SMALL BUSINESS DEVELOPMENT CENTER

AMERICA'S SBDC MICHIGAN

Guide to Starting and Operating a Small Business

PURE MICHIGAN
Michigan Economic Development Corporation

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Revised January 2014

Welcome to the Guide to Starting and Operating a Small Business:

Helping businesses to open and grow is a key activity of the Michigan Economic Development Corporation (MEDC) and state government in general. Starting a business can be a complex and difficult process. This Guide is designed to ease a person's entry into the business world, outlining as clearly as possible many of the issues and questions facing prospective and existing entrepreneurs.

Information included in this guide is both general and Michigan-specific: Steps and process for starting a business; different forms of business organization; key elements of a business plan; complying with federal, state and local tax obligations; basics related to management, hiring, marketing, and more. Though this guide is not a substitute for legal or financial counsel, it is an information resource and quick reference designed to make the process of starting and operating a business in Michigan a little less overwhelming.

The information in this publication was accurate at time of publication, but it is subject to change due to revisions in law and administrative policies. Between published revisions, an online version is updated periodically if significant changes occur. The online PDF version can be accessed at: http://www.michiganbusiness.org/start-up/customers/#sbdc

In addition to this Guide, there are many other resources available for starting and operating a business in Michigan:

- Michigan Small Business Development Centers (MI-SBDCs)
- SCORE -- Counselors to America's Small Businesses
- Assistance and counseling are also available from local economic development organizations, trade associations, local chambers of commerce, schools, community colleges, universities and public libraries.

This Guide will help you get started! For additional information, visit **www.SBDCMichigan.org**, contact any one of the MI-SBDC offices located around the state, or call MI-SBDC headquarters at Grand Valley State University: 616.331.7480.

Sincerely,

Carol Lopucki

Carol Lopucki

State Director
Michigan Small Business Development Center

PERSONAL ASSESSMENT

Are You Ready to Start a Business? – A short personal assessment tool.

Being your own boss is wonderfully exciting, but isn't for everyone. Anyone considering starting a business needs first to consider if they are suited for it, personally and professionally.

There is no right or wrong answer to each of these questions. This is a self-evaluation to help you think through critical aspects of your personal and business readiness to be self-employed. It is designed to help you assess your reasons and qualifications for going into business, to help you set personal and business goals, consider if this is the right time to start a business, if you have the freedom, flexibility and resources to start a business, to consider your health and stamina, and how you will balance family and business.

Suggestion: It is recommended that you bring a completed version of this self-assessment to your first MI-SBDC counseling session. It will provide a profile of you and your readiness and help your counselor become acquainted with you.

To self-assess, ask yourself the following questions and answer as honestly and in as much detail as possible.

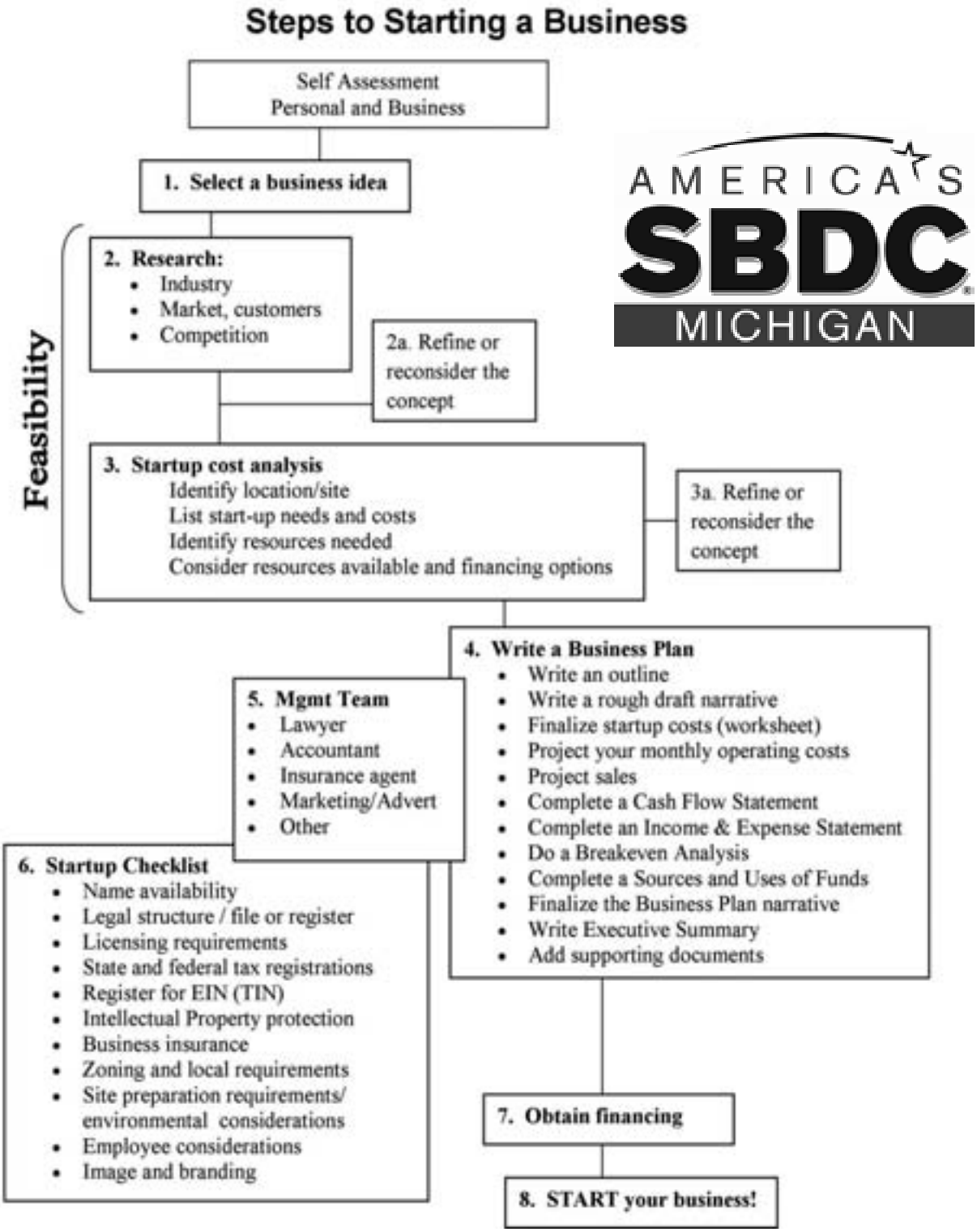
SELF ASSESSMENT: Are You Ready To Be In Business?

1. Why do I want to start a business? OR Why am I in business?
2. Specifically, what kind of business do I want to start (or am I in)?
3. Why do I believe I can make this type of business work?
4. Why do I believe this type of business is sustainable?
5. What education, skill or experience do I have in this industry?
6. What is my true purpose and/or the **goal I hope to accomplish with this business**?
7. What is the **financial goal** I am seeking to achieve?
8. If I will need financing, do I have the resources and credit worthiness necessary to be eligible?

   [High credit score plus assets, collateral and good financial history.]
9. What are my strengths?
10. What are my weaknesses?
11. What is my physical, mental and emotional health and stamina?
12. What knowledge and skills do I have to start and control the day-to-day operations of a business?
13. Do I know and understand the technology necessary to be competitive in this business?
14. Do I have good judgment in people and ideas?
15. What sacrifices and **risks** am I willing to take to be successful?
16. What will it take for me to balance personal life and business demands?

STEPS TO STARTING A SMALL BUSINESS

"What do I need to do and what comes first?" That's the question most often asked by people considering starting a business. There is a logical sequence of actions and a process for starting a business. MI-SBDC has created a "checklist" of that process: "Steps to Starting a Business" charts the tasks in recommended order to help you stay on track, manage the various steps, and give you the confidence of knowing you have considered all the essential elements. An explanation of each step follows the chart.



STEPS TO STARTING A BUSINESS (CONTINUED)

1. Select a business idea.

Step #1 is deciding on what type of business you want to start. Many people choose to start a business around something they know and are passionate about. The first question every would-be business owner needs to ask about his/her product or service idea: ***"What PROBLEM does it SOLVE or what NEED does it FILL?"*** There are many reasons why consumers make purchase decisions, but the primary one is need. Market research will help you answer this question.

2. Market Research (Feasibility)

Market research is the first and most important task you need to accomplish BEFORE you start your business, to determine if your idea is *feasible,* which according to Webster's Dictionary means "capable of being done; suitable." Market research is the gathering of facts and figures to make an informed decision about the market potential for your business, about the prospects for success and the direction your business will take.

A. Type of Research Needed: Industry, market, customers, competition. You'll be looking for answers to questions like: *How big is the industry my business fits into? What are the trends of that industry? How will my idea benefit customers? Who and how many potential customers are there? How many competitors are there? What is unique about my product or service? What will motivate customers to buy from me?*

The following describes the type of research needed using the example of a pizza parlor, which is part of the fast food industry:

- **Industry** is the BIG PICTURE of what's happening in the "total world" of your particular type of business. Look for answers to questions like*: What's happening in the fast food industry these days – how many pizzas get sold in the US or Michigan each year, are there increased sales, specialty pizzas, healthier alternatives, changes in sizes or packaging, more or less pizza parlors in and out of business, etc? What's the BIG PICTURE in the pizza world?*

- **Market** is population of consumers or businesses that buy your particular product or service – you can generally define them by a common set of characteristics. **Market segments** are groups within that population that you can define by even more specific set or sets of characteristics. Questions to answer could include: *Who and how many folks are buying fast food in the area or location I'm considering? How often do they buy? Can I group and identify them based on any common characteristics such as age or ethnicity?*

- **Customers** are the individual people or businesses that will buy your product or service. A good exercise is to define your ideal customer and work backwards – where there's one you can find another just like it, then another, and so on. *How many households exist in my geographic area? How many of these eat pizza, and how often? How much pizza are these prospective customers likely to purchase in a year?* (Customers x frequency x price = market potential.)

- **Competition** is any business that sells a product or service that is exactly like what you want to do (DIRECT) or that may be similar to or an alternative to your product or service (INDIRECT). *Where are other pizza shops? What are they like? What and where are other fast food, and/or grocery store food options? Why would these prospective customers buy your pizza (and not the other choices)? Is there an unmet need, am I offering something totally unique, are they dissatisfied with other choices?*

B. How and where to do research (secondary)

- **Local Library.** The best source of information is still the library. Many have business librarians and/or space dedicated to business reference materials. Look for information in sources and references related to your particular type of business, such as periodicals, trade journals, newspapers, industry association and other reference books. Some of the books in which you might find information include:
    - Directory of Trade Associations
    - Trade Journals and Industry Publications
    - Encyclopedia of American Industries
    - Standard and Poor's Industry Surveys
    - IBIS World Industry Market Research
    - Encyclopedia of Global Industries
    - Standard Industrial Classification Manual (statistics)
    - Economic Census, i.e., Census of Retail Trade, Census of Wholesale Trade, or Census of Selected Services
    - Other governmental statistic sources published by federal, state, and local agencies
    - RMA (Risk Management Association) Annual Statement Studies

- **Internet.** To get the most out of Internet searches and make the best use of your time, it is important to define your search fields as precisely as possible. The following are suggestions for more effective and efficient internet searches:
    - Use your search engine tutorial on how to do effective searches. There are tips and tricks for getting the best results, and knowing them will save you time and energy in the long run.
    - Make a list of all the keywords and strings of keywords associated with your type of business.
    - As you search, keep track of which key words or strings of key words you used so you don't end up duplicating the search at a later time.
    - Save time by visually scanning the search results to see if a result site contains potentially significant information. If it does, print out the materials for later reading and highlighting of relevant facts and the URL so you can find your way back to the site if you need to, and also to be able to cite the source in your business plan.
    - **The Michigan Electronic Library** provides all Michigan residents with free access to online research tools, full-text articles, books, and other more: **www.mel.org**.

C. What information to collect:

The following is a sampling of questions for which one might seek answers for market research. Included is a sampling of potential sources of answers and information in each research category. For an easy to follow list, see the **"Market Research Information Checklist"** located on page 7.

Industry

Question: *What is the growth/decline of my industry?*

- Industry reports and/or magazine/newspaper articles **www.mel.org**.
- Industry Associations – see the Small Business Sourcebook by Gale Research. Most public libraries have this reference book.

Question: *What are the associations relating to my industry?*

- Encyclopedia of Associations – reference book at public library.
- Small Business Sourcebook by Gale Research. Most public libraries have this reference book.

Question: *What are the trends in my industry?*

- Find industry profiles at **www.hoovers.com**
- Industry reports and/or magazine/newspaper articles **www.mel.org**

Market/Customers

Question: *What are the spending habits of the consumers of my market?*

- Industry reports and/or magazine/newspaper articles **www.mel.org**
- Federal Statistics **www.fedstats.gov**

Question: *What are the demographics (characteristics) of my market?*

- Sourcebook for Zip Code Demographics – reference book at the library – some SBDC sites may have this information on hand for your area.
- Census reports can be found at the library or online at **www.census.gov**
- Complete a site ring demographic analysis at **www.mel.org –** *DemographicsNow.*

Question: *Who is the typical customer or target market for my business?*

- Industry reports – **www.mel.org** and/or check out trade journals for your industry and type of business – may be available at your local library.
- Magazine/newspaper articles **www.mel.org**
- Talk to people in the industry

Competition

Question: *Who are my competitors?*

- **www.mel.org** *DemographicsNow: Business and People*
- **www.yellowpages.com**
- **www.thomasregister.com**
- **www.hoovers.com**
- **www.zapdata.com**

D. Other forms of research (primary)

- Surveys: Build and conduct your own survey or focus group to gather information from businesses or persons who might be potential customers.
- Visit and "shop" the competition to observe and compare. An easy to use chart for gathering and recording information on your competition is available on page 8, **"Competition: Observe and Compare Matrix."**
  1. Identify the most important product and/or service features and attributes for your type of business – what matters most to customers related to purchasing this product or service.
  2. Record the details of your experience related to each feature/attribute for 3-5 of your primary competitors.
  3. On a scale of 1-5 (with 1 being poor and 5 being excellent) assign a rating to each competitor's performance as it relates to the features and attributes.
  4. Look for the strongest competitors (biggest total score or features/attributes that rank very high) to identify your competition's strengths, which you are going to have to work hard to overcome.
  5. Look for the weakest points (low feature/attribute rankings) among your competitors, which will be opportunities for you to take advantage.
- Study similar businesses' advertising and websites.
- Talk to non-competitors. Sometimes others in a business like the one you are interested in starting might be willing to share first-hand information, even become a mentor, if they are not in direct competition with you, perhaps they are outside your geographic service area.
- Hired research. There are many companies that will conduct market research for a fee and they can easily be found through the internet.
- College or university marketing students. Many schools offering business courses, specifically in marketing, are looking for "real world" projects in which to involve their students. Check around your area for schools that offer marketing courses. Identify the professors teaching those courses and contact them directly. Timing may be an issue as they would have to plan your project into their course and it might take a term or two before that could happen.

Additional Resources:

Market Research Information Checklist – pg. 7
Competition: Observe and Compare Matrix – pg. 8

Market Research Information Checklist

Gather information for all the items that relate specifically to your type of business.

Industry

- ❑ Associations related to my industry
- ❑ Size of industry
- ❑ Growth potential
- ❑ Historical trends (growth/decline)
- ❑ Seasonal or economic trends
- ❑ Other related industries
- ❑ Distribution channels
- ❑ Opportunities indicated
- ❑ Threats indicated
- ❑ Other

Market

- ❑ Businesses (B2B) or consumers (B2C) or both
- ❑ Total number of potential buyers
- ❑ Segments – groups with similar attributes
- ❑ Segment with greatest need, demand
- ❑ Market trends – political, social, environmental

Customer Profile – Consumers by segment

- ❑ Size of group
- ❑ Predominant gender
- ❑ Age
- ❑ Ethnicity
- ❑ Education level
- ❑ Occupation
- ❑ Income level
- ❑ Average amount of debt
- ❑ Home owner or renter
- ❑ Car owner
- ❑ Marital status
- ❑ Family status - # of children or not
- ❑ Pets – Type and number
- ❑ Media activity – magazines, newspapers, social media, television, radio, smart phone, other
- ❑ Purchase preferences – in person, internet, phone, catalog, other
- ❑ Product and/or service characteristics most highly valued by purchaser
- ❑ Payment preference – cash, credit
- ❑ Frequency of purchase
- ❑ Quantity of product/service purchased at each purchase
- ❑ Average dollars spent annually on this type of purchase
- ❑ Customer preferences and perceptions (quality, convenience, brand and image, exclusiveness, mass appeal….)

Customer Profile – Businesses by segment

- ❑ Industries, markets, or segments
- ❑ Products or services
- ❑ Number of employees
- ❑ Length of time in business
- ❑ Geography, location
- ❑ Purchasing patterns – how much, how often
- ❑ Purchasing process
- ❑ Outsourcing
- ❑ Local, national, or international purchaser
- ❑ Economic factors that influence the market
- ❑ Government policies that influence the market

Competition

- ❑ Direct competitors
- ❑ Indirect competitors
- ❑ Potential future competitors
- ❑ Annual sales and revenue
- ❑ Marketing and advertising methods and results
- ❑ Geography, location
- ❑ Distribution channels
- ❑ Outsources
- ❑ Sources for production, services, inventory, other

Competition Comparison (see p. 8)

- ❑ Strengths
- ❑ Weaknesses
- ❑ Opportunities to differentiate
- ❑ Other _____

Competition: Observe and Compare Matrix

"Shopping the competition" – put yourself in a customer's shoes! Taking a detailed look at what and how your competition delivers products and/or services – from the eyes of a customer -- will help you identify their strengths and weaknesses, to build both offensive and defensive strategies to differentiate yourself and compete effectively. Copy this chart and use it to gather information about each of your 3 to 5 top competitors. Then compare the results side by side.

ANALYSIS MATRIX

COLUMN 1: Identify the most important product and/or service features and attributes that are important to customers in deciding where to buy, such as: Location, hours of operation, product mix, product quality, delivery options, customer service, discounts, incentives, etc.

COLUMN 2: After your visit to the competitor, record details on how the competition served you as a customer related to each of those important features.

COLUMN 3: Rank each feature on a scale of 1-5 (with 1 being poor and 5 being excellent), based on the competitor's performance relating to that feature. LOW ranks show you opportunities for differentiation. High ranks show where you have to work hard to be as good or better.

TOTAL SCORE: Add up your rankings for each competitor and see who might be your toughest competition. You need to find a way to be better or different than the BEST. And the best competitor is likely to be a model of success from which you can learn.

Competitor Name _____ Date _____

Features/Attributes that are IMPORTANT to the Customer	NOTES on how the competition served or delivered this important feature.	Rank
	TOTAL SCORE	

3. Startup Cost Analysis (Feasibility)

The business you have in mind may not be the business model you can afford. One of the most common reasons businesses fail is "hitting a financial wall" either before opening or soon thereafter, as a result of one or more contributing factors such as: An insufficient estimate of the true cost of starting what you have in mind and finding out you need to spend more than you have to get it open or keep it going; an unrealistic expectation about resources you might tap into because you find out too late that there aren't any grants and startup loans are difficult to obtain; or a misconception about how quickly you will start making money, meaning you might need sources of cash to keep a business afloat until it does start making money.

An in-depth startup cost analysis will provide you **a more realistic, documented idea of the cost to start the business you have in mind, and will allow you then to match it to the reality of your available resources and/or your ability to get conventional financing.** This may lead to refining your idea to make your startup possible, based on your personal situation.

The good news is that where there's a will there is a way! Not having the funding resources does not mean you won't be able to start the business.

It does mean you will have to rethink how you'll start. The majority of businesses start by "bootstrapping" – starting with what you have at hand, perhaps working at it part time, building slowly but steadily. Every large business started as a small business, many of them building and growing one success or customer at a time.

The following is a summary of categories of common startup costs. Some of these may apply to your business and some may not but chances are there are some on the list you hadn't thought of. For example: If you are relying on your business to pay your personal bills, you need to factor in living expenses for a moderate period of time until the business can afford to "pay you a wage." Another example: One of the top reasons for business failures is not having enough cash to ride out the business ramp-up time. It's important to factor in cash to cover expenses until the business is projected to reach breakeven. In other words, if sales are not generating enough cash to cover all the bills and you have no other savings or loans to tap into, how will you pay the rent, or utilities, or…..?

Startup Cost Analysis Summary

For each item on this list, there should be an accompanying list itemizing the detail.

Land and Buildings	
Purchase down payment or pre-paid lease	$ _____
Closing costs	$ _____
Remodeling/build out	$ _____
Utility deposits	$ _____
Other	$ _____
Equipment	
Furniture	$ _____
Fixtures	$ _____
Production machinery/equipment	$ _____
Computers/software	$ _____
Telecommunication equipment	$ _____
Cash registers/POS systems	$ _____
Vehicles	$ _____
Signs	$ _____
Shipping and installation	$ _____
Other	$ _____
Materials and Supplies	
Starting inventory	$ _____
Production materials/components	$ _____
Office supplies	$ _____
Marketing, Image and Branding	
Marketing and design consultants/planning	$ _____
Advertising	$ _____
Promotional items/activities	$ _____
Other	$ _____
Operations Fees and Expenses	
Professional fees (accountant, lawyer, etc.)	$ _____
Patent/trademark fees	$ _____
Insurance (Health, Life, Fire, Liability, other)	$ _____
Licenses and permits	$ _____
Trade association memberships	$ _____
Personal Living Expenses	
From last paycheck to opening day	$ _____
3-6 months after opening day	$ _____
Moving expenses	$ _____
Cash Reserve/Contingency/Working Capital	
Opening expenses	$ _____
Wages/salaries	$ _____
Other	$ _____
TOTAL	**$ _____**

Sources of Financing / Startup Resources

Once you know the cost to start your business, there are resource and finance issues to consider:

- How much do you need to start and where will it come from? Your savings? Selling your car? Asking your friends or family? Some of the more common forms of personal financial resources are:
    - Savings
    - Home Equity
    - Cash Value of Life Insurance
    - Credit Cards
    - Retirement Plans
    - Keeping your day job
    - Working part time as you build your business

- **GRANTS:** Are you hoping for a grant? We've all seen the infomercials, websites, advertising, or received robo-phone calls, telling us there is "millions in free money." The myth of "free money" has been around for decades, and clever scammers are only too happy to sell you a book or offer to write a grant – for a very hefty fee without delivering anything that provides you with the results you sought. The fact is that the U. S. government does have grant programs but generally speaking, virtually all grant money flows to local governments, state agencies, and nonprofits. If you still want to look for grants, you can search at **www.grants.gov**. The following is excerpted from **www.sba.gov**:

  "*SBA does not provide grants for starting and expanding a business. SBA has authority to make grants to non-profit and educational organizations in many of its counseling and training programs, but does not have authority to make grants to small businesses. Some business grants are available through state and local programs, nonprofit organizations and other groups.... Grant funding is generally restricted to very specific audiences. These grants are not necessarily free money, and usually require the recipient to match funds or combine the grant with other forms of financing such as a loan. The amount of the grant money available varies with each business and each grantor."*

- **LOANS:** Are you hoping to get a loan? Traditional and non-traditional lenders have criteria on which they qualify or reject business loan requests. The following three are primary considerations:
    - **CHARACTER:** What is your credit history and score? Lenders are looking for reliable borrowers who have demonstrated responsibility and have a high credit score (700 and above) over a period of at least 3-5 years.
    - **CASH:** Lenders expect you to have "skin in the game" and be able to put up 20-30% of the total startup cost either as cash or cash plus equity investment.
    - **COLLATERAL:** Lenders generally expect you to pledge assets against the loan that have a net value greater than the loan amount. Keep in mind that purchase value isn't resale value and banks discount the value of even brand new equipment to what they think they could get if they have to sell it to satisfy the debt.
    - **SBA Loans:** The SBA does not directly make loans but does have a variety of loan guarantee and/or support programs available through commercial lenders and Certified Development Financial Institutions (CDFI's). For more information visit **www.sba.gov**.

- **CROWD FUNDING:** Crowd funding is a relatively new form of raising funds to support ideas or projects by contributions or loans from individuals or interested parties through a networked and publicly observable platform. It is being used in support of a wide variety of activities from artists and journalists, political campaigns, charitable purposes, invention development, entrepreneurship, to scientific research and more. Various platforms offering this type of funding can be searched on the internet. Because it is relatively new, the state and federal rules governing these kinds of solicitations and securities are still evolving, so it is strongly recommended to seek professional advice before engaging in crowd funding. For more information on this and other forms of financing, see the section "Financing a Business" beginning on page 40.

Decision Point – Is it Feasible?

Once you've gathered and reviewed your market research and financial information, you can make knowledge-based decisions – to go forward as you intended or to modify your plan.

- Weigh the facts and make decisions based on what you KNOW, not "think" or "feel".
- Is there a need in the marketplace for your product or service?
- Can you generate enough sales to achieve your personal and business goals?
- Can you justify the investment and risk?

Most entrepreneurs adjust their original concept in some way, and quite often a smaller scale startup is the option chosen. Always be prepared for the possibility that expenses will be more than you projected, or that sales will develop more slowly than you expected.

NOTE: Once you have made the decision to proceed, Steps 4, 5 and 6 will happen somewhat simultaneously, though they are numbered according to a recommended sequence.

4. Write a Business Plan

WHY

In spite of the fact that one of the major reasons for business failures is lack of planning, just mentioning the task of "creating a written business plan" makes many aspiring (and existing) entrepreneurs cringe. There's no question it does take time and commitment: For research, organizing information, evaluating, and writing down your actionable plan.

So why should every entrepreneur go to the trouble of creating a written business plan?

1. If you're looking for financing or investment, lenders and investors require a written plan. A completed business plan provides the information needed, and communicates your ideas to others, as the basis of a financial proposal. A decision on whether to extend financing, investment, or credit will be based on all the information in the business plan, not just the financials.

2. But the most important reason is YOU! It's not enough to "have it all in your head" since ideas and thoughts aren't a plan – they are like an assortment of clouds that change from minute to minute depending on how the winds blow. The process of putting a business plan together, including the information-gathering, thought and analysis, and activity of writing out the information you've discovered along with your ideas and measurable goals forces you to see the business project in its entirety, including its strengths and shortcomings.

3. Writing your business plan is a <u>virtual simulation</u>. Before you invest a chunk of money, it allows you to get to know the economic environment, test the financial scenarios, identify and locate your markets, figure out the what/how/when/why of operations and management, and more. It allows you to consider and adjust, to pinpoint needs or opportunities that might otherwise be overlooked. Writing a business plan is a method for reducing your risk as well as increasing your chances for success!

4. Once launched, your written business plan is a management tool, providing benchmarks and milestones you can use as measures of your success. A business plan provides a set of decisions and assumptions about the business and the economy, so comparing actual events to your decisions and assumptions provides the basis for day-to-day decision-making. In addition, the business plan can be used to communicate the goals of the business to employees and as a reminder to management, keeping everyone coordinated and heading in the same direction.

FRAMEWORK/ORGANIZATION OF THE BUSINESS PLAN

Business planning is the framework to structure concepts and information about a project. There is no exact formula for putting a business plan together and there are many different outlines and sample business plans available, each one a little different in order and organization than the next. How long will the plan be? On average, 12-16 pages. The complexity of a business plan will vary with the type of business, and the length will reflect that complexity. MI-SBDC recommends the following order and basic content, as shown in MI-SBDC Business Plan Outline, which follows this overview.

Business Plan Overview

- Cover Page: Name of business, principals names and contact information
- Table of Contents: If it is a lengthy or extremely detailed business plan, a table of contents will help the reader find his/her way.
- Executive Summary: 1-2 pages that summarize the major highlights of the overall plan. This section is written last and may be used as a stand-alone document or marketing tool. Remember that the executive summary is the single most important part. Many people will not read past the summary. **These are completed AFTER the plan is written.** As such, you will find them in the Business Plan Outline at the end, rather than the beginning.

- **Section 1 -- Company Introduction:** This is a description of your company, and an opportunity to apply an "elevator pitch" to describe the key or unique aspects of your business. Elements generally covered in this introduction include: Mission/vision for your company; Overview – history, capabilities; Products or services; Competitive advantage; Location, hours, and legal structure.

- **Section 2 -- Marketing and Sales:** Here's where all the market research you did plugs in and makes sense! Industry analysis – scope, nature, size, growth, trends; Customers' – profile, geography, buying behavior, problem solved or need filled; Market analysis – size, trends, primary and secondary target markets, growth potential; Competition – who, what, where, how, strengths, weaknesses, opportunities, threats (SWOT analysis); Marketing and Sales Plan including benefits/features analysis – value proposition, strategic partners, and pricing; Marketing and Communications Plan including advertising, promotions, publicity -- actions and costs; Sales Plan including sales force, distribution, customer service, warranties.

- **Section 3 -- Management and Operations:** Describe how the business will run and how organizational responsibilities will be assigned including the management team, other key personnel/contractors, staffing objectives, HR budget, Board of Directors/Advisors, work processes – inventory, production, quality control, subcontractors, facilities and equipment, research and development (if applicable).

- **Section 4 – Financials:** Finalize startup cost, identify the basis for financial projections with a list of assumptions ("show your math" in how you came up with sales numbers and/or expense amounts); 2-3 years of projections including Cash Flow, Income and Expense (P&L), and Balance Sheet; identify existing debt terms/conditions (if applicable) and possible exit strategy.

- **Appendix:** Include copies of any documents that may be referenced in the business plan or items that may be relevant to the persons reading the plan such as list of owners (over 20% stock), personal financial statements on all owners, tax returns, principal's resumes, letters of recommendation, purchase agreements, site plans.

Most everyone needs help in putting a business plan together. There are several well-written brochures and books available at libraries and bookstores for guidance. Most large accounting firms have manuals available. Various legal and financial consultants are listed in the Yellow Pages and online.

For more assistance, contact your local MI-SBDC or online at: **www.SBDCMichigan.org**

Business Plan Outline

1. COMPANY INTRODUCTION

Introduce and describe your company. How was your company formed? How long has your company been in operation? What is the current legal structure? Does your company hold any patents?

You may want to highlight the following elements within this section:

- *Overview of company history/capabilities*
- *Product description, present state of development*
- *Past customers and performance (if any)*
- *Intellectual property status (if applicable)*
- *Commercialization strategies (brief summary, if appropriate)*
- *SWOT analysis (your strengths, weaknesses, opportunities and threats)*

2. MARKETING AND SALES

Industry Analysis

Paint a picture of what your specific industry is doing. For your company to be successful, you need to be aware of what is happening in the industry overall, so that you can position your company to take advantage of growth or unique market opportunities. Similarly, industry awareness will help ensure that your sales projections are realistic. Is the industry large enough to support another supplier? How fast is your industry growing (sales $, number of customers, profits)? Are there specific segments growing faster than others? Which industry associations exist and prove to be useful resources? What data is provided by government sources?

You may want to highlight the following elements within this section:

- *Identify trade associations that support your product/service area*
- *Current industry status and trends*
- *New products or services in the industry*
- *Economic/political issues that may be of impact*

Market Analysis

Provide a good description of your market (all who might buy your product or service), then group them into primary and secondary markets. Your primary market is the group that is likely to buy the largest quantity of your product, or that is likely to buy more of your most profitable product. Secondary market includes those customers who will buy, but probably not at the same volume level as your primary target. Next you should estimate how large your target markets are (number of potential customers, how much are they likely to spend in a given year). Then, predict how fast your target markets will grow. Be realistic. Even if every customer loves your product, they all have limits on their ability to spend.

You may want to highlight the following elements within this section:

- *Define primary and secondary markets*
- *Market size and trends*
- *Quantify available markets*
- *Predicted annual growth rate of markets*

Customers

It is important for a company to know exactly who they are targeting with their products/services, where the customers are located, why they are interested in the product/service, and when/how/why they will purchase the product/service. Describe your ideal customer in terms of their attributes or demographics (age, gender and income or business type, size and location) so that your selling approach will make sense to them.

You may want to highlight the following elements within this section:

- *Description of target market (who is your ideal customer?)*
- *Geographic area for target market (within 60 mile radius? nationwide?)*
- *Problem that company is solving for the market (what do they need?)*
- *Buying behavior (how often, how many products?)*
- *Decision making process (how much lead time, is it a group decision?)*

Competition

Who is your competition? Competitors include other suppliers who provide similar products (direct competitors) as well as those who provide a product in the same general category (indirect competitors). For example, a retail video rental store competes with other video rental companies, and also with other forms of entertainment such as movie theatres, HBO, etc.) How much of the market do your competitors hold? Who has the largest share of the market and what are their strengths and weaknesses? In which areas does your company have a competitive advantage over your competitors? Are there products or services that may threaten your company's ability to produce a profit?

You may want to highlight the following elements within this section:

- *Indirect & direct competitors? Who are they?*
- *Competition analysis (strengths and weaknesses, how you might differentiate)*
- *Market share held by competitors*

Marketing/Sales Plan

Your Marketing and Sales Plan needs to focus on the key characteristics of your target customers, their demographics and buying behavior, and their attitudes about your product. Why will a customer buy from you and not a competitor?

Set realistic sales goals that recognize the size of your industry, the size of your target market, how strong your competitors may be, and your ability to produce the product. Understanding your customers will also help you determine your sales force and distribution plans. Does your product require a direct sales approach? Will customers feel comfortable ordering online? Do customers need to see the product before purchasing? How many contacts will they need before agreeing to purchase?

Once you know your sales targets, you can plan your communications strategy around how many prospects you need to reach. Customers need to be aware of your company; and they have to want your product, have the ability to purchase it, and be satisfied with their purchase so that they will purchase again and also spread your name to others. Your advertising needs to include the media (such as print ads, radio, direct mail, billboards, events, publicity) that best reach your target market. And you will need to get the word out on a regular basis, so draft your communications plan onto a calendar, with regular communications activities throughout the year.

Often, partnering with a company that provides a complementary product can open the door to a broad base of potential customers. (For example, a Subway Shop may open next to a gas station.)

Pricing is an important part of your marketing mix. Estimate sales at various price levels. Investigate your target customers' expectations about price in addition to what your costs are.

You may want to highlight the following elements within this section:

- *Marketing and sales objectives*
- *Current customer profile (if applicable)*
- *Potential customers feature/benefit analysis (what are customers looking for?)*
- *Potential teaming partners: who are they, why selected (if appropriate)*
- *Pricing: price points, margins and levels of profitability at various levels of sales*
- *Sales plan: sales force analysis, sales expectations for sale people, distribution channels, margins for intermediaries, customer service and warranties*
- *Advertising: Year 1 detailed marketing communications plan including implementation plan; Year 2-5 general plan, marketing budget/costs, assumptions*

3. MANAGEMENT AND OPERATIONS

Your Management and Operations section needs to focus on the management team and the experience and skill they bring to the business as well as how you will manage the company, who will be responsible for running the day-to-day operation and how it will be implemented. Even the best and brightest entrepreneurs cannot do everything. Identify key work areas that will ensure customer satisfaction and company growth and make sure staff understands their responsibilities. This ranges from how the telephone should be answered to what is your return policy to how do we reach more customers, to what is the most cost effective level of inventory?

Human Resources Plan

Who is on your management team? How many staff members will you hire and in which roles? How much money will you spend? What are your goals for staffing? Estimate the costs and benefits of full-time, part-time and contract employees. How will new employees be trained? Critical areas include Operations, Sales, and Finance, and each function needs to be defined. How will decisions be made? Where are your greatest strengths? What skill areas and team members need to be added?

You may want to highlight the following elements within this section:

- *Management team*
- *Staffing objectives*
- *Organizational structure growth for 3-5 years*
- *Key individuals to be recruited*
- *Human resource budget*
- *Board of Directors, Research Advisory Board (if appropriate)*

Operations Plan

You may want to highlight the following elements within this section:

- *Basics on how work will be processed*
- *Use of subcontractors*
- *Quality control*
- *Market Analysis*
- *Facility needs*
- *Manufacturing needs*
- *Budget requirements*

Research and Development Plan

Plan for your company's future and growth. Whether you will be developing new products or expanding to additional locations, a growth plan is important. What are your goals and plans in this area? What obstacles do you foresee while trying to achieve your objectives? Will you require additional financing to obtain your research and development objectives?

You may want to highlight the following elements within this section:

- *Research and Development objectives*
- *Milestones and contingency plans*
- *Difficulties and risks and how to overcome them*
- *Special budget needs*

4. FINANCIALS

In a narrative as well as charted, identify the financial goals and plans for your company. What do you need and how will you obtain it? What is your company's financial history? Start by estimating your monthly costs, both fixed and variable. That total tells you at a minimum what you need to generate in revenue – and then you can work backwards and calculate how many products you'd need to sell, or how many hours of service you'd need to complete, to at least break even (income = expenses).

The following elements should be included in this section:

- *Assumption page - A list of your explanation for the numbers in the financial projection. An uninformed reader should be able to understand how the figures being presented were derived.*
- *Cash flow projections -This will compare the money coming in to the money going out on a month-by-month basis. Can you pay your monthly bills?*
- *2-5 years profit & loss statements - Why? Because some bankers do not have credit analysts to help with this aspect. Also, the credit analyst may need to prepare ratio analysis. In addition, as the business owner, you need to know if your company is growing financially and according to your targeted goals.*
- *Financing needed and equity/debt options - Ask for what you have assumed in the financial projection. For example, if the projection assumes a $50,000 at 7.5% for 10 years, that is what you ask for.*
- *Use of funds -Tell how the money borrowed/invested will be spent.*
- *Alternative scenarios - Some situations are best represented by developing more than one set of financial projections. One may want to present a "best case" and "worst case" scenario.*
- *Terms and conditions of any previous financing --One needs to talk about existing debt and equity arrangements.*
- *Commercialization/strategy (if applicable). Some business plans take an idea or invention from conception to the market place. One needs to address those issues as the timeframe for such a project is usually very long.*
- *Exit strategy - How is the money going to be extracted from the business? Do you plan to sell the business? Will your children inherit it?*

APPENDIX

Supporting documents related to content you have referenced in your plan, which you or another reader may wish to refer to for more detail or verification, may include the following:

- *Principal's resumes and/or list of owners with over 20% of the stock*
- *Personal income tax forms if required*
- *Letters of recommendation*
- *Site plans*
- *Contracts*

And now that the plan is complete….

Cover Page (Allow one full page in actual document)

Every business plan needs a cover page. The cover should show the following information (fill in for your business):

Company Name
Address
City, State Zip
Web Site Address

Company Owner's Name
Email Address
Phone Number / Fax Number

Company Logo (if available)

Date

Organization name and address the business plan is submitted to (*leave blank if you don't know yet*)

Table of Contents (Allow one full page in actual document)
Come back to this section and fill in the page numbers when the business plan is complete.

Table of Contents:	**Page Number**
Executive Summary	xx
Company Introduction	xx
Marketing and Sales	xx
Industry Analysis	
Market Analysis	
Customers	
Competition	
Marketing/Sales Plan	
Management and Operations	xx
Human Resources Plan	
Operations Plan	
Research & Development Plan	
Financials	xx
Financial narrative	
Assumptions	
Sources and Uses of Funds	
Cash flow projections	
Appendix	xx

EXECUTIVE SUMMARY

The Executive Summary section provides an overview of the Business Plan, highlighting the primary ideas from each of the business plan components. Also, include in this section the purpose for writing the plan, i.e., "to obtain financing."

Even though this section comes first in the business plan, it is written after all of the other sections have been completed, as a one or two page summary of the highlights. The order in which the highlights are presented depends on the audience that will be reading it. For example, if the plan will be read by an investor, it might be best to lead off with strong financial highlights.

- *Company Introduction*
- *Industry Analysis*
- *Customers*
- *Market Analysis*
- *Competition*
- *Marketing/Sales Plan*
- *Human Resources Plan*
- *Operations*
- *R&D Plan (if appropriate)*
- *Financials*

5. Develop Your Business Management Team

As noted in a previous section, many people choose to start a business around something they know how or love to do. That technical skill or specific knowledge/experience becomes the centerpiece of the business, the product or the service offered. However, a strong, operational business framework is critical to producing and delivering your product or service. Consider your knowledge and experience gaps and anticipate and plan for how you will cover those gaps and manage all the important business functions. Who do you know that might help you in the early stages, and where do you need to incorporate specialized assistance? Some of the areas to consider are:

- Financial management -- accountant or bookkeeper
- Legal advice -- lawyer
- Risk management -- insurance agent
- Site or facilities -- realtor and/or local economic development organization
- Marketing and advertising -- specialized consultants (graphic design, web development, marketing)
- Human resources -- staffing service/consultant
- Technology and computer systems -- IT services consultant

6. Complete the Startup Checklist

The following tasks are related to forming and finalizing the business entity itself. These tasks may be completed at any time in the startup process, and many people form a business entity, file for an EIN, and make other registrations as a first step. But the recommended sequence is first to determine IF there is a market opportunity for the business (feasibility) before establishing and registering an entity that might need to be "undone" it is determined not to be feasible.

Name and Legal Structure
To learn more about the advantages and disadvantages of various legal structures refer to the section entitled, "Ways to Legally Structure a Business and Registering A Business Name" see page 21. The decision of what legal structure to select may be very complicated, therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you.

Licensing
The State of Michigan does not have a generic business license, and legal entity registration is not a license. Licenses are required for certain vocations or occupations that may be conducted within a business. Local governments may also require business licenses. See pages 26-27 for more on licenses.

State and Federal Tax Registration
Businesses operating in Michigan may visit **www.michigan.gov/business**, Michigan Business One Stop website, a portal for new and existing businesses to access services for doing business in our great state -- from information about licensing and permits, to tax registration and unemployment insurance see pages 29-31 for more details.

Employer Identification Number (EIN) – Taxpayer Identification Number
Generally, an EIN is required by the IRS if: 1) The business will have employees; and/or 2) the business operates as a corporation or partnership. See page 29 for more details.

Intellectual Property (IP) – Patents, Trademark, Copyright
A trademark is the "brand name" by which products are identified by a particular manufacturer or distributor. A trademark is a word, phrase, symbol or device, or any combination other than a trade name adopted and used to identify products and to distinguish them from similar products made or sold by others. A service mark is similar to a trademark and is used to identify and distinguish between services sold or advertised by a person from similar services of others. See page 28 for more details.

Business Insurance
Contact an insurance agent to determine the types of insurance the business should purchase. Shop around. Insurance rates and types of coverage vary greatly among insurance carriers. See page 46 for more details.

Zoning and Local Requirements
It is important for startup and expanding businesses to make sure that the planned location or occupied facility is in compliance with all the local laws and regulations. Although Michigan does not have a generic business license, check with your local governmental units (cities, townships, villages, etc.) as they may require businesses to be licensed. See page 27 for more details.

Site and Environmental Conditions
To ensure that the business meets all of the environmental regulations that apply to a specific type of business, contact the Michigan Department of Natural Resources at **www.michigan.gov/dnr**. A Customer Service Guide (pdf) with listings of all the departmental phone numbers is available at: **www.michigan.gov/documents/dnr/DNR_customer_service_guide_407568_7.pdf**

Employee Considerations
If employees are hired, there are responsibilities at both the state and federal government levels, see page 34 for more details.

Purchasing an Existing Business
If you are considering purchasing a business, it is important to understand what you are getting into by requiring detailed information from the seller regarding its business operations and finances. As the purchaser of even a portion of a business, you may be responsible for the previous owner's liabilities, regardless of any contractual language to the contrary. Make sure that the seller of the business provides you with proof that there are no hidden liabilities. In addition, the seller of the business should contact the Michigan Department of Treasury at 517.636.5260 to obtain Form 514 to request a Conditional Tax Clearance Request letter, or you may access the information online at **www.michigan.gov/businesstaxes**. It would be wise to obtain a copy of this Conditional Tax Clearance Request letter from the seller prior to the closing date or signing any purchase agreements.

Also, contact the Unemployment Insurance Agency (UIA) at 800.638.3994 or online at **www.michigan.gov/uia** to obtain information on successor liability. Furthermore, the seller is required to provide the purchaser with UIA Form 1027, Business Transferor's Notice to Transferee of Unemployment Tax Liability and Rate. This form will advise the purchaser of the unemployment tax rate, outstanding liabilities, and other details about jobless benefit payments and taxes.

Image and Branding
A very critical aspect of business marketing is the message, verbally and visually, that you use to identify your business and attract customers. Plan it carefully and consider its staying power. Much of the value of a business accrues from the recognition of the "brand" and reputation you achieve. For more details on marketing in the section on Managing a Business, starting on page 43.

7. Obtain financing (if applicable)

If traditional lending is your financing path, begin visits to lenders just as soon as the business plan is completed, before a site lease or purchase agreement is signed. Your MI-SBDC office will provide information on lenders in your area. For more information on financing, see the section "Financing a Business," page 40.

8. START your business!

Congratulations! Your planning, persistence and determination have paid off. **Now the journey and real hard work begins.** Don't hesitate to contact your closest MI-SBDC office for ongoing assistance.

WAYS TO LEGALLY STRUCTURE A BUSINESS AND REGISTERING A BUSINESS NAME

Choosing a Legal Structure for Your Business

When starting a new business, one of the first decisions you must make is what legal structure you should choose for your business. Your choices are sole proprietorship, partnership, corporation or LLC. Which structure you choose will depend on the type of business you run. The major factors to consider include:

- The potential risks and liabilities of your business
- Income taxes
- Investment needs
- The formalities and expenses involved in establishing the business structure

Below is a review of the most common legal structures for businesses and some of the advantages and disadvantages of each. The decision of what legal structure to select may be very complicated, therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you. Also, for more information on limited partnerships, corporations or limited liability companies, please go to **www.michigan.gov/business** or call 517.241.6470.

Sole Proprietorship or Sole Proprietor DBA

A sole proprietorship is a business structure with one owner. A majority of small businesses in the United States are sole proprietorships because it is the easiest to set up and maintain. If you do nothing to choose a legal structure you will default to a sole proprietorship because there is no paperwork to file. However, if you plan to operate the business under a name that is not your personal name, then you must file for an assumed name "DBA" (doing business as…) certificate with the county clerk of the county where your business is located.

There is no legal separation between the business and the owner in a sole proprietorship. This means that as a sole proprietor you will have unlimited responsibility for the liabilities and debts of the business. For instance, if the business cannot pay money owed to a vendor, that vendor may sue you individually. It also means that any income or losses of the business are accounted for on your personal tax return.

Advantages:

- Easy and inexpensive to establish
- Profits are taxed only once at the owner's rate

Disadvantages:

- Owner has unlimited personal liability for business debts
- Ownership is limited to one person

The decision of what legal structure to select may be very complicated. Therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you. Also, for more information on business structures please go to ***www.michigan.gov/business*** *or call 517.241.6470.*

Partnerships

There are two types of partnerships: General Partnerships and Limited Partnerships. A general partnership is similar to a sole proprietorship except that it has two or more owners. Like a sole proprietorship it is easy to set up and maintain. There is no paperwork to file unless you are operating the business under a name that is different from the personal names of the owners in which case you only need to file a "DBA" (doing business as…) certificate with the county where the business is located. It is also highly recommended that the partners create a partnership agreement that addresses roles, responsibilities and contingencies, in order to avoid disagreement and conflict between the partners. In a general partnership the owners have unlimited liability for the debts of the business. This means that even though the partners share the profits equally, each partner is 100% responsible for any debts of the business.

A limited partnership has one or more general partners and one or more limited partners. The general partner(s) control and operate the business and are 100% liable for any debts of the business. The limited partner(s) do not participate in the operation of the business and their personal liability is limited to their contribution to the partnership. Typically a limited partner is an investor.

In order to form a limited partnership in Michigan, you must file a certificate of limited partnership with the Michigan Department of Licensing and Regulatory Affairs (LARA). If a limited partnership does not follow statutory requirements it will be treated as a general partnership so you should consult with an attorney before creating a limited partnership.

Advantages:

- General partnerships are easy and inexpensive to establish
- Each partner's share of profits are only taxed once
- Allows for ownership by more than one individual

Disadvantages:

- General partners have unlimited personal liability for business debts
- Partnership is legally responsible for the business acts of each partner
- General partner's interest in the business can only be sold or transferred by consent of all partners

The decision of what legal structure to select may be very complicated. Therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you. Also, for more information on business structures please go to ***www.michigan.gov/business*** *or call 517.241.6470.*

Limited Liability Company

A limited liability company (LLC) business entity was created to combine the advantages offered by both partnerships and corporations (see page 24). An LLC provides the members (owners) of the business limited liability protection like shareholders in a corporation combined with the simpler operation and tax advantages of a partnership.

Although Michigan does not require an operating agreement to be filed in order to form an LLC, executing one is highly advisable. Particularly in a multi-member LLC, it's the basis on which you establish consistency and understanding about how meetings are conducted, how the company will be managed and decisions made, duties of members, what contributions are required from members, how profits and losses will be calculated, limitations of liability and protection of members, and how members might be added, terminated or exit.

An LLC is created by filing Articles of Organization with Michigan Department of Licensing and Regulatory Affairs (LARA) along with the appropriate filing fee. Like a corporation, an LLC will be responsible for paying an annual fee with LARA to continue its existence.

Advantages:

- Limited liability for business debts
- Taxed as a partnership so there is no double taxation
- Easier to establish and maintain than a corporation

Disadvantages:

- More complex startup requirements than partnerships or sole proprietorships
- Members are not permitted to pay themselves wages but may take money out only by a profit distribution
- Every member must pay taxes his his/her share of the profits and is not exempt from self-employment taxes

The decision of what legal structure to select may be very complicated. Therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you. Also, for more information on business structures please go to ***www.michigan.gov/business*** *or call 517.241.6470.*

L3C
A low-profit limited liability company (L3C) is a new legal form of business entity established pursuant to law of the state. Michigan is one of just a few states that have amended their general limited liability company law to create this hybrid of a nonprofit and for-profit organization with the purpose of encouraging private and/or philanthropic investment in businesses designed to provide social benefit. An L3C is a for-profit company with a charitable mission first and a profit concern second. L3C encourages investments in socially beneficial for-profit businesses by simplifying compliance with the IRS rules for program-related investment, which is a type of investment that private foundations are allowed to make.

As with an LLC, although Michigan does not require an operating agreement to be filed in order to form an L3C, executing one is highly advisable. It is the basis on which you establish consistency and understanding about how meetings are conducted, how the company will be managed and decisions made, duties of members, what contributions are required from members, how profits and losses will be calculated, limitations of liability and protection of members, and how members might be added, terminated or exit.

An L3C is created by filing Articles of Organization with the Michigan Department of Licensing and Regulatory Affairs (LARA) along with the appropriate filing fee. ***The words "low-profit limited liability company" or the abbreviation "L.3.C." or "l.3.c." must be included in the name of the new entity (Article I of the form) and the "all purpose" clause in Article II of the form crossed- or whited out.*** Michigan law also requires that the definition of L3C business purpose include specific language so it is highly recommended one consult with an attorney if considering filing this legal entity.

Like a corporation or an LLC, an L3C will be responsible for paying an annual fee with DELEG to continue its existence.

Advantages:

- All the benefits of LLC structure
- Qualification as PRI (Program Related Investment), facilitating foundation investments
- Not subject to nonprofit regulation
- Branding and marketing opportunities

Disadvantages:

- PRI investments are rare and considered risky, with potential excise tax liability to the foundation
- So new that there are many unresolved questions about how rules and regulations will be interpreted and/or applied

The decision of what legal structure to select may be very complicated. Therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you. Also, for more information on business structures please go to ***www.michigan.gov/business*** *or call 517.241.6470.*

Corporations
A corporation is considered a separate legal entity with its own rights, privileges and liabilities separate from its members. Therefore, its shareholders or stockholders (owners) are not personally responsible for the debts of the business. Usually a corporation has more than one shareholder but it can be 100% owned by one person. Shareholders elect a Board of Directors that oversees major policies and decisions, and the directors hire officers to run the company on a day-to-day basis. A corporation can sue and be sued, enter into contracts and own property.

A corporation is more expensive and complex to establish than the other business structures. It is created by filing Articles of Incorporation with Michigan Department of Licensing and Regulatory Affairs (LARA) along with the appropriate fee. The corporation will also be responsible for paying an annual fee with LARA to continue its existence. Once established, a corporation must abide by corporate formalities required by statute to retain corporate status; therefore, corporations are more complex to operate than sole proprietorships and partnerships.

The corporation itself pays taxes at special corporate tax rates on the profits it earns and retains. Corporations distribute earnings to shareholders (owners) as dividends and the shareholders are taxed on this income. Therefore, it is said that corporate earnings are subject to "double taxation" when they are passed through as stockholder dividends.

Corporations are categorized as "C" corporations. However, after creating your "C" corporation, you might file an election with the IRS to be treated as a subchapter "S" corporation for tax purposes. In order for a corporation to elect to be a subchapter S corporation it must meet certain eligibility requirements including but not limited to having 100 or less shareholders. Subchapter S corporations are formed for tax purposes because generally a subchapter S corporation does not pay taxes on the earnings of the business but instead the income is passed through to the individual shareholders and reported on their income tax returns. This eliminates the corporate "double taxation" described above.

Advantages:

- Easier to raise capital through sale of stock
- Limited liability for business debts – shareholders only risk their investment
- Easy to transfer ownership
- Can elect Subchapter S status with the IRS

Disadvantages:

- Costly to set up and maintain
- Corporate formalities are complex but must be strictly followed to maintain corporate status and limited liability of shareholders
- Closely regulated by both federal and state government
- Double taxation if not eligible for or fail to elect Subchapter S status with the IRS

The decision of what legal structure to select may be very complicated. Therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you. Also, for more information on business structures please go to ***www.michigan.gov/business*** *or call 517.241.6470.*

Professional Service Corporation

A professional service corporation or "PC" is a corporation formed for the purpose of engaging in certain licensed professions (sometimes referred to as "learned professions") such as law, medicine and architecture. All shareholders of the corporation must be licensed professionals, so for example, if a law firm is a PC, all shareholders of the PC must be licensed attorneys. A PC is created by filing Articles of Incorporation with the Michigan Department of Licensing and Regulatory Affairs (LARA) along with the appropriate fee. The corporation will also be responsible for paying an annual fee with LARA to continue its existence as well as provide a list of shareholders and attest that all are licensed professionals.

The decision of what legal structure to select may be very complicated. Therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you. Also, for more information on business structures please go to ***www.michigan.gov/business*** *or call 517.241.6470.*

Selecting and Registering a Business Name

In general, an individual is always entitled to use their personal name for their business. If you choose a name that is not your personal name, you must choose a name that is not already being used by another business. It is important to do a search for the name on the internet and at the website for the US Patent and Trademark Office **www.uspto.gov** to try to determine that the name is not already in use and/or registered as a protection against duplication. If your name is an integral part of your business or you plan to invest significant money in marketing materials you should consult with an attorney with an expertise in intellectual property law prior to choosing and registering your name. For more information on protecting your business name, see page 28, "Patents, Trade and Service Marks."

In Michigan, a business name is registered at the time the business structure is formed. A sole proprietorship or partnership using the name(s) of the owner(s) is not required to do anything to register their business name. If the sole proprietorship or partnership is assuming a different name they must file a "DBA" (doing business as…) certificate with county clerk of the county in which the business is located.

A corporation registers its name when filing its Articles of Incorporation and an LLC registers its name when filing its Articles of Organization with the Michigan Department of Licensing and Regulatory Affairs (LARA) **www.michigan.gov/lara**. It is recommended that you conduct a state name availability search prior to filing your paperwork. This search can be done online at **www.dleg.state.mi.us/bcs_corp/sr_corp.asp.**

It is important to note that just because the State of Michigan allows you to register your business name, it does not mean you have absolute rights and ownership of that name. Therefore, if you have any questions or concerns about choosing a name for your business you should consult an attorney.

Also, a corporation or LLC may choose to operate the business under a name different than the LLC or corporation, or it may choose to operate multiple businesses through the one business. For corporations or LLC's filed at the state, this form of "DBA" ("doing business as") is not the same as one filed with the county. The corporation or LLC must file a Certificate of Assumed Name for each name used by the business, which can be done through the Michigan "One Stop" website: **www.michigan.gov/business**

LICENSES, PERMITS AND OTHER REGULATIONS

The State of Michigan does not have a generic business license. Several occupations and industries/services are required to be licensed by the State of Michigan. Depending on the specific type of business or manufacturing operation, some type of certification, license or permit may be required. Access the Michigan Business One Stop site for licensed occupations information (search) online at: **www.michigan.gov/business**

Businesses operating or conducting business in Michigan should visit **www.michigan.gov/business**, Michigan Business One Stop website, a portal for new and existing businesses to access services for doing business in our great state -- from information about licensing and permits, to tax registration and unemployment insurance. This service will allow a company to access and use an ever expanding list of online permitting services 24-hours a day, seven days a week.

Try the Business One Stop Simulator

This tool lets you create scenarios for starting different types of businesses. The tool will determine the state requirements for that type of business, including costs and time frames. No phone calls. No hassles. And, if you like what you see, Log In and Do Business with One Stop!

Resource Center

The One Stop Business Resource Center is designed to help you start and manage your Michigan business. Explore these libraries of information!

One Stop Tutorials

This links to a number of tutorials which will provide you with step by step instructions for using Michigan Business One Stop.

Michigan Business One Stop

Why Would I Use One Stop?

Starting a new business? One Stop creates a personalized list of activities, registrations and licenses that you will need to complete for your business. The list includes the cost and process time for each item, adding information and value to your business plan. Is it comprehensive? The One Stop database analyzes 876 different government tasks to find the ones that apply to your business. Once you are ready to start your business, use One Stop to apply for an EIN, register for taxes and apply for the permits and licenses you need.

Operating businesses use One Stop a little differently. As a business owner, you will need to renew your licenses periodically, but you probably also need to:

- File your annual report with the Department of Energy, Labor and Economic Growth
- Sign up to e-pay your taxes
- Register with Unemployment Insurance Agency
- Apply and pay for specific permits or licenses
- Delegate authority to another person
- Post a MIOSHA notice
- Consider the costs of expansion by reviewing additional permits and licenses
- Add a location or a DBA

One Stop allows you to manage all of these transactions in one place and eliminates the need to jump from agency to agency to conduct your business. Web site: **www.michigan.gov/business**

Local licensing, permits and/or regulations may be different than state. Be sure to check with your county, city, village, or township clerk to determine if any local licenses or registrations are required and to obtain the necessary forms.

ENVIRONMENTAL CONSIDERATIONS

Small businesses operate in an increasingly complex legal environment. Concerns about consumer protection and environmental preservation have received increased attention in recent years. As these concerns are brought forth to be enacted into laws and regulations, it is often translated into a maze of paperwork and restrictions for many business owners. The *good* news is that government provides a wide-range of assistance to businesses. One key to surviving the "regulatory jungle" is to be aware of the legal and business environment in which your business operates. No one is expected to become a legal expert but you should know which laws affect your business.

A business involved in activities that have the potential to impact the environment (such as land clearing and construction) or operating processes that generate air emissions and waste (such as coating lines, boilers, and cleaning metal parts with solvent) may need permits, licenses, or other authorizations from the Michigan Department of Environmental Quality (MDEQ).

Contact the MDEQ at 800.662.9278 or online at **www.michigan.gov/deq**. The MDEQ regulates business activities that involve:

- The release of air emissions
- Solid waste disposal/processing
- Storage, hauling and disposal of hazardous waste
- Major alterations to the landscape
- Building near waterways or wetlands

Resources

Free technical assistance, consultation, and guidance is available from the Environmental Assistance Program (EAP) by calling 800.662.9278 or online at: **www.michigan.gov/deq.** Click on "Programs" and scroll down "Programs by Division" to see listings for "Office of Environmental Assistance."

<u>The Michigan Manufacturers' Guide to Environmental, Health and Safety Regulations</u>: A general and informational reference that provides an overview of the regulatory programs that apply to many businesses – not just manufacturers. Online copies are available at **www.michigan.gov/documents/deq/deq-oppca-caap-manufguide-all_324018_7.pdf.**

<u>The DEQ Permit Information Checklist</u>: An easy to use checklist for determining if your project requires any type of environmental permit is available online at **www.michigan.gov/deq.** Click on "Key Topics" in the left margin and then "Permits".

The possibility of environmental contamination should be considered when looking at the lease or purchase of an existing building or property for conducting business. In Michigan, a Baseline Environmental Assessment (BEA) allows people to purchase or begin operating at a facility without being held liable for existing or previous contamination. An information document on BEA and Due Care is available at **www.michigan.gov/documents/deq/deq-rrd-bea-citizenguide_253033_7.pdf**

Business owners should also check with county and local authorities about whether local permits and licensing may be required. Even though the costs of adhering to the regulations can be burdensome for a business owner, the cost of noncompliance, including fines, penalties, and even business closure, can be much greater.

ZONING AND BUILDING CODES AND ORDINANCES

It is important for startups and expanding businesses to make sure that the occupied facility is in compliance with all the local laws and regulations. Contact the city assessor, township or village clerk to assure compliance with all the local zoning codes.

Contact the local building inspector to assure compliance with regulations affecting construction (e.g., building, electrical, mechanical and plumbing codes, rules about construction, alterations, demolitions, occupancy and use of buildings).

A home-based business is subject to many of the same local laws and regulations. Check with your local unit of government to determine if any special permits are required. Certain products cannot be produced in the home. Most states outlaw the home production of fireworks, drugs, poisons, explosives, sanitary or medical products and toys. Strict rules apply to the processing of food/drinks and the manufacturing of clothing.

Be aware of city, county and village zoning regulations. If the business operates in violation of the local government's laws and regulations, you could be fined or closed down. For information about the laws and regulations at the city, county, township or village level contact your local government agency.

BARRIER FREE DESIGN

A special part of the building code, Barrier Free Design, has been public policy in Michigan since 1966. In 1992, the Americans with Disabilities Act (ADA) mandated federal requirements concerning barrier free design. These regulations are intended to ensure that public facilities and facilities used by the public are accessible to and usable by all citizens. No exceptions to the state requirements can be made by a local unit of government or a state department, agency or person, except the Barrier Free Design Board. A person requesting an exception must demonstrate "compelling need" as defined in section 5a of 1966 Public Act (PA)1, MCL 125.1355a. For additional information, visit the Department of Licensing and Regulatory Affairs (LARA), Bureau of Construction Codes website at **www.michigan.gov/bcc** or contact the Plan Review Division at 517.241.9328.

TRADE AND SERVICE MARKS

According to the U.S. Patent and Trademark office, a trademark is a word, phrase, symbol or design, or a combination of words, phrases, symbols or designs, that identifies and distinguishes the source of the goods of one party from those of others. A service mark is the same as a trademark, except that it identifies and distinguishes the source of a service rather than a product.

All marks do not need to be registered but registration has advantages including a notice to the public of the registrant's claim of ownership of the mark, a legal presumption of ownership, and the exclusive right to use the mark as set forth in the registration.

- The superscript symbol TM is used to provide notice of a claim of rights in an unregistered trademark, which means it does not guarantee protection under trademark laws.
- The symbol SM functions similarly to the TM symbol for an unregistered service mark, also without a guarantee of protection under trademark laws.
- The ® symbol should be used only in connection with registered marks. Use of ® with any unregistered trademark could result in fraud claims or other problems enforcing trademark rights.

Registration of a mark used in Michigan gives the owner of the mark certain limited legal protection. Contact the Department of Energy, Labor & Economic Growth, Bureau of Commercial Services, Corporation Division at 517.241.6470. There is a registration fee. For use throughout the United States, trademarks and service marks may also be registered with the United States Patent and Trademark Office, (USPTO), USPTO Contact Center, Post Office Box 1450, Alexandria, VA 22313-1450 or by telephone at 800.786.9199 or available online at **www.uspto.gov**.

COPYRIGHTS

A copyright enables its owner to exclude others from reproducing certain works, such as books, musical compositions, technical drawings and computer programs. Copyright notice is the symbol © (the letter C inside a circle), "Copyright", followed by the year of the first publication of the work and the name of the copyright holder. The copyright notice for sound recordings of musical or other audio works is a sound recording copyright symbol ℗ (the letter P inside a circle), which indicates a sound recording copyright. Similarly, the phrase All rights reserved was once required to assert copyright. A copyright may be registered by filing an application with the Library of Congress, U.S. Copyright Office, 101 Independence Avenue SE, Washington, D.C. 20559-6000; Phone 202.707.3000 or toll free 877.476.0778, or online at **www.copyright.gov**.

BUSINESS TAXES

Understanding your tax obligations and preparing taxes can be confusing and complicated. If returns are neglected or filed improperly, penalties and excess payments may be levied. This document gives an overview to help ensure you are filing and paying the appropriate taxes. Consult with a tax advisor or an accountant to help you understand your obligations and/or prepare your returns.

EMPLOYER IDENTIFICATION NUMBER (EIN)

An EIN identifies the business for federal and state tax purposes. Many financial institutions will not open a commercial banking account under an assumed ("doing business as" – DBA) name without the EIN. Sole proprietorships without employees are not required to have an EIN and may use the owner's social security number for tax purposes, but a sole proprietor without employees may apply for and receive an EIN as an alternative to using a social security number, which could increase the chances of identity theft.

An EIN must be obtained if the business pays wages to one or more employees whether set up as a partnership, a corporation for profit or nonprofit, a limited liability company, a trust or estate, or a sole proprietorship. NOTE: If an owner of a corporation provides services to the corporation, the owner is an employee of the corporation and subject to all employment taxes.

An EIN is required on any return, statement, or other document if you are an employer. Individuals who file Schedule C or I must use EINs when filing excise, employment, alcohol, tobacco or firearms returns. Important notes:

- If you become the new owner of an existing business, you cannot use the EIN of the previous owner.
- An existing business that adds, opens or acquires a new operation of similar type may use its current EIN for both the existing and new operations. However, a new establishment must obtain its own EIN if its line of business is different from the existing operation.

An EIN form (SS-4) can be obtained from the IRS online at **www.irs.gov** or call 800.829.4933. The application should be completed early enough to allow processing time for an EIN number to be issued.

EMPLOYER TAXES

Any employer of one or more persons must withhold federal, state and possibly local income taxes from the wages paid to employees. Employers are also responsible for paying into the Social Security and Medicare systems as well as withholding a matched amount from the employee's wages. State and federal unemployment insurance payments must be paid entirely by the employer and not from an employee's wages. For detailed information about hiring employees and your obligations, refer to the "Hiring Employees" section, page 34.

SELF-EMPLOYMENT TAXES

Just as employers must withhold tax and report it to various government agencies, so must self-employed individuals, or those working for self-employers. You are considered self-employed if you operate a trade, business, or profession, either by yourself or as a partner. To learn more about your obligations, refer to the "Being Self-Employed" section, page 32.

PERSONAL INCOME TAX

As a sole proprietor or partner, the owner pays taxes on the income from the business on a personal income tax return with the state and federal governments. You will also file an additional schedule that identifies income and expenses of the business. Partners file a partnership return in addition to the personal income tax return that distributes profits and losses between the partners according to the partnership agreement. Corporations pay taxes on the business income at corporate tax rates. Shareholders and employees (including paid corporate officers) pay individual income tax on any salary and dividends received from the corporation.

Most businesses are also required to make "Estimated Tax" payments on a quarterly basis for Michigan income tax, federal income tax and self-employment tax. For more information about your tax obligations and the proper forms, contact the Michigan Department of Treasury at 517.373.3200 for state taxes and the IRS at 800.829.4933 or online at **www.irs.gov** for federal taxes.

STATE BUSINESS TAXES

In Michigan, it is easy to register for taxes at **www.michigan.gov/business**, Michigan Business One Stop website, a portal for new and existing businesses to access services for doing business in Michigan. Or, you can complete one form, Registration for Michigan Taxes (Form 518), to register for sales (and use) tax, withholding taxes, Michigan Business Tax, motor fuel tax, and tobacco products tax. It can be obtained by contacting the Michigan Department of Treasury at 517.636.4660. Questions and answers about registering a business may also be accessed online at **www.michigan.gov/businesstaxes**.

SALES, USE AND WITHHOLDING TAXES

Anyone who engages in the retail sales of tangible personal property (defined as any good that one can possess or exchange) from a Michigan location needs a sales tax license. The Michigan sales tax is 6 percent of retail sales receipts (at time of publication). Local governments cannot levy sales tax in Michigan.

- When selling or leasing tangible personal property to a Michigan customer from an out-of-state location and when the business has no retail location in Michigan, one must register for use tax, which is also 6 percent (at time of publication).
- Also, register with the Michigan Department of Treasury if a Michigan resident buys or rents tangible property from an out-of-state source or when selling telephone, telegraph or other leased wire communication services.
- Every business that employs one or more employees is required to withhold federal income tax under the Internal Revenue Code. Businesses must also withhold Michigan income tax from wages paid to employees in Michigan.
- When liable for sales, use or withholding tax, the business should register for taxes at **www.michigan.gov/business**, Michigan Business One Stop website, or by completing a Registration for Michigan Taxes (Form 518) that can be obtained by contacting the Michigan Department of Treasury at 517.636.4660.
- Questions and answers about registering a business may also be accessed online at **www.michigan.gov/businesstaxes**. No fee is required. For further information about sales, use and withholding taxes, contact the Michigan Department of Treasury at 517.636.4660 or access the business tax information online.

MICHIGAN BUSINESS TAX

The Michigan Business Tax (MBT) was signed into law and became effective in January 2008. The MBT imposes a business income tax and a modified gross receipts tax. Insurance companies and financial institutions pay alternate taxes (see below).

The MBT is based on business income and gross receipts, plus an added surcharge. It also includes a number of tax credits and incentives. A business, other than an insurance company or financial institution, with gross receipts of $350,000 or less does not have to file a tax return or pay any tax, and other credits exist for smaller Michigan firms. An insurance company, regulated by chapter 2A of the MBTA, does not have a filing threshold regarding its liability to pay the tax on gross direct premiums written on Michigan property or risk. Likewise, a financial institution, regulated by chapter 2B of the MBTA, does not have a filing threshold regarding its liability to pay the franchise tax on its net capital.

The MBT is assessed on business activity that takes place in Michigan. The tax base starts with federal taxable income or a comparable measure of income for partnerships and S corporations. The new tax system also includes significant property tax reform, creating certain exemptions for industrial and commercial personal property. For more information, please visit the Michigan Department of Treasury web site at **www.michigan.gov/mbt** or consult with a tax specialist or accountant.

MOTOR FUEL TAXES

Motor fuel tax is levied on highway, marine, and aviation fuel. International Field Tax Agreement (IFTA)/Intrastate Motor Carriers should contact the Michigan Department of Treasury, Special Taxes Section at 517.636.4600 or online at **www.michigan.gov/taxes**. Click on "Fuel and Tobacco Tax" for more information. For additional information, please refer to the Department of Energy, Labor & Economic Growth, Public Service Commission, Motor Carrier Division online at **www.michigan.gov/mpsc**, click on "Motor Carrier".

LOCAL TAXES

Local governments in Michigan levy property taxes. Recent reforms have cut business property taxes significantly. Since property tax rates vary by locality, it is important to consult your local city, township or village for specific information. The local treasurer's office can also provide information about other local taxes that may apply along with information about registration and payment requirements.

BEING SELF-EMPLOYED

The majority of people who pay into Social Security work for someone else and their employer deducts Social Security taxes from their paycheck, matches that contribution, and sends wage reports and taxes to the Internal Revenue Service and Social Security. ***Self-employed people must fill out the forms and pay the taxes directly to the government.*** You are considered self-employed if you operate a trade, business, or profession either by yourself or as a partner, or report your earnings for Social Security when you file your federal income tax return. If your net earnings are $400 or more in a year, you must report your earnings on Schedule SE.

PAYING SOCIAL SECURITY AND MEDICARE TAXES

The FICA tax rate paid by both employer and withheld from employee, is the combination of social security tax rate of 6.2% and the Medicare tax rate of 1.45% for a total of 7.65% for 2014.

The Social Security Administration (SSA) announced in October 2013, that the 2014 wage limit for the social security tax will be $117,000. As in prior years, there is no limit to the wages subject to the Medicare tax.

For self-employed individuals, the social security wage limit in 2014 will also be $117,000. There is no limit on covered self-employment income that will be subject to the Medicare tax. The self-employment tax rate will be 15.3% (combined social security tax rate of 12.4% and Medicare tax rate of 2.9%) up to the social security wage base.

As in 2013, an extra 0.9% Medicare tax will be due in 2014 on wages paid in excess of $200,000 that must be withheld from employees' wages. Employers will not pay the extra tax. More information on this can be found at: **www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax**.

For more detailed information on all taxes related to employment visit **www.irs.gov** to access Publication 15, Cat. No. 10000W (Circular E), "Employer's Tax Guide for Use in 2014." It is also strongly recommended to consult with a professional on all matters pertaining to business taxes as application of rules and credits can be complicated and subject to change.

It is important to note also that federal tax deposits must be made by electronic funds transfer generally using the Electronic Federal Tax Payment System (EFTPS), a free service provided by the Department of Treasury. Or you can arrange for electronic deposits through a third party such as your tax professional or financial institution though those services may have a fee. For more information or to enroll in EFTPS, visit **www.eftps.gov** or call 800.555.4477 or 800.733.4829 (TDD).

PATIENT PROTECTION AND AFFORDABLE CARE ACT

As noted above, the Patient Protection and Affordable Care Act (Affordable Care Act or ACA) requires an extra 0.9% Medicare tax due on wages paid in excess of $200,000 to be withheld from employees' wages. Employers will not pay the extra tax. The 0.9 percent Additional Medicare Tax applies to an individual's wages that exceed a threshold amount based on the individual's filing status. The threshold amounts are: $250,000 for married taxpayers who file jointly; $125,000 for married taxpayers who file separately; and $200,000 for all other taxpayers.

More information on this can be found at: www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax.

SOCIAL SECURITY EARNINGS CREDITS

You need earnings credits to qualify for Social Security benefits. Each year, people earn a certain number of "credits" based on wages and net self-employment earnings. People can earn up to four Social Security credits per year, and will need earn at least 40 credits in their lifetime in order to be eligible for retirement benefits. What this means, is that self-employed people who need additional credits for Social Security purposes should file within the 3-year, 3-month, and 15-day time period. Self-employment

earnings are self-reported using Schedule C (for non-farm businesses) or Schedule F (for self-employed farmers), which are included along with your Form 1040. All of your earnings covered by Social Security are used in figuring the amount of your Social Security benefit. So, it's important that you report all of your earnings up to the maximum as required by law.

FIGURING YOUR NET EARNINGS

Net earnings for Social Security are your gross earnings from your trade or business, minus your allowable business deductions and depreciation. Some income does not count for Social Security and should not be included in figuring your net earnings:

- Dividends from shares of stock and interest on bonds, unless you receive them as a dealer in stocks and securities;
- Interest from loans, unless your business is lending money;
- Rentals from real estate, unless you are a real estate dealer or regularly provide services mostly for the convenience of the occupant; or
- Income received from a limited partnership.

OPTIONAL METHOD

- If your gross income from self-employment is between $600 and $2,400, you may report two-thirds of your gross or your actual net earnings; or
- If your gross income is $2,400 (or more) and the actual net earnings are $1,600 (or less), you may report either $1,600 or your actual net earnings.
- Effective tax year 2008 and after, the maximum amount reportable using the optional method of reporting will be equal to the amount needed to get four work credits for a given year. For example, for tax year 2013, the maximum amount reportable using the optional method of reporting would be $4,640 ($1,160 x 4)

HOW TO REPORT EARNINGS

As noted on the U.S. Social Security Administration web site, you must complete the following federal tax forms by April 15 following any year in which you have net earnings of $400 or more:

- Form 1040 (U.S. Individual Income Tax Return)
- Schedule C (Profit or Loss from Business)
- Schedule F (Profit or Loss from Farming)
- Schedule SE (Self-Employment Tax)

These forms can be obtained from the IRS online at **www.irs.gov** as well as most banks and post offices. Send the tax return and schedules along with your self-employment tax to the IRS. Even if you do not owe any income tax, you must complete Form 1040 and Schedule SE to pay self-employment Social Security tax. This is true even if you already get Social Security benefits. IRS Publication 334, Tax Guide for Small Business, has more helpful information. You can find it at **www.irs.gov** or call 800.829.4933.

FAMILY BUSINESS ARRANGEMENTS

Family members may operate a business together. A husband and a wife may be partners of a joint venture. If you operate a business together as partners, you should each report your share of the business profits as net earnings on separate self-employment returns (Schedule SE), even if you file a joint income tax return. The amount each of you should report depends upon your agreement.

MORE INFORMATION

*For more information about being self-employed, visit Social Security online at **www.socialsecurity.gov** or call them at 800.772.1213 or TTY 800.32.-0778. To speak with a representative, call between 7:00 a.m. and 7:00 p.m. any business day.

HIRING EMPLOYEES

Employees add another layer of complexity to your business that requires careful consideration and planning. It is important to hire the right people, train them well, keep them happy so they will stay, and be aware of taxes and legal requirements. It is wise to consult an accountant and attorney before hiring employees to ensure that good record keeping systems are in place, all the necessary paperwork is completed and legal requirements are met. Hiring outside contractors or temporary help is also an option. However, be sure to satisfy IRS requirements for contractors.

EMPLOYEES VS. CONTRACT LABOR

Individuals may provide services to a business as either an employee or a contractor. Whatever status an individual has as an employee affects the taxes, liability, benefit costs and many other areas of a business. The question of "employee vs. contractor" is a very critical issue and does not have a simple answer. There are many different tests the IRS may apply to determine whether an individual is an employee or contractor. Improperly classifying someone as a contractor whom the IRS considers an employee can result in very stiff penalties. When using contractors instead of employees for your business, it is important that you consult with a competent tax advisor prior to making a decision. See Appendix A for additional information.

PLAN YOUR HIRING

Hiring and managing employees is complicated and expensive and should not be approached casually. Make sure your decision to hire employees fits in with your goals as outlined in the business plan.

- Prepare a written job description that indicates exactly what is expected of each employee.
- Interview several people and select the one with the best qualifications. The majority of employers consider attitude of potential employees as the number one trait in their hiring decision.
- It is a good idea to have a 30- or 90-day trial period before taking someone on permanently. The wrong employee can cause a great deal of damage to your business.

For tips on hiring and managing employees, visit the federal Small Business Administration's (SBA) online resource at **www.sba.gov**. Use the search function to find information on this or any topic of choice.

PAYROLL TAXES

Any business with employees of any type must comply with federal and state payroll requirements. This is true even if you are the sole employee of a corporation that you own. It is critical that you understand the various deadlines and requirements, or that you use the services of someone who does. The major types of payroll taxes in Michigan are:

- Income Tax Withholding (federal, state, and, if applicable, local)
- Federal Social Security and Medicare Tax (FICA)
- Federal Unemployment Tax Act (FUTA)
- Michigan Unemployment Tax (UIA)

There are several responsibilities to both the state and federal governments that must be met when hiring employees. NOTE: If the business is a corporation, anyone who performs services for the corporation or receives compensation of any kind (including any "owners") is considered an employee. This list of responsibilities may apply for a startup or existing business owner.

INCOME TAX WITHHOLDING

Any employer of one or more persons must withhold federal and state income taxes from wages paid to employees. A city income tax may also apply. To find out if a city levies a tax, contact that particular city tax assessor or city treasurer.

Each employee should complete the following forms:

- Withholding Exemption Certificate (W-4) from the IRS at **www.irs.gov/pub/irs-pdf/fw4.pdf** or phone 800.829.4933

- MI-W4 from the Michigan Department of Treasury at **www.michigan.gov/documents/mw4f_76761_7.pdf** or phone 517.636.4660.

Based on the certificate's information provided by the employee, an employer withholds a certain amount of taxes from the employee's wages. You may be required to deposit the federal taxes collected. One must file quarterly returns with the IRS and file an annual reconcilement of the quarterly returns. If returns are neglected or filed improperly, penalties and excess payments may be levied. For more information about federal income tax withholding, contact the IRS at 800.829.4933 or online at **www.irs.gov**.

In addition to federal income taxes, federal law also requires that employers withhold (and deposit) Social Security taxes from employees' wages. The employer must also pay an equal amount. The FICA tax rate paid by both employer and employee is the combination of social security tax rate of 6.2% and the Medicare tax rate of 1.45% for a total of 7.65% for 2014. Tax rates and maximum earnings subject to tax may vary from year-to-year, so employers should contact the IRS at **www.irs.gov** or phone 800.829.4933 for the latest information.

State filing requirements may vary based on the amount of state taxes withheld. An online copy of "Michigan Business Taxes: Registration Booklet" is available for download at **www.michigan.gov/documents/518_3620_7.pdf**. Prior to hiring employees, an employer must register for taxes at **www.michigan.gov/business**, the Michigan Business One Stop website, or offline by completing the paper Form 518, which is included as a fillable pdf in the downloadable booklet, or may be obtained by contacting the Michigan Department of Treasury at 517.636.4660. Employer will then be notified of filing deadlines and provided with necessary forms. An annual return is also required. Michigan's withholding tax tables are available from the Michigan Department of Treasury at 517.636.4660 or online at **www.michigan.gov/taxes**.

Contact the city treasurer to determine if a city income tax is applicable for the new employees. If the city does have an income tax, the city treasurer can provide the required registration forms and any information that is needed.

PATIENT PROTECTION AND AFFORDABLE CARE ACT

The Patient Protection and Affordable Care Act (Affordable Care Act or ACA) enacted comprehensive health insurance reforms designed to ensure Americans have access to quality, affordable health insurance. The ACA law contains new benefits and responsibilities for employers that are dependent upon the employer's size and the applicable rules. If you have no employees, ACA does not apply to you.

Generally, an employer with fewer than 50 full-time employees or equivalents will be considered a small employer, is not required to provide health insurance coverage for employees, but can purchase affordable insurance through the Small Business Health Options Program (SHOP) and potentially qualify for a tax credit; employers with 50 or more full-time employees or equivalents will be considered a large employer and have responsibilities concerning how and what health insurance they offer to their full-time employees.

A summary of key provisions for business can be found on the SBA website:

- Self-employed at **www.sba.gov/content/self-employed**
- Fewer than 25 employees at **www.sba.gov/content/employers-with-fewer-25-employees**
- Small employers – less than 50 employees at **www.sba.gov/content/employers-with-up-to-50-employees**
- Large employers -- 50 or more employees at **www.sba.gov/content/employers-with-50-or-more-employees**

Details on the Affordable Care Act (ACA) as it applies to "small" or "large" businesses can be found at **www.irs.gov/uac/Affordable-Care-Act-Tax-Provisions-for-Employers.** In addition, for enrollment information as well as how the Affordable Care Act may affect your business, visit **www.HealthCare.gov**.

FEDERAL UNEMPLOYMENT INSURANCE ACT

The Federal Unemployment Insurance Act gives authority to the IRS to collect fees, and for the U.S. Department of Labor to pay administrative expenses, of operating the state unemployment systems. When filing an "Application for Employer Identification Number" (EIN) with the IRS, indicate that employees will be hired. The IRS will mail a packet of information that includes coupon forms for FUTA tax deposits and an Annual Report form. For more information about the FUTA tax, forms and deposit requirements, contact the IRS at 800.829.4933 or online at **www.irs.gov**.

STATE UNEMPLOYMENT INSURANCE

Unemployment Insurance protects workers who lose their jobs through no fault of their own. The funds used to pay workers who are covered under this type of insurance are accumulated from taxes on the wages of employees during their employment. Both state and federal unemployment taxes are paid by employers. No deductions can be made from an employee's wages to cover these taxes.

Any business that employs one or more persons in Michigan is considered a contributing employer and required to register with the Unemployment Insurance Agency (UIA). A contributing employer is required to file tax reports with the UIA at the end of each calendar quarter, and pays a state unemployment tax on the first $9,500 of wages paid to each worker in a calendar year (as stated for 2014). The amount of the tax is determined by the employer's state unemployment tax rate and number of years in business. You can contact the UIA online at **www.michigan.gov/uia** or phone 313.456.2180, or 800.638.3994.

The UIA produces an Employer Handbook which contains a wealth of information about unemployment insurance, from the employer to the claimant. To receive a copy of this handbook, an order form can be found at the UIA web site at **www.michigan.gov/documents/uia_emphndbkorder_76079_7.pdf** or phone 800.638.3994. There is a fee for the handbook.

WORKERS' COMPENSATION

All states require employers to carry insurance coverage for work-related illness and injury. It applies to aAll employers who regularly employ three or more workers at one time, or during the preceding 52 weeks have regularly employed at least one worker for 35 hours or more per week for 13 weeks or longer, are required to have Workers' Compensation insurance.

There are a number of organizations involved in Workers' Compensation. It is important to understand who they are and what they do. Workers' Compensation benefits are not generally paid by the State of Michigan -- Workers' Compensation is the responsibility of an employer. Benefits are paid either directly by an employer or through an insurance company on behalf of an employer.

The majority of employers in Michigan obtain Workers' Compensation through policies sold by commercial insurance companies. Self-insurance is an alternative for large companies that have been granted the privilege of paying Workers' Compensation benefits from general company operating funds. Companies with $100,000 or more in an annual premium program frequently investigate the self-insurance approach as a possible coverage alternative.

The premium rates for Workers' Compensation insurance are competitively determined. Insurers use about 500 different rating classifications based on the type of business an employer operates. Since premium rates for a given classification vary widely among insurers, it pays to shop carefully. Insurers also have different merit and experience rating plans, schedule-rating plans, and premium discount tables, which can affect an employer's final premium cost.

Additional information and assistance is available at the Workers' Compensation Agency of the Department of Energy, Labor & Economic Growth at 888.396.5041 or online at **www.michigan.gov/wca**.

TRAINING AND WORKING WITH EMPLOYEES

Training is expensive but necessary. You want well-qualified employees who properly and consistently represent your business, add value to your brand and image, and build customer good will. A well-

defined company policy handbook plus job descriptions outlining duties, responsibilities, ethical standards, and criteria for success are important tools. You may also want to invest in your employees by sending them to special training.

Cross-training employees in areas other than those specifically defined in their individual job descriptions can be very beneficial in small businesses. To keep employees motivated and involved with the business, it is extremely important to develop and maintain effective strategies and methods of two-way communication. Many business owners find it beneficial to include employees in strategic, operational and process planning, and to work together to set individual goals that contribute to achieving overall business objectives.

Employers have a legal as well as an ethical obligation to provide a safe and equitable workplace. For more information contact the Department of Licensing and Regulatory Affairs, MIOSHA, Bureau of Safety & Regulation, Consultation, Education and Training Division (CET) at 517.322.1809 or online at **www.michigan.gov/miosha**. Listed below is additional information about other programs.

REQUIRED WORKPLACE POSTERS

Michigan employers are required to display certain posters in the workplace. Poster requirements are based on jurisdiction: Whether your business has requirements under federal or state jurisdiction. For a list of state and federal required posters, refer to Appendix B, which provides agency contact information. You may obtain the appropriate posters at no cost from the agencies, usually through online download.

DRUG-FREE WORKPLACE

Employers need to be alert to issues involving employees' use of drugs and alcohol and its relationship to work. For additional information about programs to make the workplace drug and/or alcohol free, contact the Substance Abuse and Mental Health Services Administration (SAMHSA) at 800.967.5752 or online at **www.samhsa.gov**.

HEALTH AND SAFETY STANDARDS

Employers are required to comply with federal and state health and safety standards and laws throughout the Michigan Occupational Safety and Health Act (MIOSHA). For a complete set of safety and health standards, contact the Michigan Department of Licensing and Regulatory Affairs, Michigan Occupational Safety and Health Administration, Box 30643, Lansing, Michigan, 48909-8143, at 517.322.1814 or online at **www.michigan.gov/miosha**.

For general information on safety posters, go to **www.michigan.gov/miosha** and click on the "Quick Links" for MIOSHA Workplace Posters. Or, an "Information for Employers" flyer, other publications and required workplace posters are available for download at no cost at **www6.dleg.state.mi.us/Parsers/safety_posters.asp** Refer to Appendix B for information regarding required workplace posters.

IMMIGRATION LAW COMPLIANCE

An employer must fill out an I-9 form for every employee hired. The form verifies that you have checked two approved forms of identification that prove the employee is legally authorized to work in the United States. It is strongly recommended to keep all employee I-9s, and the accompanying documentation, in a separate personnel file as the government may inspect these forms and you do not want to allow them access to your employees' private personnel files and the confidential information they contain.

For further information and downloadable forms, visit the U. S. Citizenship and Immigration Services (INS) online at **http://www.uscis.gov/i-9** or phone 800.375.5283 or 800.870.3676 for INS Forms Request.

Employers that have personnel needs that cannot be met with U.S. workers may contact Michigan's Foreign Labor Certification Program online at **www.michigan.gov/mdcd/0,1607,7-122-1678_2661---,00.html** See also "Foreign Employee" section on page 39.

AMERICANS WITH DISABILITIES ACT (ADA)

The Americans with Disabilities Act gives civil rights protections to individuals with disabilities similar to those provided to individuals on the basis of race, color, sex, national origin, age, and religion. It guarantees equal opportunity for individuals with disabilities in public accommodations, employment, transportation, state and local government services, and telecommunications. Employers are required to comply with the Americans with Disabilities Act. For publications and technical information about the Act, contact the U. S. Department of Justice at 800.514.0301 or online at **www.ada.gov**.

MINIMUM WAGE

Minimum wage and overtime standards are regulated by federal and state government. For federal information contact the U.S. Department of Labor, 211 W. Fort Street, Suite 1306, Detroit, Michigan, 48226, at 313.226.7447 or toll free 866.487.9243 or 800 Monroe Avenue, NW, Suite 315, Grand Rapids, Michigan 49505 at 616.456.2004 or toll free 866.487.9243 or online at **http://www.dol.gov/dol/topic/wages/minimumwage.htm**

For state information, contact the Michigan Department of Licensing and Regulation, Hour Division, Box 30476, Lansing, Michigan 48909, at Contact: Wage & Hour Division 517.322.1825 or online at **www.michigan.gov/lara** and search "minimum wage".

YOUTH EMPLOYMENT

Employers hiring anyone under the age of 18 should be aware of restrictions on the type of work permitted, hours of work, and the need for a work permit. Contact: Michigan Department of Education, Office of Career & Technical Education, Box 30712, Lansing, MI 48909, telephone: 517.335.6041 or online at **www.michigan.gov/mde** and search "youth employment".

EQUAL EMPLOYMENT OPPORTUNITY

For forms and information, contact the U.S. Equal Employment Opportunity Commission (EEOC) online at **www.eeoc.gov/** or phone 800.669.4000 or 313.226.4600. For public information posters and literature, contact the Michigan Department of Civil Rights online at **www.michigan.gov/mdcr** or call 517.335.3165.

Any other information about enforcement or to make a complaint about EEOC, visit **www.eeoc.gov/** or call 800.669.4000 or contact the Michigan Department of Civil Rights (FEPA) at 313.456.3700.

EMPLOYEE POLYGRAPH PROTECTION ACT

To inquire about the Act, contact the U.S. Department of Labor, Wage and Hour Division:

- Detroit District Office, 211 W. Fort Street Room 517, Detroit, MI 48226-3237, Phone: 313.226.7447 or 866.487.9243
- Grand Rapids Area Office, 800 Monroe Avenue, NW, Suite 315, Grand Rapids, MI 49503-1451, Phone: 616.456.2004 or 866.487.9243.

To obtain posters or for more information about poster requirements or other compliance assistance matters, you may contact the U.S. Department of Labor at 866.4.USA.DOL or visit **www.dol.gov/osbp/sbrefa/poster/main.htm**

MICHIGAN EMPLOYMENT SECURITY ACT NOTICE TO EMPLOYEE

Contact the Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency, Customer Service Office, 7310 Woodward Avenue, Detroit, Michigan, 48202, at 800.638.3994 or online at **www.michigan.gov/uia**, select "Publications", then click "Michigan Employment Security Act" for information about the Act.

FOREIGN EMPLOYEE

The Immigration Reform and Control Act of 1986 not only makes hiring or recruiting "unauthorized aliens" illegal, but it also places the responsibility for enforcing the law on the employer. **The law applies to ALL employers, no matter what the size of the business**. Under the law, an employer is required to check the citizenship status of every employee and to have proper documentation for those employees with temporary residency. Contact the U. S. Citizenship and Immigration Services online at **www.uscis.gov/** or call 800.375.5283 for more information or 800.870.3676 to obtain forms.

It should be noted that many of the visas that authorize entrance to the United States do not authorize the holders of those visas to accept employment here. It is the employer's responsibility to ascertain whether employees are legally entitled to work. Consult an attorney who specializes in immigration matters or call the U. S. Citizenship and Immigration Services for assistance at 800.375.5283 or TTY 800.767.1833. Additional information may also be found at Michigan's Foreign Labor Certification Program online at **www.michigan.gov/mdcd/0,1607,7-122-1678_2661---,00.html**

NEW HIRE REPORTING

A provision of the Federal Welfare Reform Act requires employers to report to the Michigan Department of Treasury basic information on all newly hired or rehired employees within 20 days of hiring. Employers may report electronically or by mail. Required information includes: the business name, address and Federal Employer Identification Number; employee name, address and Social Security Number. For further information or to obtain forms, contact the Michigan New Hire Operations Center at 800.524.9846 or online at **www.mi-newhire.com**.

FINANCING A BUSINESS

There are several options available for obtaining money to start a new business or expand an existing one. All businesses must plan for money to pay startup and/or operating expenses, including one's own salary! Most businesses begin with the owner's own capital or loans from friends and family. Some are successful in obtaining bank financing or using a government sponsored loan program.

GRANTS

Although there is a lot of information on the internet and other media regarding grants, grant financing is highly unlikely. As noted previously in the section "Sources of Financing/Startup Resources" on page 11, the U. S. government does have grant programs but generally speaking, virtually all grant money flows to local governments, state agencies, and nonprofits. If you still want to look for grants, you can search at **www.grants.gov**. The following is excerpted from www.sba.gov:

"SBA does not provide grants for starting and expanding a business. SBA has authority to make grants to non-profit and educational organizations in many of its counseling and training programs, but does not have authority to make grants to small businesses. Some business grants are available through state and local programs, nonprofit organizations and other groups.... Grant funding is generally restricted to very specific audiences. These grants are not necessarily free money, and usually require the recipient to match funds or combine the grant with other forms of financing such as a loan. The amount of the grant money available varies with each business and each grantor."

FOUNDERS, FRIENDS, FAMILY

Many times the first to invest are those who know and trust the entrepreneur – friends, family and the entrepreneur himself/herself. Someone that doesn't know the entrepreneur is less likely to take risks with the company unless it has achieved extremely impressive milestones. Be aware, however, that friends and family can make the entrepreneur's life difficult if they aren't sophisticated in business. Any early stage friend or family investment has the potential to cause trouble when you raise angel or institutional capital, so be careful on how the deal is structured. It's usually best to keep it simple and put it in writing.

CROWD FUNDING

Crowd funding (which includes forms of micro lending) is a relatively new form of funding for entrepreneurship in which contributions or loans are made by individuals or interested parties through a networked and publicly observable platform. Crowd funding was signed into law in April 2012 through the JOBS Act, legislation that opens up the possibility of a pool of small investors while providing fewer restrictions related to securities laws that previously had been a barrier to this kind of funding.

Crowd funding is being used in support of a wide variety of activities, including entrepreneurship, artists and journalists, for political campaigns, charitable purposes, invention development, scientific research, and more. Various networked platforms for this type of funding can be searched out on the internet. Depending on the platform and the defined purpose and use of funds, crowd funding monies may be provided in the form of a loan or they may be donated funds. There are three forms of crowd funding:

1. Donation: Asking a crowd to donate to your project in exchange for something of value such as a CD, t-shirt, or other reward.
2. Debt: Asking a crowd to loan money to your business or in exchange for financial return and/or interest paid in the future.
3. Equity: Asking a crowd to donate to your business in exchange for an ownership share of your business

Although the form of funding is seen as one viable alternative for acquiring funds for entrepreneurial ideas and ventures, there are still many unresolved issues on how rules governing solicitations and securities will be applied particularly related to equity crowd funding (selling amounts of equity to many investors), activity which is governed by the Securities and Exchange Commission (SEC). Another disadvantage of crowd funding for businesses is the "publicly observable platform" where it is required to

disclose the idea for which the funding is sought, and expose the business to the risk of being copied and outpaced in development by better-financed competition.

Anyone considering crowd funding should thoroughly research the advantages and disadvantages, and it is highly recommended that one consult an attorney and/or accounting/finance professional before deciding if crowd funding is appropriate for their business venture.

DEBT FINANCING

Financing with debt (loan or credit) sources are usually grouped into two basic categories: unsecured and secured.

An unsecured loan is based on the borrower's creditworthiness and doesn't include a pledge of collateral. Unsecured loans are bigger risks for lenders and typically have higher interest rates than secured loans. Examples include:

- Funds borrowed from family members and/or friends.
- Personal credit cards, savings, stocks and bonds, and/or cash value of life insurance policies.
- A company's line of credit is a commitment from a bank to its regular creditworthy business customers to provide a stated maximum amount of short-term financing for a specified time period. The credit line is often granted with a compensating balance requirement, and the floating or variable rate method of interest payment is used.
- Trade credit is credit extended by one firm to another in conjunction with the sale of goods or services that are used in the normal course of business. For example, goods are purchased but payment can be delayed to the extent of the specified credit terms.
- Accruals are services provided for a business on a continuing basis but are not paid for at the time the services are rendered.

Secured debt is a loan backed by a pledge of borrower collateral to reduce the risk associated with lending. In the event of default, the collateral can be used to satisfy the debt. The primary sources of secured short-term financing for business borrowers are:

- Commercial banks and commercial finance companies
- Factoring accounts receivable (A financial institution purchases "at a discount" the accounts receivables of a business, assumes the title and risk of those receivables and in return provides that business with funds.)
- U.S. Small Business Administration (SBA) "guaranteed" loan obtained through a private lending institution. (The SBA does not make direct loans.)

EQUITY INVESTMENT

Equity investment is money invested that, unlike a loan, is not repaid to the investors in the normal course of business and represents an ownership stake in the business. Equity investment is best suited for high risk/high return opportunities for companies developing and marketing products or processes such as "game-changing" technologies or other high-demand items that are far superior to existing competition.

These opportunities have huge potential returns but also often carry high cost to develop and market along with high risk of "failure to launch". To compensate for the risk, equity investors expect a large equity share and a return on investment often in the 6 -10 times range. Equity in a privately held company is not a liquid asset so before investors buy in they expect to know the company's strategy to provide them an exit to "cash out" their investment. For many investors, the only acceptable exit strategy is for the business to be acquired – meaning they are expecting the entrepreneur to sell the company. The large ownership share (and control) and acquisition exist strategies are major drawbacks to equity investment.

There are various types of equity investors. It is important to properly prepare for and approach the right type for the company to make a strong first impression since they have many other deals from which to choose. Your local MI-SBDC office can help you prepare and identify appropriate investors. It is also very important to consult with an attorney throughout the investment process. Soliciting investment

from someone who is not an accredited investor can get the entrepreneur and the company in serious trouble.

ANGEL INVESTORS

An angel investor is anyone who wants to invest in your business, which is likely to include your family and friends! More typically, angel investors are defined as individuals with high net worth who invest their own money in emerging companies. They often come together in formal groups to evaluate investment opportunities.

An angel investor is usually focused on helping the business succeed, rather than gaining profits. An angel investor can and should be a good partner by contributing expertise, industry contacts, and often leads on later rounds of financing. Angel investors are likely to request a rigorous, in-depth due diligence process with the companies they invest, and it is a crucial part of establishing the newly formed relationship. Examples of Angel Investor groups:

- Ann Arbor Angels: **www.annarborangels.org**
- Blue Water Angels: **www.bluewaterangels.com**
- Capital Community Angels: **www.ccangels.org**
- Core Network: **www.core-network.org**
- First Angels: **www.southwestmichiganfirst.com/First_Angels.cfm**
- Grand Angels: **www.grandangels.org**
- Great Lakes Angels: **www.glangels.org**
- Northern Michigan Angels: **www.northernmichiganangels.com**
- OU Incubator Angels: **www.oakland.edu/ouinc**

When presenting to angel investors it is essential to make a strong first impression because the network is closely connected and word of mouth (bad or good) will travel fast!

VENTURE CAPITAL

Venture capital (VC) is money from various sources held in a formally managed fund used to supply capital associated with starting or expanding companies that show the potential for an extremely high return on investment. The fund's charter governs how the money must be invested, which makes it critical to select the appropriate VCs and properly prepare for a presentation.

This form of raising capital is popular among new companies or ventures with limited operating history that cannot raise funds by issuing debt. The drawback for entrepreneurs is that VC's demand a significant percentage of ownership and the ability to influence direction and decisions of the company. Examples of Venture Capital groups and websites:

- Michigan Venture Capital Association: **www.michiganvca.org**
- Michigan Growth Capital Symposium: **www.michigangcs.com**
- Venture Michigan Fund: **www.venturemichigan.com**
- 21st Century Investment Fund: **www.michigan21stcenturyinvestmentfund.com**

MANAGING A BUSINESS

PROFESSIONAL ASSISTANCE

The importance of professional assistance cannot be overstated. However, the cost incurred in hiring professional consultants often discourages business people from obtaining professional assistance, which can be a fatal business mistake. The expense of using skilled professional consultants is insignificant when compared to the costly after-effects of poorly prepared or incomplete documents or uninformed decisions. There is no substitute for professional services to keep a business operating within financial and legal parameters. There are professionals available to assist with every aspect of a business, and able to determine what will best serve specific business needs. Listed below is a "core group" of professionals most business people need.

PROFESSIONAL	SERVICE PROVIDED
Accountant	Bookkeeping, taxes, cash flow
Attorney	Legal form of business organization, contracts, agreements, general consultation
Banker	Loans, billing services, credit systems
Insurance Agent	Needs evaluation and packaging of insurance

RECORDKEEPING

Accurate and complete records help you monitor the business and plan for the future based on factual financial knowledge rather than guesswork. There are a variety of records and recordkeeping systems a business can maintain and many computer systems are available at minimal costs. Trade associations can often provide guidelines or simple accounting methods tailored to a specific business or industry.

Professional accountants can be indispensable to a new or growing business. An accountant not only provides a record keeping service for a business but can also provide important advice on taxes, cash flow, credit and systems management and changes within the tax system.

Every business should have up-to-date records, which provide the following information:

- Accurate and thorough statements of sales and operating results, fixed and variable costs, profit or loss statements, inventory levels and credit and collection totals;
- Comparisons of current data with prior years' operating results and budget goals;
- Financial statements suitable for use by management or submission to prospective creditors and investors;
- Tax returns and reports to regulatory agencies; and
- Indications of employee theft, material waste or recordkeeping errors.

Good recordkeeping allows you to create reports of current data so you can compare your status to your financial plan and overall business plan. It is essential to regularly review and compare; evaluate the reasons for differences, whether positive or negative; consider changes to business activity; and, if necessary, adjust the business and financial plan.

MARKETING

The best product or service in the world will not guarantee success for your business. Potential customers must know your product is available, purchase your product or service, and return to purchase more. Developing and implementing a marketing strategy is a necessary process for a successful business. This process begins as you start your business, and is critical throughout the life of your business.

Marketing is neither sales nor advertising, although both of these may be part of a marketing strategy. Instead, marketing is the thought process by which you:

- Identify the product or service you really sell.
- Identify potential customers for your product or service.

- Identify your competitors in selling to these customers.
- Understand the basis on which those potential customers make buying decisions.
- Know why customers will choose to purchase your product or service instead of your competitor's.
- Determine the most efficient and effective methods to reach these buyers before they make their purchasing decisions.
- Identify methods to deliver your product or service.
- Develop and implement an action plan.

Identify the Product or Service

The key to your product or service identity is your "market niche", not only in terms of the services provided, but in terms of needs fulfilled. For instance, a feature of residential lawn service is that it provides lawn cutting, fertilization, etc. The need this business fills and the benefit provided to the customer is convenience for homeowners who are short on time or proper equipment.

Identify Potential Customers

A potential customer is one whose needs may be filled by your product/service and who may reasonably be expected to consider your business as a source of this product/service based on price, location and other factors. Everyone in the world is not a potential customer. Focus on an attainable and realistic portion of the market.

Identify Your Competitors

A competitor is a business that delivers the same product or service (direct) or similar product or service (indirect) as your business. For instance, if you are providing guard services to warehouses, all other such guard service businesses within your competitive reach would be direct competition. However, alarm systems for warehouses could be an alternative to guard services, and businesses selling alarm systems would be indirect competition.

Understand Why Customers Buy Your Product or Service

It is very important to understand the basis on which customers make buying decisions related to your type of product or service. A sample of some of those reasons might include:

- Price
- Quality
- Convenience
- Prestige

Know Why Customers Will Choose Your Business

Based on why customers buy a particular product or service, you must determine the nature of your competitive advantage. If your potential customers buy solely on the basis of price, are your prices the lowest? If not, how will you compete? Be thorough and careful in this analysis. Your potential customers probably have established buying patterns that do not include your business. You must give them sufficient reason to break these established patterns and buy from you if your business is to succeed.

Determine the Most Efficient Methods to Reach Buyers

Once you determine why potential customers select your type of product or service, you are in a position to identify how they make their buying decisions. Do they typically buy because they've seen an advertisement on cable TV or because they have driven by your place of business? Is this type of product or service generally purchased on the recommendation of another individual? Knowing how your customers will "get the message" about your business will help you make good decisions about how to spend your marketing and advertising dollars for the most effective results.

Determine Effective Delivery and Customer Service Methods

The most enthusiastic purchaser is unlikely to become a repeat customer if the product or service or purchase experience does not live up to expectations. Part of your planning is determining how to deliver your product or service in a timely, professional and customer-preferred way along with what you can do related to after-sale care and customer service that will build loyalty and trust and encourage the customer to eagerly return for additional purchases.

Getting Free Publicity

Be on the alert for opportunities for promoting your business that won't cost you anything but time.

- Local news outlets have reporters that cover various types of news. Identify and get to know who those content reporters are (emails and phones are usually in their website directories or associated with print bylines) and whenever your business achieves a milestone or hosts a special event, prepare and send a news release.
    - Write information that fits the publication and keep it simple with a short paragraph on each as appropriate: Who, what, when, why, where, how and how much.
    - Quote from an authority on the subject (which may be you) is good – as long as it is relevant, short, and simple.
    - Most news outlets now prefer (or require) email submissions but you still need to format it with a header (your company name, address, phone and email).
    - Since media usually have short deadlines, include a reliably available contact person in case they want/need additional information or want to expand the release into a feature article.
    - If the news is time sensitive, indicate that with date and time at top of the header.
    - Send relevant, high quality photos if you have the permission or rights to them -- along with identifying information. The days of staff photographers sent to take pictures are long gone.
    - Don't flood them with releases and make sure they are news, not sales pitches.
- Those same outlets and reporters are always on the hunt for "content experts" who can provide a quote or clarification on a news feature. For example, whenever a particular TV station has a feature on the auto industry, they contact their "go-to" automotive engineer for an on-air comment.
- Articles on specific content that educates, informs, or provides insight (not a sales pitch!) is a valuable tool for social media and also for media outlets. Find similar articles in other publications to learn the style and formatting. As you drive customers to your website or blog, you can keep them coming back by providing helpful information that is routinely refreshed. Media outlets may be interested in hosting a regular news feature. For example, a newspaper hosts on their financial page a weekly column on investing prepared by a local investment broker – with his business name and photo associated with the article.
- You might be a natural to teach a one-session or short-term training program offered through public school district community education programs. For example, the owner of a pet grooming and kennel business teaches a 4-week dog obedience class at the local high school.
- Never underestimate the power of business to business networking. There are fee-based networking organizations but there are also opportunities through service club participation as well as lots of free networking events hosted by community and regional chambers of commerce that are open to non-members.

INSURANCE

It is sensible for any business to purchase a number of basic types of insurance, some insurance coverage is required by law, and other coverage simply makes good business sense. The insurances listed below are among the most commonly used and are merely a starting point for evaluating the needs of your own business. To learn more about the coverage that is best for your specific business, you can contact an insurance agent who writes business insurance, often referred to as "business lines." You can also check into insurance programs offered by trade associations related to your type of business, as well as insurance programs that are beneficial to members through chambers of commerce.

Insurance is a very competitive business. Be sure to contact more than one source. Shop around to get the best coverage for the lowest price.

LIABILITY INSURANCE

Businesses may incur various forms of liability in conducting normal activities. One of the most common types of liability is product liability, which may be incurred when a customer suffers harm when using the product. There are many other types of liability related to specific industries. Liability law is constantly changing. An analysis of your liability insurance needs by a competent professional is vital in determining an adequate and appropriate level of protection for your business.

PROPERTY

There are many different types of property insurance and levels of coverage available. It is important to determine the property value to insure for the continuation of your business and the level of insurance should you need to replace or rebuild. You must also understand the terms of the insurance, including any limitations or waivers of coverage.

WORKERS' COMPENSATION

Most employers are required to provide Workers' Compensation coverage for their employees. This coverage applies to injuries incurred by workers in the course of their job duties. A Workers' Compensation policy is purchased from a private insurance company and is required by law. For further information, see page 36 or visit **www.michigan.gov/wca**.

BUSINESS INTERRUPTION

While property insurance may pay enough to replace damaged or destroyed equipment or buildings, how will you pay costs such as taxes, utilities and other continuing expenses during the period between when the damage occurs and when the property is replaced? Business interruption (or "business income") insurance can provide sufficient funds to pay your fixed expenses during a period of time when your business is not operational.

"KEY MAN"

If you (and/or any other individual) are so critical to the operation of your business that it cannot continue in the event of your illness or death, you should consider "key man" insurance. Banks or government loan programs frequently require this type of insurance. It can also be used to provide continuity in operations during a period of ownership transition caused by death or incapacitation of an owner or other "key" employees.

AUTOMOBILE

It is obvious that a vehicle owned by your business should be insured for both liability and replacement purposes. What is less obvious is that you may need special insurance (called "non-owned automobile coverage") if you use your personal vehicle on company business. This policy covers the business for any damage that may result for such usage.

OFFICER AND DIRECTOR

Under certain circumstances, officers and directors of a corporation may become personally liable for their actions on behalf of the company. An "officer and director" insurance policy covers this liability.

HOME OFFICE

If you are establishing an office in your home, it is a good idea to contact your homeowner's insurance company to update your policy to include coverage for office equipment. This coverage is not automatically included in a standard homeowner's policy.

SELLING TO GOVERNMENT

Obtaining government contracts can be the key to expanding and diversifying the marketing and income potential of any business. Government agencies at all levels contract for goods and services. However, it is a generally accepted practice that a business needs to have been in business at least 2 years to be ready and functionally eligible for government contracts.

PROCUREMENT TECHNICAL ASSISTANCE CENTERS (PTACS), MEDC PROCUREMENT OFFICES, & GOVERNMENT CONTRACT SUPPORT

The Michigan Economic Development Corporation (MEDC) provides support to PTACs and MEDC Procurement Offices located throughout the state. This network of locally based offices provides government contracting assistance. Highly skilled professionals assist businesses to successfully bid for federal, state and local government contracts. The federal government is a major buyer of goods and services, spending more than $400-800 billion annually. It is, however, a generally accepted practice that a business needs to have been in business at least 2 years to be eligible for government contracts.

To find the PTAC or MEDC Procurement Office nearest to your business, visit **www.ptacsofmichigan.org/** Procurement support includes, but is not limited to:

- Orientation to the procurement system
- Training seminars and conferences
- Bid match for government solicitations
- Contracting opportunities
- Subcontracting opportunities
- Government specifications
- Bid history and contract award results
- Bid package assistance
- Linking local companies to federal and state government agencies

Michigan Defense Center

The Michigan Defense Center is the arm within MEDC that strategically connects defense buyers and prime contractors with Michigan's capable supply chain. With the goal of creating Michigan jobs by bringing more defense contracts to Michigan, the MDC aggressively seeks and identifies Michigan companies to create and compete in supply chains, leveraging their unique abilities to meet defense goals. PTACs and MEDC Procurement Offices are the front line to the Michigan Defense Center. For more information or to register with the Michigan Defense Center, visit **http://michigandefensecenter.com/**

Becoming a State of Michigan Contractor

The Michigan Department of Management and Budget (DMB) competitively bids all solicitations, and Michigan businesses are encouraged to participate in the state contracting process. DMB and MEDC work closely to provide valuable tools and training for Michigan businesses that want to become state contractors.

To become a State of Michigan contractor, visit the "Buy4Michigan" website at **www.buy4michigan.com/** The site will provide access to registration, current bid opportunities, upcoming contracting seminars and contact information for state purchasing personnel.

To be a State of Michigan contractor, one also needs to register with Contract & Payment Express (C&PE) online at **www.cpexpress.state.mi.us**. *It is strongly recommended that you view the C&PE Pre-Registration Overview Training first to understand the process.*

Note that pre-vendor qualification is required for printing, natural gas, and food vendors. Additional information can be obtained by calling the Department of Management and Budget directly at 517.335.0230.

PROCUREMENT TECHNICAL ASSISTANCE CENTERS

N.W. MICHIGAN COUNCIL OF GOVERNMENTS - Traverse City
231.929.5036, or 5076, or 231.922.3739
FAX: 231.922.3737

MICHIGAN WORKS! THE JOB FORCE BOARD/PTAC - Escanaba
906.789.0558 Ext. 244
FAX: 906.789.9952

N.E. MICHIGAN CONSORTIUM - Onaway
989.733.8540
FAX: 989.733.8069

MEDC PRODUCEMENT OFFICE – Grand Rapids
616.301.8210
FAX: 616.771.0555

MUSKEGON AREA FIRST PTAC – Muskegon
231.722.7700, or 3187, or 3171
FAX: 231.728.7251

MACOMB REGIONAL PTAC - Warren
586.498.4122
FAX: 586.498.4165

THUMB AREA SATELLITE OFFICE
MACOMB REGIONAL PTAC – Marlette
989.635.0063

SAGINAW FUTURE, INC. - Saginaw
989.754.8222 Ext. 232 or Ext. 233
FAX: 989.754.1715

FLINT & GENESEE CHAMBER/PTAC - Flint
810.600.1432, or 1433, or 1437, or 1438
FAX: 810.600.1461

SOUTHWEST MICHIGAN PTAC - Kalamazoo
269.501.4671, 269.568.8004, 269.365.3699
FAX: 269.343.0430

PTAC OF SOUTH CENTRAL MICHIGAN - Jackson
517.788.4680, or 4279, or 962.7101
FAX: 517.782.0061

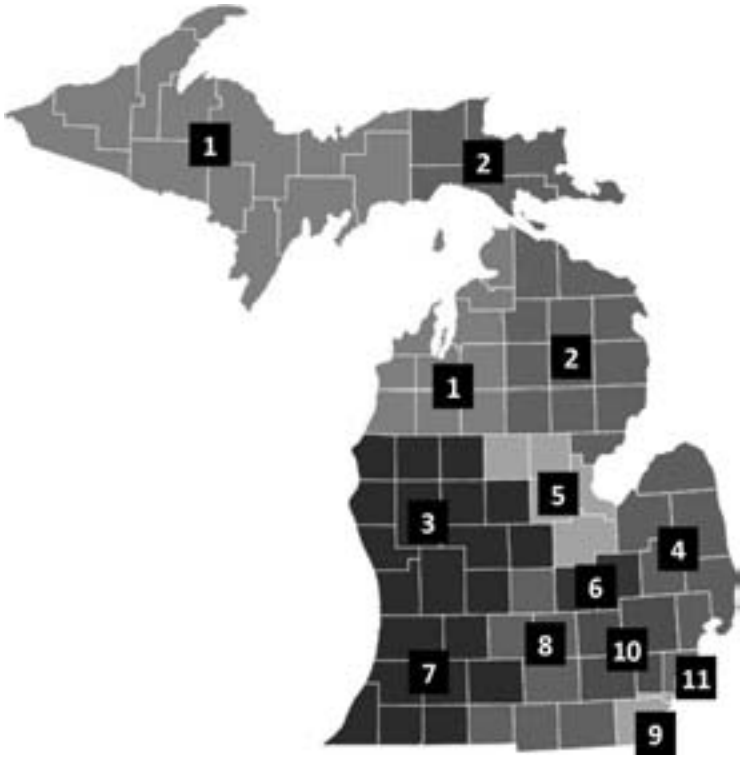
LANSING AREA SATELLITE – Lansing
517.853.6445
FAX: 517.575.5350

DOWNRIVER COMMUNITY CONFERENCE - Southgate
734.362.3480 or 7007
FAX: 734.281.6661

WAYNE STATE UNIVERSITY - PROFESSIONAL DEVELOPMENT DIVISION - Detroit
313.577.0132 or 2241
FAX: 313.577.4354

PTAC OF SCHOOLCRAFT COLLEGE -Livonia
734.462.4438
FAX: 734.462.4673

MICHIGAN DEFENSE CENTER - Lansing and Macomb
517.373.6302 or 517.930.5070, or 517.335.1812, or 616.301.9100, or 734.751.3989



NOW WHAT?

You've taken the time to read this information and probably learned a lot about starting a business, but where should you go from here?

- Take the time to prepare a comprehensive business plan.
- Think about what you want to achieve with your business.
- What are your goals and how do you intend to meet them?
- What will you need to get started, i.e., tax advice, financing, management assistance, legal advice?
- Then use your business plan when you meet with your banker, lawyer, or accountant.

And don't hesitate to contact your local MI-SBDC (see Appendix C), or other resources listed. Helping you get your business off to a good start is our number one priority.

APPENDIX A
EMPLOYEE OR INDEPENDENT CONTRACTOR

How do we determine if an individual is an employee or Independent Contractor? To make this determination we must examine the relationship of the worker and the business. The main focus of this examination is control and independence. This usually falls into three categories:

- Behavioral Control
- Financial Control
- Type of Relationship

Behavioral Control: **Does the business have the right to direct and control how the worker does the task for which they are hired?**
What is the level of instruction that the business gives the worker? The more defined these instructions are, the more likely the worker is an employee. These instructions could include, but are not limited to:

- When and where to do the work
- What tools or equipment to use
- What workers to hire or assist with work
- Where to purchase supplies and services
- What work must be performed by a specified individual
- What order or sequence to follow

Even if no instruction is given, sufficient behavioral control may exist if the employer has the right to control how the work results are achieved. The key is whether or not the business has retained the right to control the details of a worker's performance.

Does the business provide any training to the worker? Normally an employee is trained to perform services in a particular manner. Independent contractors ordinarily use their own methods.

Financial Control: Does the business have the right to control the business aspects of the worker's job?

- Does the worker have unreimbursed expenses? Independent contractors are more likely to have unreimbursed expenses than employees.
- Does the worker incur fixed ongoing costs regardless of whether the work is currently being done? Yes to this question indicates the worker is an independent contractor.
- Does the worker have a significant investment in the facilities he or she uses in performing services for someone else? If yes, then the worker is normally an independent contractor. However, the lack of a significant investment in facilities does not automatically mean the worker is an employee.
- Does the worker make his or her services available to other businesses? This is a clear indication of independent contractor status. Often times an independent contractor will advertise, maintain a viable business location and make themselves available to other businesses.
- Is the worker paid a regular wage? An employee is generally guaranteed a regular wage amount for a set period of time - hourly, weekly, monthly, etc. An independent contractor may be paid based on a per job basis, or can also be paid by the hour.
- Can the worker incur a profit or loss? An independent contractor can make a profit or loss on the work/job.

Type of Relationship: What is the relationship between the business and the worker?

- Is there a written contract between the business and the worker that describes the relationship intended between the two parties?
- Does the business provide the worker with employee-type benefits, such as insurance, a pension plan, vacation and/or sick pay? If so, the worker has the characteristic of an employee.

APPENDIX A (CONTINUED)
EMPLOYEE OR INDEPENDENT CONTRACTOR

- What is the permanency of the relationship? If the worker is given the expectation that the relationship will continue indefinitely rather than for a specific project or period, then it is more likely that the intent was to establish an employer/employee relationship.
- Are the services performed by the worker a key aspect of the regular business of the company? If the services provided by the worker are considered a key aspect of the business' regular activities, it is more likely that the business will have the right to direct and control his or her activities. The ability to direct and control the activity is a characteristic of an employer/employee relationship.

Generally there is an employer/employee relationship when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished but also as to the details and means by which the result is accomplished. In this connection, it is not necessary that the employer actually direct or control the manner in which the services are performed; it is sufficient if the employer has the right to do so. The Internal Revenue Service developed 20 factors to assist the taxpayer in determining if a worker is an employee or Independent Contractor.

A "Yes" answer for the following questions indicates that the worker is an employee:

1. Does the business provide instructions to the worker about when, where and how he or she is to perform the work?
2. Does the business provide training to the worker?
3. Are the services provided by the worker integrated into the business' operations?
4. Must the services be rendered personally by the worker?
5. Does the business hire, supervise and pay assistance to the worker?
6. Is there a continuing relationship between the business and the worker?
7. Does the business set the work hours and schedule?
8. Does the worker devote substantially full-time to the work of the business?
9. Is the work performed on the business' premises?
10. Is the worker required to perform the services in an order or sequence set by the business?
11. Is the worker required to submit oral or written reports to the business?
12. Is the worker paid by the hour, week or month?
13. Does the business have the right to discharge the worker at will?
14. Can the worker terminate his or her relationship with the business any time he or she wishes without incurring liability to the business?
15. Does the business pay the traveling expenses of the worker?

A "Yes" answer for the following questions indicates that the worker is an Independent Contractor:

16. Does the worker furnish significant tools, materials and equipment?
17. Does the worker have a significant investment in the facilities?
18. Can the worker realize a profit or loss as a result of his or her services?
19. Does the worker provide services for more than one firm at a time?
20. Does the worker make his or her services available to the general public?

The determination of whether or not the worker is an employee or independent contractor is the responsibility of the business. If the Internal Revenue Service challenges the classification made by the business, the burden of proof is on the taxpayer (business). If requested, the IRS will make a determination of whether a worker is an employee or independent contractor. This request is done by filing Form SS-8, "Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding" available at **www.irs.gov**

APPENDIX B
REQUIRED WORKPLACE POSTERS

Michigan employers are required to display certain posters in the workplace. Poster requirements are based on jurisdiction. To determine whether your business has requirements under federal or state jurisdiction, please contact the agencies listed below and in the matrix for federal posters that follows. You may obtain the appropriate posters at no cost from the agencies, usually through online download.

The following is a list of Michigan required workplace posters, their purpose and where they can be obtained:

MICHIGAN REQUIRED WORKPLACE POSTERS

ANNUAL SUMMARY OF INJURIES AND ILLNESSES FORM 300 517.322.1848 **www.michigan.gov/lara** Click on MIOSHA , then "Publications, Posters, Forms & Media" MIOSHA Log 300 Forms can be accessed at: **www.michigan.gov/lara/0,4601,7-154-61256_11407_30453-174563--,00.html**	Often overlooked but very important is the requirement that employers must record and/or report information about every work-related injury or illness that involves loss of consciousness, restricted work activity or job transfer, days away from work, or medical treatment beyond first aid.
MICHIGAN EMPLOYMENT SECURITY ACT NOTICE TO EMPLOYEES 855.484.2636 **www.michigan.gov/uia**	This poster informs employees that unemployment benefits are payable to eligible workers through the Unemployment Insurance Agency (UIA)
MICHIGAN LAW PROHIBITS DISCRIMINATION 517.335.3165 **www.michigan.gov/mdcr**	Notice for employees about rules protecting them against discrimination in the workplace.
MICHIGAN SAFETY AND HEALTH PROJECTION ON THE JOB – MICHIGAN RIGHT TO KNOW LAWS 517.322.1809 **www.michigan.gov/lara** Click on MIOSHA , then "Publications, Posters, Forms & Media"	Employers must make this poster available for employees in a readily accessible manner for hazardous chemicals in their workplace.
MATERIAL SAFETY DATA SHEETS (MSDS) 517.322.1809 **www.michigan.gov/lara/0,4601,7-154-61256_11407_30453-174563--,00.html**	Employers must identify and catalog information about hazardous chemicals in their workplace, providing notice to employees about the location of the MSDS catalog (SDS Location Poster) and a log or new or revised MSDS (New or Revised SDS Poster).
MICHIGAN WAGE LAW OF 1964 PA 154 517.322.1825 **www.michigan.gov/lara** Click on MIOSHA, then "Wage and Hour Division"	Michigan Minimum Wage Law posters are required if you are not covered by the Federal Fair Labor Standards Act, or if federal minimum wage would result in a minimum lower than state. See also federal minimum wage poster information on page 38.
MICHIGAN WHISTLEBLOWERS PROTECTION ACT – 469 OF 1980 **www.michigan.gov/lara** Click on MIOSHA , then "Publications, Posters, Forms & Media"	Section 15.368 states that an employer shall post notices and use other appropriate means to keep his or her employees informed of their protections and obligations under the act.

APPENDIX B (CONTINUED)
REQUIRED WORKPLACE POSTERS

FEDERAL REQUIRED WORKPLACE POSTERS

JOB SAFETY AND HEALTH PROTECTION 202.693.1888 **www.osha.gov/Publications/poster.html**	Private employers engaged in a business affecting commerce. Does not apply to federal, state or political subdivisions of states.
EQUAL EMPLOYMENT OPPORTUNITY IS THE LAW 800.669.3362 **www.dol.gov/ofccp/regs/compliance/posters/ofccpost.htm**	Entities holding federal contracts or subcontracts or federally assisted construction contracts of $10,000 or more; financial institutions which are issuing and paying agents for U.S. savings bonds and savings notes; depositories of federal funds or entities having government bills of lading.
FAIR LABOR STANDARDS ACT (FLSA) Minimum Wage Poster 866.487.9243 **www.dol.gov/whd/regs/compliance/posters/flsa.htm**	Every private, federal, state and local government employer employing any employee subject to the Fair Labor Standards Act, 29 USC 211, 29 CFR 516.4 posting of notices.
AMERICANS WITH DISBILITIES: Employee Right for Workers with Disabilities/Special Minimum Wage Poster 866.487.9243 **www.dol.gov/whd/regs/compliance/posters/disab.htm**	Every employer having workers employed under special minimum wage certificates authorized by section 14(c) of the Fair Labor Standards Act.
YOUR RIGHTS UNDER THE FAMILY AND MEDICAL LEAVE ACT 866.487.9243 **www.dol.gov/whd/regs/compliance/posters/fmla.htm**	Public agencies (including state, local, and federal employers), public and private elementary and secondary schools, as well as private sector employers who employ 50 or more employees in 20 or more work weeks and who are engaged in commerce or in any industry or activity affecting commerce, including joint employers and successors of covered employers.
EMPLOYEE RIGHTS UNDER THE NATIONAL LABOR RELATIONS ACT 202.273.0064 **www.mlrb.gov/poster**	Most private sector employers will be required to post a notice advising employees of their rights under the National Labor Relations Act.
UNIFORMED SERVICES EMPLOYMENT AND REEMPLOYMENT RIGHTS ACT 866.487.2365 **www.dol.gov/vets/programs/userra/poster.htm**	The full text of the notice must be provided by each employer to persons entitled to rights and benefits under Uniformed Services Employment and Reemployment Rights Act (USERRA).
EMPLOYEE POLYGRAPH PROTECTION ACT 800.669.3362 **www.dol.gov/whd/regs/compliance/posters/eppa.htm**	Any employer engaged in or affecting commerce or in the production of goods for commerce. Does not apply to federal, state and local governments, or to circumstances covered by the national defense and security exemption.
Note that other posters may be required for specific types of businesses or employment circumstances, i.e., migrant workers, federal contracting, and more. For more information, visit the United States Department of Labor website: **www.dol.gov/oasam/boc/osdbu/sbrefa/poster/matrix.htm**	

APPENDIX C
SMALL BUSINESS DEVELOPMENT CENTERS (MI-SBDC)

Michigan SBDCs are small business management assistance and training centers located throughout the state to assist people interested in starting a business as well as existing businesses with less than 500 employees.

The MI-SBDCs provide no-cost business management consulting and low-cost training to Michigan's small business community. On a daily basis, certified counselors assist businesses in handling cash flow problems, developing sound accounting practices, producing marketing materials, packaging loan proposals, addressing personnel issues, and referring clients to experts who partner with the MI-SBDC network.

These consultants include CPAs, loan counselors, attorneys and marketing specialists. Firms interested in exporting, research and development, strategic growth, manufacturing, and technology transfer may receive specialized assistance from the MI-SBDCs.

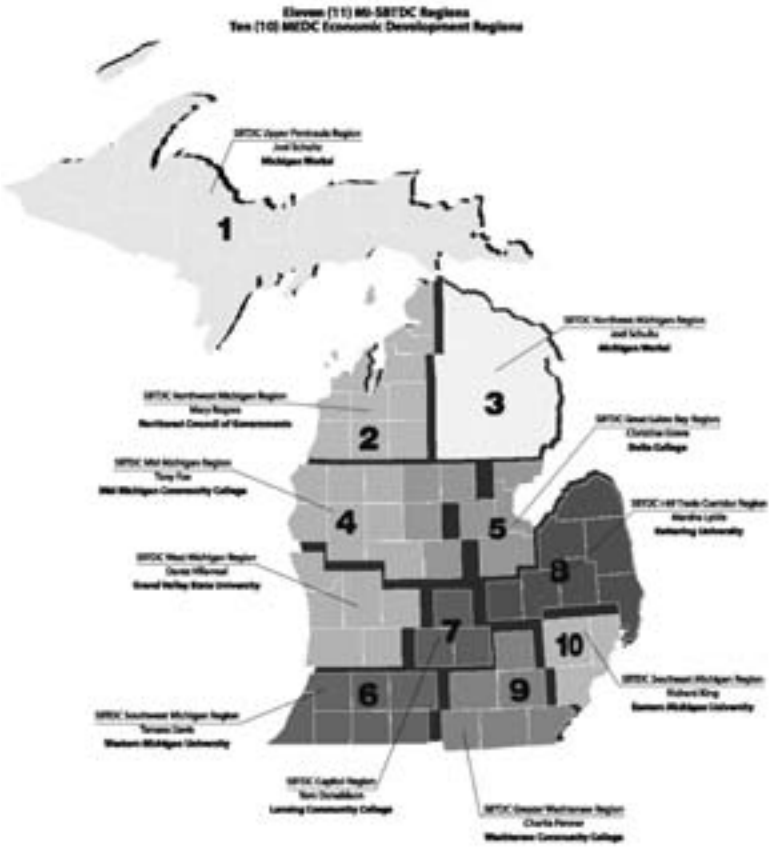
SBDCs also link resources of federal and local governments with community colleges, universities, and the private sector to produce practical solutions to business problems.

For more information, contact the Michigan MI-SBDCs online at **www.SBDCMichigan.org** or call your regional office for information about one of the many satellite locations nearest you.

Region & Phone #	Counties Served	Host Institution
Upper Peninsula 906.789.0558	Alger, Baraga, Chippewa, Delta, Dickinson, Gogebic, Houghton, Iron, Keweenaw, Luce, Mackinac, Marquette, Menominee, Ontonagon, Schoolcraft	Michigan Works!
Northwest 231.922.3780	Antrim, Benzie, Charlevoix, Emmet, Grand Traverse, Kalkaska, Leelanau, Manistee, Missaukee, Wexford	Northwest Michigan Council of Governments
Northeast 800.562.4808	Alcona, Alpena, Cheboygan, Crawford, Iosco, Montmorency, Ogemaw, Oscoda, Otsego, Presque Isle, Roscommon	Michigan Works!
Mid Michigan 989.386.6630	Clare, Gladwin, Gratiot, Isabella, Lake, Mason, Mecosta, Montcalm, Newaygo, Oceana, Osceola	Mid Michigan Community College
Great Lakes Bay 989.686.9597	Arenac, Bay, Midland, Saginaw,	Delta College Corporate Services
I-69 Trade Corridor 810.762.9660	Genesee, Lapeer, Shiawassee, St. Clair, Sanilac, Huron, Tuscola	Kettering University

APPENDIX C (CONTINUED)
SMALL BUSINESS DEVELOPMENT CENTERS (MI-SBDC)

Region & Phone #	Counties Served	Host Institution
West Michigan 616.331.7370	Allegan, Barry, Ionia, Kent, Muskegon, Ottawa	Grand Valley State University
Capital 517.483.1921	Clinton, Eaton, Ingham,	Lansing Community College
Southeast 734.487.0355	Oakland, Wayne, Macomb	Eastern Michigan University
Southwest 269.387.6004	Berrien, Branch, Calhoun Cass, Kalamazoo, St. Joseph, Van Buren	Western Michigan University
Greater Washtenaw 734.547.9170	Hillsdale, Jackson, Lenawee, Livingston, Monroe and Washtenaw	Washtenaw Community College



APPENDIX D
BUSINESS RESOURCE CENTERS (BRC) - STATEWIDE

The Business Resource Centers offer:

- One-stop locations where current and future small business owners can receive business assistance and advice.
- Extensive small business reference library of hard copy books and publications.

Host	Location	Telephone
Adrian Library	Adrian	517.265-2265
Michigan Works!	Adrian	517.265.2265
Alpena Community College	Alpena	989.358.7252
Washtenaw Community College	Ann Arbor	734.487.0355
Michigan Works!	Bay City	989.667.0500
Brighton District Library	Brighton	810.229.6571
Center for Entrepreneurship @ Miller College	Battle Creek	269.660.8021
Canton Public Library	Canton	734-397-0999
Charlotte Public Library	Charlotte	517.543.8859
Cheboygan Area Public Library	Cheboygan	231.627.2381
Chelsea District Library	Chelsea	734.475.8732
Pere Marquette District Library	Clare	989.386.7576
Michigan Works!	Clinton Township	586.263.1501
Dearborn Public Library	Dearborn	313.943.2330
Michigan Works!	East Tawas	989-362-6407
Michigan Works!	Escanaba	906.789.9732
Kettering University	Flint	810.762.9660
Michigan Works!	Gaylord	989.732.3886
Otsego County Economic Alliance	Gaylord	989.731-0288
Michigan Works!	Gladwin	989.426.8571
McFarlen Library	Grand Blanc	810.694.5310
Michigan Works!	Grayling	989.348.8709
Montcalm CC M-TEC	Greenville	616.754.7706
Finlandia University	Hancock	906.487.7344
MMCC M-TEC Building	Harrison	989.386.6630
Hastings Library	Hastings	269.945.4263
Michigan Works!	Hillsdale	517.437.3381
Grand Valley State University – Holland Campus	Holland	616.331.3910
Howell Carnegie District Library	Howell	517.546.0720
Indian River Area Library	Indian River	231.238.8581
Michigan Works!	Ironwood	906.932.4059
Michigan Works!	Jackson	517.841.5627
Kentwood District Library	Kentwood	616.784.2007
Lansing Regional Chamber of Commerce	Lansing	517.487.6340
Schoolcraft College	Livonia	734.462.4438
Thumb Works!	Marlette	989.635.3561
Michigan Works!	Marquette	906.228.3075
Marshall District Library	Marshall	269.781.7821
Michigan Works!	Menominee	906.863.9957
Michigan Works!	Midland	989.631.3073
Hackley Public Library	Muskegon	231.722.7275
MAREC (Grand Valley State University)	Muskegon	231.722.4371

APPENDIX D (CONTINUED)
BUSINESS RESOURCE CENTERS (BRC) - STATEWIDE

Host	Location	Telephone
Niles Main Street	Niles	269.687.4332
Novi Public Library	Novi	248.349.0720
Portage District Library	Portage	269.329.4544
Portland District Library	Portland	517.647.6981
Michigan Works!	Saginaw	989.249.5232
Michigan Works!	Sault Ste. Marie	906.635.1752
South Haven Memorial Library	South Haven	269.637.2403
Michigan Works!	Southgate	734.362.3442
Michigan Works!	Standish	989.846.2111
Lincoln Township Public Library	Stevensville	269.429.9575
Michigan Works!	Traverse City	231.922.3780
Delta College	University City	989.686.9016
MBPA/MFBA	Warren	586.393.8800
Oakland County Business Center	Waterford	248.858.0783
Michigan Works!	West Branch	989.345.1090
Eastern Michigan University	Ypsilanti	734.487.0355
Ypsilanti District Library	Ypsilanti	734.482.4410

APPENDIX E
INDEX OF STATE AND FEDERAL GOVERNMENT WEB SITES

STATE GOVERNMENT

Michigan Business One Stop – Online portal to the State Of Michigan for businesses.
Web site: www.michigan.gov/business

Michigan Department of Civil Rights – Information on compliance with Civil Rights laws.
Web site: **www.michigan.gov/mdcr**

Michigan Department of Licensing and Regulatory Affairs – Information, forms, and publications related to health, safety, economic/cultural well-being.
Web site: www.michigan.gov/lara

Consultation Education & Training (CET) – Information about training programs to provide a safe and equitable workplace for employees. Heading: Consultation Education & Training.
Web site: **www.michigan.gov/miosha**

Corporation Division - Forms for filing as a corporation (Articles of Incorporation), limited partnership or limited liability company (Articles of Organization), and registrations of trademarks & service marks. Registrations for limited liability partnerships (LLPs).
Web site: **www.michigan.gov/corporations**

Office of Occupational Safety & Health Administration - Information about safety and health standards and access to required workplace posters – Michigan Safety & Health Protection on the job, and Right to Know Material Safety Data Sheets. Heading: General Industry Safety & Health.
Web site: **www.michigan.gov/miosha**

Workers' Compensation - Information about the Workers' Disability Compensation Act of 1969, Act 317 of 1969, an Overview of Workers' Compensation in Michigan, and the pamphlet – A Summary of Your Rights and Responsibilities under Workers' Disability Compensation. Heading: Publications.
Web site: **www.michigan.gov/wca**

Michigan Department of Technology, Management & Budget - Access to information about doing business with the State of Michigan and the Vendor Registration Form.
Web site: **www.michigan.gov/buymichiganfirst**

Michigan Department of Treasury - Forms to register for Michigan business taxes, i.e. Sales, Use & Withholding and Single Business Tax.
Web site: **www.michigan.gov/taxes**

Michigan Works – A public-private partnership between Michigan Department of Energy, Labor & Economic Growth and Michigan Works which serves Michigan's employers and workers where job openings can be posted.
Web site: **www.michiganworks.org/**

Michigan New Hire Operations Center – Michigan Employer Guide to New Hire Reporting along with the New Hire Reporting Form.
Web site: **www.mi-newhire.com**

Michigan Unemployment Insurance Agency – Information on unemployment insurance services.
Web site: **www.michigan.gov/uia**

APPENDIX E (CONTINUED)
INDEX OF STATE AND FEDERAL GOVERNMENT WEB SITES

FEDERAL GOVERNMENT

Internal Revenue Service – Information, forms, and publications regarding business and personal taxes.
Web site: **www.irs.gov**

Social Security Administration - Information about the Social Security Administration, their services to employers (including a guide to wage reporting for employers), and information about being self-employed.
Web site: **www.ssa.gov**

Department of Labor – Summary of federally required workplace posters
Web site: **www.dol.gov/oasam/programs/osdbu/sbrefa/poster/matrix.htm**

U. S. Patent and Trademark Office – Registration forms for trademarks and service marks.
Web site: **www.uspto.gov**

www.freepatentsonline.com – Provides fast, easy-to-use access to millions of patents and patent applications.

U. S. Copyright Office – Information, forms, and publications regarding United States Copyright laws.
Web site: www.copyright.gov

Small Business Administration (SBA) – Information about the services and programs available through the SBA.
Web site: **www.sba.gov**
Michigan District Office: **www.sba.gov/mi**

OTHER ORGANIZATIONS:

Michigan Small Development Centers (MI-SBDC's) – Information about the services provided by the SBDCs, and a list of the Regional and Satellite Centers.
Web site: **www.SBDCMichigan.org**

SCORE, Counselors to America's Small Businesses - Information about SCORE, a listing of regional chapters, and a schedule of available workshops.
Web site: **www.score.org**

APPENDIX F
ABOUT THE SMALL BUSINESS ADMINISTRATION (SBA)

U.S. Small Business Administration (SBA)
Michigan District Office
477 Michigan Avenue, Room 515, McNamara Building
Detroit, Michigan 48226
Phone: 313.226.6075
Fax: 313.226.4769
Web site: **www.sba.gov**
Michigan web site: **www.sba.gov/mi**

The U.S. SBA helps people get into business and stay successful. The agency accomplishes this mission by providing new and existing small businesses with loan guarantees, management counseling and training, and assistance in obtaining government contracts. The SBA also acts as an advocate for small business interests.

WHAT IS A SMALL BUSINESS?

For-profit business

SBA defines a small business concern as one that is independently owned and operated, is organized for profit, and is not dominant in its field. Depending on the industry, size standard eligibility is based on the average number of employees for the preceding twelve months or on sales volume averaged over a three-year period. Examples of SBA general size standards include the following:

- **Manufacturing:** Maximum number of employees may range from 500 to 1500, depending on the type of product manufactured;
- **Wholesaling:** Maximum number of employees may range from 100 to 500 depending on the particular product being provided;
- **Services:** Annual receipts may not exceed $2.5 to $21.5 million, depending on the particular service being provided;
- **Retailing:** Annual receipts may not exceed $5.0 to $21.0 million, depending on the particular product being provided;
- **General and Heavy Construction:** General construction annual receipts may not exceed $13.5 to $17 million, depending on the type of construction;
- **Special Trade Construction:** Annual receipts may not exceed $7 million; and
- **Agriculture:** Annual receipts may not exceed $0.5 to $9.0 million, depending on the agricultural product.

SBA provides small business assistance in four major areas: advocacy, procurement, business development, and financial assistance.

ADVOCACY

The SBA supports the cause and explains the role of small business in our society and economy, and advocates programs and policies that help small firms. SBA's Office of Advocacy maintains a hotline to assist callers with their small business questions at 800.827.5722.

GOVERNMENT CONTRACTING

SBA helps small businesses obtain a representative share of federal contracts through a variety of programs including assistance locating government contracts and prime subcontracts. Visit SBA's Office of Government Contracting online at **www.sba.gov** and click the "Contracting" tab.

APPENDIX F (CONTINUED)
ABOUT THE SMALL BUSINESS ADMINISTRATION (SBA)

SBA programs include:

- 8(a)-Minority Enterprise Development Program: a business development program for small businesses at least 51 percent owned, managed, and controlled by individual(s) who are socially and economically disadvantaged citizen of the United States. The firm must also meet SBA's size standards and must have been established for two years before applying.
- Small Disadvantaged Business Certification (SDB) Program: to qualify as an SDB, a firm must be owned and controlled by one or more individuals who are socially and economically disadvantaged. Under the new rule, before a small business concern can become eligible to receive benefit as an SDB, it must be certified as a SDB through a self-certification process that can be accessed online at **www.sba.gov** and click the "Contracting" tab.

ENTREPRENEURIAL DEVELOPMENT

Through its resource partners, the SBA offers free, one-on-one counseling, and no/low cost training, conferences, and seminars. Major resource partners in Michigan include the following:

- **Small Business Development Centers** (SBDCs), established to help foster small business concerns by providing "one-stop" guidance, assistance, and counseling to small business owners. There are 11 regional centers and many satellite and affiliate centers in Michigan. To find the location closest to you, please call 616.331.7480 or toll free 877.873.4567 or refer to Appendix C.

- **SCORE, Counselors to America's Small Businesses:** This non-profit organization is comprised of working and retired business executives and business owners who share their management and technical expertise with small business owners. To locate the SCORE office closest to you, please visit their web site at **www.score.org**.

- **U.S. Export Assistance Centers (USEACs)**: A cooperative effort between the SBA, U.S. Department of Commerce and Export-Import Bank to provide free trade counseling and advise on all facets of the export process. There are four USEACs in Michigan: Detroit 313.872.6794, Pontiac 248.975.9600, Grand Rapids 616.458.3564, and Ypsilanti 734.487.0259.

- **Women Business Centers (WBCs):** SBA funded microenterprise organizations created to help women become self-sufficient through self-employment. Each center provides a wide range of services customized for female entrepreneurs starting or growing a business. While assistance may vary between WBCs, typically each provides basic programs such as economic literacy training and business planning, to more specialized topics such as government contracting and certification. SBA also maintains an On-Line Women's Business Center full of information compiled from WBCs across the country on topics such as financing and accounting, marketing, management, technology and procurement.

- **Central Contractor Registration (CCR)**: CCR is an electronic gateway of procurement information for and about small businesses. It is a search engine for contracting offers, a marketing tool for small firms and a "link" to procurement opportunities and important information. **www.sba.gov** and click on the **Contracting** tab**.** For more information and assistance related to government contracting, contact your nearest PTAC as shown on page 49.

APPENDIX F (CONTINUED)
ABOUT THE SMALL BUSINESS ADMINISTRATION (SBA)

ON-LINE CLASSROOM
SBA's Small Business Learning Center - **www.sba.gov/services/training/index.html**
A series of online courses available 24/7 that provide everything you need to know to succeed in the new Internet economy. You'll learn how to market effectively on the Web, implement e-commerce and how to participate in the Internet economy! The course content is divided into brief modules viewable in any order you choose. You'll get answers to questions most business owners like you want to ask about e-business.

Click on the **Training** tab for a complete list of available online small business trainings in the areas of Starting a Business, Managing a Business, Financing, Marketing and Government Contracting.

Online Women's Business Center -- How to Market Your Business Online
This site is full of tested advice compiled from the experienced business counselors of the Women Business Centers nationwide. There is a special marketing section devoted to the Internet. There are numerous articles with advice on choosing a Web production company, selling online, promoting your Web page, and more. **www.onlinewbc.govt5**

www.SBDCMichigan.org
616-331-7480

Funded in part through a cooperative agreement with the U.S. Small Business Administration. All opinions, conclusions or recommendations expressed are those of the author(s) and do not necessarily reflect the views of the SBA.