



It is dreams that make women successful.

Congratulations!

You have taken the first step to bringing your small business dream to fruition.

Following are the requested materials. I am sure that you know all there is to know about the product or service you are going to sell, but just as important is the knowledge of “the business of doing business.” The information contained herein will discuss structure – the most significant decision of your “first steps” including financing options, an outline of start-up steps and additional documents to help identify and explain your new business organizational needs.

Please review the information. If you have any additional questions, or if you would like assistance in preparing your business plan or loan application package, please contact our office.

Telephone: 973-507-9700

Fax: 973-507-9698

Email: info@wcecnj.org

Our best wishes are sent for the success of your project.

Regards,

A handwritten signature in blue ink, appearing to read "R. Shanawani", is positioned above the typed name.

Rana Shanawani,
Executive Director

NEW BUSINESS START-UP

1. **Choose Structure** – (*See discussion of structure following this outline.*)
 - a. Structure determines
 - i. How you pay yourself
 - ii. How you pay the State and Federal taxes
 - iii. Exposure to risk of your personal assets
 - b. Can be
 - i. Sole-proprietorship
 - ii. Partnership
 - iii. Limited Liability Company
 - iv. S-Corporation
 - v. C-Corporation
 - vi. Non-profit Corporation
 - c. Choose the name of the business
 - d. Register with the IRS – FEIN - surprise!!! No Charge
 - i. Required in order to register your business with the State –all structures
 - e. Register with the county at the county court house– ONLY if you are a sole-proprietorship. There will be a charge.
 - f. Register with the state (all structures) – will be a charge
 - i. Register the name of the business
 - ii. Register for sales and use taxes (if applicable)
 - iii. Register as an employer (if applicable)
2. **Choose Location**
 - a. Bricks and mortar – includes home based
 - b. On-line
 - c. Catalogue
 - d. Begin to review leases, arrange for creation of websites, develop printing copy, etc.
3. **Determine if any licenses and/or permits are necessary** on the Federal, State, county or local level and apply for them, including home-based businesses. Check local zoning ordinances.
4. **Determine insurance needs**
 - a. Liability – essential with ANY structure – but not required by the State
 - b. Fire, theft, property and inventory
 - i. Homeowners' insurance DOES NOT cover any business activity/equipment/inventory done or stored in your home/apartment/condo
 - ii. Personal automobile insurance DOES NOT cover use of your automobile for business purposes – That includes going to and coming from client meetings.

- c. Workmen's Compensation Insurance – a State requirement if you have one or more employees.

5. Determine your financial needs.

- a. Start-up analysis
 - i. Exactly how much will it take for you to open the door of your new business
 - 1. Be sure to include deposits for insurance, utilities, rent and security.
 - 2. Add the cost of setting up your office –in addition to the computer, printer, fax and telephone; include furniture, software and simple things such as pens, paper clips, paper and toner.
 - 3. Business cards, envelopes, letterheads, invoices
 - 4. Important to include a marketing budget
 - 5. Determine exact costs of manufacture, warehousing, shipping of product and inventory – be aware of any vendor minimum purchase requirements, discount price points and lead-time. Review contracts carefully. (if applicable)
 - 6. Include the costs to fit out your space – alterations, painting, carpeting, window treatments, fitting rooms, etc. (if applicable)
 - 7. Don't forget the cost to set up merchant accounts that will allow your customers to pay with credit cards.
- b. Cash flow
 - i. For the first year, estimate on a monthly basis how much you will take in and how much the expenses will be – research, don't guess. **EXAMINE THIS CLOSELY!**
- c. Take a look at your personal finances
 - i. Can you pay your personal bills for approximately 6 months to a year without taking anything from the business? The longer time may be necessary in the case of some service sectors requiring contract/project completion.
- d. Do you need financing? – How much?
 - i. Lender will look for
 - 1. Viable business plan
 - 2. 10% - 30% down payment for project
 - 3. Good personal credit – personal guarantees will be required
 - 4. Experience in the industry
 - 5. Collateral
 - ii. Apply for loans 6 – 8 weeks prior to when you will need the cash
- e. Open business checking account

6. Create a Marketing Plan

- a. Determine your target market
 - i. What methodologies will you employ to reach your market
 - 1. Print ads
 - 2. Radio/television
 - 3. Local publications
 - 4. Word of mouth
 - 5. Presenting seminars
 - 6. Mass mailings
 - 7. E-Mail
 - 8. Etc., etc., etc.
 - ii. Take a close look at your competition
- b. NOTE: People can't come to you unless they know who/where you are.
- c. Include a marketing budget in your cash projections
- d. How will you determine your pricing?
 - i. Lower pricing than your competitors
 - ii. Boutique pricing – what makes you worth the extra money?
 - iii. Same as competition – what makes you different?
 - iv. Simply a percentage over cost.
- e. What will be your sales strategy?

7. Work/Life Balance issues

- a. Is your family/are your friends independent enough to function without you for 12 – 15 hours per day when you are beginning the business? 10:00 PM dinners, broken dates or choosing between a client's needs and a child's soccer game can quickly cause problems. Entrepreneurship is not 9 – 5.
- b. Will your health and stamina allow for major time and energy commitments?
- c. If you are planning to operate a part-time business in order to work around the needs of your family/other job, be prepared to earn part-time money without any benefits and to be on a slower track for growth.
- d. Are you in a good place with your personal finances? Do you handle money well?
- e. Do you have a passion for the business or are you doing this only because you believe you can make a good amount of money? Do you know everything there is to know about your product or your service? What do you know about "the business of doing business?"
- f. Do you have the discipline to be self-directed and totally responsible for the completion of the project?
- g. How are your people skills?

STRUCTURE

SOLE PROPRIETORSHIP

1. Easiest to open
 - a. Obtain “Trade Name Certificate” from County Clerk at County Court House – Cost varies with county
 - b. Obtain a Federal Employer Identification Number at www.irs.gov.
 - c. Register as a business with State of New Jersey – can be done on the Internet, www.state.nj.us. This registration will cover:
 - i. Sales Tax
 - ii. Business Registration
 - iii. Employer Registration
 - d. Secure liability insurance
2. Profit or losses flow through personal income tax return
3. Owner takes money from the business via a “draw”, not salary. You will need to send estimated income tax quarterly to the State and IRS.
4. Owner assumes all liability for the business. Any claims and/or judgments against the business above and beyond insurance coverage remain the personal responsibility of the owner. ALL PERSONAL ASSETS ARE AT RISK.
5. To close the business simply do not file a tax return for the year you do not have any business/sales.

PARTNERSHIP

1. Same as Sole Proprietorship, but with more than one person.
2. Profits, losses, draws, etc. are all divided according to agreement.
3. Prepare partnership agreement.

C CORPORATION

1. Although there are “fill-in-the-blank” forms available for opening a corporation, it is recommended that this structure be created by an attorney.
2. A brand new “person/entity” is created in a corporation. This entity has its own Social Security number and pays its own taxes. (In NJ there is a minimum corporate tax each year, (up to \$2,000.00) even if you lose money.)
3. Although you own the corporation, you are considered an employee of the corporation and are paid a salary with all appropriate taxes deducted. Payroll tax reports must be prepared and submitted quarterly to both the IRS and the State of New Jersey (The State requires online submission.)

4. The corporation is only liable for debts/judgments up to the value of the assets of the corporation. No personal assets are at risk. Adequate liability insurance is still a must.
 There is an exception here. If the corporation secures a business loan, business credit cards, sometimes a lease and sometimes a vendor, anyone who owns more than 19% of the corporation is required to sign a personal guarantee which states that, if the corporation is unable to pay the debts, the owner will. This puts personal assets at risk for this debt.
5. A yearly report must be filed with the state.
6. The corporation must be formally dissolved in order to close.

LIMITED LIABILITY COMPANY (LLC)

1. Combines the tax advantages of the sole proprietorship with the liability protections of the corporation, i.e., taking a draw and reporting profits or losses on personal income tax forms, but without the risk to personal assets. (Note exception above.)
2. Obtain a Federal Identification number from the IRS online at www.irs.gov. (Search for FEIN at the front page of the site.)
3. Can be opened online at www.state.nj.us. There will be a small business tab on the the home page that will walk you through the process.
 - a. It starts with checking to see that there is no one else in the state operating a business under your name.
 - b. The second part is actually opening the LLC.
 - i. You can open different types of LLCs, i.e., single member and more than one person. When asked about a “registered agent”, you can put your name there. If you want your attorney or some other designated person to receive business correspondence from the state, note their name as the registered agent..
 - c. The cost is \$125.00. (State fees change on a regular basis, so this may be slightly different.)
4. Secure liability insurance.
5. A short report must be filed with the state each year (current fee is \$40.00).
6. To end the business, you must file dissolution forms.

N.B. – The choice of a structure of your business can have substantial impact upon your personal income tax position. If unsure, it is most important that you seek the counsel of your accountant or tax attorney before you make the final decision.

FINANCING OPTIONS FOR START-UP BUSINESSES

US SMALL BUSINESS ADMINISTRATION (SBA) GUARANTEED LOANS

The US SBA does not provide direct business loans, but guarantees loans to the bank. This means that if you or your business is unable to repay the loan, the SBA will pay a certain percentage of the balance to the bank as an incentive for them to provide small business start-up loans that are considered marginal.

PROCEDURE:

1. Make an appointment at the bank where you do your business to speak with the Commercial Lending Officer. Bring along any information you have already prepared, i.e., business plan, personal financial statements, etc. Ask if the bank would be interested in financing your project and what you need to submit.
2. Submit all materials requested. (The bank will approve your loan and then send it on to the SBA for their approval prior to a commitment letter and closing.)

LOAN INFO:

1. The SBA loans are not “low interest” loans and can be 2.75% OVER prime. In addition, there will be a guarantee fee of ¼% – 3 1/2 % of the amount of the loan.
2. Unless real estate or equipment having an extended useful life is involved, these loans are relatively short term – 5 to 8 years.
3. You will be required to sign a personal guarantee that says you will be personally responsible for the loan if the business cannot make the payments, no matter what the business structure.
4. Payments are made to the lending bank.
5. The bank will be looking for:
 - a. A viable business plan,
 - b. A down payment of 20% - 30% of the start-up costs,
 - c. Good personal credit,
 - d. Experience in the industry, and
 - e. Collateral.

ADDITIONAL SBA PRODUCTS

1. Microloans – up to \$50,000.00
 - a. Lower down payments – 10%

- b. Although a borrower must prove credit worthiness and the viability of the business other stringent requirements of traditional lenders will be eased.
- c. Microlenders –
 - i. Regional Business Assistance Corporation, Mercerville
Contact: (609) 587-1313
 - ii. UCEDC, Union
Contact: (908) 527-1166
 - iv. Cooperative Business Assistance Corporation, Camden
Contact: (856) 966-8181

STATE OF NEW JERSEY ASSISTANCE

New Jersey Women's Microbusiness Credit Program for new businesses

For information about this program, please visit the website for the New Jersey Department of Children and Families – http://www.nj.gov/dcf/policy_manuals/NJAC-5-62-2.1_issuance.shtml

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

Financing and Incentives

For information about the Economic Development Authority's financing options for small businesses, please visit their website at http://www.njeda.com/financing_incentives.

NJ REDEVELOPMENT AUTHORITY

For information about purchasing real estate in designated redevelopment areas in New Jersey, visit <http://www.njra.us/>.

HOME EQUITY LINE OF CREDIT

If you own a home and have equity equal to the amount you need, the home equity line of credit will provide **the least expensive, fastest and most flexible** method of financing your new business. (Do not confuse this with a home equity **loan**.)

PROCEDURE:

1. Go to the bank where you have your mortgage or conduct your personal business to ask about a Home Equity Line of Credit. Most banks will make your credit limit up to 80% of the equity you have in your home.
2. Sometimes you will obtain the line right then and there; others will require just a few days.

3. You will receive what looks like a checkbook. Whenever you need the money, you write out a check. (Most banks will require a minimum check of about \$500.00 so that you don't use this as your regular checking account.)
4. At the end of each month, you will receive a bill for the interest and a minimum principal payment, similar to your credit card bill.
5. You must pay the interest, but may pay however much you want to on the principal over the minimum.
6. The next month's bill will charge you interest only for the money used and only for the time you used it.

ADVANTAGES

1. No business plan, deposit, additional collateral or financial statements are required. This is considered a second mortgage on your home. (NOTE: For those who have issues with "putting up your house," please be aware that any business loan will require a personal guarantee and collateral, effectively placing all of your personal assets, i.e., your house, at risk anyway. Since this is the case, you might as well do it in the least expensive manner.)
2. This is always a revolving line of credit. As you make payments, additional monies will be available to you in the event something unforeseen occurs and you need cash quickly.
3. The interest rate is flexible, based on prime, but generally much less than the traditional business loans.

ADDITIONAL OPTIONS

CREDIT CARDS – Use these only as the option of last resort. They are expensive to use and can position you for long-term financial and credit barriers. (The warning here applies to start-up expenses. Credit cards are an excellent financial management tool for operating a business, but try to pay them off each month.)

PERSONAL LOANS/ANGELS – An excellent source of funding, if available, but be sure to secure the terms in writing (even if it is from your mother or friend) to protect both you and the person lending the money. Each one of these arrangements is unique and careful thought must go into the negotiation.

SBA SMALL BUSINESS DEVELOPMENT COMPANIES are privately owned businesses which have the SBA guarantee. Mostly for real estate purchases.

FACTORING – Companies purchase your accounts receivables for a discounted amount. In the past, the pricing was outrageous, but now can be close to what a bank will ask.

VENTURE CAPITALIST (VCs) – Usually for amounts over \$500,000.00 who will seek a 20% return on their money in 2 to 3 years or they may ask for a percentage of the business. They will take over the management of the business for a specific period of time. This can be good if the owner doesn't have a solid business background.

ANGELS – Similar to VCs, but usually for smaller amounts. They do not take control but will expect a handsome return on their money.

LOCAL ECONOMIC DEVELOPMENT AGENCIES will sometimes have loans available for limited geographic areas, i.e., city, county.

PRIVATE LENDERS that are found on the Internet. Some are OK, but all are expensive. Read all information completely before you sign on.

Microloan Program

<http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/index.html>

The SBA microloan program makes smaller amounts of capital (up to \$50,000) available through SBA intermediaries. Although a borrower must prove credit worthiness and the viability of the business idea, collateral and other stringent requirements will be eased. The private, non-profit intermediaries received loans from the SBA with which to establish a local revolving loan fund. These organizations now re-lend the money to local entrepreneurs within their designated areas. Management and technical assistance may also be available. For information, contact the intermediary lender in your area:

Regional Business Assistance Corporation

311 Quakerbridge Road, 2nd Floor

Mercerville, NJ 08619

Contact: William Pazmino

(609) 587-1133

<http://www.rbacloan.com/>

Service area: Statewide

UCEDC

75 Chestnut Street

Cranford, NJ 07016

Contact: Ellen McHenry

(908) 527-1166

<http://ucedc.com/>

Service area: Statewide

Cooperative Business Assistance Corporation

328 Market Street

Camden, NJ 08102

Contact: Michael Diemer

(856) 966-8181

<http://www.cbaclenders.com/home.html>

Service area: Atlantic, Camden, Cape May, Cumberland, Gloucester and Salem counties.

What is a FICO score?

A FICO score is a credit score developed by Fair Isaac & Co. Credit Scoring is a method of determining the likelihood that credit users will pay their bills. Fair Isaac began its pioneering work with credit scoring in the late 1950s and, since then, scoring has become widely accepted by lenders as a reliable means of credit evaluation. A credit score attempts to condense a borrower's credit history into a single number. Fair, Isaac & Co. and the credit bureaus do not reveal how these scores are computed. The Federal Trade Commission has ruled this to be acceptable.

Credit scores are calculated by using scoring models and mathematical tables that assign points for different pieces of information that best predict future credit performance. Developing these models involves studying how thousands, even millions, of people have used credit. Score-model developers find predictive factors in the data that have proven to indicate future credit performance. Models can be developed from different sources of data. Credit-bureau models are developed from information in consumer credit-bureau reports.

Credit scores analyze a borrower's credit history considering numerous factors such as:

- Late payments
- The amount of time credit has been established
- The amount of credit used versus the amount of credit available
- Length of time at present residence
- Employment history
- Negative credit information such as bankruptcies, charge-offs, collections, etc.

There are really three FICO scores computed by data provided by each of the three bureaus—Experian, Trans Union and Equifax. Some lenders use one of these three scores, while other lenders may use the middle score.

Frequently Asked Questions (FAQs)

How can I increase my score? While it is difficult to increase your score over the short run, here are some tips to increase your score over a period of time.

- Pay your bills on time. Late payments and collections can have a serious impact on your score.
- Do not apply for credit frequently. Having a large number of inquiries on your credit report can worsen your score.
- Reduce your credit-card balances. If you are "maxed out" on your credit cards, this will negatively affect your credit score.
- If you have limited credit, obtain additional credit. Not having sufficient credit can negatively impact your score.

What if there is an error on my credit report? If you see an error on your report, report it to the credit bureau. The three major bureaus in the U.S., Equifax (1-800-685-1111), Trans Union (1-800-916-8800) and Experian (1-888-397-3742) all have procedures for correcting information promptly.

Important Business Resource Links

For links to additional resources, please visit <http://www.wcecnj.org/bizstartup.aspx>.

LAYING “FREE MONEY” RUMORS TO REST!!!!

You have probably seen them - advertisements or programs from so-called experts that offer “insider information” on financing a business. They claim that the state government or other public organizations have funds in the form of grants or extremely low-rate loans available to the following groups:

- ◆ Individuals who want to open a business
- ◆ Companies in severe financial trouble
- ◆ Minority, women, or foreign-born entrepreneurs

Don't be fooled. These promotions are pitching high-priced books, tapes, or videos. The “insider information” that the authors claim to be privy to is usually nothing more than common business guidelines and a list of government agencies that can be found in a library or telephone book. Once a person begins calling these numbers to request money, he/she quickly finds that the programs often have been misrepresented.

The simple truth is that business owners usually must meet stringent criteria to secure private or public financing. Most qualifications for capital revolve around having a sound business plan, healthy financial statements, personal investment, business experience and substantial collateral. In addition, government loan programs sometimes emphasize job development.

In short, a successful entrepreneur must be able to separate a sales pitch from reality. These commercials are selling dreams.

Reprinted from:

Doing Business in New Jersey

Public/Private Partnership

PSE&G & NJ Department of Commerce

NO FREE LUNCH!

In spite of what people see on television or hear from friends, the fact is there is no government agency or private foundation handing out free money to start small businesses, regardless of the money-seeker's gender, ethnicity or economic status. Every day our office gets calls from people convinced that there is 'free money' out there to fund business start-ups. The fact is that most grants are awarded to non-profit organizations. A few go to businesses that do research and development geared toward crucial government projects. These grants are extremely specific in nature and often quite technical. For example, there is a tiny grain of truth in those late-night TV infomercials. There is a program called 'Small Business Innovative Research' which does award grants of up to \$100,000 to research ideas, that seem promising. The organization then funds the product development if the research is successful. However, most of these grants are for projects such as how to put a satellite into orbit, and then repair it. These funds are not available to people who are interested in opening restaurants, hair salons and other more conventional small businesses. If the government provided free money to everyone who wants to start a small business, it wouldn't last long. Can you imagine the outcry from taxpayers if their money was funding these risky ventures?

The fact is that most new businesses are started with personal savings, loans from friends or relatives, or small commercial or personal loans. I think one reason this 'free money' myth is so prevalent is that people are looking for an alternative to the work and detail required to obtain a conventional loan. The idea of writing a business plan and approaching a lender can be intimidating. But think about it. Aren't you more likely to succeed if you do the groundwork and research required? There's a reason procedures are in place for small business loans. One of the most important factors in obtaining a loan for a new business is the borrower's personal credit history. Lenders don't care if you're male, female, black, white, Asian, Hispanic, young or old. The bottom line is: Can you pay the money back?

Women's Center for Entrepreneurship Corp. provides training and counseling for individuals who want to start their own businesses, and courses include how to write a business plan. For more information, please telephone 973-507-9700 or email info@wccnj.org.