**Nine Steps for Starting Your Small Business (2017-2018 Version)**

**TEACHER GUIDE**

(Updated: April 24, 2017)

There are many lists of the steps you need to take to start your own small business. Some of these steps are administrative, indicating the forms you must complete to start a business. Other lists are entrepreneurial, indicating the business steps necessary to start a successful enterprise.

***This three-pager describes both the entrepreneurial and the administrative steps necessary to start a small business.***

|  |  |
| --- | --- |
| **Entrepreneurial Steps to Launch a Small Business** | **Initial Administrative Requirements for Starting a Small Business** |
| 1. Describe your *differentiated offering*
2. Identify and quantify your target market
3. Create your one-page financial projections *(pro forma)*
4. Determine your marketing and selling strategies
5. Secure your funding (and your mentors / advisors)
6. Develop your Launch Plan
 | 1. Visit the *geaux*BIZ portal to register your business
2. Select your accounting system
3. Arrange for sound insurance protection

***GO / No Go*** |
| Students attempting to earn the Regional Micro-Enterprise Credential were expected to understand these concepts. ***Students attempting to earn the Statewide Micro-Enterprise Credential will be required to demonstrate hands-on mastery of concepts like: a) develop pro formas; b) concise communications (like an elevator speech); and differentiation.*** |

**The best differentiation is “defensible.”** That means it will be hard for competition to copy what’s different and better about your business.

* “Low price” is hard to defend because your competitor can just lower price to match your best offer.
* “Best service” is easier to defend but hard to consistently deliver and prove to customers.
* Creating a different style or tone to your business is more defensible, especially if that style or tone is central to your core business idea. Example: outdoor culture at Bass Pro Shops that appeals to hunters and fishermen
* The best differentiation is something that your product or offering has that is protected by a patent or some other legal protection. Example: exclusive agreement to sell the newest fashion clothing.

**1) Describe your *differentiated offering***

“Differentiated” means “different than anything else.” Small businesses that succeed have a reason they succeed, a “differentiated offering” that attracts customers, generates sales and serves as the foundation for a successful business.

How your small business will be different depends on your vision, what you are passionate about doing. *Most successful small businesses start and succeed because the entrepreneur is driven, propelled by the vision of what he / she believes is the unique contribution his / her business will deliver.*

Target markets can be geographic (especially for retail stores), lifestyle, demographic and/or cultural.

**2) Identify and quantify your target market**

As you consider your new enterprise, determine who is the *exact* target market you intend to serve. For example:

* you might be willing to cut hair for anyone who comes into your salon, *but your passion is to serve “fashion forward” young adults living within two miles who want to constantly experiment with their “look.”* Or
* you might be willing to provide parts for anyone who owns a vehicle, *but your passion is to serve young plant and construction workers in your three-parish area who want to compete to make their trucks look the best.*

Determine the entire market your business will serve, *and the target market you intend to serve with a differentiated offering these customers will find irresistible.*

**3) Create your one-page financial projections *(pro forma)***

Before starting a business you should complete a one-page financial projection (called a *pro forma*) that lists your major revenue sources and expenses.

**Typical Financial Project (*Pro Forma*) Format**

**Revenues** by service or type of customer

 - (number of customers) x (typical purchase)

 - anticipated monthly revenues for first two years

**Expenses** by category

 - cost of goods sold

 - personnel costs (not including owner compensation)

 - facility costs

 - overhead costs

**Monthly Margin** for debt interest, taxes, owner pay

This *pro forma* should show how you intend to make enough money each month to pay your staff, cover your overhead, and have enough left over to pay any debt interest, taxes . . . and lastly, yourself, the owner!

See Resource 23-06

Don’t be concerned if your first *pro formas* indicate your business can’t make a positive monthly margin. *The first few* pro formas *of every new business show negative results until you refine and improve your business concept.*

**4) Determine your marketing and selling strategies**

Although there are many good definitions of “marketing” and “selling,” an easy way to remember the difference is:

* ***marketing*** is how you intend to communicate to large numbers of customers, motivating them to learn more about your business. (Example: advertising is s marketing tool.)
* ***selling*** is how you move specific customers to buy from you. (Example: a special event in your store’s parking lot is selling.)

Obviously marketing campaigns and selling efforts should support one another. And all your efforts to help customers learn about your business and buy from you should emphasize your differentiating offerings.

**The characteristics of effective advertising are:**

1. **Memorable / Distinctive** – the best ads are memorable because of striking images, effective wording, catchy music and/or a memorable catch phrase;
2. **Demonstrates Value** – the best ads (especially for small businesses) move a customer to action by offering a value proposition they find irresistible;
3. **Creates an Emotional Bond** – the best ads appeal to the emotions of your targeted customers, creating a bond between them and you.

These three factors are more important than making sure an advertisement is funny . . . although if it is so funny it is memorable and distinctive, that’s good.

In the past advertising meant expensive television or magazine advertisements. Today there are more inexpensive ways to advertise – social media, YouTube videos, etc. – that are less expensive and quicker-to-market.

Never before in history has small business had a better opportunity to create effective advertising that attracts target market customers.

**5) Secure your funding (and your mentors / advisors)**

You should have learned about *capital* and *credit* by now. You will need to assemble enough capital and credit in order to launch and operate your new business. *Every* new venture finds it challenging to secure the funds necessary to launch and operate.

To attract investors you should develop an “elevator speech” about your business – a clear, concise and compelling way you can describe *in 30 seconds* your differentiating vision to encourage potential investors to learn more. An example:

*“I intend to start an auto parts store that can successfully compete against Amazon and national chains. We will focus on young plant and construction professionals in our three-parish region who want to “trick out” their trucks. We will offer much more than parts – we’ll offer workshops on the best ways to work on trucks and competitions to award prizes to the best trucks. We’ll create a loyal community of customers who convince their friends and colleagues to buy from us.”*

See Resource 23-18

In most cases the investors who provide you with funding become your mentors and advisors. They will want your business to succeed. When they invest in your enterprise, get them to agree to meet with you regularly and be available to talk with you at any time, so that you have a team of supporters who can help you succeed.

**Launch Plan – Sample Format**

 Task Costs Completion Date Responsible

**6) Develop your Launch Plan**

A Launch Plan is a detailed To Do List of steps you’ll need to take to go from concept and funding all the way to business launch. The more detailed you make a Launch Plan – specific tasks, projected costs, targeted task completion dates and the team member responsible for each step – the better you can measure and manage the process it takes you to launch your business.

**7) Visit the *geaux*BIZ portal to register your business**

We’re fortunate that the Louisiana Secretary of State makes it easy for entrepreneurs to start-up a new small business! Just go online to the *geaux*BIZ web portal ( <https://geauxbiz.sos.la.gov> ). This portal will walk you through all the steps necessary to register your business name, determine the appropriate legal structure for your business, submit required state and federal government forms, and obtain any required permits or licenses.

You can mention that the Secretary of State has created a *geaux*BIZ student portal specifically for this credential. Scope and sequencing recommendations has this exercise occurring several weeks after this discussion of what makes a small business successful.

**8) Select your accounting system**

*No business should keep handwritten financial records.* None. Not at this point in history. ***Every business should use Quicken. QuickBooks or some software program to track your expenses.*** Smart small businesspeople also use software or online programs to budget and track their expenditures, and even create invoices and manage payroll.

If you are interested in starting a small business, *please* learn how to use an automated accounting program.

**9) Arrange for sound insurance protection**

Every business needs insurance. Insurance may be very expensive for a new small business, but it provides you with the necessary protections to guard against a single unfortunate event closing your business before it even gets started.

Contact one or more insurance agents before launching your business to discuss with them the types of insurance you and your new business may need. When you find the insurance agent you think is best – representing reputable insurance companies – then develop a plan for the insurance policies you will need.

Two important concepts about the cost of insurance: 1) the “premium” is the annual cost to you of your insurance; and 2) “deductibles” indicate the amount you will pay before the insurance company reimburses you for a loss. For example, if you have fire insurance for your store, the insurance company may require you to carry a $5,000 deductible, meaning you only get reimbursed for losses above $5,000. *The higher your deductibles the lower your premiums – but the more risk your small business assumes.* (Your insurance agent will provide additional details.)

The insurance agent should provide you with a letter describing the types and costs of coverage your will need. You can use this letter to reassure investors that your enterprise is “insurable,” and that you’re prepared to secure necessary insurance protection as soon as you launch your business

It can be useful for you to review with students all the different types of insurance that a small business will need:

1. Worker’s Compensation in case employees are injured. Most businesses are required by law to maintain Worker’s Compensation insurance;
2. General Liability Insurance that protects against a number of hazards (i.e., customer injured in store, your product injures a customer at home, etc.);
3. Property Insurance to protect your building, inventory and equipment from fire, flood and/or vandalism;
4. Commercial Vehicle Insurance to protect your vehicles, your employees while driving any vehicle for the business, and anyone who might be injured in an accident involving your employees and vehicles;
5. Errors and Omissions (E&O) Insurance to protect a service businesses (like bookkeeping companies) from any malpractice errors they make; and
6. Key Person Life Insurance to protect the business and the owners’ families in case the entrepreneur passes away.

At some point all your planning will be complete. You’ve determined the name of your enterprise, your differentiated offerings, your target market and your key marketing and selling campaigns.

***GO / No Go***

Your *pro forma* will show how you can make ends meet during those difficult first months and years, and how your business will prosper enough to meet your bills, pay your credit interest, pay your taxes and even pay yourself. Your projections will give investors comfort that you can and will succeed.

Your Launch Plan will illustrate in convincing detail the steps you’re going to take to make your vision an operating reality, an actual small business properly prepared to prosper.

You will have assembled a team of investors willing to provide you with the funds you need, and with on-going mentorship, support and advice.

You will have recruited a team of partners and/or employees willing to take the next brave steps with you, fully aware of the risks of starting a new business but full of the same vision, excitement, energy and optimism you feel.

The *geaux*BIZ web portal will have helped you select your legal structure under your registered name, submit all required forms and secure all required licenses and permits. Your insurance agent will have found affordable, complete protection for you at the most affordable price.

Now you face one last decision: ***GO / No Go***. Do you actually start your new small business?

Only you will know whether or not you, your team members, your family and your friends are ready for the stress and commitment of starting a new business. Your life will never be the same – the amount of effort and dedication necessary to start a new business cannot be imagined or simulated. Starting a new business is all-consuming. It will force you to work harder than you’ve ever worked before.

*But if you complete the nine steps above, you will have done the initial work necessary to position yourself for success.*

**GOOD LUCK!**

**Differentiation Student Exercise Answer Key**

The Match Game: 1-B 2-D 3-A 4-E 5-C *please email* *JumpStart@la.gov* *if you have any questions*

Ranking: Case One: 1-HE or E 2-HE 3-E or NE 4-NE *please email* *JumpStart@la.gov* *if you have any questions*

Ranking: Case Two: 1-HE or E 2-HE 3-NE 4-E *please email* *JumpStart@la.gov* *if you have any questions*

**Elevator Speech Student Exercise Answer Key** *please email* *JumpStart@la.gov* *if you have any questions*

*The suggested answers below are obviously not the only answers – but they frame acceptable answers.*

***The key in the Elevator Speech exercise is to strictly limit students to 30 seconds – enlist the other students to kindly enforce this time limit.***

***The challenge of delivering a fully-formed elevator speech in only 30 seconds will help students develop a commendable “economy of expression” while helping them practice the essential skill of speaking out loud using “the language of business.”***

|  |
| --- |
| **Unisex Salon Elevator Speech** |
| The students are likely to want to focus their elevator speech on one or more of the following three topics: 1) the “young at heart” fashion focus on their salon (tapping into the celebrity’s focus on fashion and personal appearance); 2) their commitment to serve the lifelong neighborhood (tapping into the celebrity’s affiliation with the community, as well as the celebrity’s desire to be more visible and well-liked within the community; and3) their intention to make their salon a place of opportunity for new stylists who are growing up in their neighborhood.If your students have conceived of a name they really like for the new salon they’ll want to use that in their elevator speech.It is impossible to get all the details they will have in their heads – and that they think are important about their new venture – into their elevator speech. *That’s the entire point of the exercise. The students will need to learn how to express their most important points in an economy of expression.* |

|  |
| --- |
| **Auto Parts Store Elevator Speech** |
| The students are likely to want to focus their elevator speech on one or more of the following three topics: 1) their dedication to helping young people express themselves through customizing their trucks; 2) their ability to help enthusiasts build their own communities of customizers that is both fun and rewarding (gift cards and contest rewards); and3) their expertise in helping truck owners find and install the customizing parts / equipment that best express their individuality.If your students have conceived of a name they really like for the new store they’ll want to use that in their elevator speech.It is impossible to get all the details they will have in their heads – and that they think are important about their new venture – into their elevator speech. *That’s the entire point of the exercise. The students will need to learn how to express their most important points in an economy of expression.* |