

# Entrepreneur Guidebook



A guide to starting and running your small business



# Alleghany Highlands

Economic Development Corporation  
Business Assistance Program

with Roanoke Regional Small Business Development Center



## WANT TO START A BUSINESS?

- FUNDING
- FINANCIAL MANAGEMENT
- GOVERNMENT CONTRACTS
- BUSINESS EXPENSES
- REGULATIONS AND LICENSING

## WANT TO GROW YOUR BUSINESS?

- BUSINESS PLANS
- EDUCATION & TRAINING
- QUICK BOOKS
- E MARKETING
- SOCIAL MEDIA



The AHEDC Business Assistance Program, in partnership with the Alleghany Highlands Chamber of Commerce, Virginia Department of Business Assistance and The Roanoke Regional Small Business Development Center, provides programs for small business development and expansion to enhance the economic vitality of the Alleghany Highlands.

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# Entrepreneur Guidebook

## Table of Contents

Introduction.....	4
Business Plan Start .....	4
Business Plan Tips .....	5
Elements of a Business Plan .....	5
Cover Sheet .....	5
Table of Contents .....	6
Statement of Purpose .....	6
Executive Summary .....	6
Business Description .....	6
Products and Services .....	7
Marketing Description & Analysis .....	7
Marketing Plan .....	8
Operational & Administrative Plan .....	11
Management Plan .....	12
Financial Plan .....	12
Steps to Starting a Business .....	14
Choose Your Legal Structure .....	14
Name Availability .....	17
Domain Name Registration .....	17
Federal Employer ID Number .....	17
Assumed / Fictitious Business Name.....	18
Select a Location .....	18
Apply for a Business License .....	18
Register for Taxes .....	20
Business Insurance .....	20
Accounting and Record Keeping .....	21
Virginia State Taxes .....	22
Federal Taxes .....	25
Capital Terms .....	28
Buying & Selling a Business .....	29
Franchising .....	32
Legal Documents .....	33
<b>Appendices:</b>	
Checklist to Starting a New Business .....	35
Are You Ready to Own Your Own Business Questionnaire .....	36
SWOT Worksheet .....	37
Marketing Techniques .....	38
Marketing Calendar .....	39
Pro-forma Income Statement .....	40
Pro-forma Cash Flow Statement .....	41
Pro-forma Balance Sheet .....	42
Start-up Expenses .....	43
Break-Even Analysis .....	43
Estimating Payroll Requirement .....	44
Organizational Chart .....	45
Techniques for Developing Revenue Projections .....	45
Useful Web Sites .....	46

## **Introduction:**

We are pleased you are considering opening or expanding a business in the Allegheny Highlands and want to assist you in your endeavor. Because small businesses play an important part in Virginia's economic vitality and quality of life, we strongly encourage the establishment of new businesses and the expansion of existing ones.

The Entrepreneur's Guidebook can assist you in your new business endeavor, or help you run your current business more profitably. Included in this guidebook are guides to starting a business, writing a business plan, tax requirements, basic legal information, buying and selling a business, business insurance, franchising, and obtaining capital.

The main focus of this guidebook is to assist you in writing a business plan. Every business, both startups and existing businesses, have a need for business planning. New businesses that write a business plan have a 50% greater chance of success than those businesses who do not. If you have an existing business, you may be considering writing a business plan because you want to expand, find additional capital, or simply understand where your business is and where it needs to go. Whatever your reason, business planning is an ongoing process and something every business should be doing every year.

Effort was made to provide the best and most current information; however, it is not all encompassing and not intended to replace one-on-one assistance with Entrepreneur Specialist at Allegheny Highlands Economic Development Corporation.

The Allegheny Highlands Economic Development Corporation and Roanoke Regional Small Business Development Center are here to help you with this process. We provide no-cost business counseling services and can be reached at 540-862-0936 or visit our virtual incubator at [www.AHEDC.com](http://www.AHEDC.com).

*We have compiled the above information from various sources including, local, state, federal institutions, and nonprofit organizations. Our team has made every effort to obtain the most current information; however, since such information is subject to change in the future, no warranty, expressed or implied is made regarding the accuracy of the information. © 2011*



## **Do I need a business plan?**

- You have an idea for a product/service, or have determined there is a need that has not been met in the marketplace. What's next?
- You have an existing business and want to expand into new products/services and need capital. What's next?
- Your current business is doing OK, but you feel there is no direction. What's next?

*Writing a business plan is your next step!*

## **What exactly is a business plan?**

- If you are considering starting a business, then a business plan is a feasibility study to see if the business idea makes sense. It provides a road map as to how the business will operate, how you will market the business and will provide financial benchmarks if you decide to proceed with the business.
- If you are an existing business, it summarizes your current business and looks at how your business can grow. A business plan also includes tools needed to accomplish this growth, including financial benchmarks.

## **How detailed should the plan be?**

It depends on the overall purpose of the plan.

- If you are a startup business looking for financing or investors, your plan needs to be detailed enough to convince the reader there is a need for this business, the business can make money, and you have the team to make it successful. If you are writing only for yourself, the same detail needs to be done; however, you do not need to put emphasis on your presentation.
- If you are an existing business looking for financing or investors, your plan needs to show that your current business is successful, the funding you are requiring is to grow your business, you have a strong management team, and the business can repay the loan or investors.
- If your existing business simply needs direction, then working through this book is an informal approach to help you understand the current state of your business, where there are opportunities, and how you will get there.

The most important part of the business plan is the process itself. Doing the research, strategizing, and thinking about how this business can be successful will improve your business operation.

## **How do I start?**

Writing a business plan can seem intimidating and difficult. The best way is to look at each section in this guidebook and make "key points" on a pad of paper. Using this book will help as there are questions being asked that will need to be answered.

Do this for each section before you write any narrative. Once you have completed your key points for each section, go back and start writing the narrative; this will make it easier to complete. Please note that not all questions pertain to all businesses.

**Let's get started.**



## **Business Plan Tips:**

1. **Understand the purpose** - Why you are writing the plan will affect the look and detail. Is it for investors, the bank, or just for you to understand if the idea makes sense?
2. **Write it yourself** - Only you have the vision and understanding of this business.
3. **Write in 3rd person** - Use 'the business' instead of 'us;' 'the staff' instead of 'we;' 'the owner' instead of 'I;' etc.
4. **Do not copy a sample plan** - It is OK to use as a guide, but your plan needs to meet your needs.
5. **Realistic Assumptions** - When making assumptions in your financial projections, be sure they are realistic, believable, and obtainable.
6. **Make the right length** - The plan should only be as long as necessary. Do not fill the plan with useless information. Most plans, excluding financial documents and appendices, should be less than 20-25 pages.
7. **Easy to read** - Use large enough fonts, plenty of line spacing and be sure to include graphic elements such as pertinent charts and photos.
8. **Not done in a day** - Do not try to write your plan in a day. Your business plan will need research, thought, and review.
9. **Expect the unexpected** - Any good plan will include anticipated problems and a solution for them.
10. **Write for everyone** - Do not use excessive technical information as the person reading may not understand or comprehend your idea. Use non-technical language whenever possible.
11. **Proofread** - Be sure you and others proofread the plan if you are presenting to investors or banks.
12. **Borrow enough money** - If borrowing money, be sure you are borrowing enough, as it is harder to go back to get additional funding after initial funds have been provided.
13. **Are you ready?** - Take the quiz on page 36 before starting to be sure you are ready to own a business and that this idea makes sense.

## **Elements of a Business Plan:** What sections should be included in your plan?


1. Cover sheet
2. Table of Contents
3. Statement of Purpose
4. Executive Summary
5. Business Description
6. Products/services
7. Market Description & Analysis
8. Marketing Plan
9. Operational and Administrative Plan
10. Management and Organization
11. Financial Plan
12. Appendix
  - a. Pro-forma Income Statements 3-5 years
  - b. Pro-forma Cash Flow Statement 3-5 years
  - c. Pro-forma Balance Sheet 3-5 years
  - d. If franchise, copy of agreement
  - e. If leasing or buying space, copy of lease or purchase contract
  - f. If buying business, copy of purchase agreement
  - g. Bios of the owners and key personnel
  - h. List of what loan will be used to buy – equipment, leasehold improvements, etc.
  - i. For existing business, last three years of business tax returns, current financial statements.
  - j. Other items to include employee handbook, job descriptions, map of location, news articles about business, copies of existing brochures, ads, etc.

### **1. Cover Sheet:**

List Business name, contact information, and to track copies, list "Copy \_\_\_ of \_\_\_."

*Example:*

**Affordable Auto Repair  
Business Plan 2011**



Affordable Auto Repair  
John Smith - President  
125 Main Street  
Roanoke, VA 24014  
540-983-0988  
www.affordableauto.com  
john@affordableauto.com

copy \_\_\_ of \_\_\_

## 2. Table of Contents:

To make it easier for a reader to find particular sections, include a Table of Contents and tabs.

Example:

Topic	Page
Statement of Purpose	2
Executive Summary	3
Business Description	5
Products & Services	8

## 3. Statement of Purpose:

The statement of purpose is the reason why you are creating this business plan. It is only used when the plan is to solicit funding.

What is included in the Statement of Purpose?:

- A brief description of the business and the products and services offered
- The amount of capital being requested with suggested terms
- If looking for investors, the number of investors, specify debt or equity financing, and the terms or potential return
- The amount of money being invested by the owners
- For what specifically will the money will be used?

*Example: This business plan provides the basic strategic information necessary for the initial purchase and operation of Mobile Superlube, Inc. Mobile Superlube, Inc. is a mobile oil change business offering services to consumers and businesses since 2005 with sales of \$600,000 and Earnings before Interest, Taxes, Depreciation, and Amortization of \$95,000 in 2009.*

*John Smith and Henry Jones wish to purchase this business at an agreed upon price of \$150,000. Mr. Smith and Mr. Jones will buy the assets of the company and establish a new corporation.*

*Mr. Smith and Mr. Jones are requesting a loan for \$125,000 for a term of five years. Mr. Smith and Mr. Jones will also be investing \$50,000 into the company, which will allow for \$25,000 in additional working capital. The list of assets being purchased is listed in the appendix.*

## 4. Executive Summary:

The executive summary summarizes the entire business plan. This section needs to tell a story and provide an enthusiastic snapshot of your business idea. If you want the reader to read your entire plan, this section has to intrigue him/her to find out more about your business or business idea. This is the last section you should write and should be no more than 2-3 pages, including photos and graphs.

Review each section you have already written, and capture the key points to use in this summary. So what should be included?

- **Your story** – Tell a story about your idea (or your business if in business) and how it solves a problem for a customer. If in business, use real customers and show how you solved their problems.

- **Business Description** – A brief description of the history of your company.
- **Products & Services** – A brief description of your products/services.
- **Market Description & Analysis** – A brief description of your target market, why you believe there is a market for your products/services and state your competitive advantage.
- **Marketing** – A brief summary of how you are going to promote your business.
- **Operation** – A brief summary of the operational aspects of the company.
- **Ownership and Management** – An introduction of the team, including the owners and key management.
- **Financial** – Summary of the financial aspects to primarily show the profitability and cash flow potential.



## 5. Business Description:

Include a general description about your company, or proposed company, along with information about the industry. Many of these items will also be listed in more detail in other sections of the plan, such as marketing, management, operations, etc.

Items to include:

- **Mission and Vision statement**
- **Business name and legal entity** (or proposed name if startup)
- **Status of business** – Startup, franchise, expansion or buying business
- **History of business** - When was the business started, type of business (retail, service, manufacturer, franchise, etc.) Hours and days of operation.
- **Products/services** – A brief description of the products/services you currently provide and what new products/services are anticipated.
- **Description of the industry** - Is the industry growing? What is the outlook for future growth? What changes or challenges do you see in the future? How will the company handle those changes?
- **Company's core competencies** - What does your company do better than your competitors? *Example: Volvo's core competency is safety.*
- **Owners** - Who are the owners, their percentage ownership, and area of responsibilities? For a new business concentrate on the experience of each partner.

- **Business location(s)** – Where is your business located (or planned to be located), how long has the business been there, size of facilities, rent or own, special features, etc.? Why does your location make sense for your business?
- **Major assets** – List any major assets that you have beside your facility such as equipment, computers, etc.
- **Short term and long term goals** - What is important to your company in the short term and in the long term? List at least 2-3 items for each.
- **Keys to success** – List 3-4 items that need to be done in order for this business to be successful.
- **Sales summaries** - List your sales and profit over the past 3-5 years. For new businesses, this would be left blank.
- **Business advisors** – This would include accountant, attorney, insurance agent, SBDC counselor, or other advisors.
- **Regulatory information** – Are there processes your business needs to go through with the EPA, FDA or other regulatory agency?
- **Intellectual property** – Do you own patents, trademarks, copyrights or have you applied for these. Are they critical to the success of the business?
- **Photos/diagrams/charts** – Provide photos of location, current or planned equipment, products, or significant diagrams or charts that help explain your business.

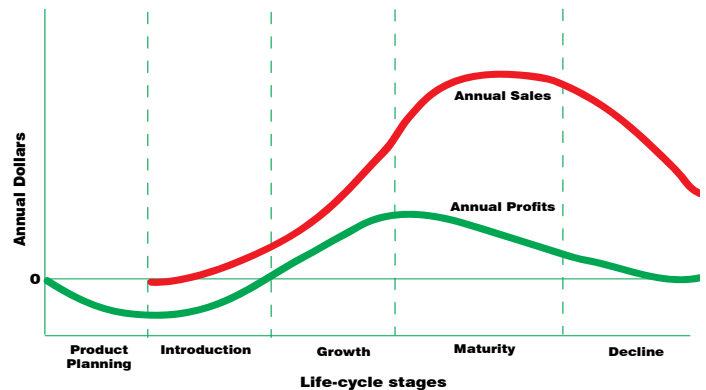
## 6. Products and Services:

In this section, list the products/services your business currently sells. If you are a startup business, or existing business wanting to add new product/services, list these in a separate section as future products/services. Your reader may not understand the technical aspects of your business, so be sure to explain in easy and understandable terms. It is important to show your enthusiasm about the possibilities of this product/service.

- **What do you sell** - Specifically list the primary products/services you currently sell (list all if only a few). Where are these products/services in the product life-cycle (Development, Introduction, Growth, Maturity, or Decline Stage - see chart at top of the next column)? Do you have exclusivity or territorial limitations?
- **Features and benefits** - What features/benefits does your product/service provide? Features are characteristics that describe the product; benefits solve the customer's problem. *Example: A LCD monitor's feature is it is thin; the benefits are free space on a desk and it is lightweight.*
- **Warranties or guarantees** - Do you offer a warranty or guarantee on your products/services? Do your competitors offer a similar or better one?
- **Competitive advantage** - What is your competitive advantage?:
  - Why would customers buy this product over a competitor's product?
  - Do you have Patents, Trademarks, Copyrights, etc.?
- **Technical Support** – Do you have, or will you need to provide technical support, including telephone, installation, or service support? Is this system in place, and if not what are your plans?
- **Regulatory** – Are there any regulations that affect, or could affect, your products/services?
- **Pricing** – How are your products priced and how do these prices compare to the competition?
- **Future products** - What are your future product ideas for the next 3-5 years?
- **Technical products** – Will you have to meet technical

milestones to be successful with this product? Why do you believe these milestones are realistic and achievable?

- **Technical data** - Include drawings, brochures, etc. in the appendix.
- **Photos/diagrams/charts** – Include these for the reader to better understand your business, products, and services.



## 7. Marketing Description & Analysis:

You have decided you want to start a business, or expand your current product line; the first step is completing a market analysis to see if it makes sense to proceed. Answering these nine steps will help you document to your business plan reader that you have done the necessary planning to be successful.

You will need to do primary and secondary research.

**Primary research** is gathering your own data through:

- surveys - telephone, electronic, in person, mail
- focus groups
- talking to other business owners
- shopping competitors including looking at their web site
- going to trade shows,
- counting customers or traffic, etc.

**Secondary research** is using existing sources of data such as:

- census counts
- published traffic counts
- trade association data
- vendors in the industry, etc.

This data is obtained from government entities, local chamber of commerce, library, internet searches, industry trade groups, etc.

Both primary and secondary research should be used to help develop answers to these nine steps.

### Step 1: Product or Service

What is the product(s) or service(s) you will be selling?

- What problem are you trying to solve for your potential customers?
  - Will this product properly solve this problem?
- Are you selling a single product (service), or multiple products (services)?
- Will you be able to provide these products/services?
  - Are there territorial restrictions?
  - Have you made arrangements with the vendor to offer these products?
  - Can you legally sell this product/service in the area you want?

## Step 2: Demand

- How do you know if there is a demand for your product/service?
  - Explain the research you have done to include primary and secondary research.
- Who else is selling this product/service in the area in which you intend to operate?
- Are these businesses busy, or do they have excess capacity?
- Are there new businesses starting regularly?
- Have you surveyed potential customers to see if there is a demand? If so, for what is the customer looking? (price, convenience, quality, selection, etc.)
- Is there unmet demand because of location, price, etc?
- What is the size of the market?
  - What portion of the market can your business capture and why do you believe that?



## Step 3: Industry

- How has the industry been performing over the last decade?
  - Are sales growing or shrinking industry-wide? By what percentage?
  - Is the number of businesses offering this product/service growing or shrinking? By what percentage?
- What is the future forecast of the industry?
- Are there any technological changes that could greatly affect the industry either positively or negatively?
- Is there any current or future government regulation that could greatly affect this industry?
- Is this industry greatly affected by economic conditions?
- Are there any demographical/psychographical changes that could greatly affect the industry, either negatively or positively?
- Where is the industry in regard to the product life cycle? (Introduction, Growth, Maturity, or Decline Stage) See chart on page 7.

## Step 4: Competitive Analysis

In this step, you need to evaluate competitors and answer the question **“Why would a customer buy from my business rather than a competitor?”** Even if you have a new product that only your business is selling, customers still have to have a reason to buy from your business. (See Appendix III on page 37 for a SWOT Worksheet - Strengths, Weaknesses, Opportunities, and

Threats that should be used as a guide to evaluating competitors and your business.)

- Who are your competitors – If you sell multiple items, you may have different competitors for each item you sell.
  - Direct – selling exactly what you are selling
  - Indirect – selling items that take business away from you, but are not exactly the same item
- Where are they located (mark them on a map along with your location)?
- Use SWOT analysis to evaluate each one.
- Why will customers buy from you rather than your competition?
- How easy is it for a customer to switch from one business to another? (If you are selling software, can customers easily switch to your product, or is it difficult?)
- Is your product easily substituted by another product?
- What are the barriers to entry for new competitors? (high capital, production or marketing costs; Intellectual Property protections, special skills, etc.) Are they large enough to keep future competitors from coming into the marketplace and taking market share?
- Where is there opportunity that your competitors are not taking advantage of? Are these opportunities where you want your business to concentrate (your niche)?

## Step 5: Target Market

In this step, you need to understand who your customer is.

- Are you selling to consumers, businesses, government or all three?
- What are the demographics of your customers?
  - For consumers this would include age, gender, income, education, occupation, marital/family status, where they live, etc.
  - For businesses this would include industry, location, size of business (revenue, # of employees, etc), why they buy (price, quality, service, etc)
- What are the psychographics of your customers? (psychographics refers to the motivations, personality, lifestyles and activities of your customer)
- How do you determine who your customer is?
  - Your competitive analysis will give you some idea as to demographics/psychographics. During the SWOT analysis, you may have determined that there is a demographic or psychographic being under served.
- Other ways to help determine your target market:
  - Industry trade groups
  - Other business owners
  - Vendors
  - Competitors
  - Surveys
  - Internet research
  - Marketing Research Firms
  - Focus Groups

## Step 6: Positioning

You have done your market research and determined there is a demand, that the industry is strong, that you have an advantage over your competitors, and you have identified your target market. With this information, you can determine how you want to position your company in the marketplace.

Position is how your customer perceives your products/services. You need to be sure you understand how you want your business to be positioned and be sure your marketing and branding supports this.

Your business can be positioned in many ways; here are some examples:

- Price
- Customer service
- Quality
- Convenience - location, hours of operation
- Technical service
- Value
- Selection of products

## Step 7: Pricing

Completing steps 1 - 6 will allow you to properly determine your pricing structure.

- Follow these principles:
  - Pricing must follow your positioning
  - Pricing must be competitive
    - What are competitors charging?
    - What are customers willing to pay?
  - Pricing must be profitable

## Step 8: Location

After you have determined your previous seven steps, you need to decide how you will get the product to the customer.

- How will you do business?
  - Retail store
    - Is the location convenient, plenty of parking, good visibility, easy ingress and egress?
    - Is the location suitable for your target market?
  - Visit customer at their location – use of salespeople
    - Are your customers easily accessible?
    - Are enough customers in the geographical area?
  - Wholesaler
    - Are you located convenient to transportation needs?
  - Distributor
    - Are you located convenient to transportation needs?
  - Internet only
    - Is your web site designed to properly handle e-commerce and at what volume?
    - Is your web site customer friendly?
  - Where will you do business?
    - Geographic – as an example 1-mile radius of location, the entire city or county or anywhere in the U.S.?
    - Will you be selling on the Internet? Are there any restrictions of where you can ship?
    - Why did you pick this physical location? What are the advantages? What are the disadvantages and how will you overcome these disadvantages?

## Step 9: Marketing

The last step to address is how you will reach your customer, which will be explained in the following Marketing Plan section.

## 8. Marketing Plan:

Through your research, you have determined there is a market for your product/service. You have identified your target market, your company's position, and the pricing strategy. It is now time to develop a marketing strategy of how potential customers will find out about your incredible business. Without a thorough and detailed marketing plan, you can have the best product in the world, but if no one knows about your business, it will fail.

Developing a marketing plan is crucial to successful marketing. Marketing is not something you do when you have free time or a few extra dollars to spend. To be effective, marketing has to be consistent and frequent, meaning the same message is communicated often.

When you were doing a SWOT of your competitors, you should have been evaluating their marketing and advertising methods to get an understanding of what they are doing, and even more importantly, what they are not doing. Do they have a web site, are they using social media, do they do internet marketing, what media do they use, etc.? Your competitors may be relying strictly on traditional marketing and missing the best and cheapest forms of advertising.



When developing your marketing and advertising strategy, remember these fundamentals:

- Where can I best reach the demographics and psychographics of my customers using the fewest amount of dollars?
- Before deciding on an advertising program, be sure it is reaching your target market(s).
- Understand the objective of your advertising program. Do you want to simply do brand awareness, or do you expect to receive a certain amount of sales from the promotion?
- Be sure you can measure and track results to know whether the program was successful.

There are thousands of ways to use marketing and advertising dollars and everyday there are new ones being created. In your marketing plan, develop the few techniques that make the most sense for your business and stick with them. Be sure your marketing plan is as detailed as possible as this will be your marketing strategy moving forward.

## Advertising:

**Develop a marketing calendar** – Once you have determined which marketing techniques you will use, one of the most useful tools is putting the items on a marketing calendar with dates, budget, etc. A marketing calendar forces you to implement the strategy of the plan (See Appendix V on page 39).

**Professional Logo** – To build branding you need a distinct look and feel of your business. Your logo represents your brand to the world. Amateurish logos will make your business look amateurish.

**Web site** – With today's technology building a web site is cheap. At the minimum, every business must have a web site, but also a plan as to what your web site is to accomplish and how it will be maintained. You should build the best site your advertising dollars will allow. Will you use Google Analytics or a similar service to track results?

**Web site E-commerce** – If you are selling on your web site how will you market your web site to get customers to find you?

**Marketing Collateral** – This would include professional designed business cards, brochures, letterhead, etc. (Use photographic business cards with photos of your product/service to show customers what you do.)

**Public Relations** – There is nothing like free advertising, but you need to have a plan on getting your name out. This would include press releases, making presentations at events, belonging to groups such as chambers, Rotary, and making regular contacts with key people in the local media.

**Developing Strategic Alliances** – One of the most useful tools for small businesses is working with other businesses that are marketing to the same customers. Do joint events and advertising, and place flyers in other businesses. *Example: a photographer could work with a caterer, florist, DJ, wedding planner, etc. to put together events, ads, packages, etc.*

**Internet Marketing** – This would include free business listing with Google, Yahoo, Bing, etc. In addition, there are Pay Per Click ads (PPC) also with Google, Yahoo and Bing. Internet Marketing also includes electronic newsletters.

**Social Media** – If your target market is using social media then this should be a strategy for your business. This would include Facebook, LinkedIn, Twitter, Foursquare just to mention a few. Developing a social media strategy also includes how updates will be handled and how often.

**Referral Systems** – Word of mouth advertising is one of the greatest marketing techniques available to your business, but it does not work by itself. You have to develop a strategy as to how you will implement referrals. This would include asking for referrals, compensation, tracking, thanking customers, etc.

**Traditional Media** – This could include television, radio, yellow pages, newspapers, magazines, billboards, etc. Be sure they make sense for your business and are cost effective.

**Packaging/Point of Purchase** – Packaging can sometimes sell your product more than the product itself. This applies to the package in which the product is delivered, or the point of purchase display or material that is promoting the product. Be

sure these are well thought out and professionally designed to appeal to your target market.

**Networking** – An important element of getting your name out is networking yourself in the marketplace to get in front of your target market. This could be official networking events, memberships in organizations, or involvement with social media.

**Direct Mail** – Even with the best electronic medias today, you still cannot reach all of your target market. Direct mail should be considered in the mix as a way to touch new or existing customers; post cards in particular work well, as they are inexpensive and have a greater chance of being read.

**Other Methods** – In the Appendix IV on page 38 is a list of additional marketing tools. Look through this list and pick the items that will work best for your business and stick with them.



## Sales:

Advertising will bring sales in the door. The second part of your marketing strategy is how you will handle sales. This will include such items as:

- Will you have dedicated sales people?
  - Are they inside sales, outside sales, etc?
  - If not dedicated, how will sales be handled?
- How will you train your salespeople?
- Development of standardized sales systems.
- How will you capture, distribute and track leads?
- How will you keep track of sales?
- How will you capture customer data? If you are a retail business, will you use a POS system? If you are in direct sales, will you use a CRM web service or software?
- What hours/days of operation will the business be open?
- Will you be selling on the internet?
  - What is your sales strategy?
  - How will you track sales metrics such as visits, conversions, etc?
  - How will you capture customer information?
  - Will you also have telephone sales, or live online sales support?

As your business grows, the majority of your advertising budget should be spent on marketing to your existing customers. Maintaining "Top of Mind" with your customers is crucial to long-term sales. As part of your marketing plan, you should be developing techniques to "touch" your customers as frequently as possible (at least several times a year).

If you are starting a new business, or rolling out new products, part of your marketing strategy needs to be pre-release (pre-opening) marketing. The more complete your marketing plan and your marketing calendar, the better the result will be in winning sales.

## Customer Service:

Advertising lets your customers know who you are and what you have to offer. Your sales strategy turns those customers' interests into dollars. The last step is to be sure you have created a customer service strategy and customer focused policies. This would include:

- What procedures are in place to evaluate your customer service standards?
  - Comment cards, follow up letters, web site comment form, surveys, 800 number
- Do your customers know your businesses policies for:
  - Refunds and returns?
  - Procedures for complaints or comments?
- How do you handle customers complaints?
  - How quick to respond to complaints?
  - Are complaints documented and followed up on?
  - Who is responsible for follow up/documentation?
- How do you ensure employees follow these guidelines?
  - Do you have a training system?
  - Is management properly communicating to employees the importance of customer service and customer focused policies?
- Do you have policies in place for all business decisions to consider "how will this decision affect our customers, or how can we make the customer experience better?"
- Do you have a system in place to allow employees to make recommendations to improve customer service?
- Do you have a system in place to award employees for excellence in customer service?

## 9. Operational & Administrative Plan:

The Operations section outlines the processes you will use to deliver your product to the market. This could include manufacturing, transportation, logistics along with customer service and technical support. The administration section outlines how you will support the operations functions. You may also want to develop timeline and milestones.

### Introduction:

Start with a brief introduction as to the operations and administrative areas of the company and the importance your company places on these areas. Be sure to note which operations will be done in house and which ones will be outsourced.

**Timeline and Milestones:** Include dates and responsible party of each event; some items may include:

- Business plan rough draft
- Develop prototype
- Business plan final draft
- Submit plan to bank(s) or investors
- Rezoning or required permits and licenses
- Interview and hire people
- Purchase equipment
- Start marketing



## Production:

If you are selling products, do you produce these products or buy finished product?

- If you produce:
  - What are your production techniques/procedures?
  - What is your capacity; is it in line with your sales estimates?
  - How do you handle quality control?
  - How do you develop new products?
  - What capital assets will you need?
    - What assets do you currently have?
  - What vendors provide you raw goods? (if startup, have you identified these vendors and have an agreement to buy from them?)
    - List primary vendors. Any restrictions such as minimum orders?
    - Do you have multiple vendors for same products in the event of shortages?
    - Any anticipated shortages or major increase in the price of supplies?
- If you buy finished products from vendors:
  - Do you have vendors established? (if startup, have you identified these vendors and have an agreement to buy from them?)
    - List primary vendors.
    - Do you have multiple vendors for same products in the event of shortages?
    - Any anticipated shortages or major increases in supplies prices?
  - What is the internal procedure for ordering supplies?
  - What capital assets do you have and will you need?

**Logistics:** What are your logistical requirements?:

- **Inventory:**
  - How will you order and keep track of inventory?
  - Will you have a computerized accounting system?
  - Will you maintain a certain amount of inventory or use a Just In Time (JIT) inventory?
  - What amount of inventory will you keep on hand?
  - What is your anticipated inventory turnover rate?
- **Procurement:**
  - What are your procedures for procuring products?
  - Do you have a computerized procurement system for tracking purchases?

- **Transportation:**
  - How will you get product to your business and how will you get product to your customer?
- **Warehousing:**
  - Will you be warehousing products, if so do you have a systematic approach to warehousing?
- **Order Management and Fulfillment:**
  - How do customers purchase products and how are they fulfilled?
  - Is there a computerized sales system?
  - Fulfillment would include processing orders, packing, shipping, and delivering product to customer.
- **Customer service:**
  - How will customer service be handled for both customer inquires and order taking?
  - Will you use a customer service department and sales department, or just a customer service department?
  - Will they be in house or contract labor?
  - Will you offer live web support?
- **Technical support**
  - Will you need technical support personnel?
  - Will they be in house, telephone, in field support or all three?
  - Will they be company employees or contract labor?
- What is the pay scale?
- What are the training procedures for new employees?
  - Do you have written training requirements?
- What are the skill requirements of each employee position?
- Are you using employees for all functions, or will you be using contract labor?
- Have you determined employee policies/procedures?
  - Have you determined the benefits you will offer to employees?
- Do you have a procedure for finding new employees?
  - What techniques will you use?

## 10. Management Plan:

The most important part of any business is the people who are running and managing it. Investors and banks would rather provide funding to an experienced and strong management team with a mediocre idea, than to a weak management team with a great idea.

This section is to convince the reader you have the team that can be successful. Discuss the company management strengths, but also identify the weaknesses and how these will be overcome by advisors, consultants, etc. By the end, you want the reader to believe you have the team that can make this business successful.

### What to include:

- An organizational chart of the positions in the company with the appropriate name assigned. In smaller companies, each person may be assigned multiple positions. (See Appendix X on page 45 for sample organizational chart.)
- List each key person in the business with their background, in particular if they have had specific training in the area your business will be in and/or experience in small business operation. You should also include resumes in the appendix for each key person.
- What is the compensation structure for each key person to include salary, benefits, stock options, etc?
- If you have a board of directors, who are they and what is their background?
- If you have an advisory board, who are they and what is their background?
- What is the ownership structure by position and ownership percentage?
- Where are the gaps in your team and how do you intend to fill these gaps (advisors, consultants, independent contractors, etc.)?

## 11. Financial Plan:

The financial plan is the most important section in your business plan and the one you need to take the most time and effort to insure it is accurate and realistic. If you do not have experience in creating financial projections, seek assistance from the Small Business Development Center, an accountant or experienced consultant. Even though every section in the business plan is important, if you cannot make money, then the business will not be successful.

The financial plan for an existing business will have more information than a startup.

### Location:

- Is the location convenient to customers and transportation needs?
- Why was this location selected?
- Is it convenient to attract the best employees?
- What are the physical requirements of the facility (provide a site and floor plan if appropriate)?
- Provide a map showing your location and recognizable landmarks.

### Operational Regulations:

- What are the tax requirements?
- What are the permit and special license requirements?
- Is there any special insurance/bonding requirements?
- Are there any zoning or other regulatory requirements or restrictions?
- Do you have need for patents, trademarks, service marks or copyrights?
- Are there any special EPA, OSHA, EEO, or other governmental requirements?

### Administration and Human Resources:

- Accounting
  - Do you have a computerized accounting system?
  - If you have Account Receivables do you have written credit and collection policies?
  - How will you handle Accounts Payable? Will you have online payment, write checks, etc.?
  - How will payroll be handled? Internally, contracted out to a payroll company, or employee leasing company?
- Do you have written standard operating procedures (SOP) for administration and operational areas?
- Do you have detailed job descriptions, roles and responsibilities for each position on your organizational chart (see Appendix X on page 45)?
  - How many employees do you need?

At a minimum, you should be projecting sales on a month-to-month basis for the first three years. If you are seeking financing, then your projections should reach out to the length of the term you are requesting; however, after year three, yearly or quarterly projections may suffice. Due to the complexity of developing financial forecasts, this guidebook does not go into detail; it only lists required items and samples are provided in the Appendix on pages 40 - 42.



### **What financial reports are needed for a startup business?**

- Startup expenses to include equipment, supplies, payroll, training, etc. (See Appendix IX on page 43 for sample)
- Pro-Forma Income Statement (financial projections showing revenue, costs, profit, etc.) showing month-to-month for years 1-3 and annually (or quarterly) for years 4-5. (See Appendix VI on page 40 for a sample).
- Pro-Forma Cash Flow Statement, month-to-month for years 1-3 and annually (or quarterly) for years 4-5. (See Appendix VII on page 41 for sample)
- Pro-Forma Balance Sheet showing beginning balance and years ending 1-5. (See Appendix VIII on page 42 for sample)
- Break-Even Analysis – This will show at what point (revenue, units, etc.) the business is at a break-even point (the point where the company begins to become profitable). The Break-Even Analysis is one of the most important forecasting tools available to determine the financial viability of a business or business expansion. (See Appendix IX on page 43 for example).

### **Additional requirements for existing business:**

- Business tax returns for the previous three years
- Interim financial statements (Profit & Loss, Balance Sheet) that are no more than 90 days old.
- List of all current debts, the debtors, and the terms of these debts (interest rate, when they will be paid-off, and the current balances)
- If available, identify industry benchmarks to show how your company compares to the industry

### **Assumptions:**

When creating financial projections, you will be making both revenue and cost assumptions. In the financial summary, you will need to list these assumptions. Estimating costs are far easier than estimating revenue.

- If an existing business, previous year's sales are a good indication to future sales.
- If a new product for existing business, demonstrate how previous new products have sold and assume this product will use a similar sales pattern.
- To determine sales of a new business you can use several approaches:
  - Talk to similar businesses in non-competing geographical areas to determine how those businesses did during the startup phase.
  - Create a model based on realistic data. (See Appendix X on page 45 for example)
  - Monitor your competition to estimate sales and determine the amount you realistically believe you can capture from those businesses, and why?
- Cost of Goods estimates can be obtained from the vendor(s) where you will be buying supplies.
- Payroll expenses attributed to Cost of Goods will need to be computed based on a realistic model of the hours and pay scale required. (See Appendix IX on page 44 for a sample)
- General and Administrative costs (G&A), such as rent, telephone, insurance, taxes, permits, etc. can be obtained by contacting the appropriate businesses or agencies.
- Advertising expenses should be estimated based on your marketing plan. If your advertising consists of TV, Radio, Newspaper, Billboards, etc. then you need to determine how much each of these items cost and use those numbers. You may also look to see what the typical marketing expense is for your industry (such as 3% of sales, etc.) and use that as a guide, but your budget still needs to match your marketing plan.
- Use industry benchmarks when possible to determine what appropriate costs should be. *Example: if you are opening a restaurant, project that food costs are approximately 35%.*

### **Financial Summary:**

Summarize your financial projections into an easily readable section so the reader can see the financial capability of your business at a glance. This would include:

- Summary of financial projection by year. Combine many of the smaller expenses into single categories to make it simple to read. The detail will be in the appendix of your plan.
- Show the profitability and any key ratios.
- List detailed assumptions made in estimating revenues and key expenses.
- Summary of current debt and new debt to demonstrate that the company is able to carry the entire debt.

# **Steps to Starting a New Business:**

**You have now decided to start your new business.**

**What are the next steps?**

## **Step 1: Chose Your Legal Structure:**

To begin any type of new business you must choose your legal structure. Businesses are divided into one of four basic types:

1. Sole Proprietorship
2. Partnership
3. Limited Liability Company (LLC)
4. Corporation

The decision on how to structure a business varies for each owner but is an important decision as it affects your personal liability and taxes. There is, of course, no need to make the business structure more complicated than it needs to be. You may want to consult with an attorney, accountant, or business counselor. The person who helps you should be familiar with your type of business, your business goals, and your personal finances.

**1. Sole Proprietorship:** A business that is owned by an individual who is solely responsible for all aspects of the business. All income, and the ability to deduct business expenses, flow directly to the owner and is reported on their individual 1040 tax return using a Schedule C form. A sole proprietor can have employees, own equipment, etc. The disadvantage is that the owner is personally responsible for anything that happens in the company, including anything that the owner, the employees or even liability from the product/service being sold. Normally not recommended for businesses that intend to have employees, or be in a business that may be susceptible to liabilities.

**2. Partnership:** Necessary when two or more people want to start a business but do not want to setup another form of legal structure.

A written partnership agreement, although not mandatory, is usually a practical necessity. It describes each person's responsibility, how profits and losses will be divided, how a partner can leave the business, and what happens in case of a partner's death, disability, or serious discord.

Partnerships must file a federal income tax return (form 1065), but do not pay tax; each partner's share of profits or losses are included in the individual partner's income tax return. The disadvantage is that each owner is personally responsible for anything that happens in the company, including anything that the owners, the employees or even liability from the product/service being sold.

Normally not recommended for businesses that intend to have employees, or be in a business that may be susceptible to liabilities. Is not required to be registered with the State Corporation Commission, but may be to assist in protecting the company's name, or to have the partnership on record.

Limited Partnerships - Partnership where one or more partners are general partners, and the remaining partners are limited partners, meaning they have limited liability. The limited partners are not allowed to be involved in the business. A Limited Partnership must register with the State Corporation Commission (SCC).

**3. Limited Liability Company (LLC):** The Limited Liability Company (LLC) is rapidly becoming a very popular business

form. An LLC combines selected corporate and partnership characteristics while still maintaining status as a legal entity distinct from its owners. As a separate entity, it can acquire assets, have employees, incur liabilities and conduct business. As the name implies it provides limited liability for the owners.

An LLC is setup with the Virginia State Corporation Commission and is a legal entity only. For tax purposes you would still need to decide whether you would want to be taxed as a sole proprietor (single member LLC), a partnership (multi-member LLC) or even taxed as a S or C corporation.

**4. Corporation:** The advantages and disadvantages of incorporating are numerous and complex. They take into account issues of duration of the business, capital formation, income distribution and retention, liability protection, ownership transfer, taxation, and legal costs. One main reason businesses incorporate is for the liability protection that a corporation provides to shareholders.

A corporation is a legal entity distinct from its owner or owners. Owners are stockholders in the company, but can also be employees. It reports and pays taxes separately (C-Corporation only) and its organization and operation are regulated by Virginia law. A corporation has permanence; unlike a partnership or sole proprietorship, it cannot be so easily dissolved. Using an attorney to incorporate is not legally mandatory but recommended.

Once your corporation is setup in Virginia (as a stock corporation, or a non-stock corporation for a non-profit), you must decide how the corporation will be taxed. The choice of a S-Corporation deals largely with tax considerations. S-Corporations pass profits or losses on to the shareholders much like a partnership. C-Corporations pay taxes directly and any income passed through to their stockholders would be as dividends.

### **Professional Corporation (PC) or Professional Limited Liability Company (PLC)**

Professional services that include services rendered by: pharmacists; optometrists; practitioners of the healing arts or behavioral science professions; nurse practitioners; veterinarians; surgeons; dentists; architects; land surveyors; professional engineers; certified interior designers; certified landscape architects; public accountants; certified public accountants; attorneys-at-law; insurance consultants; audiologists; speech pathologists; and clinical nurses must establish themselves as either a PC (file form SCC544) or a PLC (file form LLC1103).

There are strict guidelines as to who can be a member or stockholder in a PC or PLC and certain specific tax consequences. Seek the advice of an attorney or other knowledgeable individual to determine if this form of organization is right for your business.

**\*\* Note:** Under most circumstances when borrowing funds, business owners will be required to personally guarantee the loan, even if the business is set up as a Corporation or LLC. In the event the business is unable to pay the loan, the business owners will be personally responsible. With multiple owners, each owner will have to **Jointly and Severally** sign the note, which means each business owner is responsible for 100% of the loan regardless of the individual's percentage ownership in the business. If needed, your lending institution may also require your spouse to be a guarantor of the note. Under certain circumstances a landlord, vendor or other creditor may ask for a personal guarantee. Before signing any personal guarantee, be sure you understand the risk associated with the agreement.

## Legal Entity Comparison Chart

	Sole Proprietorship	General Partnership	C-Corporation	S-Corporation	Limited Liability Company (LLC)
<b>Legal Liability</b>	Owner is personally responsible for 100% all business debts.	Partners are equally personally responsible for 100% of all business debts.	Stockholders are only responsible up to their investment in the company. An exception is if stockholders provided a personal guarantee.	Stockholders are only responsible up to their investment in the company. An exception is if stockholders provided a personal guarantee.	Owners are only responsible up to their investment in the company. An exception is if stockholders provided a personal guarantee.
<b>How to Setup</b>	Get business license, any professional licenses, and fictitious name registration. Not required to, but should obtain FEIN from the IRS.	Get business license, any professional licenses, and fictitious name registration. Obtain FEIN from the IRS. Should develop a Partnership Agreement. Registration with SCC optional.	Articles of Incorporation filed with the SCC, establish bylaws, business license, FEIN, issue stock, create minute book.	Articles of Incorporation filed with the SCC, establish bylaws, business license, FEIN, issue stock, create minute book, send in form 2553 to IRS.	Articles of Organization filed with the SCC. Establish an Operating Agreement, business license, FEIN, determine how to be taxed and notify IRS.
<b>How is Owners Income Handled</b>	Not considered employee so does not have to pay unemployment taxes, or file federal employment reports such as 941/940 unless there are employees. Owner needs to submit Quarterly Estimated Taxes on personal income earned. 100% of income is subject to Self Employment Taxes.	Not considered employee so does not have to pay unemployment taxes, or file federal employment reports such as 941/940 unless there are employees. Owner needs to submit Quarterly Estimated Taxes on personal income earned. 100% of income is subject to Self Employment Taxes.	Stockholders are considered employees and are subject to unemployment taxes. Income is distributed as earned income and reported on W-2s. Additional income may be received as dividend and stockholder would receive form 1099.	Stockholders are considered employees and are subject to unemployment taxes. Income is distributed as earned income and reported on W-2s. Additional income may be received as distribution.	Not considered employee so does not have to pay unemployment taxes, or file federal employment reports such as 941/940 unless there are employees or if LLC is being taxed as a corporation. Owner needs to submit Quarterly Estimated Taxes on personal income earned. 100% of income is subject to Self Employment Taxes.
<b>Tax Filing Required</b>	Schedule C with Owner's personal Form 1040. Must submit quarterly estimated taxes.	Must complete a Partnership Return Form 1065. Each partner would receive a K-1 to report income on their own form 1040. Must submit Quarterly estimated taxes	Complete Form 1120 annually.	Complete Form 1120S; distributes K-1 to shareholders	If single member LLC you would be taxed as a Sole Proprietor. If there are two or more members, you would be taxed as a Partnership. LLCs also have the option of filing as an S or C corporation.

	Sole Proprietorship	General Partnership	C-Corporation	S-Corporation	Limited Liability Company (LLC)
<b>Taxation of Income</b>	Directly to owner.	Directly to partners in proportions agreed upon by partners in partnership agreement.	All profits taxed at corporate level. Extra distributions would be as dividends and subject to personal tax by the stockholders (double taxation).	Taxed directly to shareholders (no double taxation). Percentage of profits & losses passed unto owners would be based on stock ownership. Losses limited to owner's "basis".	Depends on how the LLC is established. May be taxed as sole proprietor, partnership or S or C corporation.
<b>Administrative and Legal Costs to Establish</b>	Low - only a business license and fictitious name registration is required.	Low to Medium – business license and fictitious name registration is required. Suggest a partnership agreement be drawn up. Can register with SCC for \$25.	High – establish Articles of Incorporation, Bylaws, register with SCC at a minimum of \$75 and \$100 a year, minute/stock book, registration with IRS. Suggested to be handled by attorney and/or accountant.	High – Same as C-Corporation with the addition of registering with the IRS as S-Corporation.	Medium to High Registration with SCC at \$100 with an annual fee of \$50, register with IRS and draw up Operating Agreement.
<b>Fringe Benefits</b>	Some not deductible.	Some not deductible for partners.	Deductible, but subject to many rules (mainly non-discrimination).	Generally not deductible for over 2% shareholders.	Depends on tax status.
<b>Major Advantage(s)</b>	Easy and cheap to start.	Chance of business success enhanced if right combination of partners.	Limited liability, not many restrictions on classes of stock or who may be stockholder.	Limited liability without double taxation of regular corporation income.	Easier to setup and administer than a corporation. Tax treatment may be more favorable than corporation.
<b>Major Drawback(s)</b>	Unlimited liability, more prone to audits by the IRS.	Unlimited liability.	Greater cost to establish and maintain, double taxation of income, owners considered employees so must pay unemployment taxes.	Greater cost to establish and maintain, owners considered employees so must pay unemployment taxes, more limits on fringe benefits.	Depending on circumstances, owners may be subject to 100% self employment taxes on all income received.

## Step 2: Name Availability:

Before deciding on a name for your business, you need to be sure the name is not currently in use in Virginia. Contact the State Corporation Commission (SCC) at 866-722-2551 or 804-371-9733. You can also check name availability by going to [www.scc.virginia.gov/clk/index.aspx](http://www.scc.virginia.gov/clk/index.aspx) and clicking on entity search.

You can also check to see if your logo, or potential trademark or service mark, is available. Visit [www.scc.virginia.gov/srf/faq/tmsm.aspx](http://www.scc.virginia.gov/srf/faq/tmsm.aspx) to research its availability. Additional research should be done on the federal level to be sure there are no trademark issues by visiting [www.uspto.gov/web/trademarks/workflow/start.htm](http://www.uspto.gov/web/trademarks/workflow/start.htm) and searching the database.



## Register with the Virginia State Corporation Commission (SCC):

To register with the State Corporation Commission and complete a corporate package, you must first choose your legal structure. Next, refer to the list below to determine if you are required to file with the State Corporation Commission and to identify the forms you must complete. (SCC required forms are available by visiting the Business Entity section of the Clerk's Office's web site [www.scc.virginia.gov/clk/formfee.aspx](http://www.scc.virginia.gov/clk/formfee.aspx)).

**Sole Proprietorship:** You do not need to file with the State Corporation Commission; however, you will be required to file a fictitious name filing with the clerk of your local Circuit Court.

## Partnership:

**General Partnership:** Partnership statements are filed with the State Corporation Commission. Complete the Statement of Partnership Authority (Form UPA-93) and file with the Commission. A duly authenticated copy of a statement that is filed in an office of another state may be filed with the SCC. You are not required to file with the SCC.

**Limited Partnership:** Complete the certificate of Limited Partnership (Form LPA-73.11) and file with the State Corporation Commission. Registration with the SCC is required.

## Corporation:

**Stock Corporation:** Complete the Articles of Incorporation (Form SC 619) and file with the State Corporation Commission.

**Nonstock Corporation:** Prepare Articles of Incorporation following the guide (Form SCC 819) and file with the State Corporation Commission. This would be for a non-profit. The Articles of Incorporation are required to contain certain verbiage so be sure to read the instructions in detail, or consult an attorney familiar with non-profits.

**Professional Corporation:** Prepare Articles of Incorporation following the guide (Form SCC 544) and file with the SCC. A professional corporation would include professionals such as doctors, lawyers, engineers, etc.

**S-Corporation:** To elect to be an S-Corporation, a corporation must file IRS Form 2553. The election permits the income of the S-Corporation to be taxed to the shareholders of the corporation rather than to the corporation itself. If you elect S-Corp tax status, you still need to file with the SCC as a Stock Corporation using Form SC-619 (check with the SCC or your accountant to be sure you are filing the correct form).

### **Limited Liability Company (LLC):**

**Domestic LLC:** Complete the Articles of Organization (Form LLC-1011) and file with the State Corporation Commission.

**Professional LLC (PLLC):** Complete the Articles of Organization for a PLLC (Form LLC-1103) and file with the SCC.

## Step 3: Domain Name Registration:

Though it is not required you have a web site, it is certainly good practice to have one. To keep the name of your business consistent with the branding of your web site, before deciding on a business name, check to see if the URL is available. You can check to see if the name you want is available by visiting [www.internic.net](http://www.internic.net) and selecting the "Whois" section. If the name is available, then you can purchase the domain through one of many different online providers.

## Step 4: Federal Employer ID Number (FEIN):

All employers, corporations, LLCs and partnerships are required to obtain a federal employer identification number (EIN). The EIN identifies your business' tax accounts on all federal and state tax forms. A sole proprietor without employees does not need to obtain an EIN and may instead use his/her social security number; however, it is recommended that they obtain an EIN so that he/she does not have to use his/her Social Security Number.

To apply for your Federal EIN, file Form SS-4, which you can obtain from an IRS or Social Security office. You can also apply by telephone calling 800-829-4933. It is recommended that before calling you complete Form SS-4, which can be downloaded from [www.irs.gov/pub/irs-pdf/fss4.pdf](http://www.irs.gov/pub/irs-pdf/fss4.pdf); you can also apply online at <https://sa1.www4.irs.gov/modiein/individual/index.jsp>

## Step 5: Assumed / Fictitious Business Name:

If business is conducted in Virginia under a name other than the legal business name, an assumed or fictitious name certificate must be filed in the office of the Clerk of the Circuit Court in each county or city where business is located. In addition, if the entity is a limited partnership, a limited liability company or a corporation, a copy of each fictitious name certificate must be obtained and attested by the Clerk of the Circuit Court where the original was filed, and file with the Clerk of the State Corporation Commission. There is a \$10 fee and should be mailed to the SCC address listed below.

## Register with Local Clerk of Circuit Court:

### ALLEGHANY COUNTY:

Alleghany Circuit Court  
266 W. Main Street  
Covington, VA 24426

Forms for all court jurisdictions can be found at:  
[www.courts.state.va.us/forms/circuit/home.html](http://www.courts.state.va.us/forms/circuit/home.html)

## State Corporation Commission Office:

For questions concerning registering a corporation, partnership, or limited liability company, and to obtain forms from the State Corporation Commission, use the following contact information:

State Corporation Commission  
attn: Clerk's Office  
Tyler Building, First Floor  
1300 East Main Street  
Richmond, VA 23219  
(800) 552-7945 or (804) 371-9967  
[www.scc.virginia.gov/](http://www.scc.virginia.gov/)

## Step 6: Select a Location:

The location of your business can play a decisive role in the success and failure of your business. Your location should be built around your customers, it should be accessible, and it should provide a sense of security.

Area zoning offices regulate the location of various kinds of land uses including different types of businesses. A business cannot operate at a certain location without the permission of the local zoning office. Additionally, if you wish to have a sign at your location the zoning department will let you know of any restrictions. Home-based businesses are allowed in most jurisdictions, however, check with the local zoning office for the restrictions in your area. If your home is located within a subdivision that has a property owner's association, you will need to verify that you are not in violation of any property owner covenants.

It is important to verify zoning requirements with the zoning office before you sign a lease, purchase property, or make any improvements. Before signing a lease or any contract, be sure you are signing in the name of the legal entity. Some landlords may request that you personally guarantee a lease. Be sure you understand all documents before signing. If there are any questions, contact your attorney or local SBDC counselor.



## Step 7: Apply for a Business License:

### Local Licensing:

Any new business must obtain a business license prior to operating. In some jurisdictions, you will be required to receive a Certificate of Occupancy from the Planning Department. Be sure to check with your area Commissioner of Revenue. If you operate a contracting business (plumber, carpenter, painter, contractor, tile layer, carpet, etc) then there are other restrictions, and you may need multiple business licenses. Check with each jurisdiction in which you do business to see if a license is required.

If the business tax license is applicable, it must be pre-paid as part of the application. The tax rate varies depending on the type of business and estimated income for the first year. Most businesses pay a tax based on gross receipts earned in the previous calendar year. A few categories of businesses pay a flat fee. New businesses estimate their gross receipts for the current year and the tax will be adjusted at a later date to reflect actual gross receipts. Rates vary depending on the type of business.

### Peddler and Itinerant Merchant License:

For businesses that do not have a storefront and carry their goods to sell, there are additional license requirements (example would be a person who sells food out of trailer at an event). A Peddler permit is needed if you will be selling at more than one place in a year. An Itinerant Merchant is someone who will be selling at the same place for less than one year. Each jurisdiction is different as to the licenses required. Check with the Commissioner of Revenue in your area for details.

To file a registration for business license, contact the appropriate office in your city or county:

**ALLEGHANY COUNTY:**  
[www.co.alleghany.va.us](http://www.co.alleghany.va.us)

Commissioner of Revenue  
9212 Winterberry Ave Suite E  
Covington, VA 24426

**CITY OF COVINGTON:** Commissioner of Revenue  
[www.covington.va.us](http://www.covington.va.us) 333 W. Locust Street  
Covington, VA 24426

**TOWN OF CLIFTON FORGE:** Finance Department  
[www.cliftonforgeva.gov](http://www.cliftonforgeva.gov) 547 Main Street  
Clifton Forge, VA 24422

**TOWN OF IRON GATE:** Treasurer  
401 Commerce St  
PO Box 199  
Iron Gate, VA 24448

Please note that the local business license is in addition to any professional licensing requirements of the State of Virginia. Contact your local commissioner of the revenue or town administrator to satisfy local license tax requirements.

Regardless of the type of business, one or more local licenses may be needed. You must contact your county or city Commissioner of the Revenue within 30 days of starting your business to determine which licenses you will need. In addition, you should check with your local zoning or planning department to verify that you can operate your business at your desired site.



## Step 8: Other Requirements:

### State Occupational and Professional Licensing:

The Commonwealth of Virginia regulates certain businesses, occupations, and professions by requiring licensure before beginning operations. Entry into each profession is regulated by respective Virginia regulatory bodies, which establish minimum standards for education and training and may require an oral or written exam to obtain a license. In particular, this includes contractors. For a complete list, ask your SBDC counselor or visit the Virginia Department of Professional & Occupational Regulations at [www.dpor.virginia.gov](http://www.dpor.virginia.gov).

### Department of Health:

If you will be operating a business governed by the Virginia Department of Health, you will need to understand all the requirements for your business. Businesses affected include restaurants or any place that serves food, medical facilities / labs, etc. For more information, visit [www.vdh.state.va.us](http://www.vdh.state.va.us).

### ABC Board:

If your business will be selling or dealing with alcohol, you will need to understand the requirements of the Virginia ABC Board. For more information, visit [www.abc.state.va.us](http://www.abc.state.va.us).

### Department of Social Services:

If your business is related to child care, adult day care, child services, assisted living facilities, etc. you will need to understand the requirements of the Virginia Department of Social Services. For more information, visit [www.dss.virginia.gov](http://www.dss.virginia.gov).

### Department of Behavioral Health & Developmental Services:

This used to be called the Virginia Department of Mental Health. If your business will be dealing with mental health, developmental services or with substance abuse assistance, you will need to understand the requirements of this department. For more information, visit [www.dbhds.virginia.gov](http://www.dbhds.virginia.gov).

### Registration with Department of Consumer Affairs- (non-profits and membership organizations)

If you are a charitable organization, health spa, sell extended service contracts, travel, or camping clubs, you will need to register your business or organization with the Department of Consumer Affairs. For more information visit [www.vdacs.virginia.gov/consumers/registrations.shtml](http://www.vdacs.virginia.gov/consumers/registrations.shtml)

Note: Each department listed above has different guidance and involvement; it is recommended that one of the first things you do is contact the appropriate agency to learn their requirements.

## Step 9: Register for Taxes:

Go to the section on Virginia Tax Facts on page 22.

## Step 10: Business Insurance:

Proper business insurance is critical to the operation of any business; without it, your entire business can literally be lost overnight. It is also a complex issue. You will need to consider various types of protection, competing insurance companies, varying costs and benefits, and to weigh these considerations against potential risks, your needs, and affordability.

Certain minimal insurance is essential when considering the possibility of your business being harmed suddenly by a fire or liability suit, yet having too much insurance can waste scarce budget resources.

If you are operating a business from your home, make sure your existing insurance coverage will protect your business and that your coverage won't be invalidated.

Some forms of insurance are required by law. Examples are worker's compensation and vehicle insurance. Most other forms of insurance are optional. Some of these are described here:

**Liability insurance** protects your business from negligence lawsuits (for example, injury on your premises or as a result from your product) and can pay for the costs of defending against the suit, as well as the possible damages. Don't assume that forming a corporation or LLC will provide adequate liability protection.

**Casualty insurance** comes in different forms: fire, theft, robbery, storm, wind and flood damage. The insurance can cover inventory, contents, equipment and the structure itself if you own it. Insurance on plate glass can also be useful.

**Business interruption insurance** protects against loss of income while the business is temporarily closed due to fire, power loss, and other causes. It can also provide extra expense insurance while your business is being reestablished.

**Life and disability insurance** insures an owner or a partner against death or long-term disability. It may help the business survive if a key person is suddenly absent. Life insurance proceeds, under key man insurance, can enable the remaining partner to buy the deceased partner's share of the business.

**Group health plans** are an important fringe benefit in attracting employees and creating a stable work force. Group insurance is generally more affordable than individual insurance, but may still be costly.

**Bonds:** There are two types of bonds, Surety and Fidelity:

- **Surety Bond** – promise to pay one party an agreed amount if a second party fails to meet an obligation. Two types of Surety Bonds are:
  - **License Bond** – guarantees the business will comply with applicable codes and regulations.
  - **Contract performance bonds** – guarantees the performance of a written contract according to terms and conditions. There are four types of contract performance bonds:
    - Bid Bond
    - Performance Bond
    - Payment Bond
    - Maintenance Bond
- **Fidelity Bond** – also referred to as Crime Insurance. If you have employees that occupy a position of trust, crime insurance coverage will assist in protecting your business. There are several types of crime insurance coverage:
  - Employee Dishonesty Coverage
  - Loss Inside Premise Coverage
  - Loss Outside Premise Coverage
  - Depositors Forgery Coverage

**Professional Liability / Errors & Omissions:** protects professional practitioners against potential negligence claims made by their patients/clients. Professional Liability insurance may take on different names depending on the profession. There are several types:

- Medical Malpractice - Professional liability insurance in reference to the medical profession
- Errors & Omissions (E & O) - Include policies for public notaries, accountants and CPAs, real estate brokers, appraisers, engineers, insurance agents and web site developers. There are specific E & O policies for technology companies, such as software developers, technology consultants and other creators of technology.
- These coverage's focus on the failure to perform, financial loss and error or omission of the products or service sold.

**Employment Practices Liability (EPL):** provides protection against claims made by employees alleging discrimination, wrongful termination or harassment, including sexual harassment. EPL coverage pays for liability damages and defense costs due to charges by full-time, part-time, temporary, and seasonal employees, applicants for employment and recognized volunteers. Coverage for claims made by third parties, such as customers or vendors, is also available.

**Business Catastrophe Liability / Umbrella Liability Insurance:** provides broad liability coverage and serves as a financial reserve against a judgment beyond the limits of your primary liability policies. It also provides coverage not provided by the underlying insurance policies. Some of the important coverage's which may

be included in your policy are: Personal and Advertising Injury Liability, Bodily Injury and Property Damage Liability, Products and Completed Operations Liability, Blanket Contractual Liability, Broad Form Property Damage Liability, Host Liquor Liability and Owners and Contractors Protective Liability.

Consult a licensed insurance advisor to determine your needs.



## Workman's Compensation Insurance:

Virginia law requires every employer, who regularly employs three or more full-time or part-time employees, to purchase and maintain workers' compensation insurance. Employers with fewer than three employees may voluntarily come under the law. It is always a good idea to have coverage for your business, even if not required, in the event that an employee is injured on the job. Without coverage, the company will be responsible for all medical expenses and out of work compensation. For more information visit [www.vwc.state.va.us](http://www.vwc.state.va.us) or talk to your insurance agent.

Information about certain business entities as they apply to workman's compensation:

- Sole proprietors and partners are considered owners of businesses and are not covered by workers' compensation. However, sole proprietors and partners may elect to obtain coverage for workers' compensation liability by purchasing insurance.
- Members of a Limited Liability Company (LLC) are considered to be owners of a company and are not covered by workers' compensation unless specifically covered by an insurance policy or either elected or appointed as a manager. The manager of an LLC is treated as a corporate officer under the registrations.
- A corporation's officers may choose to reject workers' compensation coverage for accidents, but not for occupational diseases. To do so, officers must file a "Notice of Rejection" with the insurer. If the officers are paid regularly, they are nevertheless counted as employees to determine jurisdiction under the Act.



### **Guidelines for Contractors and Subcontractors:**

If you will be using contract labor, be sure your subcontractors are covered by workman's compensation. Additionally, you want to be sure the relationship between your company and the subcontractors are legitimately considered an independent contractor. Check with the IRS to see specific information.

### **Accounting and Record Keeping:**

From your business's outset, it is vitally important that you set up and regularly maintain records of your business. You need these records to not only keep track of how your business is doing, but also to comply with tax regulations, show proof of tax deductions, and show values in case of insurance loss.

Simple accounting and record keeping systems are readily available to include QuickBooks, Peachtree and Microsoft Accounting. You may elect to maintain records yourself, hire a bookkeeper or a family member, or use an accounting firm. If you want to do it yourself, there are schools, colleges, and various other organizations in the area that frequently offer instruction. The Alleghany Highlands Economic Development Corporation offers QuickBooks classes; contact us for more information.

Each business has its own particular record keeping needs. You will need a system to keep track of the following accounting functions. Depending on your business, you may not have the need for some of these items (for example, not every business will need account receivables).

- Payroll, including payroll taxes
- Account Receivables
- Accounts Payables
- Inventory tracking and ordering
- Income or sales
- Operating expenses
- Cost of goods sold
- Tax payments
- Loan payments
- Assets purchased, sold or transferred
- Profit and loss

You will also need to decide if you will accept credit cards, checks, or internal charge accounts. If you accept credit cards, you will need to check with your bank or other financial institution to set up an account. You also need to determine how you will handle payroll. Is it done in house or by an outside service?

### **Registration of a Trademark or Service Mark:**

A trademark includes any word, name, symbol, or device, or any combination, used or intended to be used, in commerce to identify and distinguish the **goods** of one manufacturer or seller from goods manufactured or sold by others, and to indicate the source of the goods. In short, a trademark is a brand name.

A service mark is any word, name, symbol, device, or any combination, used or intended to be used, in commerce, to identify and distinguish the **services** of one provider from services provided by others, and to indicate the source of the services.

You do not have to register your name or symbol, but federal registration has several advantages, including notice to the public of the registrant's claim of ownership of the mark, a legal presumption of ownership nationwide, and the exclusive right to use the mark on or in connection with the goods or services set forth in the registration. In order to register a trademark or service mark, the word, name, symbol, or device must first be in use.

To file for a trademark or service mark you can fill out an application online, check it for completeness, and file it using the Trademark Electronic Application System (TEAS), at [www.uspto.gov/teas/index.html](http://www.uspto.gov/teas/index.html). You can also respond to office actions and file, notices of change of address, allegations of use and requests for extension of time to file a statement of use through TEAS. You can check the status of your application through the Trademark Applications and Registrations Retrieval (TARR) database at [www.tarr.uspto.gov](http://www.tarr.uspto.gov). If you do not have access to the Internet, you can call the Trademark Assistance Center at 1-800-786-9199 (or 571-272-9250) to request a paper form. You may also want to consult with an attorney who practices in the area of trademarks.

For more information about trademarks and service marks go to the U.S. Patent and Trademark web site [www.uspto.gov/main/trademarks.htm](http://www.uspto.gov/main/trademarks.htm)

If you only want protection of your trademark or service mark in Virginia, you can register it with the State Corporation Commission at [www.scc.virginia.gov/srf/faq/tmsm.aspx](http://www.scc.virginia.gov/srf/faq/tmsm.aspx)

Disclaimer: We have compiled the above information from various sources including, local, state, federal institutions, and nonprofit organizations. Our team has made every effort to obtain the most current information. However, since such information is subject to change in future, no warranty, expressed or implied is made regarding the accuracy of the information.



## **New Hires:**

Before hiring any new employee, you must have the person complete a W-4 (Employees Withholding), VA-4 (Virginia Withholding), and an I-9 (Employment Eligibility Verification). If the employee will also be subject to Earned Income Credits, the individual will need to complete form W-5. All federal forms can be downloaded from [www.irs.gov](http://www.irs.gov) and the Virginia state forms from [www.tax.virginia.gov](http://www.tax.virginia.gov).

To find the latest version of the I-9 form, go to [www.uscis.gov/i-9](http://www.uscis.gov/i-9). If you wish to verify the accuracy of the applicant's information, you may use the E-Verify system. This online verification system will immediately inform you if the documentation the applicant has presented to you is accurate. To register for this service (it is free and voluntary) go to [www.uscis.gov/e-verify](http://www.uscis.gov/e-verify).

When an employer hires or re-hires a full, part-time, or temporary employee, the employer must report this information within 20 days of hiring. To download the necessary form or file electronically, go to: [www.newhire-reporting.com/va-newhire/default.aspx](http://www.newhire-reporting.com/va-newhire/default.aspx)

## **Virginia State Taxes:**

To register for business taxes in Virginia go to [www.tax.virginia.gov/business](http://www.tax.virginia.gov/business) and register using **iReg** or complete form R-1 and return to the Virginia Department of Taxation. You may also want to register for **iFile**, which allows you to file and pay your taxes online.

### **Virginia Withholding Tax:**

Virginia Employee tax withholding must be filed to the Virginia Department of Taxation based on the following schedule:

**Quarterly Filing Business:** If the average monthly Virginia withholding amount is less than \$100, your business is a quarterly filer. Use form VA-5 to make payments. Payments must be made by the last day of the month following the end of the quarter. Payment can be made by mail or EFT (Electronic Funds Transfer using the iFile system).

**Monthly Filing:** If the average monthly Virginia withholding amount is more than \$100, but less than \$1000 your business is a monthly filer. Use form VA-5 to make payments. Withholding must be made by the 25<sup>th</sup> day of the month following the end of the preceding month. Payment can be made by mail or EFT (Electronic Funds Transfer using the iFile system).

**Semi-Weekly Filing:** If the average monthly liability is greater than \$1,000 then your business is a semi-weekly filer. Deposits must be made within three banking days of the withholding date using form VA-15 (can also be made by EFT). At the end of the quarter Form VA-16, quarterly reconciliation, must be filed by the last day of the month following the end of the quarter.

**Seasonal:** When registering for taxes if you registered as a seasonal filer, you will need to complete the same requirements.

**Note:** Regardless of your filing schedule, even if you have no withholding, a return must be filed on the correct due dates.

**Annual Requirement:** On or before February 28<sup>th</sup> of each year, form VA-6 must be filed with copies of each W-2. The VA-6 is an annual summary of all payments made throughout the year.

**Electronic Funds Transfers (EFT):** Payments and filings can be made electronically using the Virginia iFile system. However, if your monthly liability to Virginia exceeds \$20,000 then you are required to use EFT. To register for iFile, go to <https://www.business.tax.virginia.gov/VTOL/Login.seam>

### **State Unemployment Taxes:**

Virginia Unemployment Tax Act (SUTA) is required for any business that has employees. This would include the owners of businesses that operate as a S or C corporation. To file and pay this tax you must first register with the Virginia Department of Taxation, or with the Virginia Employment Commission. To register online go to [www.tax.virginia.gov](http://www.tax.virginia.gov) and select business and register new business. You may also file Virginia Employment Commission form VEC-FC-27 by going to [www.vec.virginia.gov](http://www.vec.virginia.gov) and selecting forms. If you are already registered as a business in the Virginia Department of Taxation site, but need to register with the VEC, log into your Virginia tax account and select Virginia Employment Taxes.

**You are liable for unemployment tax if:** Your business has one or more employees who work for any portion of a day in twenty different weeks in a calendar year, or if your total gross payroll for any calendar quarter is \$1,500 or more. If you are an agriculture, domestic service or household employer different rules apply. Please see Virginia tax web site for more detail information.

If you are liable for unemployment taxes, you are required to file form VEC-FC-20 and VEC-FC-21 each quarter. This form reports wages, taxes and employment information and is due at the end of the month following the end of the calendar quarter. For a copy of the form go to [www.vec.virginia.gov](http://www.vec.virginia.gov) and click on forms, then employer. If you registered for this tax, you should receive this form in the mail each quarter. You may also file and pay this tax by using the Virginia iFile system.

The current taxable wage base is \$8,000, which means you pay Virginia State unemployment taxes (SUTA) on each employee up to their first \$8,000 in wages. The tax amount is based on the historical claims of your business. For a new business, you will start at 2.5% (this number can change). When you receive forms from the VEC, your tax rate will be listed on form VEC-FC-20.

**Estimated Taxes:** If you are required to file individual estimated taxes (and are operating on a calendar year), payments must be made by April 30<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup> and January 15<sup>th</sup>. For individuals (if sole proprietor, partner or owner in S-Corp) you would file form 760ES. If filing for C-corporation, then file form 500ES.

**Pass Through Entity Tax:** Any business whose tax entity is treated as separate from the owner must file Virginia Form 502, Virginia Pass-Through Entity Return of Income. This includes subchapter S-Corporations, General and Limited Partnerships and Limited Liability Companies (**except those taxed as sole proprietors**). Form 502 is required to be filed by April 15<sup>th</sup> of each year.

**Corporate Income Taxes:** Any business that is taxed as a C-Corporation must file a corporate tax return (form 500) by the 15<sup>th</sup> day of the 4<sup>th</sup> month following the close of the corporations' tax year. Current corporate tax rate is 6%.

**Virginia Sales Tax:** For the privilege of making retail sales in Virginia, a seller is subject to a sales tax imposed on gross receipts from retail sales of tangible personal property. The seller collects the tax from the customer by separately stating the amount of the tax and adding it to the sales price. Retail sales are defined as sales to a consumer or to any person for any purpose other than for resale.

To register for Virginia Retail Sales Tax go to [www.tax.virginia.gov](http://www.tax.virginia.gov) and complete form R-1 or by using iReg. If using iReg, be sure you select Retail Sales Tax. The current sales tax rate is 4% for state and 1% local (total of 5%). There may be additional local taxes, but these additional local taxes are paid directly to the Commissioner of Revenue.

**Due Date:** Retail sales tax return and payment must be made by the 20<sup>th</sup> day of the month for the preceding month's gross receipts. You may send in sales tax return and payment either by mail or by EFT using iFile. If the Virginia Department of Taxation determines that your business should file quarterly, the return must be filed and tax paid by the 20<sup>th</sup> of the month following the close of each quarter. Until you are informed by the state that your business is a quarterly filer, you are required to file monthly.

**Special note for sales of food items & drugs:** The tax on food items for home consumption is 1.5% state & 1% local (2.5% total). The definition includes most staple grocery food items and cold prepared foods, packaged for home consumption. Specifically excluded from the definition of food for home consumption are alcoholic beverages, tobacco, and prepared hot foods sold for immediate consumption on and off the premises. The reduced sales and use tax rate does not apply to seeds and plants, which produce food for human consumption. Prescription drugs and some non-prescription drugs are exempt from sales tax. Please visit [www.tax.virginia.gov](http://www.tax.virginia.gov) to find the exact items that are exempt.

If your company is purchasing tangible personal property for resale then you are not required to pay sales tax to the vendor from which you are purchasing items (provided you are charging your customer sales tax). You will need to provide your vendor a form ST-10, Exemption Certificate (or other correct exemption certificate, see [www.tax.virginia.gov](http://www.tax.virginia.gov) for a list of the different exemption certificates), in order to be exempt from sales tax.

If you have a customer, who is purchasing product from your business, but will be reselling and charging sales tax, the customer must provide you with a form ST-10 (or other correct exemption form) that must be maintained in your file. Be sure the file is current with the businesses sales tax number and is signed by designated individual.



**Out of State Sales** – Virginia is a designation tax state as it applies to sales tax. If your business is shipping an item to a Virginia address, regardless of where the customer is residing, sales tax must be charged. If an item is shipped out of state, sales tax is not required to be collected.

**Other Virginia Taxes** not covered in this document. Visit [www.tax.virginia.gov](http://www.tax.virginia.gov) for more information.

These include taxes such as: Aircraft Tax, Communications Tax, Consumer's Use Tax, Motor Vehicle fuel tax, Vending Machine Tax, Watercraft Sales Tax, Cigarette Tax, Tobacco Products, Tax, Corn Assessment, Cotton Assessment, Egg Excise Tax, Forest Products Tax, Litter Tax, Peanut Excise Tax, Sheep Assessment, Small Grains Assessment, Soft Drink Excise Tax, Soybean Assessment, Tire Recycling Tax.

**Cigarette Sales:** every pack sold in Virginia will be required to have both a state and local (if required) tax stamp affixed to it. There are other requirements; visit [www.tax.virginia.gov/site.cfm?alias=CigaretteTax](http://www.tax.virginia.gov/site.cfm?alias=CigaretteTax) for more information.



**Alcoholic Beverages Sales:** you will be subject to taxes by the Virginia Alcoholic Beverage Control (ABC). For information, visit [www.abc.virginia.gov/licensing.html](http://www.abc.virginia.gov/licensing.html) or (800) 552-3200.

**Vehicle or Bulk Fuel:** If your business is selling vehicles, or dealing with bulk fuel storage, operating a truck, etc. you will need to register with the Virginia Department of Motor Vehicles. Go to [www.dmv.state.va.us](http://www.dmv.state.va.us) or call 804-497-7100 for more information.

**Policy Library:** To view tax policy and determination by the department of taxation on previous tax cases, visit the Virginia Policy Library: [www.policylibrary.tax.virginia.gov/OTP/Policy.nsf](http://www.policylibrary.tax.virginia.gov/OTP/Policy.nsf)

**Mailing Address:**

Virginia Department of Taxation  
Office of Customer Service  
P.O. Box 1115  
Richmond, Virginia 23218-1115

**Forms Request Unit:**

Virginia Department of Taxation  
Forms Request Unit  
P.O. Box 1317  
Richmond, Virginia 23218-1317  
Toll free: 1-888-268-2829 or  
[www.tax.virginia.gov/site.cfm?alias=busforms](http://www.tax.virginia.gov/site.cfm?alias=busforms)

**Local Taxes:** At this time, there is no local employment tax in the Roanoke Valley Alleghany Regional Commission area.

**Business License (Business Professional Occupation License, also known as BPOL):** Required for any business operating in any jurisdiction and must be renewed on an annual basis. Renewal applications are normally sent out in January of each year and usually must be paid by March 1<sup>st</sup>. Businesses are tax based on their gross receipts and category of the business. Check with your local Commissioner of Revenue's Office for more information.

**Tangible Business Personal Property Tax:** Any tangible property that is owned by a company, this includes machinery and tools, furniture, fixtures, computers, (software excluded) etc. must be listed on the tangible personal property form your business receives each January. Each item must be listed with purchase date and original cost. Form must be filed (not paid) by February 1<sup>st</sup> of each year. You will be sent a tax bill that will be due in May. Filing and due dates in your jurisdiction may be different, so check with your Commissioner of Revenue's office for more information.

**Other local Taxes:** If you will be operating a food or beverage business, you will need to register with the local Commissioner of Revenue for both Meals and Beverage Taxes. There are certain requirements for grocery, convenience stores, and caterers; check your local jurisdiction for specifics. In addition, there is a lodging tax for hotels and travel campgrounds and an admissions tax on public amusement, entertainment, performance, exhibition, and sport/ athletic events. There may be other taxes related to utilities, telephone, right of ways, etc. For any questions regarding local tax requirements, check your local jurisdiction.

See page 26 for Current Local Tax Information. Taxes are subject to change; check with your local jurisdiction for required taxes.

## **Federal Taxes:**

For businesses that have employees (counting the owners of corporations):

**Employment taxes:** this includes Social Security, Medicare, and employee withholding. Deposits can be made with a coupon and payment to a local financial institution, mailing directly to the IRS or using the Electronic Federal Tax Payment System (EFTPS).

**When to deposit:** your business will either be a monthly or semi-weekly depositor. Determination is made each year based on **tax liability** reported on your Form 941 during the lookback period. Lookback period is the 4-quarters beginning on July 1 and ending on June 30<sup>th</sup> of each year. If your business reported \$50,000 and less for the entire 12-month period, your business is designated as a monthly schedule depositor. If you reported more than \$50,000 then you are a semi-weekly depositor. Monthly depositors must deposit by the 15th of the previous month.

**Note:** New businesses are considered monthly depositors for the first calendar year of operation.

## **Required Tax Reporting:**

**Form 941, Employer's Quarterly Federal Tax Return:** Required to be filed by the last day of the month following the end of each quarter. This report lists the total payroll of all employees, the amount of tax withheld, and what payments have been made. The report may be mailed or filed electronically using the e-file system.

**Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return:** Must be filed by January 31<sup>st</sup> of each year reporting data from the previous year. FUTA deposits must be made quarterly by the end of the month following the end of a quarter if your liability is more than \$500. If liability is less than \$500, you may wait until the end of the next quarter to deposit.

**Estimated Taxes:** Individuals and corporations are required to make estimated tax payments by April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup>, and by January 15<sup>th</sup>. Complete form 1040-ES for individual estimated payments, or form 1120-W for C-corporations.

**Form 1099:** There are three primary 1099 forms businesses may be required to use. The most common is 1099-MISC, which is used to report miscellaneous income to non-employees for services rendered for more than \$600 in a calendar year. The 1099-INT is to report interest paid to individuals or non-corporate entities of more than \$600 in a calendar year. The 1099-DIV would be to report dividends paid to stockholders in a C-corporation of any amount.

**Federal E-File System:** The e-file system allows your business to electronically file your returns. The IRS does not offer this service, but is offered through third party providers only. In order to use the E-File system you will need to find an IRS e-file provider by going to [www.irs.gov/efile](http://www.irs.gov/efile). Some of these providers include most payroll services, accounting software such as QuickBooks and online providers such as [www.filetaxes.com](http://www.filetaxes.com).

**Federal EFTPS:** Electronic Federal Tax Payment System, is the IRS electronic payment system. You are not able to file tax forms, but only make payments to the U.S. Treasury. There is no charge to use this system. To register or find out more, visit <https://www.eftps.gov/eftps>

*Due to the ongoing modification of tax laws, the information provided here is strictly a guide. To be sure you are properly filing and paying all taxes, your business should contact the Virginia Department of Taxation and local Commissioner of Revenue, and the IRS.*

### **Additional Information:**

To download the Virginia Employer's Handbook, go to: [www.vec.virginia.gov/vecportal/employer/pdf/emphandbook.pdf](http://www.vec.virginia.gov/vecportal/employer/pdf/emphandbook.pdf)

To download the Virginia Tax Facts, go to: [www.tax.virginia.gov/web\\_pdfs/taxfacts.pdf](http://www.tax.virginia.gov/web_pdfs/taxfacts.pdf)

For information on Federal Taxes visit [www.irs.gov](http://www.irs.gov) and download the following publications:

- Publication 15 Employer's Tax Guide
- Publication 15-A Employer's Supplemental Tax Guide
- Form 1040 ES Estimated Tax payments

If you have employees, you will need to display labor posters that are visible to each employee. To determine which posters you need, visit: [www.doli.virginia.gov/publications/required\\_posters.html](http://www.doli.virginia.gov/publications/required_posters.html)

**Workman's Compensation Insurance:** For information as to requirements visit: [www.vwc.state.va.us](http://www.vwc.state.va.us)

#### **Other Required Filings:**

**W-2:** Must be given to each employee by the end of January of each year.

**1099:** Must be sent to each vendor or person, by the end of January of each year, that meets the particular 1099 requirements.

**W-3:** Must be filed with a copy of each W-2 by February 28<sup>th</sup> if filing by paper; if filing electronically, the due date is March 31<sup>st</sup>.

**1096:** Must be filed with a copy of each 1099 by February 28<sup>th</sup> if filing by paper; if filing electronically, the due date is March 31<sup>st</sup>.

#### **If semi-weekly payroll tax schedule depositor:**

**State:** Deposits must be made with form VA-15, or filed using EFT within 3 banking days following payroll payment.

**Federal:** Deposits must be made on the following schedule. If payroll is paid on Wed, Thurs or Fri, deposit must be deposited by the following Wednesday. If payroll is paid on Sat, Sun, Mon or Tues. deposit must be made by Friday.



## **Tax Calendar:**

See chart on page 27 for a listing of when tax filings and payments are due.

\*Note: Does not include semi-weekly tax payment schedule.

This document is only a guide in understanding the taxes associated with your business. Research was done to obtain the most accurate information possible; however, check with the appropriate taxing agency, or your accountant to ensure that you are properly accounting for all taxes and reports required for your business.

## Current Local Tax Information

	With Whom You Register	Meals Tax	Lodging Tax	Cigarette Tax	Business License Tax	Business Personal Property Tax
Alleghany County	Commissioner of Revenue 9212 Winterberry Avenue Covington, VA <a href="http://www.co.alleghany.va.us">www.co.alleghany.va.us</a> (540) 863-6640	4% paid monthly; due by the 20th of the month for preceding month's sales	2% paid monthly; due by the 20th of the month for preceding month's sales	30¢ per pack	Due March 1st	Filed by January 31st; ½ paid by June 1st, ½ paid December 1st
City of Covington	Commissioner of Revenue 333 W. Locust Street Covington, VA <a href="http://www.covington.va.us">www.covington.va.us</a> (540) 965-6300	6.5% paid monthly; due by the 20th of the month for preceding month's sales	2% paid monthly; due by the 20th of the month for preceding month's sales	4¢ per pack	Due March 1st	Due December 5th
Town of Clifton Forge	Finance Department 547 Main Street Clifton Forge, VA <a href="http://www.cliftonforgeva.gov">www.cliftonforgeva.gov</a> (540) 863-2503	4% paid monthly; due by the 20th of the month for preceding month's sales			Due March 1st	Due December 5th
Town of Iron Gate	Treasurer 401 Commerce Street PO Box 199 Iron Gate, VA (540) 863-2503	4% paid monthly; due by the 20th of the month for preceding month's sales			Due January 31st	Due December 5th

*\*Chart is provided only as a guide. Taxes are subject to change; check your jurisdiction for current amount and taxes required.*

# Tax Calendar by Locality (See Note on page 25)

Federal Requirements	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Estimated Tax Payment	15th			15th		15th			15th			
941 – previous quarter	31st			30th			31st			31st		
940 – previous year	31st											
Provide W-2	31st											
Provide 1099	31st											
Monthly tax filer deposit	15th	15th	15th	15th	15th	15th	15th	15th	15th	15th	15th	15th
File 1099 & 1096 w/IRS		28th										
Send W-2 & W-3 to IRS		28th										
Corporate Tax Return			15th									
Individual Tax 1040				15th								
Partnership return - 1065				15th								
Deposit FUTA payment				30th			30th			31st		

State Requirements	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Estimated Tax Payment	15th			15th		15th			15th			
Sales Tax	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th
VA-5 if monthly filer	25th	25th	25th	25th	25th	25th	25th	25th	25th	25th	25th	25th
VA-16 – semi weekly filer for previous qtr	31st			30th			31st			31st		
VA-5 if quarterly filer	31st			30th			31st					
VEC FC-20 & 21	31st			30th			31st			31st		
Va-6 Annual Summary		28th										
Pass through entity return (form 502)				15th								

Local Requirements	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Meals Tax	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th
Admissions Tax	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th
Lodging Tax	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th	20th
Submit Business Property forms		1st										
Business License		1st										



## **Capital (Funding) Terms:**

**Start-up Capital:** Capital you need before the business opens. See the start-up expense sheet in the Appendix IX on page 43 for a list of expenses that might be necessary.

**Working Capital:** Money needed for day-to-day operations. For a startup business, this means having enough capital available until you reach a break-even point. This sometimes takes from a few months, to several years depending on the industry. When doing financial projections, be sure there is enough extra capital to allow for unexpected expenses or delays in reaching the break-even point.

**Debt Financing:** Financing you receive from an entity that must be paid back over a specific period. Debt financing does not give the lender any ownership rights. Debt financing could include:

- Bank financing
- SBA financing
- Loans from friends/relatives – be sure to complete a Promissory Note
- Loans from stockholders – be sure to complete a Promissory Note
- Asset based lender – company that provides loans against Account Receivables, Inventory or Purchase Order
- Credit Cards

**Equity Financing:** Money put into a business in exchange for ownership rights to the company. This money is not paid back on any specific time schedule and is considered an investment in the business. Equity financing could include:

- Personal savings – retirement funds, home equity loan, savings, life insurance, etc.
- Friends or relatives
- Private Investors
- Angel Investors
- Venture Capital Firms

**Internal Financing:** Using the sources within the business. This could include:

- Customers – in many businesses customers may provide a down payment
- Vendors – businesses from which you buy may provide you extended terms to give you the opportunity to sell the supplies and be paid before you have to pay the vendor.
- Retained Earnings – if your business is producing profits then there is additional money left in the company to provide needed cash.

**Leasing:** Leasing is an option for many businesses for the purchase of equipment. Banks, manufacturers, distributors, franchisors, etc. usually have leasing programs. There are two types of leases:

- **Operational Lease** – also known as a Fair Market Value lease, this is where you pay a specific payment each month and at the end of the contract, if you want to buy the equipment you would pay a “fair market value.” Normally these lease payments are treated as an expense so you are able to deduct 100% of the payment each month. Additionally, the item is not added to your fixed assets and neither is the lease amount added as a liability.
- **Capital Lease** – also known as a \$1.00 buyout, this form of a lease is similar to a loan in that the item would have to be capitalized, meaning you would need to add the item to the fixed assets and the item cost as a liability. The item would then be depreciated over the normal life of the product. For tax purposes, you would only be allowed to expense the interest and then depreciate the equipment.

There are several advantages and disadvantages to leasing:

- **Advantages** –
  - Upfront cost are usually less
  - Usually easier to get than a loan
  - Could be better tax incentives
  - Good for equipment that needs frequent updating such as computers or copiers
- **Disadvantages** –
  - You cannot pay off the lease early without significant penalties
  - If you have a Fair Market Value lease then there is no equity
  - Interest rates are usually much higher than traditional loans
  - Limitation use, such as in cars and the number of miles driven
  - If lease is for equipment that would normally be exempt from sales tax, in a Fair Market Value lease you would still have to pay sales tax

**Grants:** Are there really grants available for a small business, or is that just a myth? Most of the information you hear about grants available for “for-profit” businesses are myths, if not outright scams. The government does not hand out money for you to start your coffee shop or other small business. There may be grant programs available for small businesses tied to a specific industry, such as social programs, or a product that might be available for use by the government, such as for the military, Department of Education or National Institute for Health. These grants are complex and usually very competitive. To find out more, go to [www.grants.gov](http://www.grants.gov).

**Angel Investors/Venture Capital:** Both Angel Investors and Venture Capital businesses are interested in taking businesses with high growth potential and investing in the company in the form of ownership. Each is different in their goals:

- Angel Investors are usually local business people or entrepreneurs that want to help a startup or existing business move to the next level. Their interest is in the investment, but to also be a mentor and contributor to the success of the business. If you consider angel investment for financing, be sure you know the investors’ goals.

- Venture Capital is provided by firms that are looking for high growth business opportunities in businesses that can grow and be sold within a short time frame. They require an active role in the business, which may conflict with the goals and objectives of the owner(s). Most venture capital firms are looking for investments in the \$500,000+ range and usually in the high-tech or bioscience field.

**Private Placement Offerings:** If you will be seeking private investors beyond your family, then you will need to create a Private Placement Offering. It is best to seek the advice of an attorney who has experience in this field.

**Facts About Small Business Loans:**

- You will need to have good credit
- You will need to put some capital into the company as banks or investors will not loan or invest in your company unless you have
- If borrowing funding, you will be required to sign a personal guarantee
- Getting a loan is not quick, so expect several months to go through the process
- Startup businesses are harder to finance than existing businesses



**Buying or Selling a Business:**

**Buying a Business:**

Starting a new business can be daunting and take months or sometimes years to become profitable. Additionally, finding capital to start a new business is becoming more and more difficult. Buying an existing business can eliminate many of these issues, or at least make it easier.

**Advantages:**

- Proven track record of profitability
- Reduction in up-front costs
- Immediate positive cash flow
- Existing customer base
- Existing and trained staff
- Easier to find capital to include loans and owner financing

**Disadvantages:**

- Initially higher price than what it would cost to start from scratch
- Problems of which you are unaware – legal, customer

service, employees, etc.

- The owner may be the business and employees and customers won't follow new owner
- Paying more than what the business is worth; the owner may have an unrealistic opinion of the business' value.

**Tips to Buying a Business:**

- **What do you want to do?** - In which type of business would you enjoy working? You will be committing numerous hours and capital to this business, so you want to be sure that you are doing something you will enjoy.
- **Capital Available** - How much capital do you have available to invest? There is risk, so you need to understand the worst case scenario.
- **Look online** - Start your search with online business listing services to see what types of businesses are for sale and listing price.
- **Ask others** - Ask friends, relatives and business associates if they know of businesses for sale that meet your criteria. Additionally, many businesses are sold that were never for sale; if you see a business you would enjoy owning, ask the owner if they ever consider selling.
- **Seek Professionals** - Many of the best businesses for sale are not publicly listed and are handled strictly by business brokers. Talk to different business brokers to see what markets they serve, what businesses they currently have for sale, and to keep you updated of new ones.
- **Be diligent** - When you find a business that might be of interest, you need to conduct a thorough investigation. You will be asked to sign a letter of confidentiality to proceed.
- **Questions to answer** - When you proceed with your due diligence, here are some questions you need to have answered:
  - Why is the owner selling the business? If the owner is retiring or ill and has owned the company for years, this could be a legitimate reason. Other reasons include burnout, career change, etc. Dig deep to find the real reason.
  - Review the business' last three years (if not more) tax returns, and the internal financial statements (by month or quarter) for last three-five years.
    - Are sales trending up or down?
    - Is the industry trending up or down?
    - Is the business profitable and is there enough cash-flow to service the debt and have sufficient excess?
    - If there is A/R, what is the aging and are there numerous bad debts? This could signal problems.
  - Do not believe internal financial statements unless audited by a CPA. Compare the financial documents to the tax returns to see if they match. Ignore all claims by owner of unreported income. If the income is not on the tax return, it is not real income.
  - Obtain a list of all assets that will be sold with business to include date purchased, initial cost, and current book value.
    - Will you need to immediately replace or add equipment, which will use capital resources?
    - Is the Accounts Receivable or any debt being sold with business?
    - How will you determine the value of inventory? Is there any old or outdated inventory?
  - How is the business structured (as a corporation, LLC, etc)? Will you buy the business, or just the

assets of the business? This could have legal and tax implications.

- Does the company have any contracts and if so are they long term and safe?
- Who are the biggest customers? Compare their last three years' sales. Are their sales increasing or decreasing?
- Get a list of employees with job descriptions, length of service, pay rate, etc. What is the likelihood they will stay with new owner?
- How long will the current owner stay on during transition?
- Is the current owner "The Business"? In other words, how easy will it be to transition the employees and customers to a new owner?
- Is there a lease on the location? If so, how long and what are the terms? If location is critical then a long-term lease is necessary. If location is not critical, then a short-term lease may be more favorable.
- What sort of marketing has the company been doing? What marketing will you need to do to expand and how much more capital will this require?
- Who are the main competitors? Is there a likelihood this could change in the future and take market share? What are the barriers to entry for new competitors?
- Is the price the owner asking reasonable? Will the owner provide any owner financing?
- Are there any issues with customers, employees, legal or environmental that could cause problems in the future?
- Are there any new laws that could affect the business, or a new traffic pattern that could deflect traffic from your location?

Once you have all your answers, you need to determine your own business valuation. This can be done using several valuation techniques discussed later in this section. Part of your evaluation process is developing income and cash flow projections for the next three-five years. Regardless of the price you come up with, the cash flow from the business will have to pay your debt service with sufficient cash reserves unless you are willing your own additional capital.



## **Selling a Business:**

You have built your business for years and are now ready to sell. Do not let all your hard work and investment go down the drain because you made a quick decision to sell. In most cases, you should be planning 1-2 years out to sell your business if you want to maximize your selling price. Here are a few tips to selling your business and getting the best price.

### **Tips to Selling Your Business:**

- Plan ahead to sell and understand what buyers will be looking for.
- Clean up your financial documents
  - Be sure the business is not paying for personal or unnecessary expenses. You need to show increased profitability.
  - Be sure all income is being run through the company, no off-the-book income. You want your sales as strong as possible and showing growth.
  - Get rid of worthless inventory and turn into cash.
  - Clean up A/R and get as current as you can and collect past dues and get bad debt off books.
- Look at ways you can increase sales over the next few years. Can you improve your marketing, update web site, sell to new markets, or offer new services or products. You want to show growth.
- Increase profitability, cash flow in particular. Can you buy more efficiently? Can you cut costs, such as payroll or other expenses? Do what you can to show improved profitability.
- Look at your customer list. If you have several customers providing the bulk of your income, look to diversify. Potential buyers get nervous when they see the bulk of sales coming from only a few customers, regardless of how safe those customers may be.
- Sell under-performing assets, or assets you do not need.
- Buy new assets if they will make the business more attractive to buyers and immediately produce new revenue and profit streams.
- Clean up location. This could mean painting, new carpet, and uniforms for employees, etc. Buyers are looking at the appearance, and customers will notice.
- Develop written operational procedures so that a new owner would feel comfortable with understanding the business. Find ways the business can operate without you. You need to show that the company can run and make money without you having your hands in every facet of the operation.
- Write a business and marketing plan so the new owner can see the possibilities of the business.
- Consider using a business broker to sell your business. The broker can screen out any lookers and only present serious potential buyers. They can also find buyers you could not and usually get a higher price than you could. Be sure you pick the best broker for you and that they have a marketing plan on how they will sell the business.
- Be sure to understand what the real value of your business is. Do not try to overprice the business and chase away legitimate buyers, and do not ask too little and leave money on the table. Consider having a professional business valuation performed.
- Be prepared to either take a lower amount, or be willing to own finance part of the sale.
- Before releasing any information to potential buyers, be sure you get signed a legally binding Confidentiality Agreement.

- Check out any potential buyers by doing credit and background checks. If there is no way they can get financing, do not waste your time.
- Keep quiet, as you do not want your employees, customers, or vendors knowing about your interest in selling. If you believe they will find out, then be sure you get their buy-in. To most buyers the staff will be a critical component of the sales price.
- Do not expect the business to sell in a short time; some businesses take 1-2 years to sell.
- Be sure you are selling at the best time, so you can maximize the sale price. Sell when sales and profits are rising.
- Be sure you understand the tax and legal issues involved with the sale of a business. Consult with an attorney or CPA who understands these issues.
- If you have a buyer interested, keep the negotiations moving. Once you have a signed purchase agreement, the buyer should not take more than 2-3 weeks to complete their due diligence. Do not let this stage drag on too long.

There are many issues involved in selling a business. To protect you and to get the maximum selling price, hire people who are experienced in this area. This would include a business broker, an attorney familiar with business purchases, and a CPA that is familiar with the tax consequences of selling a business.



## **Business Valuations:**

A realistic business valuation requires more than just looking at the current financial statements. To get the most realistic value of the company, you must analyze historical financial information going back 3-5 years, looking at the future projected income statements and an understanding of the industry, the economy and how your company will compete in the marketplace.

There are several different techniques used to evaluate a business. Smaller businesses are usually evaluated mainly on cash flow, while larger small businesses may be evaluated on capitalized earnings, or comparing several different techniques. Use the method(s) that works best for you.

### **Cash Flow Method:**

Unless you have additional capital to handle costs above the cash flow of the business, you will need to have positive cash flow starting on day one to cover all debts. When using this approach, it is assumed it does not matter how many assets the business

has, if there is not enough cash flow to pay the debt service, the business is over-priced for the terms of the financing.

You determine the actual cash flow by taking the profit and adding back non-cash items, or costs assigned to previous owner. This is sometimes referred to EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization).

Step 1: Items to add to profit include, but are not limited to:

- Depreciation
- Amortization
- Interest Expense
- Income taxes (not business or property taxes)
- Owner's Salary & Benefits
- Any other expense that would not normally occur

Step 2: Once you have determined cash flow, you will need to determine your new additional costs. Take the cash flow in Step 1 and subtract:

- Interest and Principal of all debt, including new debt
- New owner's salary & benefits
- Any new expenses you will need such as equipment or additional marketing expenses

After you have subtracted all your costs there should still be sufficient cash remaining to allow for other unanticipated costs, or a decrease in sales.

### **Profit or Sales Multiple:**

A good method to value a small business is using an industry multiple times the profits, or sales.

**Profits method:** Using the cash flow method created in Step 1 above, you would then multiply this amount by the industry multiple. To find an industry multiple you would need to do research. There are many industry resources to include web sites, industry groups, etc. If you are dealing with a business broker, they will usually have access to this information.

*Example: There is a dry cleaner for sale with annual revenues of \$800,000 and a cash flow of \$125,000. The industry multiple for a dry cleaner doing more than \$500,000 and less than 1 million is 2.5. To determine a fair price you would take  $\$125,000 \times 2.5 = \$312,500$ . In this case, the business would be worth around \$312,500. There are variables that could affect price such as age and condition of equipment, length of lease, and whether the cash flow trend is increasing or decreasing.*

**Sales method:** Some industries use the sales multiplied by an industry factor, not taking profit into consideration; these are usually service businesses such as accounting and legal firms.

**Book Value:** This is a simple approach to valuation by taking the current book value of the assets and subtracting the liabilities. It is not usually a good value, as the book value may not reflect the true value of the assets especially if the assets are inventory, or intangible assets such as intellectual property, or goodwill.

**Tangible Book Value:** This approach is similar to book value, but the intangible assets, such as goodwill and intellectual property are not included.

**Asset Market Value:** This is similar to the Book Value approach except you get true market value of the assets which may be larger or smaller than the book value. In particular inventory and

intangibles need to be evaluated as to realistic market value. Inventory may be overstated due to the fact that it is old, outdated or damaged. Goodwill may not be properly stated, and patents may be ready to expire and no longer have value.

**Capitalized Adjusted Earnings:** This approach uses the buyer's expected rate of return from this business. Since most investors could recoup 8-10% in the general market, small business risks are usually evaluated with a rate of return of 15-25%. Longer established businesses would be lower, while newer less established businesses would be higher. The lower the rate of return the higher the price for the seller so the seller and buyer need to agree on what is a fair rate of return for this business.

The formula is taking the cash flow of the business using a weighted average over the past five years, or taking the previous year and dividing by the rate of return (if the business is trending up you may just take last year, or average the last two years). This will give you the selling price of the business.

*Example: A dry cleaner is for sale, and the buyer is expecting a 25% rate of return; the cash flow for the past five years is listed below.*

**Weighted Average Approach:**

Year	Cash Flow (CF)	Weight	Adjusted CF
2005	\$75,000	1	\$75,000
2006	\$85,000	2	\$170,000
2007	\$90,000	3	\$270,000
2008	\$100,000	4	\$400,000
2009	\$125,000	5	\$625,000
Total		15	\$1,540,000
Average CF			\$102,666

*If you use the weighted average approach:  
\$102,666/.25 = \$410,664 is the value of the business*

*If you take the last year's cash flow:  
\$125,000/.25 = \$500,000 is the value of the business*

*If the seller believes the rate of return should only be 20%, then the value of the business changes dramatically.*

*Weighted average approach:  
\$102,666/.20 = \$513,330*

*If you take the last year's cash flow:  
\$125,000/.2 = \$625,000*

As you can see from the examples, determining a reasonable rate of return can have dramatic differences in the business valuation.



## **Franchising:**

A franchise is a system a company (franchisor) uses to market their products/services by granting individuals or groups (franchisee) the right to use the franchise's brand (trademark & name) and their proven system of operation within a well defined territory.

The franchisee must adhere to the operational and marketing standards that have been established by the franchisor and to operate within a defined geographical area. The agreement is usually a long-term contract lasting upwards of 20 years.

**Why Choose a Franchise:** A franchise may be a perfect fit for someone who has not been in business before, or likes the idea of operating under a proven system, and wants to own his or her own business. They also want to reduce some of the risk associated with starting a business from scratch. Franchises are available for almost all retail or service industries. To out more about franchises, visit the SBA approved franchise list (allows faster approval for SBA loans) [www.franchiseregistry.com](http://www.franchiseregistry.com), or the industry trade association [www.franchise.org](http://www.franchise.org).

**Advantages of a Franchise:**

- Established name recognition
- Business has developed a proven system of success
- Provides training and advice in how to start and operate the business
- There is an established branding and marketing system
- Better buying power for supplies or services
- Networking with other franchisees
- Award systems within the franchise operation
- Exclusive rights to a geographical territory
- Usually easier to get financed than traditional startup
- Franchisor may have special financing arrangements
- Higher success rate than traditional startup

**Disadvantages of a Franchise:**

- Loss of independence on how you want to run and operate your business
- Startup costs are higher
- Royalty and advertising fees last as long as contract
- Growth restrictions as you have a territory. To expand you have to buy additional territories
- Usually an inability to sell online, carry new products/services without franchisor's approval
- Franchisor may not be reliable or provide necessary support

- Could be harder to sell business as franchisor has right to approve new owner
- Other franchisee could give your location bad name if they provide poor service
- Long term commitment, usually with no easy termination
- In some cases there is an increase in cost of supplies as the franchisor may charge more for inventory than purchasing elsewhere

### **Franchise Disclosure Document (FDD):**

The Franchise Disclosure Document (FDD) is a legal document that franchisors are required to furnish franchisees at least 10 days prior to signing a Franchise Agreement. The FDD contains critical information about a franchise operation and is designed to help franchisees analyze whether the franchise is right for them.

The FDD contains these and other items:

- Information on the franchisor
- Litigation history to include bankruptcy, lawsuits, etc.
- Initial franchise fee and other initial payments
- Royalty, advertising and other fees and expenses
- Obligations of franchisee to purchase or lease from approved vendors
- Obligations of the franchisor
- Exclusive/Designated territory
- Trademarks, Service Marks, Trade Names, Logos, Patents, Copyrights
- Obligations of the franchisee
- Restrictions on goods and services offered by franchisee
- Renewal, termination, modification or resell of agreement
- Actual, average, projected or forecasted franchise sales or profits
- Financial Statements
- Contracts

Note: While a disclosure document is required by law, no legal body has reviewed its contents to ensure its accuracy, which is why retaining an attorney that is familiar with franchise laws is usually appropriate.

**Franchise Agreement:** Document that legally binds both Franchisor and Franchisee. This document lays out the rights and obligations of each party.

### **Tips Before Deciding Whether the Franchise is Best for You:**

- Ask current franchisees how their experience has been. Has the franchisor provided what was promised? Has the business generated the results they thought? Are they pleased they went with this franchisor? Be sure to find franchisees yourself, not just the ones the franchisor provided to you.
- Do they have at least 25 locations? The more locations and more successful locations show that the system they have works. You should beware of franchises just starting and only have a few locations.
- Have you done market research to see if this type of franchise will work in your geographical area? Just because a franchise is successful in California does not mean it will be successful in Southwest Virginia.
- Do they have good training and support staff? Some franchisors operate on a shoestring with one or two people doing everything. You need to be sure they have well trained and qualified staff.
- Are they financially viable? Is there any reason to believe they cannot provide support due to lack of capital?

- Is the franchise agreement something you can live with for the term of the contract? Even if the franchisor does not do what you thought they would do, it is usually hard to break an agreement, which means you will continue to pay fees regardless of the support you are receiving.
- Do a detail analysis of the income and profit projections. Be sure you can make money with the sales you have forecasted. Be conservative in your estimates.
- How much of the advertising allowance you pay to the franchisor is put back into the local market? Some franchisors place your ad dollars in areas that are of no benefit to you, which means you need to project additional marketing dollars.

## **Legal Documents:**

### ***Incorporation-***

- **Articles of incorporation** – key document submitted to the State Corporation Commission (SCC) to legally establish a corporation in Virginia.
- **Bylaws** – document that defines how the company will operate and the rights and powers of the shareholders.
- **Unanimous Consent** – the adoption of resolutions, etc. where each board member agrees to an action without formal meeting of the board.
- **Resolutions** - corporate resolutions approved by the Board of Directors with one of the key elements containing a list of individuals who are authorized to conduct specified actions on behalf of the company. Typical authorization would include the ability to sign checks and commit to loans, or to buy and sell assets of the corporation.
- **Stock Certificates** - documents reflecting legal ownership of a specific number of stock shares in a corporation.
- **Corporate Minutes** – documents formalizing agreements made by the board of directors. You are required to have the board meet once a year to elect officers. Meetings are also conducted whenever a significant action will take place within the corporation.

### ***Limited Liability Company-***

- **Articles of Organization** – form required to be completed in order to become established as a Limited Liability Company in Virginia. This form is completed and sent to the SCC.
- **Operating Agreement** – document used by a Limited Liability Company to outline how the LLC will operate. This will include such items as who the members are, what ownership rights they have, how much capital was contributed, how one member sells their ownership interests, etc. This document is not required if it is a single member LLC. The Operating Agreement is an internal document between the owners and is not recorded with any government agency. The agreement should be updated when necessary, signed by all parties, notarized, and given to each party and the company's attorney.

***Buy/Sell Agreement*** – agreement between owners of a business (applies to all legal entities) as to how ownership of the business is transferred. Usually has limitation on who ownership can be sold to, the value of the ownership, what happens in event of death, divorce or bankruptcy. This is an extremely important document for every business if there are multiple owners.



**Promissory Note** – document that specifies the terms, rights, and obligations that apply to a loan. It should include interest rate, payment terms, due dates and be signed by the borrower. Should be completed any time the business borrows money.

**Non-Disclosure Agreement (NDA)** – agreement under which a party(s) agree(s) not to disclose confidential or proprietary information which they receive or have access to from another party. Used when a company may want to hire a manufacturer to build a product, or hire a consultant to provide services and will be exposed to critical business information.

**Subcontractor Agreement** – agreement between a company and someone who is performing duties for that company in a subcontracting basis. Is not just for contracting companies, but can be used by any company to confirm a relationship between a company and another company or individual to reaffirm there is not an employee relationship.

**Lease** – agreement between a landlord (or lessor) and a tenant (or lesser) where the lesser is leasing property (real estate or business property) from the lessor under specific terms (length of lease and cost). Be familiar with tax and legal issues involved in leases.

**Personal Guarantee** – agreement where one individual guarantees another person, or entity, his or her personal guarantee that an agreement will be fulfilled. This is usually associated with loans, leases or the purchase of equipment and supplies. Regardless of how your business is legally structured (corporation, LLC, etc) a personal guarantee operates outside of these restrictions.

**Sales Contract** – document stating the terms of sale between the company and another party. This document will state the exact items being provided, the cost, dates, and terms.

**Bill of Sale** – document under which a seller transfers property to a buyer. Not used for real estate, but can be used for any real property to include vehicles, machinery, tools, etc. This document should state what the item is and that it is free and clear of all liens.

**UCC/Lien** – legal document that is filed with the State Corporation Commission and a local courthouse to show property that has been pledged against a note or other security agreement.

**Hold Harmless Agreement** – legal contract designed to protect one party from the liability of another party. Used when one party uses the services/property of another party, yet the first party does not want to be responsible for the second party's actions. Should be properly drafted by an attorney who understands liability law.

**Copyright** - laws that regulate the use of work by the creator of a work. Examples would include artist, photographer, designer, or author. This includes copying, distributing, altering, and displaying creative, literary, and other types of work. Unless otherwise stated in a contract, the author or creator of a work retains the copyright. Copyrights do not have to be registered to be enforced. Registering a copyright establishes a date and proven ownership and will allow for additional compensation in the event of a copyright infringement. Copyrights are registered at [www.copyright.gov](http://www.copyright.gov).

**Patent** – set of exclusive rights for a period of time for an invention in exchange for public notification. An invention can be a product, system, useful improvement, etc. Patents do have an expiration date. This is commonly referred to as Intellectual Property Rights (IP). Patents are registered at the United States Patent and Trademark Office [www.uspto.gov](http://www.uspto.gov).

**Trademark/Service Mark** - word, name, symbol, or device that is to indicate the source of the services or products and to distinguish them from the services or products of others. A service mark is the same as a trademark except that it identifies and distinguishes the source of a service rather than a product. The terms “trademark” and “mark” are often used to refer to both trademarks and service marks. Trademarks and Service Marks are registered at the United States Patent and Trademark Office, [www.uspto.gov](http://www.uspto.gov).

**Partnership Agreement** – similar to an operating agreement, except for a partnership.

**Letter of Intent** – in general, an agreement to agree. It outlines the terms between parties who have not formalized an agreement into a contract and want to continue formal negotiations. Letters of intent are generally not binding and unenforceable. Such letters indicate an intention to do something later.

**End User License Agreement** – licensing the use of a product (such as software) rather than selling the item (CD or DVD). This gives the user the right to use the product, but not allow to resale. To determine if this agreement is right for your product seek professional guidance from an experienced attorney in intellectual property rights.

**Private Placement Offering** – If you will be selling ownership in your business to investors (besides family/relatives) you may need to create a Private Placement Offering to be sure you are not in violation of security laws. Contact an attorney who is familiar with private placement offerings before contacting investors.

# Appendix I: Checklist to Starting a New Business

Items to Complete:	Completed
Start business plan, Marketing Plan, Financial projections, Break-Even analysis	
Determine if any special professional licenses, permits or requirements are required from the Department of Professional & Occupational Regulation (DPOR), ABC Board, or from the Departments of Health, Mental Health, and Social Services	
Determine possible locations – use for estimating costs	
Determine estimated start-up costs and necessary funding, including working capital	
Locate possible funding sources – can you get the money you need	
Select Accountant & Attorney to help in business plan development	
Determine business location and negotiate lease – (do not sign), check on zoning, parking, sign, days of operation, or other restrictions	
Determine Business Name – see if available (no conflicts, trademark issues, etc.)	
Check to see if URL is available for the business name or something close	
Reserve name at SCC, purchase URL (you can wait on this step for financing)	
Complete business plan and financial projections	
Complete Marketing Plan and develop Marketing Calendar	
Submit business plan to potential lenders and investors	
Receive confirmation of business loan, or have access to necessary capital	
Submit for any special licenses, permits, requirements, etc. This would include DPOR, ABC Board, and the Departments of Health, Mental Health, and Social Services	
Determine business legal entity	
Set-up legal structure of business - ( <i>file with SCC</i> )	
Purchase URL if you have not done so	
Apply for FEIN & submit any necessary tax information to IRS (S-Corp. section)	
Setup bank account in name of business	
If taking credit cards, select credit card processor	
Setup accounting system to start tracking expenses & income	
Finalize lease with landlord – setup phone, utilities, etc.	
Obtain funds from financing – deposit in business account	
Obtain necessary insurance to include workman’s compensation	
Purchase necessary equipment	
Obtain Business License and register for any local taxes (meals, entertainment, etc.)	
File fictitious name registration with courthouse	
Register with Department of Taxation for all Virginia Taxes and VEC registration	
Hire employees – complete all necessary hire paperwork, setup payroll system	
Obtain all necessary employment posters and display	
Design logo, print business cards, letterhead, brochures, etc. (can be done earlier)	
Design and get live business Web site.	
Register any trademarks, service marks, patents or copyrights (can be done earlier)	
Develop marketing plan for pre-opening and implement	
Open for business	
Schedule Grand opening	
Send out Press Release about opening	

\*Note: Not all items are needed for every business. Place an N/A in the completed column if the item is “Not Applicable” to your business. This checklist is just a guide and some items for some businesses will need to be completed in different sequences. Adjust the list to meet your particular schedule.

## Appendix II: Are You Ready to Own Your Own Business?

Answer these questions to see if you are ready to start a business:

	Yes	No
1. Are you committed to doing whatever it takes to start a business?		
2. Are you a self-starter and self-motivated?		
3. Do you like to be challenged and find new ways to do things?		
4. Can you work independent of someone giving you directions?		
5. Do you consider yourself honest and ethical, and will you treat customers the same way?		
6. Do you get along well with different personalities?		
7. Are you good at solving problems?		
8. Are you good at managing people and projects?		
9. Are you creative?		
10. Can you make timely decisions?		
11. Are you emotionally and physically capable of working long hours?		
12. Are you good at managing your time?		
13. Are you well organized?		
14. Do you have the support of your family to make the necessary sacrifices?		
15. Are you willing to put in the necessary time and energy?		
16. Are you willing to make the financial sacrifices of putting your assets at risk and being the last one to be paid?		
17. Are you good at multi-tasking?		
18. Do you have the background and knowledge to operate this business?		
19. Do you understand what your strengths and weaknesses are?		
20. Have you worked in the type of business you are interested in starting?		
21. Are you willing to take the extra steps to improve the knowledge areas that you are lacking?		
22. Do you possess general business skills?		
23. Are you good at managing money?		
24. Are you a good salesperson so you can sell your business to others?		
25. Do you enjoy networking or speaking about your business to other?		
26. Are you good at public speaking and making presentations?		
27. Are you willing to do any job needed to include taking our trash, etc.?		
28. Are you able to overcome discouragement when things do not go right?		
29. Can you handle stress?		
30. Have you identified key advisors and/or mentors?		
31. Do you know what your personal goals are and do they align with your business goals?		
32. Do you have a written business plan?		
33. Do you have good credit?		
34. Do you the assets available to start the business and are you willing to risk those funds?		
35. Are the conditions right in your life and in the economy to start a business?		
36. Do you have a plan for meeting your personal living expenses until the business is profitable?		

# Appendix III: SWOT Worksheet

Business Name \_\_\_\_\_

Date \_\_\_\_\_

Item	S	W	O	T	Comments
Pricing					
Quality					
Convenience/Location					
Customer Service					
Product Selection					
Hours of Operation					
Yrs in Business					
Reputation					
Employees					
Web site					
Add Ons					
Refund Policy					
Warranties/Guarantee					
Low Price Guarantee					
Free Delivery					
Free Training					
Parts/Service Dept					
Customer Service					
Marketing Strategy					
Ease of Doing Business With					
Distribution					
Target Market					
Appearance – store, emp, cars					

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Select S (Strength) if this is a strength for your business. In the comment section, list the exact strength and explain how you can develop this opportunity.

Select W (Weakness) if this is a weakness for your business. In the comment section, explain how you can improve upon this item.

Select O (Opportunity) if there is an opportunity for your business to take advantage of this item. In the comment section, list the exact opportunity and explain how you can develop this opportunity.

Select T (Threat) if there is a threat in this area. In the comment section, explain how you can eliminate or reduce the affects of this item.

*\*Note: This is a sample of items to compare. Your list may include more or different items.*

## Appendix IV: Marketing Techniques

Developing a marketing plan	Use of affiliate links on web site	Phone on hold marketing
Use of a marketing calendar	E-commerce/Ebay Store/etc.	Postcards
Developing an elevator speech	Professional color brochure	Gift certificates
Develop professional logo	Door hangers	Point of purchase signs (POP)
Photographic business cards that show what you do	Frequent buyer programs	Yellow page ads (hard copy and online)
Process of asking for referrals	Customer reactivation letters for customers who have not done business for sometime	Publishing a newsletter – printed and/or electronic
Adjusting operating hours & days to meet customer needs	Offer free workshops about your products or services	Radio, TV & cable advertisement
Quickly return calls & e-mails and a system to track	Remain “Top of Mind” with customers and constantly keep in touch with customers	Classified ads – newspaper/trading post, etc.
Training for proper phone demeanor	Add a signature line to your e-mail with web site & message	Newspaper/magazine ads
Following up with customers after sale with phone, thank you letter, e-mail, etc.	Offer a warranty/guarantee	Online coupon sites
Comment cards – find out what your customers think	Complete a SWOT of competitors	Direct Mail
Thank you cards – on a regular basis to new & existing customers	Establish advisory board	Use of Auto responders
Develop a way to exceed expectations all the time	Secret shopper program	Place your product in other ads for other businesses
Fusion marketing – strategic alliances	Value added services – free delivery, free training, etc.	Movie theatre ads
Community involvement	Bundling – multiple products, one price	No hassle return/refund policy
Web site – interesting, useful, content driven, capture names and convert into customer	Networking – attend events, etc.	Flyers on bulletin boards
Collecting e-mail addresses from customers, potential customers	Write articles for papers, web sites, blogs, etc.	Smile & greet you customers
Enable selling on your web site	Vehicle wraps on company vehicle	Proper literature in waiting area
Use of SEO on your web site	Employee sales/customer service training	Sales/prospecting letters
Pay Per Click ads (PPC)	Employee appearance	Inserts in paper
Google, Yahoo and Bing Business Center listings	Clean and neat store appearance to include company vehicles, equipment, etc.	Trade show display
Developing systems to get customers to add reviews for business center listings	Use of 800 number for customers	Assisting with other workshops
Starting a Blog	Giving speeches to groups, associations, etc.	Write a column for paper
Participation on a Blog	Offering free refreshments in your store	Public Relations – writing press release
Testimonials – video/audio that can be on web site or social media site	Free gift to customers – especially not expected gifts	Displays in other businesses
Presence on LinkedIn, Twitter Facebook and YouTube	Survey customers to see how they like your business and new products/services to add	Focus groups
Write and E-Book, or E-article	Participate and apply for Small Business Awards	Telephone marketing
Provide tele-seminar about your product/service	Become member of groups, associations, chambers of commerce	Yard signs
Conduct a webinar about your product/services	Select pricing that works for your business	Billboards
Develop Podcast/Webcasts	Conduct contests/sweepstakes	

# Appendix V: Marketing Calendar

Month	Week 1-2	Budget Dollars	Budget Time	Done	Week 3-4	Budget Dollars	Budget Time	Done	Comments
Mar	<ul style="list-style-type: none"> <li>• Newsletter</li> <li>• E-mail about upcoming classes</li> <li>• Postcards to partners</li> <li>• Press release about classes to media</li> <li>• Review web site stats and PPC</li> </ul>	\$50 \$0	3 hrs 1 hr	✓	<ul style="list-style-type: none"> <li>• Semi-annual postcards to clients.</li> <li>• Postcards to startups</li> <li>• Update web site online calendar</li> </ul>				
		\$300 \$0	5 hrs 1 hr	✓					
			\$0 \$0	1 hr 1 hr	✓				
Apr	<ul style="list-style-type: none"> <li>• Newsletter</li> <li>• E-mail about upcoming classes</li> <li>• Trade Show 15<sup>th</sup></li> <li>• Press release about classes to media</li> </ul>	\$50 \$0 \$500 \$0	2 hr 1 hr 10 hrs 1 hr		<ul style="list-style-type: none"> <li>• Postcards to startups</li> <li>• Update web site online calendar</li> <li>• Direct mail piece to chamber members</li> </ul>				
May	<ul style="list-style-type: none"> <li>• Newsletter</li> <li>• E-mail about upcoming classes</li> </ul>				<ul style="list-style-type: none"> <li>• Postcards to startups</li> </ul>				

# Appendix VI: Sample Income Statement

INCOME STATEMENT PROJECTIONS, FISCAL YEAR ONE													
REVENUES	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Sales Item 1	5,000	5,800	6,500	7,200	7,800	8,400	8,800	9,500	10,000	10,500	11,000	12,000	102,500
Sales Item 2	1,000	1,400	1,600	1,700	1,850	2,000	2,200	2,350	2,475	2,700	2,975	3,100	25,350
Sales Item 3	2,000	2,300	2,500	2,700	2,900	3,000	3,200	3,375	3,525	3,700	3,875	4,100	37,175
<b>Total Revenues</b>	<b>8,000</b>	<b>9,500</b>	<b>10,600</b>	<b>11,600</b>	<b>12,550</b>	<b>13,400</b>	<b>14,200</b>	<b>15,225</b>	<b>16,000</b>	<b>16,900</b>	<b>17,850</b>	<b>19,200</b>	<b>165,025</b>
<b>COST OF SALES</b>													
Revenue 1 CGS	1,250	1,450	1,625	1,800	1,950	2,100	2,200	2,375	2,500	2,625	2,750	3,000	25,625
Revenue 2 CGS	300	420	480	510	555	600	660	705	743	810	893	930	7,605
Revenue 3 CGS	420	483	525	567	609	630	672	709	740	777	814	861	7,807
Hourly Wages	1,680	1,995	2,226	2,436	2,636	2,814	2,982	3,197	3,360	3,549	3,749	4,032	34,655
Franchise Royalties	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total COGS</b>	<b>3,650</b>	<b>4,348</b>	<b>4,856</b>	<b>5,313</b>	<b>5,750</b>	<b>6,144</b>	<b>6,514</b>	<b>6,986</b>	<b>7,343</b>	<b>7,761</b>	<b>8,205</b>	<b>8,823</b>	<b>75,692</b>
<b>GROSS PROFIT</b>	<b>4,350</b>	<b>5,152</b>	<b>5,744</b>	<b>6,287</b>	<b>6,801</b>	<b>7,256</b>	<b>7,686</b>	<b>8,239</b>	<b>8,657</b>	<b>9,139</b>	<b>9,645</b>	<b>10,377</b>	<b>89,333</b>
<b>EXPENSES</b>													
Accounting and Legal	25	25	25	25	25	25	25	25	25	25	25	25	300
Advertising	160	190	212	232	251	268	284	305	320	338	357	384	3,301
Depreciation	833	833	833	833	833	833	833	833	833	833	833	833	10,000
Insurance	50	50	50	50	50	50	50	50	50	50	50	50	600
Interest	375	370	365	360	355	350	345	339	334	329	324	318	4,164
Paper Supplies	0	0	0	0	0	0	0	0	0	0	0	0	0
Payroll Taxes	363	387	405	421	437	451	464	480	493	508	523	545	5,476
Local Taxes - Per P & R/E	50	50	50	50	50	50	50	50	50	50	50	50	600
Rent/Lease	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Repairs & Maintenance	25	25	25	25	25	25	25	25	25	25	25	25	300
Cleaning Supplies	35	35	35	35	35	35	35	35	35	35	35	35	420
Telephone	75	75	75	75	75	75	75	75	75	75	75	75	900
Utilities	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Licence and Fee's	42	42	42	42	42	42	42	42	42	42	42	42	504
Bad Debt	4	5	5	6	6	7	7	8	8	8	9	10	83
Security	10	10	10	10	10	10	10	10	10	10	10	10	120
Workers Compensation	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Laundry	10	10	10	10	10	10	10	10	10	10	10	10	120
Credit Cards	160	190	212	232	251	268	284	305	320	338	357	384	3,301
Misc. Expenses	75	75	75	75	75	75	75	75	75	75	75	75	900
Exterminator	28	28	28	28	28	28	28	28	28	28	28	28	336
Office Supplies	45	45	45	45	45	45	45	45	45	45	45	45	540
Benefits	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Uniform	25	25	25	25	25	25	25	25	25	25	25	25	300
Owner Salary	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
<b>TOTAL EXPENSES</b>	<b>7,340</b>	<b>7,420</b>	<b>7,478</b>	<b>7,529</b>	<b>7,578</b>	<b>7,621</b>	<b>7,662</b>	<b>7,715</b>	<b>7,753</b>	<b>7,799</b>	<b>7,848</b>	<b>7,919</b>	<b>91,663</b>
<b>NET PROFIT</b>	<b>(2,990)</b>	<b>(2,268)</b>	<b>(1,734)</b>	<b>(1,242)</b>	<b>(778)</b>	<b>(365)</b>	<b>24</b>	<b>524</b>	<b>904</b>	<b>1,340</b>	<b>1,797</b>	<b>2,458</b>	<b>(2,330)</b>
<b>INCOME TAXES*</b>	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>NET PROFIT A/TAX</b>	<b>(2,990)</b>	<b>(2,268)</b>	<b>(1,734)</b>	<b>(1,242)</b>	<b>(778)</b>	<b>(365)</b>	<b>24</b>	<b>524</b>	<b>904</b>	<b>1,340</b>	<b>1,797</b>	<b>2,458</b>	<b>(2,330)</b>
*Income Taxes are approximate. If business is setup as a S-Corporation or LLC taxes are passed through to the stockholders and taxed at their personal income rate. Additionally, no consideration has been made for 179 deductions.													

# Appendix VII: Sample Cash Flow Planning Sheet

## CASH FLOW PLANNING SHEET, FISCAL YEAR ONE

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
<b>CASH ON HAND</b>	20,000	13,180	10,328	8,204	6,617	5,515	4,870	4,634	4,781	5,427	6,441	7,882	
<b>CASH RECEIPTS</b>													
Cash Sales	4,000	4,750	5,300	5,800	6,275	6,700	7,100	7,613	8,000	8,450	8,925	9,600	0
Collections	0	4,000	4,750	5,300	5,800	6,275	6,700	7,100	7,613	8,000	8,450	8,925	82,513
Loans	0	0	0	0	0	0	0	0	0	0	0	0	72,913
Owners Contribution	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Cash Receipts</b>	<b>4,000</b>	<b>8,750</b>	<b>10,050</b>	<b>11,100</b>	<b>12,075</b>	<b>12,975</b>	<b>13,800</b>	<b>14,713</b>	<b>15,613</b>	<b>16,450</b>	<b>17,375</b>	<b>18,525</b>	<b>155,425</b>
<b>Total Cash Avilbe</b>	<b>24,000</b>	<b>21,930</b>	<b>20,378</b>	<b>19,304</b>	<b>18,692</b>	<b>18,490</b>	<b>18,670</b>	<b>19,347</b>	<b>20,393</b>	<b>21,877</b>	<b>23,816</b>	<b>26,407</b>	
<b>EXPENSES</b>													
Owner Salary	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Revenue 1 CGS	1,250	1,450	1,625	1,800	1,950	2,100	2,200	2,375	2,500	2,625	2,750	3,000	25,625
Revenue 2 CGS	300	420	480	510	555	600	660	705	743	810	893	930	7,605
Revenue 3 CGS	420	483	525	567	609	630	672	709	740	777	814	861	7,807
Paper Supplies	0	0	0	0	0	0	0	0	0	0	0	0	0
Franchise Royalties	0	0	0	0	0	0	0	0	0	0	0	0	0
Hourly Wages	1,680	1,995	2,226	2,436	2,636	2,814	2,982	3,197	3,360	3,549	3,749	4,032	34,655
Payroll Taxes	363	387	405	421	437	451	464	480	493	508	523	545	5,476
Local Taxes	50	50	50	50	50	50	50	50	50	50	50	50	600
Accounting and Legal	25	25	25	25	25	25	25	25	25	25	25	25	300
Advertising	160	190	212	232	251	268	284	305	320	338	357	384	3,301
Insurance	50	50	50	50	50	50	50	50	50	50	50	50	600
Repairs & Maintenance	25	25	25	25	25	25	25	25	25	25	25	25	300
Rent/Lease	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Cleaning Supplies	35	35	35	35	35	35	35	35	35	35	35	35	420
Telephone	75	75	75	75	75	75	75	75	75	75	75	75	900
Utilities	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Licence and Fee's	42	42	42	42	42	42	42	42	42	42	42	42	504
Bad Debt	4	5	5	6	6	7	7	8	8	8	9	10	83
Security	10	10	10	10	10	10	10	10	10	10	10	10	120
Workers Compensation	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Laundry	10	10	10	10	10	10	10	10	10	10	10	10	120
Credit Cards	160	190	212	232	251	268	284	305	320	338	357	384	3,301
Misc. Expenses	75	75	75	75	75	75	75	75	75	75	75	75	900
Exterminator	28	28	28	28	28	28	28	28	28	28	28	28	336
Office Supplies	45	45	45	45	45	45	45	45	45	45	45	45	540
Benefits	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Uniform	25	25	25	25	25	25	25	25	25	25	25	25	300
<b>Subtotal</b>	<b>9,782</b>	<b>10,565</b>	<b>11,135</b>	<b>11,649</b>	<b>12,140</b>	<b>12,582</b>	<b>12,998</b>	<b>13,528</b>	<b>13,929</b>	<b>14,398</b>	<b>14,896</b>	<b>15,591</b>	<b>153,191</b>
Loan Payments	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	12,455
Capital Purchases	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Tax*	0	0	0	0	0	0	0	0	0	0	0	0	0
Owner Withdrawal	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Cash Paid Out</b>	<b>10,820</b>	<b>11,603</b>	<b>12,173</b>	<b>12,687</b>	<b>13,177</b>	<b>13,620</b>	<b>14,036</b>	<b>14,566</b>	<b>14,967</b>	<b>15,436</b>	<b>15,934</b>	<b>16,628</b>	<b>165,646</b>
<b>CASH POSITION</b>	<b>13,180</b>	<b>10,328</b>	<b>8,204</b>	<b>6,617</b>	<b>5,515</b>	<b>4,870</b>	<b>4,634</b>	<b>4,781</b>	<b>5,427</b>	<b>6,441</b>	<b>7,882</b>	<b>9,779</b>	

\*Income Taxes are approximate. If business is setup as a S-Corporation or LLC taxes are passed through to the stockholders. and taxed at their personal income rate. Additionally, no consideration has been made for 179 deductions.

## Appendix VII: Sample Projected Balance Sheets

PROJECTED BALANCE SHEETS					
ASSETS	STARTUP	END OF YEAR 1	END OF YEAR 2	END OF YEAR 3	
<b>Current Assets</b>					
Cash	20,000	9,779	17,950	29,893	
Prepaid Expenses	0	0	0	0	
Accounts Receivables	0	9,600	10,318	10,705	
Inventory	0	0	0	0	
<b>Total Current Assets</b>	<b>20,000</b>	<b>19,379</b>	<b>28,269</b>	<b>40,598</b>	
<b>Fixed Assets</b>					
Land	0	0	0	0	
Building	0	0	0	0	
Less Depreciation	0	0	0	0	
Equipment A	50,000	50,000	50,000	50,000	
Less Depreciation	0	(10,000)	(20,000)	(30,000)	
Equipment B	0	0	0	0	
Less Depreciation	0	0	0	0	
Equipment C	0	0	0	0	
Less Depreciation	0	0	0	0	
Furniture & Fixtures	0	0	0	0	
Less Depreciation	0	0	0	0	
Other Long Term Assets	0	0	0	0	
Less Depreciation	0	0	0	0	
<b>Total Fixed Assets</b>	<b>50,000</b>	<b>40,000</b>	<b>30,000</b>	<b>20,000</b>	
<b>TOTAL ASSETS</b>	<b>70,000</b>	<b>59,379</b>	<b>58,269</b>	<b>60,598</b>	
<b>LIABILITIES</b>					
Short-Term Debt	0	9,069	9,920	10,851	
Accounts Payable	0	0	0	0	
<b>Total Current Debt</b>	<b>0</b>	<b>9,069</b>	<b>9,920</b>	<b>10,851</b>	
Long-term Debt					
Loan 1	50,000	32,639	22,719	11,868	
Loan 2	0	0	0	0	
Loan 3	0	0	0	0	
<b>Total Long-term Debt</b>	<b>50,000</b>	<b>32,639</b>	<b>22,719</b>	<b>11,868</b>	
<b>TOTAL DEBT</b>	<b>50,000</b>	<b>41,708</b>	<b>32,639</b>	<b>22,719</b>	
<b>EQUITY</b>					
Common Stock	20,000	20,000	20,000	20,000	
Premium on C.S.	0	0	0	0	
Retained Earnings	0	0	(2,330)	5,629	
Owners Equity (if no stock issued)	0	0	0	0	
Net Income		(2,330)	7,959	12,249	
<b>TOTAL EQUITY</b>	<b>20,000</b>	<b>17,670</b>	<b>25,629</b>	<b>37,878</b>	
<b>TOTAL DEBT + EQUITY</b>	<b>70,000</b>	<b>59,379</b>	<b>58,269</b>	<b>60,598</b>	
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<b>*End of Year is shown as the last day of the fiscal year</b>					

## Appendix IX: Start-up Expenses

### Pre-paid expenses

- Insurance

### Licenses & Permits

- Business License
- Building Permits
- Vehicle Registration
- Corporation Fees
- Special Licenses
  - ABC license
  - Contractor license
  - Other

### Professional Fess

- Attorney
- Accountant
- Consultant

### Deposits

- Rent
- Phone/Utilities

### Pre-opening Advertising

- Logo Design
- Web site
- Business Cards
- Stationary, etc.
- Printing: brochures, etc.
- Pre-opening media

### Beginning Inventory

### Leasehold Improvements

- Location Improvements
- Signs

### Other Fixed Assets

- Furniture & Fixtures
- Computers
- Software
- Manufacturing Equipment
- Vehicles

### Supplies

- Office
- Cleaning

### Cost of Financing

- Down payment on loan
- Closing costs
- Appraisals
- Pre-paid interest or payments

### Employee Costs

- Hiring Costs
- Cost to Train
- Wages before opening

### Research Costs

- Market Analysis
- Business Plan Development
- Travel Costs, etc
- Product Development Costs

Unanticipated Costs: add 10% to total

## Break-Even Analysis

A break-even point is when sales are equal to expenses. In other words, you are not making or losing money. In order to determine your break-even point, which is an extremely important tool, you will need to know your fixed expenses and your gross margin as a percent of sales.

Fixed expenses are expenses that are independent of either production or revenue. In other words, if you had no sales for the next month, what costs would you still have? Listed below is the procedure for determining your break-even point.

### Sample Profit & Loss Statement:

Sales	\$100,000
Cost of Products	\$40,000
Direct Labor	<u>\$20,000</u>
Gross Profit	<u>\$40,000</u>
Fixed Expenses:	
Advertising	\$2,000
Insurance	\$1,000
Rent	\$1,500
Telephone	\$500
Salaries	\$5,000
Utilities	\$1,000
Interest Expense	\$1,000
Leases	\$1,500
Supplies	<u>\$500</u>
Total Fixed Expenses	<u>\$14,000</u>

Step 1:

Calculate your gross profit margin:

**$Gross\ Profit / Total\ Sales = Gross\ Margin$**

$\$40,000 / \$100,000 = 40\%$  or .4

Step 2:

Your total fixed costs are \$14,000.

Step 3:

Calculate your break-even point:

**$Total\ Fixed\ Expenses / Gross\ Profit\ Percentage = Break\ Even\ Point$**

$\$14,000 / .4 = \$35,000$

Your break-even point per month would be \$35,000.

If you were selling a single item that sold for \$100 then you could calculate how many units you would have to sell. Take  $\$35,000 / \$100 = 350$ . To break even you would have to sell 350 units at \$100.

If you are selling multiple items at different margins, you will need to do a more thorough analysis by determining product mix and using a weighted average.

# Appendix IX: Estimating Payroll Requirement

If your business will have multiple employees, you will need to determine your anticipated payroll. Based on your business, payroll may be based on sales, production, or even hours of operation.

Use this chart to help determine your payroll.

### Payroll estimate based on number of hours store is open:

*Example: The store is open 50 hours a week, you need 2 employees in the store at all times, and you pay \$10.00 an hour.*

Weekly hours open	Monthly hours open Column 1*52/12	# Employees needed	Average Wage	Total Payroll
50	$50*52/12 = 217$	2	\$10/ hour	$217*2*10 = \$4,340$

In this case your monthly payroll would be \$4,340. You could make this even closer by determining the exact days in the month the store will be open. In the case above, we took the average hours per month. This also does not take into consideration seasonality of a business.

### Payroll estimate based on production, or the need for people based on what they produce:

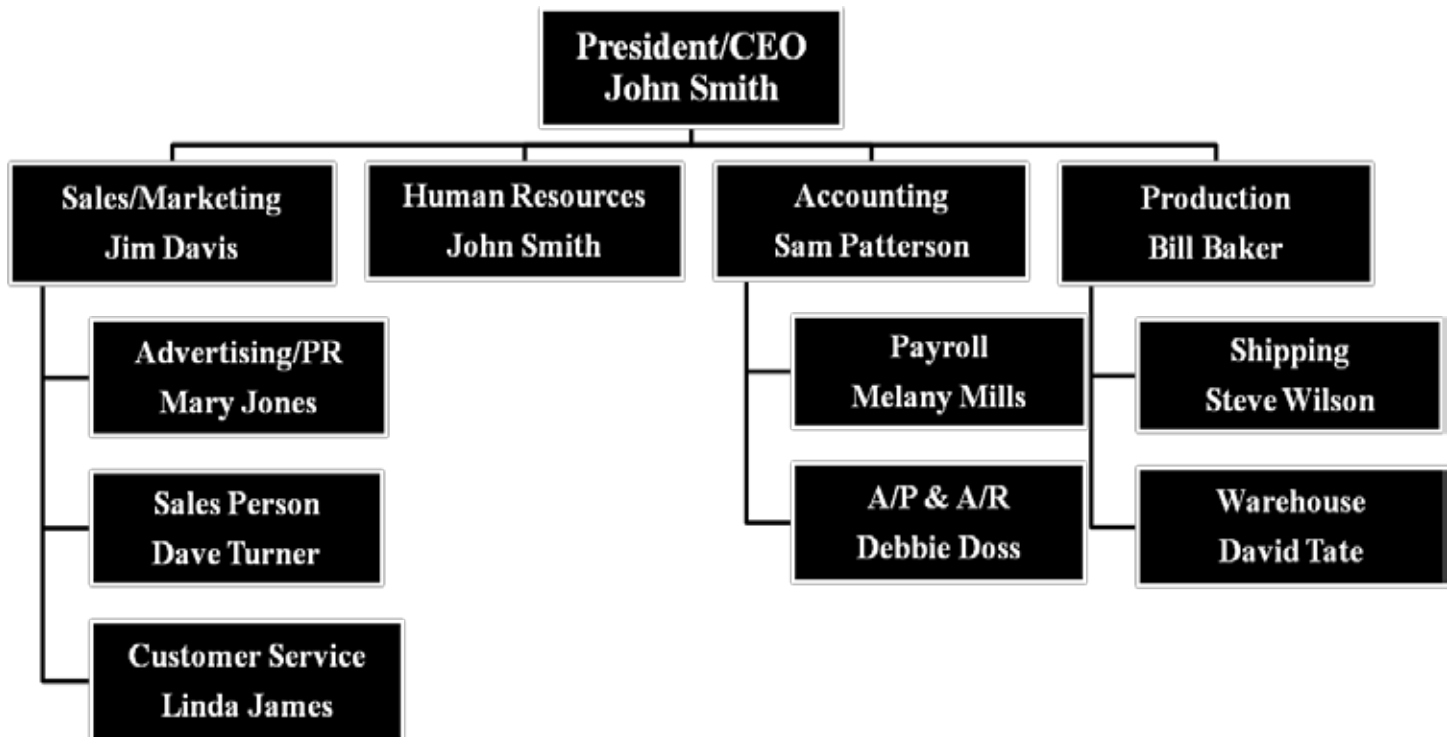
(This could be the hours needed in manufacturing to create the product, or in a childcare facility where you have to have an employee for each 10 children.)

*Example: A daycare has to have one employee for each 10 children. Average wage is \$9.00 an hour. Employees work 40 hours a week, 52 weeks a year.*

Month	# Children	# Employees	Wage	Total Payroll
January	8	1	\$9.00	\$1,557
February	12	2	\$9.00	\$3,114
March	25	3	\$9.00	\$4,671
Quarterly Total				\$9,342

The formula for March would be  $3 \times 173 \times 9 = \$4,671$ . There are 3 employees, 173 is the average hours per month and \$9 is the hourly wage.

## Appendix X: Organizational Chart



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## Techniques for Developing Revenue Projections

In order to properly project revenue in the future you need to develop a realistic model that works for the business you are developing.

*Example: You want to open a restaurant downtown. You have done proper market research by surveying potential customers, and observing other restaurants during different times of the day.*

Given these assumptions, develop your revenue projections.

- The location is 2000 square feet and will have 20 tables that seat four people.
- The average table use is 3 people per table.
- You will serve lunch and dinner, and you estimate you can turn your tables twice at lunch and three times at dinner.
- The average cost of lunch is \$10 per customer and in the evening is \$15.
- Your business will be open 7 days a week.
- Take the total tables of 20 and then multiply by 3 (number of people per table) = 60 people you serve at a time.

For lunch you turn your tables twice at \$10 per customer so multiply  $60 \times 2 \times 10 = \$1200$ . This shows that you will produce \$1,200 a day for lunch.

For dinner you turn your tables three times at \$15 per customer so multiply  $60 \times 3 \times 15 = \$2700$ . This shows that you will produce \$2,700 a day for dinner.

To determine your monthly and yearly sales take the above numbers.

- Monthly Sales –  $\$1,200 + \$2,700 \times 30 = \$117,000$  a month in sales (assuming 30 days per month)
- Annual Sales -  $\$117,000 \times 12 = \$1,404,000$  in sales in a year.

This is a simple approach and does not take into account such variables as seasonality, or changes based on the day of the week, etc. However, using this approach with whatever you are selling will help you estimate sales and provide you somewhat realistic assumptions. You do not want to project sales that are physically impossible to achieve. Such as producing the same sales above with 3 tables. If you were preparing this for a new business, you would need to factor in slower sales in the beginning months until you reach a break-even point.

## Appendix XI: Useful Web Sites

### Local:

[www.AHEDC.com](http://www.AHEDC.com) – Alleghany Highlands Economic Development Corporation  
[www.co.alleghany.va.us](http://www.co.alleghany.va.us) – Alleghany County  
[www.covington.va.us](http://www.covington.va.us) – City of Covington  
[www.cliftonforgeva.gov](http://www.cliftonforgeva.gov) – Town of Clifton Forge  
[www.ahchamber.com](http://www.ahchamber.com) – Alleghany Highlands Chamber of Commerce  
[www.ci.salem.va.us](http://www.ci.salem.va.us) – City of Salem  
[www.roanokeva.gov](http://www.roanokeva.gov) – City of Roanoke  
[www.roanokecountyva.gov](http://www.roanokecountyva.gov) – Roanoke County  
[www.co.botetourt.va.us](http://www.co.botetourt.va.us) – Botetourt County  
[www.vintonva.gov](http://www.vintonva.gov) – Town of Vinton  
[www.rrsbdc.org](http://www.rrsbdc.org) – Roanoke Regional Small Business Development Center  
[www.rvarc.org](http://www.rvarc.org) – Roanoke Valley Alleghany Regional Commission

### State:

[www.scc.virginia.gov](http://www.scc.virginia.gov) – Virginia State Corporation Commission  
[www.tax.virginia.gov](http://www.tax.virginia.gov) – Virginia Department of Taxation  
[www.newhire-reporting.com/va-newhire/default.aspx](http://www.newhire-reporting.com/va-newhire/default.aspx) - registering new hires  
[www.vec.virginia.gov](http://www.vec.virginia.gov) – Virginia Employment Commission  
[www.abc.virginia.gov](http://www.abc.virginia.gov) – Virginia Alcoholic Beverage Control  
[www.dmv.state.va.us](http://www.dmv.state.va.us) – Department of Motor Vehicles  
[www.vwc.state.va.us](http://www.vwc.state.va.us) – Virginia Workman's Compensation Board  
[www.doli.virginia.gov](http://www.doli.virginia.gov) – Virginia Department of Labor  
[www.dba.virginia.gov](http://www.dba.virginia.gov) – Virginia Department of Business Assistance  
[www.cit.org](http://www.cit.org) – Virginia Center for Innovative Technology  
[www.dpor.virginia.gov](http://www.dpor.virginia.gov) – Virginia Department of Professional and Occupational Regulation  
[www.vdh.state.va.us](http://www.vdh.state.va.us) – Virginia Department of Health  
[www.dss.virginia.gov](http://www.dss.virginia.gov) – Virginia Department of Social Services  
[www.dbhds.virginia.gov](http://www.dbhds.virginia.gov) – Virginia Department of Behavioral Health & Developmental Services  
[www.vdacs.virginia.gov/consumers/registrations.shtml](http://www.vdacs.virginia.gov/consumers/registrations.shtml) - Department of Consumer Affairs which licenses charities, Health Spas, Travel Clubs, extended service contracts, campgrounds, etc.  
[www.dmbe.virginia.gov](http://www.dmbe.virginia.gov) – Department of Minority Business Assistance – Handles SWaM certification  
[www.eva.virginia.gov](http://www.eva.virginia.gov) – eVA system which handles Virginia State Procurement  
[www.vsb.org](http://www.vsb.org) – Virginia Bar Association – assistance with locating attorney  
[www.vscpa.com](http://www.vscpa.com) - Virginia Society of CPA – assistance with locating CPA  
[www.virginiاسبdc.org](http://www.virginiاسبdc.org) – Virginia SBDC Network  
[www.vetbizresourcecenter.org](http://www.vetbizresourcecenter.org) – Virginia Veteran Resource Center  
[www.vawc.virginia.gov/analyzer/default.asp](http://www.vawc.virginia.gov/analyzer/default.asp) - Virginia Labor Statistics  
[www.VAWorkConnect.com](http://www.VAWorkConnect.com) - Virginia Workforce Connection – special programs for employers  
[www.vatc.org](http://www.vatc.org) – Virginia Department of Tourism

### Federal:

[www.dol.gov](http://www.dol.gov) – Department of Labor  
[www.census.gov](http://www.census.gov) – United States Census Department  
[www.grants.gov](http://www.grants.gov) – Federal government grants  
[www.irs.gov](http://www.irs.gov) – Internal Revenue Service  
[www.uscis.gov/i-9](http://www.uscis.gov/i-9) - Citizenship & Immigration Services – I-9 form  
[www.uscis.gov/e-verify](http://www.uscis.gov/e-verify) - E-verify service for verifying immigration status  
[www.doe.gov](http://www.doe.gov) – Department of Energy  
[www.vetbiz.gov](http://www.vetbiz.gov) – Veterans in business web portal  
[www.sba.gov](http://www.sba.gov) – Small Business Administration  
[www.uspto.gov](http://www.uspto.gov) – United States Patent and Trademark Office  
[www.copyright.gov](http://www.copyright.gov) – United States Copyright Office  
[www.franchiseregistry.com](http://www.franchiseregistry.com) - SBA franchise registry  
[www.business.gov](http://www.business.gov) – Official business link to federal government  
[www.stats.bls.gov](http://www.stats.bls.gov) - Bureau of Labor Statistics  
[www.bea.gov](http://www.bea.gov) – Bureau of Economic Analysis  
[www.export.gov](http://www.export.gov) – Export assistance  
[www.govloans.gov/loans/type/3](http://www.govloans.gov/loans/type/3) - Available government small business loans  
[www.map.sba.gov/hubzone/hzqry.asp?state=VA](http://www.map.sba.gov/hubzone/hzqry.asp?state=VA) – HUB Zone listing  
[www.sbir.gov](http://www.sbir.gov) – Small Business Innovative Research Grant info



*An investment in the  
Allegheny Highlands Chamber of Commerce  
is an investment in your community.*

Photos courtesy of Fire and Light Gallery

**Chamber Membership Instantly Provides:**

- ***Business Assistance*** - ease into opening your doors for business
- ***Business Promotion*** - advertising and sponsorship opportunities
- ***Business After Hours*** - opportunities to be involved and make connections
- ***Business Benefits*** - instant access to value-added benefits at no charge
- ***Referrals*** - assistance attracting customers and clients needed to succeed



Allegheny Highlands  
Chamber of Commerce  
and Tourism

241 W. Main Street  
Covington, VA 24426

Phone: (540) 962-2178  
Fax: (540) 962-2179

[www.ahchamber.com](http://www.ahchamber.com)  
[info@ahchamber.com](mailto:info@ahchamber.com)

# Alleghany Highlands Small Business Resources

Alleghany Highlands Economic  
Development Corporation  
Business Assistance Program  
1000 Dabney Drive, Suite 510  
Clifton Forge, VA 24422  
(540) 862-0936 - [www.ahedc.com](http://www.ahedc.com)



Roanoke Small Business Development Center  
210 S. Jefferson Street, Roanoke, VA 24011  
(540) 983-0717 - [sbdc@roanokechamber.org](mailto:sbdc@roanokechamber.org)  
[www.RoanokeSmallBusiness.org](http://www.RoanokeSmallBusiness.org)



Roanoke Regional SBDC

Alleghany Highlands Chamber of Commerce  
241 West Main Street, Covington, VA 24426  
(540) 962-2178 or (888) 430-5786  
[www.ahchamber.com](http://www.ahchamber.com)



Virginia Department of Business Assistance  
851 French Moore Jr. Blvd, Suite 110  
Abingdon, VA 24210  
(276) 676-3768 - [www.vdba.virginia.gov](http://www.vdba.virginia.gov)



Online Small Business Resources  
[www.SBA.gov](http://www.SBA.gov)

U.S. Small Business Administration



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[www.ahedc.com](http://www.ahedc.com)