Certified Public Accountants (AICPA). Your accountant's involvement is needed in every phase of the business and, if you are dealing with someone who understands the problems of a small business, you can benefit greatly from his or her advice. Your accountant can help you in the following areas:

- Selecting of an accounting package
- Setting up your books
- Tax planning
- Generating various financial reports
- Money management
- Setting up retirement plans
- Incorporation advice
- Dealing with the IRS
- Help with deciding to buy or lease

Most of the advice given for selecting an attorney also applies when selecting your accountant. Locate and interview at least three. Select someone who is sensitive to the problems of your small business. A good accountant is a very valuable resource for you but, as with an attorney, it is up to you to get and keep their attention.

A good source of referrals for an accountant is your banker and owners of other small businesses in your area. Look to businesses that are closely related to yours in terms of operation: Manufacturing, retail, etc. Small is beautiful. It is preferable to work with an independent accountant or very small firm to take advantage of the fact that you will probably represent more than a name on an invoice and the service received will be more personalized (they can grow as you grow).

## **WORKING WITH YOUR ACCOUNTANT.**

Some accounting matters, such as bank deposits, check writing, posting to your ledger, etc., can be satisfactorily handled by a bookkeeper whose services will certainly be less than that of an accountant. However, an accountant should be involved with preparation of your financial statements and all taxes to ensure statements are prepared in accordance with accepted accounting principles and that you are in compliance with all tax submissions.

Try to make your business accountant to prepare your personal tax returns also. Payroll is a complicated issue due to the numerous Federal and State requirements imposed on businesses with employees. Neither you nor your accountant, need to get involved in this thankless task. It would be a poor use of your time and too expensive to use your accountant. Fortunately, there are excellent

payroll processing services in nearly every major city throughout the United States. These services are inexpensive, complete, and, if a mistake is made, they pay any penalties that may be imposed by government agencies. Their services include preparing and delivering the checks, preparing the payroll register, sending all funds to the state and IRS, as required, preparing and filing all quarterly and annual reports. Check your local yellow pages for a service near you.

## **CHOOSING AN INSURANCE AGENT**

Once again, you should use your discretion, to select a commercial agent who is highly viable to your understandings. An independent insurance agent is most likely to provide unbiased advice. The agent you select must be aware of the details of your business. The interview with the agent should be at your place of business so that he or she can gain a better understanding of exactly what your business involves. This is especially important if you have manufacturing facilities.

It is a good idea to select an agent who is a Chartered Property/Casualty Underwriter (CPCU) and a member of the Independent Insurance Agents of America (IIAA). See references at the end of the chapter for additional IIAA information.

## **WORKING WITH YOUR AGENT**

Make sure that the agent visits your place of business on a regular basis.

Be sure to keep the agent up to date on any changes that would affect your insurance program such as new employees or equipment, change of location, etc.

Periodically, about every 6-months or so, review your entire insurance program to be sure you are adequately protected but not over-insured.

When purchasing a new item requiring insurance coverage, call your agent and get a binder. Follow up within a few days to make sure the binder has been attached to your policy.



## **A GOOD RELATIONSHIP WITH A BANK**

A bank is not only a place to check your account but the bank you choose for your business activities can play an important role in your success. Different banks provides a variety of services some of which you will need immediately, some will be of no interest whatever, and some you may need in the future.

- Typical business services in a nutshell
- Checking Accounts
- Saving Accounts
- Foreign Drafts
- Notary Service
- Wire Transfers
- Financing
- Cash Management Services
- Letters of Credit
- Certificates of Deposit

- SEP/IRA Plans
- Lines of Credit
- Receivables Financing
- SBA Loans
- Federal Tax Deposits
- Merchant Credit Card Management

As a bank's valuable assistance and advice on money matters are very important for a smooth business it is your responsibility to choose a bank that's right for your own needs.

## **CHOOSING A BANK**

You should know your specific business needs and should evaluate if the bank you have in mind can provide them. For example, if you are going to do business in other countries you should make sure the bank can handle international transfers and is familiar with letters of credit.

Give preference to banks within your own community if you are engaged in a "community oriented" type of business. For safety reasons, if your business takes in a lot of cash, choose a bank with a branch near your location. Visit a number of banks in your area. It is better not to rely on the bank you have been using for your personal banking needs. Since services and the rates charged vary widely among banks it is wise to shop carefully. Seek suggestions from other business owners and your other advisors.

Visit banks that are large enough to provide the services you will need but no larger than necessary. The smaller the bank, the more personal the service and the more likely you can deal with a more senior level official (preferably the President) of the bank.

Once you have made your selection, arrange for a visit by a bank representative to your place of business, even if it is your garage. Impress your visitor(s) with your knowledge of and enthusiasm for the business, show them any equipment related to the operation, and discuss your plans. But don't talk too much. Listen to the banker to find out what he or she wants to know about you and your business. Sell to the bank!

Even though a bank may be Federally insured (FDIC), you should do some additional investigation to ensure the bank is safe and healthy. The easiest way to do this is to use the services on one of the companies that professionally analyze banks by reviewing their financial data and producing periodic reports, usually updated each quarter. The table at the end of this section lists three such companies.

## **CHOOSING A BANK –Points to be checked**

Convenient location.

Good customer relationship .

Facility for an SBA loan program.

Bank is small enough to deal with senior people.

Maximum service facilities.

Bank's capitalization/asset ratio.(should be greater than 6%)

Competitive fees for various transactions.

Low fees and interest associated with their credit cards.

Minimum balances required on interest-bearing checking accounts

## **BANK DEALINGS**

In this modern era, it is customer satisfaction that matters. You deserves a fair dealing from your bank. However, if you are difficult to deal with, the service you receive may be less than satisfactory. When discussing any matter with your bank, always be pleasant and never demanding! If you can maintain a "gentle" approach even in the face of problems, you are more likely to get the help and advice you need and maybe even a little extra consideration. Make yourself known at the bank.

Try to be a familiar face there and have some personal relationships. The intimacy you build will have a bearing on the value of attention you receives.

## **BANK LOANS**

In all probability your bank can be a prime source of business loans. When dealing with the bank for a loan remember that about 90% of any decision on loan is based on two numbers; your cash

flow and current net worth. The remaining 10% of the decision is based on such items as credit history and continued business viability. When approaching the bank for a loan make certain you have complete and up-to-date information concerning the present financial situation of your business. This would include, at a minimum, your business plan, personal balance sheet, business pro forma, and cash flow projections. The process will be much quicker and more likely to be successful with this information in hand. It can also be a very good idea to bring along your accountant as they can talk the bankers' language perhaps better than you can.

## **CONCLUSION**

Planning at all stages is very important for setting a successful business. Always keep your goal in sight and plan very, very carefully, getting to the top can be a most rewarding experience. We wish you all the success for your future venture.



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