



# Look Before You Leap: Starting Your Own Business

Have you ever wanted to strike out on your own and become an entrepreneur, with all of the risks and rewards it entails? Discover the key elements you need to consider before launching your own business, and learn to create your road map to entrepreneurial success.

## Lessons

- 1. So You Think You're an Entrepreneur**  
Starting a successful business means asking the right questions, the first of which is: are you an entrepreneur?
- 2. Does Your Big Idea Hold Water?**  
Having an idea and having one that will actually succeed are two very different things. Evaluate your concept and take a quick look at a few financing options.
- 3. What's Your Game? Telling Others**  
It's importance to develop a unique selling feature to make you stand out from your competition. This lesson will cover how to write an elevator pitch, identify and mine your niche market, get to know the competition, and understand customer value.
- 4. Hey, You! We're Here! Marketing Basics**  
This lesson covers the different elements of communicating with the customer. We will discuss the use of different media, the message we are communicating to the customer, and an integrated approach to promotion.
- 5. Getting It Out There: Distribution**  
Even the best product won't get you very far if you can't distribute it to customers. Learn how to develop an effective strategy to deliver your product or service to your customers.
- 6. Staying Clean, Part I: Legal Entities and Taxes**  
What sort of legal entity should your company be? How will that affect your tax payments? This lesson answers those questions, and more.
- 7. Staying Clean, Part II: Insurance and Accounting**  
Beyond corporations and taxes are the ways a business must spend and keep track of money. In this lesson, you'll learn what kind of insurance you really need for your business and whether you should do your own accounting.
- 8. Pulling It All Together**  
It's time to organize everything you've learned and incorporate it into a business plan that can serve as a road map to business success.

## So You Think You're an Entrepreneur

Starting a successful business means asking the right questions, the first of which is: are you an entrepreneur?

### Wait a Second, That's a Great Idea!

The lightning bolt of inspiration has struck. You had a great idea for a business, and you're sure you can make it work. So now, you've decided to fire your boss and strike out on your own. But before you do, you need to master a few tools that'll help you turn your great idea into a profitable venture.

Well, if you're looking for some practical advice about how to turn your ideas into reality, you've come to the right place. Over the course of eight lessons, this course will take you from the excitement of coming up with a great business idea through the process of starting a great business. We'll examine a few basics, including:

- Your entrepreneurial fitness
- The strength of your business idea
- Places to look for financing
- Finding your market niche
- Marketing strategies

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Go behind the scenes and find out how successful producers used marketing, advertising, brand building, and more to become some of the top names in the

- Distribution strategies
- Legal and fiscal considerations
- Writing a business plan

The first place to start is with yourself: Are you cut out to be your own boss?

## Assessing Your Entrepreneurial Fitness

The first and most important question you have to ask yourself is whether or not you're an entrepreneur -- and no, just having a good idea does not make you an entrepreneur! So before you say "yes" and skip to the next page, read on.

According to [Michael Gerber](#), business advisor and author of the best-selling *The E-Myth and The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It*, "The typical business owner is only 10 percent Entrepreneur."

"So," you ask, "If I'm only 10 percent entrepreneur, what's the other 90 percent?"

### The Bad News

If you asked Gerber that question, he'd tell you that, in addition to 10 percent entrepreneur, you're probably about 20 percent Manager, and 70 percent Technician -- which, he might add, could spell long days, burnout, and possibly even business failure. That's because technicians love their work and they'll do it till they drop -- not a good quality in someone who wants to create a sustainable business.

### The Good News

Don't worry, though. There's plenty of good news, too. Most small business owners might succumb to their percentages, but you are not most small business owners. By going into your business with your eyes wide open, you'll be able to manage the percentages and succeed. Let's start by learning a little more about the e-myth.

In Gerber's view, there are three distinct business personalities -- and every business owner has traces of each.

- The entrepreneurial self is the visionary -- the person with the big ideas and dreams, who thinks about the big picture, not details. The entrepreneur often views employees (especially those who have realistic views of timelines and costs) as impediments to the ultimate goal.
- The managerial self is the organizer -- the person who handles planning and details, and who analyzes and modifies processes for maximum efficiency. The managerial personality often focuses on process to the exclusion of customers and their satisfaction.
- The technician is the hands-on worker. The technician loves the work itself and will do it until he or she simply can't work anymore.

## Nurture the Entrepreneur Within

If you're starting your business because you love the work you do, but hate dealing with office politics, you're probably a technician. That's not a recipe for disaster (especially in the early, start-up stages of a business) but beware of your tendency to work yourself to the bone without ever looking up to take your pulse, get the lay of the land, or manage your finances, marketing, etc. As your business grows, take care to nurture your visionary and managerial selves as well.

Now let's look at a few critical strengths of the entrepreneurial personality.

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## What It Takes

What makes some entrepreneurs succeed while others fail? What exactly are the ingredients of the entrepreneurial spirit? No doubt you will discover the answer to these questions as we explore this world together. But before we go any further, I'd like to suggest that you take a few moments to consider some universal skills and traits of the entrepreneur, as described in one book, *Small Business for Dummies*. As you look at the following skills and traits necessary to meet these categories of needs, objectively compare them with your own abilities in these areas.

### Entrepreneurial Skills

- **Numbers skills.** Business means handling money, and that means numbers -- borrowing money, accounting for it, and reporting on the financial state of your company.
- **Sales skills.** Sales skills are important, whether you're selling a product, merchandise, or service. Keep in mind that business owners have to use selling skills not only with their customers, but also with their employees, their vendors, and the general public.
- **Marketing skills.** If you don't keep stuffing the pipeline, nothing comes out the other end. Good marketing is the ingredient that keeps your profits coming, in good times and in bad.
- **Leadership skills.** No matter what the size of the company, the quality of leadership at the top trickles down into every level.

### Entrepreneurial Traits

- **The ability to coexist with risk and possibly debt.** Are you the kind of person who can live with the risk and/or debt associated with capitalism?
- **Intuition.** Good instinctive decision-making abilities can make or break a small-business owner.
- **Optimism.** Successful business owners are rarely pessimists. Even when everything goes wrong, they keep seeing that cup as half full, rather than half empty.
- **Drive.** Successful small-business owners are driven to succeed in every area of their business. That drive may flag, but it never fails altogether. A weekend off, and you're rarin' to go.

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## The Pros and Cons of Owning a Business

Now that you understand a little more about being an entrepreneur, let's take a realistic look at the plusses and minuses of business ownership.

### The Reasons to Own

The following are reasons why people choose to own a business:

### Introduce Yourself

Take a moment to go to the message board for this course and introduce yourself to the class. Explain why you are here, and meet

- Success and financial security. Some of today's wealthiest individuals started out as small business owners. If you have any doubts as to whether it can be done, ask Ted Turner, Oprah Winfrey, Michael Dell, Bill Gates, or Debbi Fields!
- Creative expression. From providing a service or product to customers to providing inspiration to employees, the small-business owner experiences the thrill of creation in every aspect of his business.
- A pleasant environment. Most of us have experienced at one time or another the "complaining-at-the-water-cooler" syndrome. Owning your own business finally gives you a chance to make your workplace the way you've always thought it ought to be.
- Independence. Many small-business owners have had bad experiences working for others and are of the opinion that if you want meaningful opportunity, the best way to get it is to create it yourself.
- More flexible working conditions. While it's true that owning a small business often means long hours, there is often added flexibility regarding scheduling, such as being able to come in a noon or take three-day weekends whenever you need to.

## The Reasons Not to Own

Before thinking that all of the above sounds pretty good, let's take a look at the downside to small-business ownership.

- Unrelenting responsibility. Instead of punching a time clock and leaving her work at work, the small business owner carries her responsibility with her 24 hours a day. She feels responsibility for customers, employees, vendors, and sometimes even other businesses.
- Brutal competition. Competition can drive you to do your best, but it can also sink you. Make sure you know who your competition is, so you can meet the challenge. (We'll talk more about this in later lessons.)
- Uncontrollable events. Many trends and chance events in the business world are simply beyond our control. The economy, interest rates, and the political climate are just a few. Fluctuation in these areas can hit a small business much harder than they might a large corporation.
- Red tape. Anyone who's ever attended a big university, worked for a corporation, or dealt with the government knows the frustration of red tape. As the owner of your business, you will be up against it daily -- often on your own.
- Bankruptcy. In the world of small business, the most dreaded enemy of all is business failure in the form of bankruptcy. Nothing is quite as devastating to the small-business owner as watching his creditors dismantle his business and carry off everything, from his furniture and fixtures to his hopes and dreams.

## Moving Forward

Lesson 1 has asked you to analyze your commitment to your new endeavor. But if you're taking this course, chances are good that you're pretty committed, and entrepreneurship really is for you. So let's get ready to move on. Next lesson, we'll look at a few more questions you should ask, as well as some financial and business basics that'll get you started. In the meantime, be sure to do the assignment and quiz and visit the message board to meet your classmates.

your fellow entrepreneurs. Your classmates could be a valuable resource. After all, networking is an excellent tool in business and can be a great way to spread the word about your new business. Besides that, your peers probably have plenty of insight about what it takes to go into business. See you at the message board!

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## Assignment #1

For the purposes of this course, you should start a learning journal to keep track of your ideas and insights. Any notebook will do; just make sure you keep all your thoughts together.

Once you have your notebook, write down a brief summary of your business idea, and the name of the business. Don't know the name? Start brainstorming.

Next, start a new page and list your strengths and weaknesses as an entrepreneur. Then think about:

- How to take advantage of your strengths and mitigate your weaknesses
- How the entrepreneurial percentages balance out in your own personality
- Why you want to start a business in the first place.

Write down your thoughts, then go to the message board to discuss them. Your instructor and fellow students probably have a lot of valuable insight.

## Quiz #1

Question 1:

According to Michael Gerber, what are the three types of business personalities? (Check all that apply.)

- A)  Technician
- B)  Entrepreneur
- C)  Owner
- D)  Manager

Question 2:

True or False: Successful business owners are almost 100 percent technician.

- A)  True
- B)  False

Question 3:

True or False: Owning your own business means you can knock off whenever you want.

- A)  True
- B)  False

## Does Your Big Idea Hold Water?

Having an idea and having one that will actually succeed are two very different things. Evaluate your concept and take a quick look at a few financing options.

## Analyze Your Brainstorm

In Lesson 1, you examined your entrepreneurial fitness. In Lesson 2, we'll examine a few questions you should ask about your business idea, learn to conduct a SWOT analysis, and explore a few financing options.

## Twenty Questions

The first step toward success is asking yourself a rigorous set of questions about your business idea. Below is a list of 20 questions about your business. Don't panic if you don't know all the answers just yet. You're just getting started. However, these questions do provide a great framework for beginning to think realistically about turning your brainstorm into a functioning enterprise.

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Go behind the scenes and find out how successful producers used marketing, advertising, brand building, and more to become some of the

1. What type of business are you starting?
2. What is its purpose?
3. Who will it serve?
4. What is your product or service?
5. How does your product or service fulfill customers' needs?
6. Can you articulate one sentence that describes what your business does, who it serves, and how it does that?
7. What are three unique benefits of your product or service?
8. Why are you going into business? (Remember the lesson we learned above!)
9. How did you come up with your business idea?
10. Who is your competition?
11. How is your business different from your competition?
12. What are the top three customer objections to buying your product or service immediately?
13. How does your pricing compare to the competition?
14. When will your business be up and running?
15. Is this product or service used in conjunction with other products?
16. Will you make special offers?
17. What plans do you have for advertising and promotions?
18. What data sheets, brochures, diagrams, sketches, photographs, related press releases, or other documentation about your product or service do you currently have?
19. How will you finance company growth?
20. Do you have (or need) the management team needed to achieve your goals?

Remember: You don't need to have all of the answers right now. The important thing is to begin to think strategically about your business idea. Asking the right questions will serve as a launching pad for your research, and ultimately the writing of your business plan.

Now let's look at one of the most useful tools you'll find in this -- or any -- business course: The SWOT analysis.

## SWOT: The Strengths and Weaknesses of Your Idea

Once you've considered some general questions, you can begin analyzing your business prospects a little more deeply. To do that, you'll need a business tool called a SWOT. SWOT stands for:

- Strengths
- Weaknesses
- Opportunities
- Threats

The purpose of a SWOT analysis is to review the internal and external factors that may affect your company. The information will give you a better understanding of your business potential, the unique selling proposition you offer, and the competitive landscape of the industry you plan to enter.

top names in the entertainment industry in the "Power Networking: How the Biz Does Business" webcast, sponsored by OPEN from American Express®. Join host Peter Bart, Editor-In-Chief, Variety, online moderators Susan Sobott and John Jantsch, along with successful producers Sydney Pollack, Lawrence Bender and Nancy Meyers as they share insights to help grow your business.

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Once you go into business, the SWOT is a tool you'll use over and over to readjust the course of your plans as you go.

## Strengths and Weaknesses: The Internal Factors

Internal factors such as personality traits, employees, cash flow, and expertise will all play a major role in the success of your business. An objective look at your internal strengths and weaknesses gives you a good picture of where your company will begin, and it provides a blueprint for where you want it to go. Your SWOT should consider three main types of resources:

- The people on your team
- Your available finances (both cash and credit)
- Your manufacturing or production capacities

Looking at each of these areas, make a list of your greatest strengths. Now make another list identifying your potential weaknesses. This list will help you leverage strengths and compensate for weaknesses.

## External Factors: Opportunities and Threats

Next you will make two more lists dealing with external factors: one for the opportunities that make your venture possible, and one for the threats it faces. Concerns about competitors, technological advances, the economy, the business environment, shifting political and cultural values, and lifestyle trends fall into these categories.

Internal Environment	
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Strong cash position</li> <li>Cutting-edge technology</li> <li>Impressive management team</li> <li>State-of-the-art facilities</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>Dated/obsolete manufacturing facilities</li> <li>Lack of financial resources</li> <li>Lack of strategic direction</li> <li>Declining industry</li> </ul>
External Environment	
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Franchising possibilities</li> <li>New markets, domestic &amp; international</li> <li>More favorable trade conditions</li> <li>Additional products</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>Existing competition</li> <li>New entrants</li> <li>Government regulations</li> <li>Increasing interest rates</li> </ul>

To succeed over the long haul, you need to acknowledge and plan around macroeconomic conditions including unemployment, cost of money, inflation, and competition. How you handle the ever-changing external conditions is key to the long-term success of your company.

## Using Your SWOT

A good SWOT analysis allows you to hone in on potentials and risks that might otherwise have remained vague. Cross-reference the four lists that you have created to see:

- The points where your opportunities intersect with your strengths. This is where you will find your greatest potential for profit. When your strengths match a potential opportunity, you have a strategic window to grow your business.
- The points where your internal weaknesses intersect with external threats. For example, if you are highly leveraged (that is, you have a lot of debt) and interest rates are increasing, you are facing a big threat. A slight increase in the effective interest rate can mean significant additional expenses.

Once your business is up and running, the SWOT will prove a valuable assessment tool on an ongoing basis. As the market and economy shift, as you hire new

earn up to 100,000 points in your first year alone, that's enough for 4 domestic round-trip airline tickets. And with so many ways to redeem points — from travel to treats for you and your employees — you've got support that can help build your business. (Terms and Conditions Apply.)

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employees with certain skills and deficits, or as you acquire or lose customers, a SWOT analysis can help you identify areas that will benefit from increased focus, as well as areas where you have shored up your strengths.

Consider doing a SWOT on at least an annual basis -- possibly a quarterly one. Your business is a living, breathing entity with ever-changing needs. The SWOT is one way you can understand those needs and attend to them.

## Next Up

Before going any further in planning your business or analyzing your competition, we should address one question that's probably burning a hole through your skull: "Where do I get the money?" The remainder of this lesson will offer a quick overview of ways to obtain start-up capital.

## Sources of Business Capital

The key to designing a financially sound business is not only to plan for enough capital to meet your one-time start-up costs (legal fees, deposits, license or permit fees, etc.), but to also consider your operating capital and your reserve .

### Using Your Own

Since you are the person who is probably the most interested in your new business, the initial capital (or money used to run your business) will more than likely start with your own pocketbook. Not only that, but outside sources of capital are not always easy to obtain unless the owner has demonstrated willingness to make a go of it with his or her personal resources.

Many new small-business owners who have gone before you have obtained their start-up capital from the sale of personal assets, loans from friends and family, personal savings, income from their regular or part-time job, or cashed-in insurance policies. Use good judgment when dipping into personal savings or taking out second mortgages on your home. You should always be realistic when weighing risk factors.

### Looking for Outside Capital

If you do decide to go to outside for financing, here are some sources to consider:

- Grants or incentives: Investigate government entities as sources for special programs for the small-business owner. Start at your local level, but don't neglect federal programs. Also check out grants issued by special interest foundations as awards for entrepreneurship or for helping minority groups. The Internet is full of resources for the small-business owner. [The Department of Commerce OSDBU \(Office of Small and Disadvantaged Business Utilization\) site](#) is just one resource.
- Small Business Administration: The SBA is one of the most valuable resources for the small-business owner. Not only is it a great source of small-business loans and financial aid, it can also assist you in other areas, such as business plan writing, accounting, advertising, and taxes. Visit the [SBA online](#) or call the SBA Answer Desk at 1-800-UASK-SBA (1-800-827-5722).
- Angel Investors: Angels are individual investors who will invest in your company, usually for profit, possibly in the form of stock or a share of the company. They are usually former entrepreneurs, and familiar with the risk factors of start-ups. Some are venture capitalists; some are individuals with a sincere desire to help aspiring entrepreneurs. Most are looking to be personally involved in the business they are funding. The angel's experience and expertise can often be helpful to the business owner. Angels are not always around when you need them, but there are angel organizations being formed to make finding them easier. One example is [ACE-Net \(the Angel Capital Electronic Network\)](#), founded by the SBA.
- Partners or shareholders: Having partners or minority shareholders is another way

Help from the SBA

Among the many programs the Small Business Administration offers is its Loan Guarantee Program, which finances small businesses through a variety of specialized loan programs. Among the many loan programs are: Disabled Assistance, Minority and Women's Prequal, LowDoc, Export Working Capital, and Qualified Employee Trusts and Veteran's Loans. To find out about these programs or various others, visit the SBA Web site at [www.sba.gov](http://www.sba.gov) .



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Co-founded by Count Me In for Women's Economic Independence and OPEN from American Express®, this organization helps women entrepreneurs build million-dollar companies. Each year, the group's

to raise capital. We'll cover the different forms of partnerships and some of their legal parameters a little later in this lesson. Whether or not you make the decision to go it alone or take in partners or shareholders is entirely up to you and the type of business you are in. You are the only one who knows what's best for you and your business. But as the cliché goes, two heads are better than one. Having the right partner can bring needed capital and be a real boost to the performance of your company. Bear in mind, however, that entering a business partnership is much like getting married. And dissolving one can be tougher than a divorce.

- **Banks:** Most banks do not make start-up loans to small businesses unless there is collateral to cover 100% of the loan. However, if you can grow your business steadily over a period of time, many banks will loan you money based on your good track record and credit history. Check your local banks for their policies.

## Moving Forward

In Lesson 2, we started analyzing your business idea, became familiar with the SWOT analysis, and started looking for viable sources of capital. Next lesson, we'll examine ways to identify a market niche where your great idea can blossom into an ongoing business. In the meantime, be sure to do the assignment and quiz and visit the message board to ask questions and interact with your fellow classmates.

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## Assignment #2

Get out your journal and write down answers to the 20 questions listed in Lesson 2. Keep refining your answers until they're concise and clear -- no more than three sentences each. Later on, when you're doing research and drafting a business plan -- maybe even at times when you feel overwhelmed -- you'll be able to review this document. It'll provide a touchstone that will be extremely useful.

Once you have created this touchstone, answer one more question: Did this exercise make you feel better or worse about your prospects? Why?

Go to the message board to discuss your insights.

## Quiz #2

Question 1:

In a SWOT analysis, SWOT stands for:

- A)  Standard Work Operations Testing
- B)  Surpluses, Weaknesses, Organization, Trials
- C)  Strengths, Weaknesses, Opportunities, Threats
- D)  None of the above

Question 2:

True or False: Angel investors do not care about making a profit.

- A)  True

B)  False

Question 3:

If you can't answer the 20 questions about your business, you should probably give up now.

A)  True

B)  False

## What's Your Game? Telling Others

It's importance to develop a unique selling feature to make you stand out from your competition. This lesson will cover how to write an elevator pitch, identify and mine your niche market, get to know the competition, and understand customer value.

### So, You Do What?

In Lesson 2, we started analyzing your business idea, became familiar with the SWOT analysis, and started looking for viable sources of capital. In Lesson 3, we'll examine ways to identify a market niche where your great idea can come to fruition.

### The Elevator Pitch

While waiting for an elevator, a stranger strikes up a conversation with you about your business. You both step inside, the doors close, and the elevator starts going up. You only have 45 seconds to give her a great description of your product or service -- no more than the time it takes to travel from the first to the sixth floor of the building. The clock is ticking. What do you say?

Anyone starting a business should prepare and practice an elevator speech. It's an extremely useful exercise for two reasons:

- First, it forces you to create a laser focus in your mind about what your business does. That makes it easier to figure out exactly what your market niche is.
- Second, it enables you to communicate succinctly the specifics of your product or service to others -- including potential customers, employees, vendors, and people who might be willing to help finance your venture.

Your speech should be able to address three key questions:

- What does your product or service do?
- What is the core benefit of your product or service?
- What is your unique selling proposition?

Your unique selling proposition is the offer you make to your customers that sets you apart from your competitors.

### Example

Say you want to start a weight loss program for kids. We'll call it Belly Busters. Let's answer the three key questions for Belly Busters:

What does Belly Busters do?

- It helps children lose weight.

What is Belly Busters' core benefit?

- Children lose weight, become healthier, and gain self-esteem.

What is Belly Busters' unique selling proposition?

- There are several options here. Belly Busters could offer free weekly meetings to

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help parents and kids attain their diet goals, or they could offer a free one-on-one planning session with a dietitian.

Based on this information, Belly Busters' elevator speech might read something like the following:

Belly Busters helps kids lose weight so that they become healthier and gain self-esteem that lasts a lifetime. With our weight-loss program, Belly Busters offers a personal planning session with a trained dietitian, plus weekly parent-child meetings so that kids can stay on target.

## Do It Yourself

Now sketch out the elevator speech you might give for your business. Practice delivering it to several friends, and ask them if it conveys a clear idea of your product or service. With a focused description of your product in hand, you can now identify the niche where your business can thrive.

## Target a Niche Market

Any new business needs to start generating sales as quickly as possible. Beyond creating cash flow, early sales help create a high level of excitement about your business idea. The trick to generating cash flow as quickly as possible? Identify and penetrate a niche market.

A niche market can be defined as a small segment of a larger market, or a group of customers who have specific needs that are not being met adequately by the major competitors in the marketplace. Generally, these customers will meet the following criteria:

1. They are easy to profile. You can determine the demographics, psychographics, and geographics of this group without difficulty.
2. They are easy to access. You can identify at least two or three ways to get your information to this group.
3. They have profit potential. These customers spend enough annually on similar products or services to make your efforts worthwhile.

The more precisely you can describe your ideal customer base, the better you can use your resources to maximize profits.

## What If You Find Multiple Niches?

You might very well identify more than one "ideal" niche market. If so, you're in good shape -- more niches means more customers means more profit. If you do find more than one niche, prioritize the markets based on size and ease of access. This process involves identifying your primary and secondary markets.

For example, Belly Busters might have several potential customer groups. Say we did a little research and found that:

- Parents are most concerned with their children's weight between the ages of 6 and 12.
- Children -- especially girls -- are most concerned with their weight from ages 15 to 18.
- Parents in specific geographic locations are more willing to spend money on weight control for their children.

Taking all of these factors into account, we then want to prioritize these potential

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niche markets and decide which is the most reachable. The first choice would be the group that is easiest to penetrate. It should comprise customers who are able and willing to pay a reasonable amount for your service.

Given the choices, we might target female children between 15 and 18 in a specific geographic area. We would consider income levels in our geographic zone to ensure that our market has a high enough income to spend on this service. If we can find the ideal blend of parent and child interest, disposable income, and product service offering, we may have a perfect niche market.

## Size Up the Competition

One of the things you need to scrutinize as you evaluate your target niche is the competition. Namely, how much competition there is and how well financed and established your competitors are.

A word to the wise: If you think you have no competition, look again. You do. No matter how unique your product is, there is a competitor somewhere, probably pretty close by. To succeed in your new venture, you need to learn as much as you can about who your competitors are, what they offer, and how they operate.

## Identifying the Competition

With your niche market in mind, ask the following question: "What are my potential customers doing right now to meet the need I hope to meet?"

It is a good bet that they are giving their business to one or more of your competitors. In some cases, you will have direct competition -- a business that offers a product or service that is similar to your own. In other cases, you may be up against a well-established company that approximates what you offer. You also should consider potential new entrants into the marketplace.

When you research your competition, the first thing you should do is find each and every competitor. Pull out the Yellow Pages and look through the index to find any type of business that might resemble yours. If you have a product or service that you are marketing to other businesses, be sure to review the Business-to-Business Yellow Pages. On the Internet, go to a search engine and type in keywords associated with your idea. You may be surprised to see what businesses show up.

## Beating the Competition

Your challenge is to identify the most effective way to set your business apart from the other players in your field. Here are five ways to accomplish this goal:

- Understand the competition. You can't differentiate yourself if you don't know what you're up against.
- Make your product or service unique. Offer special features or benefits to make your business stand out from the crowd.
- Price your product or service differently than the competition. Usually you will want to offer a lower price than your competitors. Be careful, however -- you may start a pricing war and drive the profit out of your business. Consider the "Pizza Wars." Most people will not pay full price for a pizza because they are always on special!
- Customize your product or service. When you can meet the specific needs of your customer, it's easy to outshine the competition. Offering individualized service in a friendly, professional manner is a sure way to build client loyalty.
- Offer stellar customer service. Friendly service and customer support can be a key selling feature in a competitive market. I'll bet there is at least one company you give your business to because it offers excellent customer service.

The bottom line in differentiating your business from your competitors is offering

experienced entrepreneurs. You will get an inside scoop on what it's like to own your own business as well as great advice on getting started.

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customers something they can't find anywhere else. In other words, you need to create value for your customers. Let's take a moment and look at how you can do that.

## Create Value

To win customers, you have to do two things:

- Make them aware that you exist.
- Convince them to choose you over your competitors.

We'll talk about customer awareness (specifically, marketing) next lesson. For the rest of this lesson, we'll focus on how to convince them to buy from you, not the other guy.

The question, then, is: "How do I get people to buy from me?" The easy answer is that you create value.

### Value: A Primer

What is value? Customers have two resources they trade back and forth: time and money. In many cases, they are faced with a clear-cut choice: Spend more time to save money, or spend more money to save time. For your business to succeed, you must figure out how to provide your customers with the results they want for the lowest price and the greatest convenience.

**VALUE = PRICE + DESIRED RESULTS + CONVENIENCE**

We are living in the most competitive business environment any of us have seen. As a result, pricing has become a key issue. Everyone has access to more information than ever before and we are all more sophisticated as a consumer base. All things considered, consumers gravitate toward the lowest price when making a purchase decision. Price is a significant, if not the most significant, factor in our perception of value.

Another key factor in our perception of value is results. We have to make sure our products and services deliver the results our clients are looking for. In order to accomplish this, we need to know what our customers want and need, then put quality checks in place to ensure that we deliver what they expect.

The third factor in value is convenience. It seems that time is at a premium for everyone, and we are willing to trade money or brand loyalty for time. To the extent that we can make our product or service more convenient for our customer, we have a definite edge over less convenient alternatives.

### Moving Forward

In Lesson 3, we learned about elevator pitches, and began figuring out ways of identifying viable market niches. We also discussed the importance of identifying -- and analyzing -- the competition. Finally, we looked at the idea of creating value.

In Lesson 4, we'll discuss the crucial importance of communicating your product and its value to your customers: marketing. In the meantime, be sure to do the assignment and quiz and visit the message board to meet your classmates.

### Class Participation

There's nothing like peer support in a learning environment. If you ever belonged to a study group in school, you'll remember the value of putting heads together to discuss the subject and work through solutions. The Message Board is your online study-group lounge, where you can meet your classmates, share your reasons for signing up for this class, and talk about your goals and dilemmas as you work through this course. You never know who has the answers you seek.

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## Assignment #3

Now that you have analyzed your customer base and your competitors, you are ready to add some notes to your journal. Do the following:

- Draft a three-sentence elevator pitch.
- Describe in detail your ideal primary market. Who is your ideal customer? Get as specific as possible.
- Describe the industry or marketplace you will operate in. What is the competitive nature of the environment?
- Describe in detail your unique selling proposition.
- Identify your major competitors. Include at least four specific companies and describe their unique selling positions.
- Describe what value your customers will get from your product or service compared to your competitors' offerings.

Don't forget to go to the message board to brainstorm with fellow students. What kind of progress are they making?

## Quiz #3

Question 1:

An elevator speech is:

- A)  A short (30-45 second) description of your business
- B)  An elaborate description of your business
- C)  A description of your marketing goals
- D)  None of the above

Question 2:

If you find multiple niche markets for your product, it is best to initially focus your advertising on:

- A)  The largest market segment
- B)  The market with the most disposable income
- C)  The market that is easiest to penetrate
- D)  All of your identified markets

Question 3:

Which of the following is considered a strategic element in creating value for the customer?

- A)  Price
- B)  Convenience
- C)  Benefits (desired results)
- D)  All of the above

Question 4:

Evaluating differences based on the location of your target market is considered:

- A)  Demographics
- B)  Psychographics
- C)  Geographics

Question 5:

You can effectively differentiate your product based on: (Check all that apply.)

- A)  Price points
- B)  Customer service
- C)  Customizing your product or service
- D)  None of the above

## Hey, You! We're Here! Marketing Basics

This lesson covers the different elements of communicating with the customer. We will discuss the use of different media, the message we are communicating to the customer, and an integrated approach to promotion.

### Communicating Value

In Lesson 3, we learned about elevator pitches, and began figuring out ways of identifying viable market niches. We also discussed the importance of identifying -- and analyzing -- the competition. Finally, we looked at the idea of creating value.

But once you create that value, how do you let people know what that value is? Marketing, of course.

### Marketing 101

The problem with starting a business is this: If you build it, they won't necessarily come. They have to know about it first. That's where marketing comes in. Marketing is, in many ways, the life force of your business. The goal of marketing is to communicate your message to your potential customers as quickly and efficiently as possible at the lowest possible cost.

Marketing can help you achieve several strategic goals:

1. **Awareness:** Unless others know your business exists, it will never attract customers.
2. **Image:** Your next goal is to develop and nurture a positive company image. One of the major reasons that a pair of designer jeans is more expensive than a generic brand is the image associated with the designer. Decide what image you want to project, then design your promotion to reinforce this image. Do you want your company to be perceived as high quality and high priced, or as a low-cost alternative? It's important to keep your message consistent throughout your promotional activities.
3. **Sales:** The third marketing goal is to persuade potential customers to purchase from you. This is known as "triggering the buy response." Once customers know who you are and what you sell, you must give them the incentive to try your product or service.

### Guerrilla Marketing

"Guerrilla marketing" is a term coined by Jay Levinson for tools and techniques to increase your marketing exposure at the lowest possible cost. Even if you're operating on a shoestring, you can employ brilliant strategies for winning customers without ripping a hole in your budget. For suggestions and resources, visit the Guerrilla Marketing Web site at [www.gmarketing.com](http://www.gmarketing.com).

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4. Loyalty: The final and ongoing aim of marketing is to remind our customers to continue buying from us. One of the best ways for a company to increase profits is to develop loyal customers.

## Marketing Tools

Every method you use to promote your business is a form of marketing. One of the key elements to your success will be not just getting your message out there, but creating a strong, strategic marketing plan for your promotional activities.

There are a lot of marketing tools available to any and all businesses. Some are expensive, others aren't. Let's take a look at some options.

1. Advertising: This is the most prevalent type of promotion. It involves using media such as newspapers, radio, TV, and the Internet to get your message to your ideal target market. Advertising is generally costly and can be labor intensive (if you opt to create the advertisements yourself).
2. Promotional events or specials: These are activities designed specifically to trigger a buy response. Examples of sales promotions include buy-one-get-one-free, taste tests, free samples, coupons, rebates, and customer appreciation tie-in gifts. A sales promotion is designed to increase sales quickly and create brand loyalty.
3. Public relations: News stories, press releases, and press conferences are all forms of low or no-cost publicity. The downside of publicity is that you have little, if any, control over how or when the message is delivered to your target audience.
4. Personal selling: One-on-one interaction with your customers -- via face-to-face meetings, telephone calls, letters, and faxes -- can offer exposure to your target market. Personal selling allows you to customize your message to specific customers and gives you the benefit of quick feedback, but the cost per contact can be very expensive.

Marketing can be very time-consuming and expensive -- but it doesn't have to be. Planning well will make all the difference.

## Advertising: Yes or No?

How and where should you spend your precious marketing budget? Consider your ideal target market. You want to select the advertising media that will gain you the most exposure with potential customers. Contact the marketing departments for TV and radio stations, Internet companies, and other outlets, and ask for a media kit. This will allow you to compare the audience demographics and cost of each option. Consider creating a simple spreadsheet to keep track of the information from each company.

## Traditional Media

The major traditional media options are:

- Television: TV can provide massive exposure, but it can be very expensive and may be less effective in targeting a specific customer niche. Consider the audience you will reach, and the geographic area the channel covers. If you have a substantial advertising budget and a product with mass-market appeal, TV advertising might be worth considering. For most small businesses, however, the cost is prohibitive.
- Radio: While radio advertising can be relatively costly, it is much more affordable than television. It also provides wide audience exposure. One of the benefits of

business. You can earn up to 100,000 points in your first year alone, that's enough for 4 domestic round-trip airline tickets. And with so many ways to redeem points — from travel to treats for you and your employees — you've got support that can help build your business. (Terms and Conditions Apply.)

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## Crafting a Message

You must make consumers aware of the products and services you offer. Remember that people buy benefits rather than features; you must clearly show your customers how they will benefit from your product or service. Keep in mind that consumers basically trade time and money for goods and services, so the two most compelling benefits you can offer are saving money or saving time.

radio is that you can target specific niche markets by format. For example, if you want to reach men between the ages of 25 and 40, you may choose a sports station in your target geographic region.

- Newspapers: The effectiveness of newspaper advertising depends upon the publication and the marketplace. It's very easy for an ad to get lost in a large local paper. Consider what you look at when you read the Sunday paper. How many advertisements actually catch your eye? One of the major drawbacks of newspaper ads is their brief lifespan. The paper is typically thrown in the recycling bin as soon as it has been read.
- Magazines: A weekly or monthly magazine has a longer shelf life than a newspaper, and advertising rates are correspondingly higher. One of the major benefits of advertising in magazines is that it allows you to target a specific market based on content. For example, if you are selling a new lightweight fly-fishing rod, what better advertising venue could you find than Field & Stream?
- The Internet: Many customers expect any company worth its salt to have a Web site -- and may discount a company without one. Your Web site can inform potential customers about your products and services, give information about your prices, and instill confidence in your customer that you are an established vendor.

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## Using Public Relations

You can successfully incorporate public relations techniques into building a strong, profitable customer base. These techniques will take some time to develop, but they have tremendous payback potential. Here are some free or inexpensive ways to draw attention to your business:

- Become an expert in your field. Learn all you can about issues related to your industry. Call local radio stations and offer your time as an expert. Talk shows are always looking for topics to fill airtime, and they can give you valuable radio exposure without the cost of advertising time. Remember, you will not be selling your services directly, just providing useful information. Of course, your business will be mentioned in your introduction, which will help to raise your public profile and build credibility.
- Hire a public relations expert to prepare a press release and submit it to the appropriate media. Although you can write a press release yourself, many media

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outlets have stringent style requirements that make it a very time-consuming task. Not only do public relations agents specialize in the writing and distribution of press releases, they often have pre-existing media contacts, which can increase the likelihood of your press release gaining notice.

- Network in your community. Join the Chamber of Commerce, a local Rotary group, or business organizations. Sponsor a sports team, school activity, or community event. Donate your product or service to a charity event or fundraising raffle. Getting involved in your community will increase your referral base and help establish your company locally.
- Participate in formal networking groups (often known as "leads groups"). These are organizations specifically designed to exchange information on perspective clients. Most leads groups will invite one member from any given profession to join. For example, you would probably not find two Realtors in the same leads group. [LeTip](#) is a professional networking group with multiple chapters that is dedicated to the exchange of business leads among its members.
- Join professional and/or trade organizations. You can network with others in your field, learn about trade conferences, and keep track of changes in your industry.
- Practice public speaking with [Toastmasters International](#). Any entrepreneur should be able to speak comfortably to any size group of people. The Toastmasters have an excellent program designed to teach public speaking skills to entrepreneurs and business professionals.
- These suggestions are only the tip of the iceberg, of course. Get creative and brainstorm about ways you can expose your business to your potential audience. Make this a fun, ongoing project and your business will profit every step of the way!

## Moving Forward

In Lesson 4, we discussed the importance of trumpeting your business to the world, and examined a few alternative routes for doing that. In Lesson 5, we'll take a look at ways of distributing your product or service. In the meantime, be sure to visit the message board and do the assignment and quiz.

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## Assignment #4

Think about your product or service and the target customers you hope to reach, then answer the following questions in your journal:

1. Do you have a marketing budget? How much money are you able to spend on marketing to launch your business? How much are you willing to spend on a continuing basis to grow your business? You can either set a fixed amount or decide to invest a percentage of your sales into marketing. For example, if you choose a fixed amount, you may set aside \$5,000 to introduce your business and then spend \$500 a month for the next 12 months to promote your product or service.
2. Do you want to advertise? If so, what sorts of outlets should you target? Prepare a spreadsheet comparing various media, audience demographics, and the cost to advertise.
3. Develop a public relations strategy to generate free or low-cost exposure to your business in addition to your advertising plan.
4. Describe in detail how and where you will use your promotional tools. If you settle on a radio campaign, list the stations and the programs you will run ads on. For print ads, describe the publications, the size of the ads, whether they will be in black and white or color, and which

sections you will run them in.

Get as detailed as you can in describing how you will launch your promotional campaign to win over your potential customers. For now, consider both blue-sky and low-budget options. You'll have time to limit yourself later.

In the meantime, don't forget to visit the message board and visit with other students. Do they plan to advertise? Where? What other marketing plans do they have?

## Quiz #4

Question 1:

Which of the following is considered a sales promotion? (Check all that apply.)

- A)  Free samples
- B)  Coupons
- C)  Rebates
- D)  None of the above

Question 2:

Which of the following are marketing goals? (Check all that apply.)

- A)  Inform your customers about your products and services
- B)  Set your price below your competition's price
- C)  Develop and nurture a positive company image
- D)  Persuade your customers to buy from you

Question 3:

You can benefit from networking at: (Check all that apply.)

- A)  Chamber of Commerce meetings
- B)  Leads groups
- C)  Trade organizations
- D)  None of the above

## Getting It Out There: Distribution

Even the best product won't get you very far if you can't distribute it to customers. Learn how to develop an effective strategy to deliver your product or service to your customers.

### Distribution Channels

In Lesson 4, we discussed the importance of trumpeting your business to the world, and examined a few methods for doing that. In Lesson 5, we'll take a look at ways of distributing your product or service. Distribution is the process of getting your product or service into the hands of your customers. It is easier to visualize the distribution path of a product than a service, so let's begin there.

When you have a product, you must decide how and where it will be manufactured. For many small businesses, initial production is done at home, usually in the garage. Once you have the product in hand, the question becomes: How will it reach your customer? You should consider these factors:

1. Where will the customer purchase your product (a specialty store, a supermarket chain, etc.)?
2. How will you ship your product to the place where the customer will purchase it?

### Traditional Channels

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Fundamentally, you have two choices for distribution. You can either sell directly to your customers, or you can make it available through intermediaries. Traditionally, intermediaries include:

- **Brokers and agents:** Agents and brokers typically negotiate the sale of your product for a fee or commission. Often they have well-established relationships with buyers in various types of retail stores. For example, if you want to sell a new product in grocery stores, a broker specializing in the food and drug industry is critical in getting your product onto shelves.
- **Wholesalers:** When you wholesale your product through middlemen who sell to retailers and other intermediaries, they generally take title to the goods; you are selling your products directly to them. This increases the risk and cost to the wholesaler.
- **Retailers:** These intermediaries are the ultimate traditional distribution channels for consumer products. You will find many different types of retailers, so you should think carefully about which type of retailer services your ideal customer.

You may partner with one, or more than one, of these intermediaries for the distribution of your product. If you sell directly to a retailer, only one middleman stands between you and your customer; this is known as a one-level channel of distribution. If you use a broker who sells your product to a retailer, there are two channels in your distribution system.

Next you must decide how you will physically move your product from where it is manufactured to where your customers will purchase it. Consider all of the options that make sense for the type of product, and the volume you will be transporting. If you are selling individual items directly to your customers, research the rates of UPS, FedEx, DHL, the U.S. Postal Service, and local delivery companies. Investigate regular rates, second-day delivery, and overnight. If you are selling pallets of goods to retail stores, you must research the bulk shipping rates of trucking companies.

## Non-Traditional Channels

Today's marketplace offers many choices for non-traditional distribution. The fastest-growing category is the Internet. With the recent explosion of e-commerce, the Web has emerged as a significant distribution option.

Most entrepreneurs are choosing Web-based distribution systems to either supplement or replace traditional channels. The advantages of Internet distribution include:

- **Reduced distribution costs:** Because the Internet brings customers directly to your company, you can avoid the costs of distributing through traditional intermediaries.
- **Added control:** By selling your product on your own Web site, you have increased control over customer service and product image issues. A Web site can also be a great tool to promote your product and provide information to potential customers.

Another non-traditional distribution option is the "home party." Many companies successfully use word of mouth and home-based distribution to market their products and services. Amway and Mary Kay are among the largest companies that employ this method.

Other non-traditional distribution methods include door-to-door sales, telemarketing, flea markets, and swap meets. Any creative way you find to distribute your product and service can be considered a non-traditional approach. Brainstorm and be creative!

## Internal and External Sales Forces

Brokers, wholesalers, and retailers are all examples of an external sales force. Some

and your employees — you've got support that can help build your business. (Terms and Conditions Apply.)

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businesses find it advantageous to take on some of the functions of these intermediaries "in-house" by hiring a sales force as part of their staff. You will find pros and cons to both internal and external sales forces.



## Internal Sales Force

Advantages to having an internal sales force can include:

- Greater control over your message: An internal sales force allows you to communicate directly with your potential customer.
- Exclusivity: Staff salespeople are only concerned with selling your product, so they can focus 100 percent of their attention on making sales for you. External intermediaries typically represent several products, so you must work extra hard to motivate them to promote your product.
- Ongoing training: Information is a key element in successful selling. When your sales force is in-house, you can provide ongoing training for new products and refine your sales techniques. Most intermediaries will not attend ongoing training sessions since they are not compensated for their time.
- Easy access: Communication with your employees is usually easier than with an external sales force. When you make changes to your products or sales materials, you can relay this information to an internal sales team more quickly.

## External Sales Force

Using an external sales team may have the following benefits:

- The cost of sales is directly related to the actual sales achieved. Brokers and agents are traditionally paid a percentage of the sale, so you can directly relate the cost of winning the order to the revenue generated. By comparison, an internal sales team can be very costly. In addition to base salaries, you must also cover health insurance, administrative costs (phone, office, materials, etc.), and transportation.
- You can tap into a pre-existing distributor network. Intermediaries such as wholesalers and brokers have established relationships with buyers and are familiar with the way various retailers like to do business. This may allow you to distribute your product more quickly by focusing on who intermediaries offer your product to and how they sell it.
- Some industries require you to use a traditional distribution channel. Certain large retailers require their vendors to be on specific computer software to electronically track sales and reorders on a daily basis. Some retailers will only purchase from approved vendors.
- You can benefit from "human economies of scale." It is often much more cost-efficient for a broker or agent to represent several products to buyers at the same time. Many intermediaries handle several product lines at once. This distributes the cost of travel and related sales costs among several companies.

You should consider the advantages of both types of sales efforts to decide which is best for your new company. Review your notes about your competitors; if necessary, do some additional research to find out how they set up their distribution. Chances are you may want to consider following their lead.

## Setting Up a Distribution Channel

When choosing a distribution channel, the key question to answer is, "Where will my ideal customer expect to find my product or service?" If you are offering a product, take the following factors into consideration:

- What are the traditional distribution methods of your product? Is it something people will look for at a particular type of retailer?
- What is the nature of your product? Will the value of this product be obvious, or does it need explaining? Some products are "show and tell" items; they tend to be better received if someone can demonstrate their use.

If you are providing a service, consider the following questions:

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Go behind the scenes and find out how successful producers used marketing,

- Will I sell my service, or will I hire someone else to do it for me?
- If I'm going to hire a salesperson, will it be more profitable to hire an outside firm or an employee?
- Will I offer my services at someone's home or office, in my office, over the phone, or via the Internet? How will I deliver my services to my customers?
- What travel time and expenses will be required in providing my service?

## Moving Forward

In Lesson 5, we analyzed ways of getting your product out into the world. In Lesson 6, we'll talk about legal and tax basics. In the meantime, don't forget to do the assignment and quiz. And be sure to visit the message board!

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## Assignment #5

It's time to write down some ideas about distribution. Be sure to address the following questions:

1. Describe the distribution channels you might use. Will you have a sales force? Will it be internal or external?
2. What distribution channels does your competition use? How effective are they? How will your distribution strategy give you an edge over your competitors?
3. What factors did you consider in determining this strategy? (You may want to discuss your ideal customer, finances, geographic factors, pre-existing business relationships, and the nature of your product or service.)
4. How long do you expect it will take to effectively implement your distribution strategy?
5. If you are going to use an external sales force, which channels will you rely on? Do you have established relationships with these intermediaries? If not, how will you develop these relationships?

6. If you are going to create an internal sales force, how will they be compensated? How will they fit in on your organizational chart?

Don't forget to visit the message board to discuss your plans with fellow students. How will they get their products out into the world?

## Quiz #5

Question 1:

Which of the following are members of a traditional distribution channel? (Check all that apply.)

- A)  Advertisers  
B)  Wholesalers  
C)  Brokers

Question 2:

True or False: A broker typically takes title to goods and also takes physical possession of the goods.

- A)  True  
B)  False

Question 3:

Which of the following is an advantage of an internal sales force?

- A)  The cost of the sales effort is directly related to the actual recorded sales.  
B)  You can penetrate a market quicker by tapping into an existing network.  
C)  You have greater control over sales strategy.  
D)  All of the above.

Question 4:

Which of the following is an advantage of an external sales force?

- A)  You can provide comprehensive training.  
B)  You can penetrate a market quicker by tapping into an existing network.  
C)  You have greater control over sales strategy.  
D)  All of the above.

Question 5:

True or False: Distribution factors you need to consider include how you will physically transport your goods.

- A)  True  
B)  False

## Staying Clean, Part I: Legal Entities and Taxes

What sort of legal entity should your company be? How will that affect your tax payments? This lesson answers those questions, and more.

### LLC? Sole Proprietor? Finding the Right Legal Structure

In Lesson 5, we looked at strategies for getting your product out into the world. Lesson 6 will introduce you to the various legal entities you might decide to use. We'll also examine the sometimes mind-boggling tax burden of the small business owner.

#### Legal Entities

To help you understand the differences between the various legal entities, we'll cover the basic categories of privately held (closed) companies: sole proprietorships, partnerships, and corporations. We will also touch on the basic tax implications of each one; however, tax laws vary so much from state to state that it's best to consult a tax advisor in your area for more accurate information. We will not cover publicly

#### Get It in Writing

Although not legally required, a formal partnership agreement is a good idea if you decide to involve a partner or partners in your business. This agreement should include: the duration of the partnership,

held companies; if you are taking this course, you will probably not be going public this month.

## Sole Proprietorship

A sole proprietorship, as its name implies, is one solitary owner. A sole proprietorship is not incorporated and it may or may not have employees. (If it does have employees, it is subject to the federal and state requirements regarding payroll taxes.) The sole proprietor also may or may not file a "Certificate of Conducting Business Under an Assumed Name," or an assumed name identity. An example of this is John Doe, who is the sole proprietor of a small toy company. He names his company Motown Toys, and although he files an assumed name identity of Motown Toys, which changes the name of his company, it does not change his sole-proprietorship status.

The sole proprietor is personally liable for the business and puts his or her non-business assets at risk. The income or loss from a sole proprietorship is included in the owner's personal tax return, so there is no business tax return. Taxable income is subject to both income tax and self-employment tax.

## Partnerships

Two or more people, by agreement, can form a general partnership. A general partnership is not incorporated and each partner has unlimited liability for any debts of the partnership.

In a limited partnership, there must be one general partner. The others are limited partners, each having a limited liability. In other words, each limited partner is only liable for the cash and/or property (capital investment) he or she has brought to the company. The general partner has unlimited liability.

A limited liability company (LLC) is similar to a limited partnership, except that all partners have a limited liability.

In all three of the above partnerships, an information tax return (form 1065) is filed for the partnership, but each partner's share of income from their pro rata share of the partnership is included in his own individual return. The partnership itself does not pay taxes.

financial obligations of each partner, methods for making decisions in case of a stalemate, how and when the profits and losses will be distributed, and the dissolution or restructuring of the partnership in the event of the death or disability of one of the partners.

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## Becoming a Corporation

Setting yourself up as a corporation changes your tax liabilities. Let's take a look at a couple of different kinds of corporations.

- A C corporation is a taxable entity unto itself, separate from any of the individuals owning it. With one or more shareholders, it is the most common corporation. Since a corporation is considered a legal entity, its owners (shareholders) are not personally liable for the liabilities of the business. Shielding the company's owners from liability issues is one of the main reasons why corporations are formed. However, there are some tax disadvantages of C corporation status, such as the double taxation that occurs when dividends are paid.
- A subchapter S corporation starts out as a C corporation, but must file for its S corp status within 75 days of its C corp filing. Subchapter S status is reserved for businesses with no more than 75 shareholders and avoids the double taxation status of the C corporation, since all income is taxed to the shareholders instead of to the corporation. Again, an information tax return is filed (form 1120-S) and the income is shown in the individual shareholders' tax returns.
- The limited liability company combines the benefits of a corporation with those of partnership. Like a corporation, the owners or investors of the LLC are shielded from personal liability for the debts of the partnership. As with a partnership, the income and losses of the LLC are taxed to the individual investors, and are reported only once on each investor's personal income tax return.

Corporation status is filed with your state government, and filings can take anywhere from a few days to several weeks. Check with your legal advisor to see if any other filings are required by the state, county, city or other municipality in which you're planning to do business. Tax laws and legal implications of corporations and partnerships are complex, so if you are considering one of these entities, definitely seek the advice of an attorney and/or tax advisor who has experience helping small businesses.

Now that you have given some thought to the legal status of your business, it's time to move on to some more business inevitabilities. Don't put away your calculators yet, because we're about to look at taxes.

## Taxes

Most everyone has paid taxes before, but probably not like you'll pay them as a small-business owner. In fact, taxes and regulatory fees have been cited as the two biggest hindrances to business. Remember the comparison of legal entities from the last section? The decision you make regarding the legal entity of your company has the biggest effect on how you are taxed, so be sure to consult an expert when making that decision. While you might eventually be able to hire an in-house bookkeeper, chances are, as a young start-up, you will be handling all the tax issues of your company alone (ideally with the advice of a good CPA).

Here are some of the taxes that you should familiarize yourself with before you begin

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Make the IRS Work for You

The IRS offers ways in which the small-business owner can improve his tax knowledge. It has literally dozens of publications and will send you any of them

your business.

- **Social Security taxes (FICA):** Every employer has to pay social security taxes on his or her employees. Even if you don't have employees, you will owe it on yourself, in the form of Self Employment Tax. The current rate is 7.65% for the employee share and 7.65% for the employer share. The rate for self-employment tax is those put together: 15.3%. Social Security taxes are due each quarter, unless you have over \$5000 of tax. Consult your tax advisor for clarification on how and when you should pay this tax.
- **Federal unemployment taxes (FUTA):** This tax is collected and used as compensation for workers who have lost their jobs for various reasons. It's paid quarterly and the current rate is 6.2% for the first \$7000 in wages you pay per year.
- **Income withholding taxes:** Whether you pay employees or only yourself, you are responsible for withholding tax on each paycheck. There is a government formula for figuring income withholding amounts. You may be responsible for quarterly estimated taxes to the government. Check with your tax advisor.
- **Business income taxes:** As we touched on briefly above, C corporations are the only entities that are taxed twice. All other forms are taxed only at the stockholder, partner, or owner level, usually in the form of capital gains tax or a simple personal income tax.
- **State income tax:** Most states have income taxes for corporations, and some may for other entities. Check with your tax advisor or with your state for its requirements.
- **Sales and use tax:** This is the tax on the sale of goods and services that most of us are all too familiar with (except for those who are lucky enough to live in states that do not have sales tax). You may be exempt from paying taxes on purchases you make with the intent of reselling, but the tax will be due when you resell the goods. In order to get this exemption, you must file for a tax exempt number, usually as part of the process of registering your business with your state's revenue department. Many small businesses pay monthly or quarterly sales tax, depending on their sales volume.
- **Excise taxes:** This is another form of state tax and will affect businesses such as wholesalers and retailers. Your state or your tax advisor can provide more information.
- **Property taxes:** These vary from state to state, and there are a few states that do not have property taxes, but generally they are paid once a year on your land and your office or plant. Sometimes they are paid through mortgages.
- **Inventory taxes:** Not all states have this tax, which is assessed on goods you have not sold yet. An inventory of goods in your retail establishment, plant, or warehouse is done at a specific time of the year, and you submit a form and a check to the state.

Understanding taxes is one of the most challenging, but important, skills of the successful entrepreneur. It's important to work on improving your knowledge in this area, but because tax laws are complex and are constantly changing, it's a good idea to become good friends with a trusted tax advisor. Especially because of the seemingly overwhelming amount of tax burden on the small-business owner, taking all appropriate legal write-offs is extremely important for your bottom line.

## Moving Forward

In Lesson 6, we looked at a few legal and financial basics of setting up a business. Next lesson, we'll examine a couple of other areas that can prove nettlesome: insurance and accounting. In the meantime, don't forget to visit the message board and check out the assignment and quiz.

that you request. It also has a program called Volunteer Income Tax Assistance where IRS instructors teach free classes. Another IRS program is called the Small Business Tax Education Program. This is an excellent educational tool for the self-employed and the small-business owner. Visit their Web site at [www.irs.ustreas.gov](http://www.irs.ustreas.gov) for more information.

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## Assignment #6

What would be the best legal structure for your business? Why? List advantages and disadvantages.

Don't forget to visit the message board to discuss your concerns with fellow students. What are their plans?

## Quiz #6

Question 1:

True or False: The easiest way to get start-up capital is to get a bank loan.

- A)  True
- B)  False

Question 2:

True or False: The sole proprietor of a business is personally liable for the business and puts his or her non-business assets at risk.

- A)  True
- B)  False

Question 3:

True or False: In all partnerships, each partner has unlimited personal liability for any debt.

- A)  True
- B)  False

Question 4:

The difference between a C corporation and a subchapter S corporation is:

- A)  Subchapter S corporations are subject to "double taxing."
- B)  A subchapter S corporation has under 75 employees, while a C corporation has 75 or more.
- C)  C corporations' corporate revenue is taxed, and then shareholders are further taxed when dividends are paid. Subchapter S corporations are not taxed -- only their shareholders are.
- D)  the C corporation is really just a sub-type of partnership, while under the Subchapter S corporation, shareholders have limited liability.

Question 5:

Your business is a sole proprietorship and you have no employees. You must pay:

- A)  FICA, FUTA, and inventory tax
- B)  FUTA, sales tax, and state income tax
- C)  FICA, income withholding taxes, and sales tax
- D)  Some or all of these, depending on which state you live in

## Staying Clean, Part II: Insurance and Accounting

Beyond corporations and taxes are the ways a business must spend and keep track of money. In this lesson, you'll learn what kind of insurance you really need for your business and whether you should do your own

accounting.

## Insurance

In Lesson 6, we looked at a few legal and financial basics of setting up a business. In this lesson, we'll examine a couple of other areas that can prove troublesome: insurance and accounting.

### Insurance Needs

Nobody likes having to pay for insurance, and none of us like to think about having to use it. But it's important to have if you ever do need it. What kind of insurance do you really need for your business?

For the new small company, the needs may be minimal. You may need life and health insurance just for yourself and insurance for your inventory. As you grow, however, your insurance needs will change as well. You will want to consider insurance that covers inventory, theft, liability, employee health and life plans, and worker's compensation. If you do have to provide insurance benefits for your employees, the expense can be split, often 50/50, between you and your employees. Insurance plans are as varied as the businesses they cover, so it's important to consult the experts, your accountant, and your insurance agent. The three of you should periodically sit down and do a detailed assessment of the evolving needs of your business.

### Workers' Compensation Insurance

Workers' Compensation is a state-mandated insurance that provides benefits to employees who are injured on the job. If you have employees, it can be a big expense. The cost of the premiums you will have to pay is figured on your experience modification factor, a figure directly related to your company's accident and injury record compared with the average for your firm's industry. The higher the modification factor, the higher your premiums.

In addition to the modification factor, job classifications also play a part in the cost of your premiums. The higher the job classification -- or risk involved in the performance of a particular job -- the higher the premium. The best thing to do is to set up a meeting with your insurance agent and a representative of the state to talk about ways to keep your costs down by keeping your modification factor low.

## Hiring an Accountant

As a small-business owner, you have a choice of either outsourcing your accounting services or using an in-house system. Let's take a look at the first option.

### Outsourcing

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Be Smart

It's important to ask lots of questions when you are interviewing

Tax preparers, accountants, and bookkeepers come with many different qualifications and credentials. Anyone with experience in keeping books can call themselves a bookkeeper. A good in-house bookkeeper could be invaluable for your company's internal accounting and record-keeping needs, but most are not qualified to handle the tax needs of a small business.

Tax preparers, such as those who work at H & R Block, are usually the most inexpensive and least qualified to handle the complicated tax needs of a small business. Often, they do not work in the tax field year round, and they may lack the expertise needed to keep up with the complicated tax laws that will affect your business.

Enrolled agents, or EAs, have been granted enrollment to practice before the IRS by passing the IRS enrolled examination. EAs can legally represent you before the IRS, should you ever get audited. EAs are required to complete continuing education requirements in order to renew their enrollment status. EAs' prices are higher than those of tax preparers.

Certified public accountants, or CPAs, are degreed accountants who have passed their state's CPA licensing exam to practice public accounting. CPAs can also represent you before the IRS. CPAs must complete continuing education on an annual basis to be able to continue practicing public accounting. In most states, only CPAs are allowed to use the title "accountant" when representing their business or in the description of their services. CPA fees are normally higher than those of EAs.

Tax attorneys are attorneys who specialize in tax law. They may or may not also be CPAs. Tax attorneys often focus on court cases dealing with tax issues and they normally do not specialize in tax return preparation. In most cases, tax attorney fees are higher than CPA fees. Tax attorneys with small-business expertise can help you in such matters as the sale or purchase of a business, the incorporation of a business, or the formation of an LLC.

A word about accounting firms: if you are comparing small ones with large ones, it's important to remember that the significance (or size) of your company's account has a direct affect on who in the firm will actually handle it. If you use a small CPA firm, many times you will deal directly with the owner. Many times the owner of such a firm is an entrepreneur, such as yourself, who has significant expertise and years of experience. He often has already come up through the ranks of one of the large firms before starting his own business. On the other hand, if you are a small business and outsource to one of the big firms, your work could be handled by a rookie.

Every business is unique, however. If your company has international concerns, for instance, one of the larger firms with international branches may be better able to serve you.

professionals to handle your company's accounting needs. Make sure they specialize in the accounting needs of small businesses and have a tax focus. It's also important that you find someone you feel communicates well with you. Word-of-mouth recommendations from other small businesses can often be the best way to begin the interview process.

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## Doing Your Own Accounting

If you decide to do your own accounting, you'll need to consider the unique requirements of your business and the number of transactions you will performing. That will help you decide which kind of in-house accounting system to use. Your options are a manual system or a computerized system using off-the-shelf computer software.

### Manual Systems

A manual accounting system can be obtained for less than \$50. This should include a cash receipts journal, a cash disbursement journal, and a ledger to which your journal totals are posted. This system is adequate for a very small business with a fairly low volume of transactions. Most manual accounting systems are abandoned after the business gets off the ground due to the amount of time required to properly post transactions.

### Software

Computer accounting software can be purchased, depending upon the projected size of your business, for anywhere from \$60 to \$800. These range from a simple check-writing program such as Quicken to modular systems such as Great Plains or MAS90. The low-end systems are fine for people who want to maintain their personal cash accounts, but are not necessarily recommended by accounting professionals as ideal systems for maintaining accounting records for a business.

You may wish to discuss systems with other small-business owners or use a computer consultant to recommend a system suited to your needs. The \$100 or so charged by the consultant may be a good investment to help you avoid over- or under-buying for your needs.

Whichever option you choose, it's important that you realize the significance of keeping good records. Even if you outsource all of your accounting and tax preparation functions, the better records you keep, the less money this service will cost you. Good accounting and documentation are essential for sustaining your position in the event of an IRS audit. Finally, the better financial records you keep, the more legitimate tax deductions you will be able to support.

### Moving Forward

In Lesson 7, we've reviewed a few issues relating to insurance and accounting. In our final lesson, we'll put everything you've learned together and you'll actually start writing a business plan. In the meantime, remember to do your assignment and quiz, and check out the message board. See you in Lesson 8!

## Assignment #7

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Consider and take notes on the following questions:

- How will you handle accounting?
- Will you do it internally, or will you hire a professional? What are the pros and cons of each?
- If you hire a professional, what will you look for?

Don't forget to visit the message board to discuss your ideas with fellow students. What are their plans?

## Quiz #7

Question 1:

True or False: States require businesses to carry Workers' Compensation insurance.

- A)  True  
B)  False

Question 2:

An Enrolled Agent is:

- A)  An employee who pays 50 percent of his or her insurance costs  
B)  An inexpensive tax preparer, like the ones at H&R Block, who cannot legally represent you to the IRS  
C)  Someone who has been granted enrollment to practice before the IRS by passing the IRS enrolled examination  
D)  A CPA with a specialization in small business tax law

Question 3:

A tax attorney:

- A)  Must also be a CPA  
B)  Specializes in tax preparation  
C)  Can help you with the incorporation of your business  
D)  All of the above

## Pulling It All Together

It's time to organize everything you've learned and incorporate it into a business plan that can serve as a road map to business success.

## Your Business Plan

In Lesson 7, we reviewed a few issues relating to insurance and accounting. In this, our final lesson, we'll put everything you've learned together. It's time to start drafting a business plan.

If you are starting up a business by yourself, most likely you will create the business plan alone. If you have enlisted a management team, it's a great idea to make the writing process a group effort. Ask the person in charge of marketing to draft the section on promotion, the person who will handle finances to create the projected financial statements, and so on. As the primary entrepreneur, you will want to review and edit all sections to make sure the plan is consistent, reads well, and flows smoothly.

Let's look at each section you will need to create, starting at the beginning.

## Title Page

First impressions count. A clear, businesslike title page should include the following information:

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Apply today and let the built-in Membership Rewards® program reward you and your business. You can earn up to 100,000 points in your first year alone, that's enough for 4 domestic round-trip airline tickets. And with so many ways to redeem points — from travel to treats for you and your employees —

- Company name
- Company address
- Company phone number
- Name and contact information for the chief executive officer
- A tracking number (so you can record the name of each person who receives a copy of your plan)

It is also advisable that you mark the page "Confidential."

## Table of Contents

The table of contents provides a road map and reference guide to the different sections of your business plan. The chronology of the key sections should be:

1. Executive Summary
2. Vision and Mission Statements
3. Company Overview
4. Product Strategy
5. Market Analysis
6. Marketing Plan
7. Financial Plan
8. Investor Recap
9. Supplemental Materials

## Overviews and Summaries

### Executive Summary

An executive summary (sometimes called an entrepreneurial summary) is a high-level overview of your business plan. In some ways, this one- to two-page section may be the most crucial part of your plan because:

- It encapsulates the most significant elements of the plan. This section conveys the gist of your business idea, and how you plan to achieve your goals.
- A business plan is essentially a marketing document. Who will read your plan? Investors, venture capitalists, prospective employees, customers, and suppliers. Every one of these people will first look at the executive summary. If they are excited by the summary, they will review the entire plan. If the summary doesn't grab their interest, odds are they will not read any further.

You should write your executive summary last, because you will need the rest of the document at hand in order to effectively summarize the highlights.

### Concept Overview (Vision and Mission Statements)

In one to two paragraphs, your vision and mission statements give the reader a look at your "big picture." They function like maps with a "You are here" marker pointing to your current location, and a route identifying where you are headed. Both statements communicate your company's direction to a wide range of people, including potential investors, employees, vendors, and customers.

Start your vision statement by identifying where your company stands at present. Describe who you are, who your customers are, and what specific benefits your product or service offers. Chart out where you want your company to go. Your vision

you've got support that can help build your business. (Terms and Conditions Apply.)

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statement puts into words the image you have of the future growth of your business.

Your company's mission statement encapsulates your long-range plans. Convey your company's image, how you will conduct business, who your customers will be, and what your guiding business philosophy is. A reader should be able to look at your mission statement and extrapolate your company's objectives and strategies from it.

## Company Overview

This two-page section provides an overview of how your business will be structured and who its key players will be, as well as its position in the market. You will also list your existing and prospective business partners for banking, legal advice, risk management, and marketing.

Here are some specific questions you want to address in this section:

- Describe your business, its history, and the potential of your product or service in the market.
- How will you structure your business? Will it be a corporation, a limited liability company, etc.? Consider liability and tax issues to decide which form of ownership is most advantageous to you.
- Identify your management team. In the beginning, you may wear most of the hats. Consider where your time and expertise are best directed, and where you would benefit from hiring someone with a proven track record and skills. Also, consider some non-staff alternatives, such as attorneys and accountants to hire on retainer. Provide brief bios and resumes in an appendix.
- If you are a corporation, describe your board of directors. If you are a sole proprietorship or partnership, introduce your advisory board.
- Discuss your staffing plans. How will you recruit your employees?
- With whom can you form strategic alliances?

## Distribution and Marketing Plans

### Product Strategy: Your Product-Service Game Plan

This three-page section vividly describes what your product is and what need it fills in the marketplace. Here are some specific questions you will want to address:

- What is the purpose of the product or service? How does it solve a problem or address an opportunity? Is it a luxury item or a necessity?
- What are its unique and useful features and benefits, such as cost, design, quality, and capabilities?
- Describe your production process in terms of costs, facilities, and staff.
- Describe how you will package your product.
- Describe how you will distribute your product. Do you have any existing distribution outlets? How does your competition handle distribution? How will you physically transport your product?

### Market Analysis: Competitive Strategies

This section describes your competitors, their strengths and weaknesses, and your strategies to win a profitable edge in the market. You will draw on much of the research you conducted in Lesson 3. In roughly two pages, you should answer the following questions:

Describe the industry in terms of:

- Current size: Indicate how much money consumers spend annually
- Growth potential
- Geographic considerations

iVillage and renowned business journalist JJ Ramberg bring you the "Just My Business" interview series. In this exciting series JJ will interview emerging and experienced entrepreneurs. You will get an inside scoop on what it's like to own your own business as well as great advice on getting started.

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[Power Networking: How the Biz Does Business](#)



Go behind the scenes and find out how successful producers used marketing, advertising, brand building, and more to become some of the top names in the entertainment industry in the "Power Networking: How the Biz Does Business" webcast, sponsored by OPEN from American Express®. Join host Peter Bart, Editor-in-Chief, Variety, online moderators Susan Sobott and John Jantsch, along with successful producers Sydney Pollack, Lawrence Bender and

## Describe industry trends:

- What are the profit characteristics? (For example, grocery stores have an average profit margin of 1 to 2 percent sales.)
- What is the basis of industry competition (price, quality, promotion, service, etc.)?
- What is the profile of the competition?
- What is your competitive advantage?
- What is the demographic profile of your intended customer? (Include age, gender, occupation, income, geographic location, and other data.)
- What are your most dominant business risks? What risks can you transfer through insurance policies?
- What are the reactions to the product or service from prospective customers? (Include testimonials, results from market surveys, focus group studies, etc.)
- What is your target market? What is the size of this market (in terms of numbers of potential customers or dollar volume)?
- What do you think your cost to penetrate this specific market will be?

## Marketing Plan

This section of your business plan is dedicated to the strategies and objectives you will implement to reach your market. In three to four pages, you want to convey that you know who your customers are, how to reach them, and how to motivate them to purchase your product or service. Discuss your marketing strategy in as much colorful detail as you can provide and address these issues:

- How will you communicate with your customer? What message do you want to send, and how will you send it? Describe your plans for advertising, sales promotions, publicity, and a Web presence.
- What approaches will be used for selling the product or service? (Discuss distribution channels, sales forces, mailings, and telemarketing.)
- Describe your pricing strategy and identify your price points.

## Finances (and Onward and Upward!)

### Financial Plan

Your financial plan is the nuts-and-bolts of your business from a profitability standpoint. This section tells the story of how cash will flow through your business as costs and revenue. In two to three pages, you should include:

- A narrative summary of your financial condition
- Three years of profit-and-loss, cash-flow, and balance sheet statements
- A break-even analysis
- Trend analysis on sales volume, costs, and profitability
- Operating budgets
- Projected cash-flow statements
- Anticipated income statements

If you are not a finance expert, this can be fairly technical information to compile. You may want to hire a good accountant to help you generate this information.

### Investor Recap

The final section of your business plan is an investor recap. Here you should address the question on every investor's mind: WIIFM, or "What's In It For Me?" Outline the answer in a powerful, one- to two-paragraph statement describing why investing in your company is a good, solid, and lucrative financial decision.

## Appendices

At the back of the report, include items like bios and resumes for your management team and any extra materials that provide details about your company.

Nancy Meyers as they share insights to help grow your business.

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[Just My Business Interview](#)



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## Onward and Upward!

Remember back when you had that great idea for a business? If you are holding a draft of a summary business plan in your hands, you've come a long way. Through the process of research and writing, you've managed to analyze your competition and create a business strategy. You have tested your idea on paper. Most importantly, you've decided it is marketable and has real profit potential. Now what do you do next?

Your business plan is a living document. For you to get the most benefit from it, you should review and modify it frequently. It's a good idea to read and update your plan at least once a year to incorporate changes in your product, your industry, and the overall business environment. The plan won't do you any good if it just sits on a shelf collecting dust.

Launching a new business can be one of the most exhilarating experiences you will ever have. When the entrepreneurial bug bites, you embark on one of the most dynamic, inspiring, and challenging journeys of your life. The elements crucial to your success are, in the end, pretty simple:

- Find a product or service that you are passionate about and that is in high demand. (Sell them what they want and need.)
- Plan your business and keep planning it, adapting to innovations you discover and changes in the market. Continually revise your business plan; it is a living document.
- Invite good, strong, and motivated individuals to join your vision.
- Most of all, enjoy the ride!

## Goodbye and Good Luck

Thanks for joining the class. There's no assignment this time -- except of course to get to work drafting your business plan. The journal you've been keeping will come in handy there. Be sure to take the final quiz, however, and don't forget to stop by the message board and say goodbye to your fellow classmates.

## Assignment #8

Take a good look at all of the information you've recorded in your journal and use the business plan outline described in the lesson to write your own business plan. Be sure to visit the message board one last time to share your plan with your fellow students and ask any final questions of you instructor.

## Quiz #8

Question 1:

True or False: You should consider your executive summary a sales tool.

- A)  True  
B)  False

Question 2:

True or False: You will include resumes of your key management team in the company overview.

- A)  True  
B)  False

Question 3:

How often should you review and update your completed business plan?

- A)  Never

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- B)  Every month
- C)  At least once a year
- D)  At least once every five years

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