



Ten Frequently Asked Questions for Micro and Home-Based Business Start-Up

Glenn Muske, Ph.D.

Home-Based and Micro Business Specialist

Questions? Questions are something every person starting or wanting to start a business has. And as soon as one question is answered another one arises. In fact, usually several questions exist all at the same time. Yet of all the questions that are asked, ten are the most frequent among entrepreneurs.

1. What business should I start?
2. Do I have what it takes to operate a home-based business?
3. What do I do first? Where do I start?
4. How should I set up my business? Should I be a sole proprietor?
5. What permits or licenses do I need?
6. How do I get people to buy my product /service?
7. What is a business plan and why do I need one?
8. What are the alternatives to help me finance my business?
9. What records do I need and how long do I keep them?
10. Where can I go for help?

1. What business should I start?

This is often the first question asked. You are the only person who can answer the question, "What business is best for me?" Begin with an exploration of your skills, abilities, and talents. Then ask, "How might I turn those skills and interests into a business?" Finally, consider if there is a market for the proposed product or service.

In reviewing the options available, consult with local experts and other business owners. Check with potential customers — are they interested enough to pay for the product or service proposed? The question is market need.

Your chance of success increases when you match a product or service with its potential market, whether local, statewide, national, or international.

2. Do I have what it takes to operate a home-based business?

This question is of great concern, yet the future entrepreneur often spends little time thinking about the answer. It is a question that should be answered prior to starting a business and the answer can only come from you. To answer "Do I have what it takes?" requires

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an objective appraisal of your own skills, abilities, and talents, as well as an assessment of your strengths, weaknesses, and personal situation.

Examine your skills, abilities, and talents and compare them to those of successful entrepreneurs:

- Am I a self starter?
- Do I get along well with others?
- Can I make good decisions?
- Do I have the physical and emotional stamina to run a business?
- How well do I plan and organize?
- Can I maintain my motivation?
- Can I work alone?
- Can I blend the business with the family?

Typically, the successful business owner will have one or more of the following qualities:

- Sound management practices
- Industry experience and/or support
- Technical experience and or support
- Planning ability

Few people start a business possessing all these qualities. Do an honest assessment of your own talents, skills, and experience. Then look for ways to compensate in areas that are weak. Compensating can mean tak-

ing classes, reading, or finding a mentor. Other options include hiring capable people, adding a partner who has the necessary skills, or contracting for the needed help.

3. What do I do first? Where do I start?

Business start-up involves several early tasks. Remember to take your time and plan carefully. Do not rush through these or any other start up task. Some of the first tasks are:

- Selection and registration of the business name
- Deciding where to locate the business
- Getting the necessary licenses and permits
- Developing a business plan and a marketing plan
- Setting up production
- Determining a pricing schedule

4. How should I set up my business? Should I be a sole proprietor?

Most home-based and micro businesses are formed as sole proprietorships. The advantages of being a sole proprietor are simplicity and business income just becomes part of your personal tax return. The disadvantage is unlimited personal liability exposure.

Other legal business structure choices in Oklahoma include: Partnerships, general or limited; Corporations and S corporations; and Limited Liability companies or partnerships.

Each of these have various advantages and disadvantages depending on the situation. Contact expert legal and accounting help to determine which is the best legal structure for your business.

5. What permits or licenses do I need?

When aspiring business owners asks this question, they typically are asking about one of four issues: (1) licenses and permits required for the business; (2) zoning; (3) sales and use tax permits; or (4) employer identification numbers.

Licensing and permitting regulations vary from business to business, city to city, and state to state. Some businesses have minimal laws and regulations governing them and others are tightly controlled. Sources of assistance include the local county Cooperative Extension Service, the local city or county clerk's office, Small Business Development Centers, and the local Chamber of Commerce. Also, check with the Service Corp of Retired Executives and the Small Business Administration. Often information can be obtained from the State Department of Commerce, local colleges/universities, and the business and industry services consultant at many vocational-technical schools. Remember that in some cases both you as an individual and the business itself must have separate licenses.

Zoning is a concern for all businesses. An excellent place to start with zoning questions is with the local city

or county clerk's office. Zoning is sometimes a greater problem for home-based business owners. Governing bodies, typically the local city or county, are cautious in allowing a business to operate in residential areas. They want to avoid problems with traffic, noise, fumes, signs, or parking. Obtain the proper zoning permit prior to opening your business. If businesses are prohibited, learn if there is a waiver provision or if the ordinance can be changed. Do not just start the business. Without the necessary permit or waiver, local authorities can close the business immediately. As the owner, you can face civil and /or criminal penalties. Even with the proper permits, the maintenance of good relations with neighbors is good business.

When employer identification numbers are mentioned, many people think of a sales and use tax permit. Most Oklahoma businesses need such a permit, which is available from the Oklahoma Tax Commission. In addition to the sales and use tax permit, however, there is an Employer Identification Number (EIN), issued by the Internal Revenue Service. Sole proprietors who have no employees can use their personal social security number. All other businesses must obtain an EIN. Question 10 provides information on how to contact these sources.

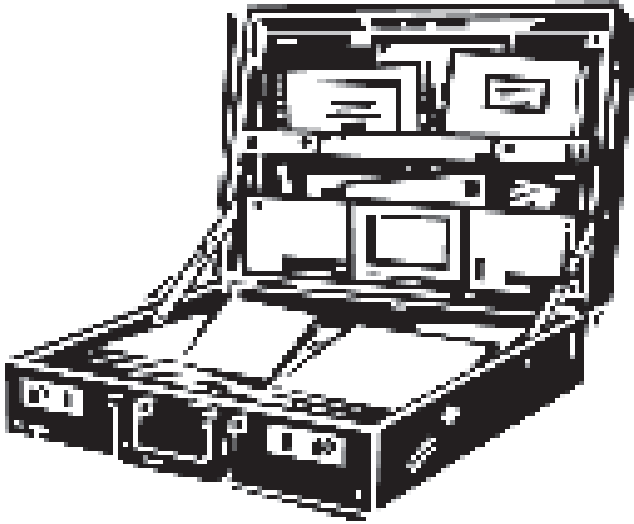
6. How do I get people to buy my product/service?

Typically, the business owner wants to know that people will buy his or her product or service. Without sales and the resulting income, it is impossible to pay the bills. Sales are a part of overall marketing efforts. Market research finds out who the customers are and asks what the customers want. The idea is to meet the customers' needs—to sell what they want to buy.

The Oklahoma Cooperative Extension Service has developed marketing materials, "Mapping Your Marketing Future," to help address the following marketing issues: (1) product— what are you producing and what benefits does it offer? (2) production— how is it produced, at what rate, and what raw materials and time are used? (3) price—at what price can the product or service be sold? (4) promotion—how will potential customers know about the product or service? (5) place—where is the business located and what distribution channels will be used? and (6) perception or image—how should the customer see the business and the product/service provided? All of these issues are a part of getting people to buy. Sales do not just happen. Sales happen because of an active marketing program. Marketing is essential for the survival of the business.

7. What is a business plan and why do I need one?

A business plan is the firm's résumé and its goals and objectives. Develop a business plan as much for



yourself as for the partners, investors, and bankers involved with the business.

The business plan identifies the product/service, the market, and the management team. The plan defines where the business plans to operate and your business experience. Parts of the plan include a market study, promotional strategies, current and projected balance sheets, income statements, and cash flow analysis. It outlines how, when, and where financial support will be obtained and outlines a plan to repay those loans. It provides general operating information. A business plan helps clarify where the business is now, where it has been, and where it is going.

Business plans have three different uses. They are (1) feasibility plans and marketing plans; (2) operating/procedural plans for financial needs, production schedules, and marketing goals; and (3) tools to secure loans or outside capital.

There are many resources, such as Small Business Development Centers and the Service Corps of Retired Executives, available to help develop a business plan. Computer software programs that can guide plan development are available. Workshops for developing a business plan are offered by universities, community colleges, and vo-tech schools.

8. What are the alternatives to help me finance my business?

Your commitment of personal funds is often the first financing step. It is an indicator of how serious you are about the business. Risking personal money conveys your confidence to investors.

Personal investment sources of capital include savings, current cash flow, second job, home equity or equity from other property or assets, retirement accounts, personal lines of credit, and personal credit cards. All of these options include certain risks.

In addition to personal funds, family members and friends may be a source of financial help. Remember that successful loans from friends or relatives begin with a written document. The document must clearly define the amount of the loan, interest rates, payment dates, amounts, etc. All parties should agree to and sign the document.

Another financing option is to add a partner. Partnership terms also must be clear and in writing. Incorporation of the business is another way to raise equity financing. Such a decision is complex. Legal and accounting help should be obtained before taking such a step. Typically, the company must have a history before an investor will consider investing.

Another source of funds is commercial banks and other financial institutions. Loans can also be obtained from commercial finance companies and local development companies. However, venture capital firms and life insurance companies are typically not useful for the micro business owner.

An excellent source of financing information is your banker and the Small Business Administration. In Oklahoma, some vo-techs, as well as the local Chamber of Commerce and the Oklahoma Department of Commerce, have financing information. Another source of information is business incubators. Contact the local Chamber of Commerce about incubator locations. Finally, Rural Enterprises, Inc. can offer financing assistance in most of Oklahoma.

One hint to minimize the amount of money borrowed is to consider leasing equipment and space instead of purchasing it. Also, it may be possible to rent equipment that is needed only for a limited time.

9. What records do I need and how long must I keep them?

The answer to this question is, "It depends." The records needed to manage the business and the records the IRS wants to see may differ. For tax purposes, the IRS requires records that will allow for preparation and documentation of a completed tax return. The business owner is interested in where and how income is generated and where expenses are incurred.

There are, however, basic financial records all businesses keep: journals and ledgers, such as a check-book register, accounts receivable, accounts payable, records of sales, inventory, cash receipts, and cash disbursements. Records must also document mileage, meal expenses, and entertainment. If the business hires employees, additional records are required.

Remember that all financial records are historical documents. This includes tax returns and the documentation for those returns. Business documents such as filing of the business name, incorporation/partnership papers, sales tax permit, federal employer identification number, and insurance records must be retained indefinitely. Some of these records, such as incorporation

papers, tax permits, etc. must be kept for three or more years after the business closes. For yearly tax returns, the IRS says to keep the records for three years after the filing of that year's taxes. Records involving property must be kept for the entire time the property is owned, plus an additional three years minimum.

10. Where can I go for help?

There are a wide variety of local state and national resources to help answer these and other questions. The local county Cooperative Extension Office is a start. Ask for the State and National Resource Directory for Small, Micro and Home-Based Businesses.

Also, help is available from the Oklahoma Cooperative Extension Service (telephone 405-744-9931 and on the web at <http://fcs.okstate.edu/microbiz>).

Other sources include:

Small Business Administration

800-827-5722

www.sba.gov

Small Business Development Centers

800-522-6154 (ask for the nearest office)

www.osbdc.org

Service Corps of Retired Executives (SCORE)

800-827-5722 (ask for nearest office)

www.sba.gov

Oklahoma Department of Commerce

800-879-6552

<http://www.okcommerce.gov/>

Oklahoma Tax Commission

800-522-8165

www.oktax.state.ok.us

Rural Enterprises, Inc.

800-658-2823

www.ruralenterprises.com

Internal Revenue Service

(Form SS-4, Employer Identification Number)

800-829-3676

www.irs.gov

Local Chamber of Commerce

Career Technology Centers

Local Library

On-Line Information

Your mentors

A business and professional network

Summary

These ten questions represent only the beginning questions the business owner faces. Business owners may also need answers about insurance, intellectual property issues, employee issues, and independent contractors, to name a few issues. The resources listed in this fact sheet are excellent places to get help for the additional questions you will have. Take advantage of these resources available to you, the business owner.

Resources

Burns, M. (1995) Mapping Your Marketing Future. Stillwater, OK: Oklahoma Cooperative Extension Service

Small Business Administration (1997). Thirty most asked questions about small business. Small Business Administration: www.sba.gov

Other Reading

Brabec, B. (1995) Homemade Money. Cincinnati, OH: Betterway Books

The information provided here is not intended as professional legal or accounting help. Contact an attorney and an accountant for advice specific to your business.

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