



North Dakota
Small Business Development
Centers

BUSINESS RESOURCE GUIDE



NORTH DAKOTA

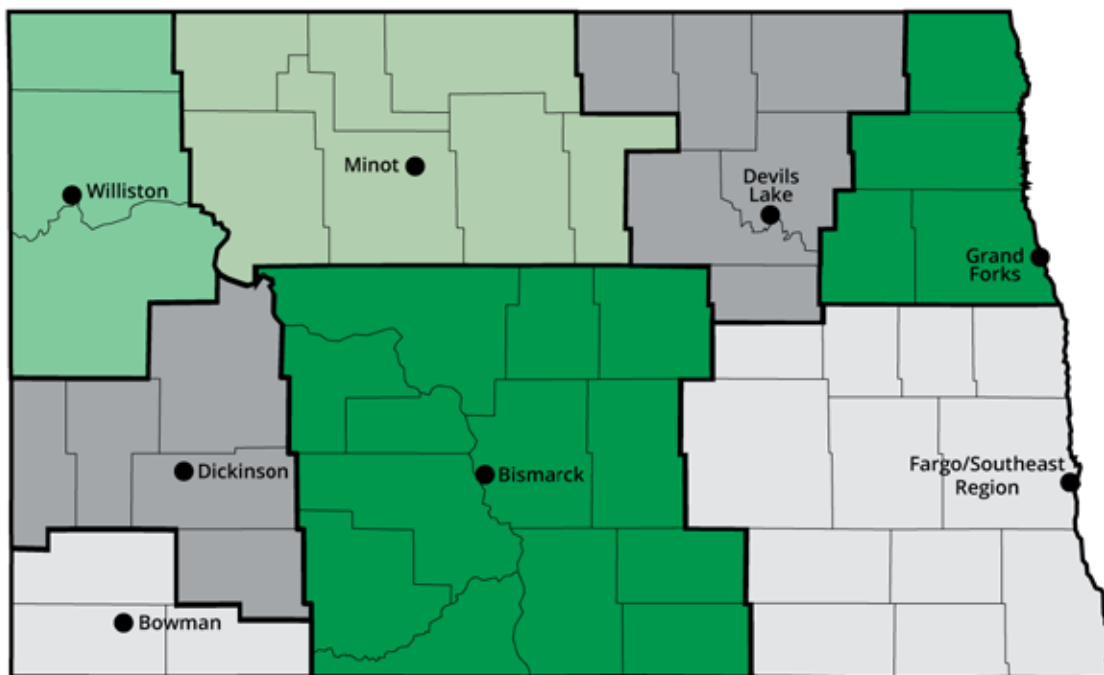
SMALL BUSINESS
DEVELOPMENT CENTERS

ndsfdc.org



ND SBDC PROGRAM

Powering the creation, growth, and success of small business in North Dakota.



For information to contact the office nearest you, please visit our program website.

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ENTREPRENEURSHIP

IS IT RIGHT FOR YOU?

Business success depends on many things including having the right tools and information to make sound business decisions. Owners need the ability to be able to quickly adapt to their changing environment.

When considering what kind of business venture to start, choosing something that you love to do and coincides with your natural talents, skill sets, experiences, and education will best suit your personality and keep your interest.

Small business ownership takes a lot of time, energy, and personal investment. It also takes a lot of self-motivation and grit. As a new entrepreneur you must recognize what your strongest talents and skills are and realize your areas of weakness.

Many entrepreneurial skill sets can be learned but sometimes it can make more sense to hire outside professionals such as accounting, tax, and legal experts to help you in areas that can take too much of an owner's time and will also better protect the business from making costly mistakes. Also, if you do not like specific work situations such as working with the public or sitting in an office environment, it is not easy to change one's personality preferences, so it's better to consider hiring employees to handle those types of tasks.

Consider the following questions to help guide you in your decision-making process when considering starting a business.

ON THE UPSIDE...

The advantages of business ownership can far outweigh the risks. When you are your own boss your personal earning and growth potential is far less limited than working for someone. Running a business will provide endless variety, excitement, and challenges - you will never settle into a dull routine.

Entrepreneur:

Someone who has an idea and who works to create a product or service that people will buy while taking on the risk and initiative for their new business.

Am I a self-starter?

You will be responsible for many tasks, organizing your time, and following through on details will be critical. How well do you get along with different personalities and handle conflicts? Owners need to develop working relationships on different levels with a variety of people including customers, vendors, staff, bankers, and other professionals. The ability to communicate is key to keeping the business functioning properly.

Can I think creatively, and problem solve?

Owners must constantly make decisions quickly and under pressure to take advantage of new opportunities, create innovative ideas and problem solve. This takes tremendous physical and emotional stamina.

How will the business affect my family/ personal life?

How much time and personal funds do I have to commit to the success of this business? Running a business can add family pressure both timewise and financially. Owners tend to work long extended hours and manage many job duties rather than hiring employees - especially the first few years of start-up. It is important for family members to know what to expect and to be willing to support you during this time.

How well do I plan and organize?

Research shows that poor planning is the cause of most business failures. Good organization of financials, inventory, and production can help you avoid many pitfalls.

MARKET RESEARCH

VERIFYING YOUR IDEA



Market research is a vital step when starting a small business. It involves gathering and analyzing important information about the market, customers, competitors, and industry trends. You can learn valuable insights that help you make smart decisions and create effective strategies for your business. It helps you understand what your customers want, assess the demand for your products or services, and figure out if your business idea is viable, allowing you to tailor your offerings, pricing, and marketing to meet customer expectations and stay ahead of the competition.



Steps to consider:

- Define your objectives: Clearly outline what you want to achieve through your market research. Identify the specific questions you need answers to and the information you require to make informed decisions.
- Identify your target market: Determine the characteristics of your ideal customer base. Understand their demographics, needs, preferences, and purchasing behavior. This helps you focus your research efforts and tailor your offerings accordingly.
- Conduct primary research: Primary research involves gathering new data directly from your target market. This can be done through surveys, interviews, focus groups, or observations. Ask relevant questions to gain insights into customer preferences, pain points, and satisfaction levels.
- Analyze secondary research: Secondary research involves analyzing existing data and information available from various sources such as industry reports, market studies, government data, and competitor analysis. This helps you understand the market trends, customer behavior, and competitive landscape. *The ND*

SBDC has access to multiple databases to pull this type of data for clients.

- Evaluate your competition: Study your competitors to understand their strengths, weaknesses, pricing strategies, and unique selling points. This helps you identify opportunities and position your business effectively.
- Assess market demand: Determine the size of your target market and assess the demand for your products or services. Identify any potential gaps or unmet needs that your business can address.
- Use online tools: Leverage online tools and platforms like social media, surveys, and analytics to gather data, track consumer sentiment, and monitor market trends. These tools provide real-time insights and are cost-effective for start-ups.
- Analyze and interpret the data: Once you have collected the data, analyze and interpret it to draw meaningful conclusions. Identify patterns, trends, and customer preferences that can guide your business decisions.
- Implement your findings: Apply the insights gained from your market research to refine your business strategy, product/service offerings, pricing, marketing campaigns, and customer experience.
- Monitor and adapt: Market research is an ongoing process. Continuously monitor the market, customer feedback, and industry trends to stay updated and adapt your business strategies accordingly.

Remember, market research should be tailored to your specific business needs and industry. It is essential to maintain a customer-centric approach and use the gathered insights to make informed decisions to drive the success of your business.

Your research will also be used throughout your business plan, supporting your market assumptions. Additional research, promotion and advertising concept development is continued on page 30.

This process can feel overwhelming. This is an area that a trusted advisor, like those at the ND SBDC, can be of great support and assistance. Depending on your business idea, there may be additional resources available to assist you with ideation and market research as well.

BUSINESS PLANS

BLUEPRINTS FOR SUCCESS

Planning is your guide to success in the business world. You must write a business plan if you are:

- Starting or buying a business
- Financing or refinancing your business
- Deciding if your idea is feasible
- Raising debt or equity capital

The plan helps you find hidden flaws and makes you think carefully about each phase of your business. It helps you gain in-depth knowledge and clarifies what makes your business successful.



Elements of a Business Plan

It is important to establish realistic goals with a sound methodology for achieving them. A business plan:

- Is the management and financial blueprint for a business start-up or expansion
- Is written by the owner with outside help as needed
- Explains how the business will function and depicts its operational characteristics
- Details how the business will be capitalized and managed to be profitable.

A simple outline of a business plan:

- **Executive Summary** – Typically a one-page summary of the entire business plan written after the plan is developed.
- **Business Description** – Identify business name, address, form of organization, type of product or service and company background or, if a new business, your personal background to support your desire to start this type of business.
- **Market Analysis** – Illustrate your industry market knowledge as well as any research findings and conclusions about market trends, competitors and market size. Compare your competitors' strengths and weaknesses.
- **Marketing Plan** - Include how and where you plan to sell your products. Discuss your advertising and promotion policy.
- **Operational Plan** – Describe the product or service you are selling, store location, manufacturing facilities, and quality control.
- **Management Team** – This is the most critical aspect of your plan and should include key management personnel, an organizational chart, and staffing plan.
- **Cybersecurity** - Know what data and devices will be needed and your plan to protect them and your client's personal information.
- **Exit & Succession Planning** - In addition to continuity of operations should you be unavailable, eventually you will sell, pass on, or close your business.
- **Financial Projections** – These should address sources and uses of funds and present the financial future and critical assumptions for the business.
- **Supporting Documents** - Plant layout, product brochure, management resumes, patent or trademark data, etc.

Business Plan:

An essential written document that provides a description and overview of your company's future.

TO GROW AND SURVIVE, STRATEGIC THINKING IS ESSENTIAL.

If you are starting a business, your plan should also include:

- Projected start-up costs
- Expected profit or return on investment (ROI) for the first year
- Projected income statement and balance sheet for three years
- Projected monthly cash flow statement for 12 months

If you have an established business, your plan should also include:

- Income statement or tax returns and balance sheet for the last three years
- Projected income statements, balance sheets and cash flow statements for the next three years
- Projected cash flow statements should be monthly for the first 12 months

Writing a business plan will help you move your ideas from your head to paper, help you avoid common mistakes, keep you focused on key points, and help you manage the day to day operations of your company.

As you begin, outlining your ideas on a one-page business plan may be the best first step. There are also situations that may require a different type of business plan, a pitch deck, or you may be best served by using an online collaborative tool.

The ND SBDC has a business plan templates available. Register and get connected with an advisor to get started.



CHECKLIST FOR STARTING A BUSINESS IN NORTH DAKOTA

This checklist provides information on general requirements that need to be addressed for most new businesses. Other specific requirements may also apply.

General requirements:

Your first contact should be with the ND Secretary of State's office to determine if the business name is available.

- Secretary of State**
sos.nd.gov/business/business-services or firststop.sos.nd.gov
800.352.0867 ext 3284284
 - Business Structure Filing
- ND Business License Information**
nd.gov/businessreg/license/index
 - There are many types of licenses, both state and local as well as professional. Depending on what you do and where you plan to operate, your business may be required to have a license.
- City & County Government**
nd.gov/government/local-government
 - Contact the city auditor for information on business permits and zoning ordinances applying to businesses within city limits. Contact the county auditor for similar information for businesses outside city limits.
- IRS**
irs.gov/smallbiz 800.829.4933
 - Employer Identification Number (EIN)
 - Federal Income Tax
 - Federal Self-Employment Tax
- ND State Tax Department**
tax.nd.gov/business 877.328.7088
 - Sales & Use Tax Permit
 - State Income Tax
- Insurance**
 - It is prudent for any business to purchase basic types of insurance. Contact your local insurance agent for general liability, property, commercial auto, life, hazard, theft, business interruption, and other types of insurance.
- Patent, Trademark, and Copyrights**
 - US Patent & Trademark Office: uspto.gov
 - US Copyright Office: copyright.gov
 - ND Secretary of State: sos.nd.gov/business/business-services.html

Will you hire employees?

There are several steps to take and things to consider when hiring employees. See page 27 for that information.

Get no-cost business assistance:

The following resources, powered by the U.S. Small Business Administration (SBA), are available to help throughout the life of your business.

- ND Small Business Development Centers (ND SBDC) - ndsbdc.org
- ND Women's Business Center (ND WBC) - ndwbc.com
- SCORE Mentors - score.org
- Veterans Business Outreach Center (VBOC of the Dakotas) - und.edu/dakotasvboc



North Dakota District Office

657 2nd Ave N, Suite 360, Fargo, ND 58102 ~ 701.239.5131 ~ sba.gov/nd ~ north.dakota@sba.gov

The following general requirements may need to be addressed by most new businesses. Other requirements may also apply.

Secretary of State

- Most organizations, when conducting business in the State of North Dakota have a filing obligation based on the type of business structure: Sole Proprietorship, Limited Liability, Limited Partnership, Professional Limited Liability Partnership, Limited Liability Companies or Corporations. Fees may be required.
- A North Dakota Corporation must file articles of incorporation with a corporate book and must apply for an EIN.
- A North Dakota Limited Liability Company (LLC) must file articles of incorporation/organization, apply for an EIN, and place together an operating agreement.
- A North Dakota Limited Liability Partnership (LLP) or a Limited Liability Limited Partnership must file a registration to acquire limited liability status.
- Out-of-state businesses must register with the Secretary of State prior to transacting business in North Dakota or prior to acquisition of any license or permits.
- Trade name registration is required for sole proprietorship, corporation, and limited liability companies using an assumed name.
- A Fictitious Name Certificate must be submitted by a general partnership or limited partnership using an assumed name.
- Any organization with a trademark or service mark may register that mark with the Secretary of State. The registration protects that trademark or service and supersedes state registered business and product names. State registered trademarks can be checked by doing a records search at sos.nd.gov/

business/business-services. The federal trademark database can be accessed at uspto.gov/trademarks/search or a search can be conducted by contacting the UND Patent and Trademark Depository Library at 701.777.4844.

State Tax Department

- Every employer required to withhold North Dakota income tax must register and complete the Application to Register for Income Tax Withholding. Sales & Use Tax Permit will also need to be applied for and reported, if applicable. Returns will be sent to permit holders and they must report quarterly even if no tax has been withheld and or sales tax charged.



- Sales & Use Tax – Any business making taxable sales of tangible personal property or certain services to the end user is required to hold a North Dakota sales and use tax permit.
- State Income Tax Withholding – An employer is required to withhold state income tax from wages paid to an employee if the employee performs services within North Dakota and

wages are subject to federal income tax.

- Form 306, Income Tax Withholding Return must be filed for each quarter. Form 307, ND Transmittal of Wage & Tax Statements (Form W-2) must be filed on or before January 31, following the close of the calendar year. Instructions along with both Form 306 and Form 307 can be found at: tax.nd.gov/business/income-tax-withholding

IRS

irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center

Employer ID# (EIN) – Required if company is formed as a partnership, corporation, or LLC, or if the company has employees. Register electronically at irs.gov/businesses/small-businesses-self-employed/employer-id-numbers

- Income Tax Reporting - Schedule C for Proprietor; Form 1065 for partnership; or Form 1120 for corporation or 1120-S for S-Corp. All forms are available at irs.gov/forms-instructions-and-publications
- Federal Withholding Tax – Employers are required to withhold federal income, Social Security and Medicare taxes and report them on the “Employers Quarterly Federal Tax Return.”
- Federal Unemployment Tax Act (FUTA) – Paid from the owner’s funds and reported separately from Social Security and Medicare.

State Licensing Information

Verify licensing requirements for various businesses on the State’s New Business Registration site: nd.gov/businessreg/license

Insurance

Contact your local insurance agent for life, hazard, theft or other types of business insurances to protect your business.



SELECTING A LEGAL STRUCTURE

Forms of Ownership

One of the first decisions to make as a business owner is how the company will be structured. This decision will have long-term implications, so consult with an accountant and attorney to help you select the form of ownership that is right for you, taking into account the following:

- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of complexity with which you are willing to handle.
- The business' vulnerability to lawsuits.
- Tax implications of different ownership structures.
- Expected profit or loss of the business.
- Whether or not you need to re-invest earnings into the business.
- Your need for access to cash out of the business for yourself.

SOLE PROPRIETORSHIP

The vast majority of small businesses start out as sole proprietorships, or firms owned by one person (in some cases a married couple). Typically, the sole proprietor is the individual who has day-to-day responsibility for running the business. Sole proprietors own all the assets and profits of the business. They also assume sole responsibility for any liabilities or debts. In the eyes of the law and the public, you are one and the same with the business.

Advantages of a Sole Proprietorship

- Easiest and least expensive form of ownership to organize.
- Sole proprietors have complete control and make decisions as they see fit.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business directly flow through to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages of a Sole Proprietorship

- Sole proprietors have no limited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
- The proprietor may be at a disadvantage in raising funds, and is often limited to using funds from personal savings or consumer loans.
- Sole proprietors may have a hard time attracting high-caliber employees, or those who



are motivated by the opportunity to own a part of the business.

- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

Tax Forms for Sole Proprietorship

Partial list; some may not apply.

- Form 1040: Individual Income Tax Return
- Schedule C: Profit or Loss from Business (or Schedule C-EZ)
- Schedule SE: Self-Employment Tax
- Form 1040-ES: Estimated Tax for Individuals
- Form 4562: Depreciation and Amortization
- Form 8829: Expenses for Business Use of your Home Employment Tax Forms

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PARTNERSHIPS

In a partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, or what steps will be taken to dissolve the partnership when needed. It's hard to think about a "break-up" when the business is just getting started, but many partnerships split up at crisis times, and unless there is a defined process, there will be even greater problems. They also must decide up front how much time and capital each will contribute.

Advantages of a Partnership

- Partnerships are relatively easy to establish; however, time and effort should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits flow directly through to the partners' personal tax returns.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business will usually benefit from partners who have complementary skills.

- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Disadvantages of a Partnership

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.

Tax Forms for Partnerships

Partial list; some may not apply.

- Form 1065: Partnership Return of Income
- Form 1065 K-1: Partner's Share of Income, Credit, Deductions
- Form 4562: Depreciation
- Form 1040: Individual Income Tax Return
- Schedule E: Supplemental Income and Loss
- Schedule SE: Self-Employment Tax
- Form 1040-ES: Estimated Tax for Individuals
- Employment Tax Forms



TYPES OF PARTNERSHIPS

General Partnership

Partners divide responsibility for management and liability as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.

Limited Partnership & Partnership with Limited Liability

"Limited" means that most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decisions, which generally encourages investors for short-term projects, or for investing in capital assets. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.

Joint Venture

A joint venture acts like a general partnership, but is for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership, will have to file as such, and distribute accumulated partnership assets upon dissolution of the entity.



“C” CORPORATIONS

A corporation, chartered by the state in which it is headquartered, is considered by law to be a unique entity, separate and apart from those who own it. A corporation can be taxed and sued, and it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

Advantages of a Regular “C” Corporation

- Shareholders have limited liability for the corporation’s debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. However, officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect “S” corporation status if certain requirements are met. This election enables a company to be taxed similar to a partnership.

Disadvantages of a Corporation

- The process of incorporating requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income, thus it can be taxed twice.

Tax Forms for Regular or “C” Corporations

Partial list; some may not apply.

- Form 1120 or 1120-A: Corporation Income Tax Return
- Form 1120-W: Estimated Tax for Corporation
- Form 8109-B: Deposit Coupon
- Form 4625: Depreciation
- Employment Tax Forms
- Other forms as needed for capital gains, sale of assets, alternative minimum tax, etc.

SUBCHAPTER S CORPORATIONS

A tax election only; this election enables the shareholders to treat the earnings and profits as distributions and have them pass through directly to their personal tax returns. However, the shareholders, if working for the company, and if there is a profit, must pay themselves wages, which must meet standards of “reasonable compensation.” This can vary by geographic region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for all of the payroll taxes on the total amount.

Advantages of an S Corporation

- One of the best features of the S Corp is the tax savings for you and your business. While members of an LLC are subject to employment tax on the entire net income of the business, only the wages of the S Corp shareholder who is an employee are subject to employment tax. The remaining income is paid to the owner as a “distribution,” which is taxed at a lower rate, if at all.
- Some expenses that shareholder/employees incur can be written off as business expenses. Nevertheless, if such an employee owns 2% or more shares, then benefits like health and life insurance are deemed taxable income.
- An S Corp designation allows a business to have an independent life, separate from its shareholders. If a shareholder leaves the company, or sells his or her shares, the S Corp can continue doing business relatively undisturbed. Maintaining the business as a distinct corporate entity defines clear lines between the shareholders and the business that improve the protection of the shareholders.

Disadvantages of an S Corporation

- As a separate structure, S corps require scheduled director and shareholder meetings, minutes from those meetings, adoption and updates to by-laws, stock transfers, and records maintenance.

- A shareholder must receive reasonable compensation. The IRS takes notice of shareholder red flags like low salary/high distribution combinations, and may reclassify your distributions as wages. You could pay a higher employment tax because of an audit with these results.

Tax Forms for Subchapter S Corporations

Partial list; some may not apply.

- Form 1120S: Income Tax Return for S Corporation
- Form 1120S K-1: Shareholder’s Share of Income, Credit, Deductions
- Form 4625: Depreciation
- Employment Tax Forms
- Form 1040: Individual Income Tax Return
- Schedule E: Supplemental Income and Loss
- Schedule SE: Self-Employment Tax
- Form 1040-ES: Estimated Tax for Individuals
- Other forms as needed for capital gains, sale of assets, alternative minimum tax, etc.



LIMITED LIABILITY COMPANY (LLC)

An LLC is a hybrid type of legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership.

The owners are members, and the duration of the LLC is usually determined when the organization papers are filed. The time limit can be continued, if desired, by a vote of the members at the time of expiration. LLCs must not have more than two of the four characteristics that define corporations: (1) limited liability to the extent of assets, (2) continuity of life, (3) centralization of management, and (4) free transferability of ownership interests.



Advantages of an LLC

- Members are protected from personal liability for business decisions or actions of the LLC. This means that if the LLC incurs debt or is sued, members' personal assets are usually exempt. This is similar to the liability protections afforded to shareholders of a corporation. Keep in mind that limited liability means "limited" liability - members are not necessarily shielded from wrongful acts, including those of their employees.
- An LLC's operational ease is one of its greatest advantages. Compared to an S-Corporation, there is less registration paperwork and there are lower start-up costs.
- There are fewer restrictions on profit sharing within an LLC, as members distribute profits as they see fit. Members might contribute different proportions of capital and sweat equity. Consequently, it's up to the members themselves to decide who has earned what percentage of the profits or losses.

Disadvantages of an LLC

- In many states, when a member leaves an LLC, the business is dissolved and the members must fulfill all remaining legal and business obligations to close the business. The remaining members can decide if they want to start a new LLC or part ways. However, you can include provisions in your operating agreement to prolong the life of the LLC if a member decides to leave the business.
- Members of an LLC are considered self-employed and must pay the self-employment tax contributions towards Medicare and Social Security. The entire net income of the LLC is subject to this tax.

Tax Forms for LLCs

LLCs are taxed according to their formation. They are taxed as sole proprietors if one member, as partnerships if two or more members, and as corporations if requested to be. Corporation forms must be used if there are more than 2 of the 4 corporate characteristics, as described in the first section on this page.

	<i>Sole Proprietorship</i>	<i>Partnership</i>	<i>Corporations S or C</i>	<i>LLC</i>
Preferred Business Structure	Sole-owner business where taxes or product liability are not a concern	Business with two or more people where taxes or product liability are not a concern	Sole or multiple-owner business where taxes or product liability are not a concern	Sole or multi-owner business where owner(s) need(s) limited liability
Number of Owners	One	Two or more	1-100 for S 2+ for C	One or more
Type of Owners	Individual	Any	For S, limited to US residents and citizens and to certain trusts/estates For C, Any	Any
Attributes of Entity	Inseparable from owner	Inseparable from owner but can have debt or property in its name	Separate legal entity	Separate legal entity
Major Advantages	Inexpensive to form, few administrative duties	Inexpensive to form, few administrative duties	Limited liability, capital is easy to raise through sale of stock Also, for C only, company-paid fringe benefits, tax savings through income splitting	Limited liability can be treated as a corporation, capital is easy to raise through sale of interests, pass-through taxation like a partnership, unlimited number of owners
Major Disadvantages	No tax benefits, unlimited liability, business dissolves upon death of owner	No tax benefits, unlimited liability, also liable for partners acts, legally dissolves upon change or death of partner	Can be costly to form, more administrative duties, S corp must have fewer than 100 shareholders	Can be costly to form, more administrative duties
Liability & Reporting	Owner is responsible, file schedule C with form 1040	Partners are responsible, file form 1065	C corp pays taxes and files form 1120 S corp passes taxes through to owners and files 1120S	Can be taxed as a sole proprietor, partnership, or corporation
Deductibility of Losses	Losses may be used by owner subject to passive loss rules	Partnership losses passed through to partners, subject to at-risk rules and passive loss rules	For C corp, do not pass through to shareholders, for S corp passes through to shareholders, subject to at-risk rules	Same as partnership
Choice of Fiscal Year	Calendar year - tax year end Dec 31	Must be the same as principal partners unless IRS contests	For C corp, no restrictions For S corp, must use calendar year or show as a business purpose	Same as partnership
Start-up Costs	Cost of business tax license	Cost of business tax license	State filing fee required	State filing fee required
Examples	Massage Therapist	Land Developer	C corp: software or telecom company S corp: manufacturing, trades, print shop, interior designer	Restaurant, real estate investment, film & video production Many types depending on state restrictions

PROTECTING YOUR IDEA

TRADEMARK, NAME REGISTRATION AND PATENTS



INTELLECTUAL PROPERTY (IP)

Intellectual property is the category of property that includes intangible creations of the human intellect. IP rights are typically divided into two main areas - copyright and industrial property. Depending on the type of IP, it is protected using one of the methods listed below.

PATENT

Issued by the Patent and Trademark Office of U.S. Government, a patent for an invention is a grant of property right by the U.S. government to the inventor (or his heirs or assignees), acting through the Patent and Trademark Office.

Before requesting a patent, review the information at [uspto.gov/patents/basics](https://www.uspto.gov/patents/basics).

For one-on-one assistance contact the Government Documents & Patents & Trademarks Manager at the Chester Fritz Library, 3051 University Avenue, in Grand Forks, ND. Find specific contact information at: library.und.edu/research/government-documents

A patent allows the inventor the right to exclude all others from making and selling the product for a certain period of time. Typically the patent is good for twenty years provided maintenance fees are paid at periodic intervals.

- **Utility Patent** – a product that serves a unique function, such as a can opener, is eligible for a utility patent. Generally, the focus is on the “functionality” of the product. Their duration is 20 years.
- **Design patent** – a design patent generally “enhances” a functional item, such as a new tread design for an automobile tire. Design patents are also awarded for “ornamental” improvements. Their duration is 14 years.
- **Plant patent** – a patent granted for the development of a new and distinct variety of asexually reproduced plants. Their duration is 20 years.

TRADEMARK™

Issued by the Patent and Trademark Office of U.S. Government, a trademark or service mark is a name, symbol, design or phrase, or combination of these, which identifies and distinguishes the product or services of one party from those of others. Their duration is 10 years and renewable in 10-year increments.

Trademarks may be lost if they become generic and enter the public domain (i.e., aspirin, cornflakes, dry ice, escalator, kerosene, lanolin, linoleum, nylon, raisin bran, thermos bottle).

Trademarks may not be granted for a person’s likeness (without that person’s consent); descriptive words; generic words (i.e., digital); geographical locations; governmental emblems; immoral, scandalous, or deceptive matters; marks that may cause confusion; and personal names.

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Registered with the Library of Congress, copyrights protect the writing of an author from being reproduced without permission. It lasts for the life of the artist plus 70 years (after 1/1978). It may be granted for works of art including architectural design, articles and books, graphics, motion pictures, cartoons, computer software programs, music, and sound and video recordings.

TRADE SECRETS

A trade secret is protected only by state law for any formula, recipe, device or process which is accessible to the owner and employees of a company, such as the recipe for Coca-Cola. Trade secrets include techniques, designs, materials, processes and formulas that give your company an advantage.

Creating a paper trail is one of the oldest and most inexpensive ways of protecting your invention by documenting its date of conception. A log book can be used as documentation in the event of a legal dispute. It also serves you well in recording test results, successful prototypes and failures and, if well kept, includes your thoughts, sketches, notes, calculations and list of contacts.

Even if you are running a small home-based business, you will have to comply with many local, state and federal regulations. Avoid the temptation to ignore regulatory details. Doing so may avert some red tape in the short term, but could be an obstacle as your business grows. Taking the time to research the applicable regulations is as important as knowing your market. Bear in mind that regulations vary by industry. If you're in the food-service business, for example, you will have to work with the health department. If you use chemical solvents, you will have environmental compliances to meet. Carefully investigate the regulations that effect your industry. Being out of compliance could leave you unprotected legally, lead to expensive penalties and jeopardize your business.

STARTUP LOGISTICS

BUSINESS LICENSES

There are many types of licenses, both state and local as well as professional. Depending on what you do and where you plan to operate, your business may be required to have various state and/or municipal licenses, certificates, or permits.

Licenses are typically administered by a variety of state and local departments. Consult your state or local government for assistance.

FICTITIOUS BUSINESS NAME

Search to determine if the name of your proposed business is already in use. If it is not used, register the name to protect your business. For more information, contact the county clerk's office in the county where your business is based or the Secretary of State. If you are a corporation, you'll need to check with the state.

BUSINESS INSURANCE

Like home insurance, business insurance protects your business against fire, theft, and other losses. Contact your insurance agent or broker. It is prudent for any business to purchase a number of basic types of insurance. Some types of coverage are required by law, others simply make good business sense. The types of insurance listed are among the most commonly used and are merely a starting point for evaluating the needs of your business.

In addition to the more standard types of insurance covered in the table on page 16, here are some additional types of insurance that may need to be considered, depending on the business circumstances.

- **Business Interruption** – While property insurance may pay enough to replace damaged or destroyed equipment or buildings, how will you pay costs such as taxes, utilities and other continuing expenses during the period between when the damage occurs and when

the property is replaced? Business Interruption (or "business income") insurance can provide sufficient funds to pay your fixed expenses during a period of time when your business is not operational.

- **"Key Person"** – If you (and/or any other individual) are so critical to the operation of your business that it cannot continue in the event of your illness or death, you should consider "key person" insurance. This type of policy is frequently required by banks or government loan programs. It also can be used to provide continuity of operations during a period of ownership transition caused by the death, incapacitation or absence due to a Title X military activation of an owner or other "key" employee.
- **Automobile** – It is obvious that a vehicle owned by your business should be insured for both liability and replacement purposes. What is less obvious is that you may need special insurance (called "non-owned automobile coverage") if you use your personal vehicle on company business. This policy covers the business' liability for any damage which may result from such usage.
- **Officer and Director** – Under most state laws, officers and directors of a corporation may become personally liable for their actions on behalf of the company. This type of policy covers this liability.

TAXES

When you are running a business, you don't need to be a tax expert. However, you do need to know some tax basics.

Taxes are an important and complex aspect of owning and operating a successful business. Your accountant, payroll person, or tax adviser may be very knowledgeable, but there are still many facets of tax law that you should know. The Internal Revenue Service is a great source for tax information. [irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center](https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center)

<i>Insurance Type</i>	<i>Who is it for?</i>	<i>What does it do?</i>
General Liability Insurance	Any business	This coverage protects against financial loss as the result of bodily injury, property damage, medical expenses, libel, slander, defending lawsuits, and settlement bonds or judgements.
Product Liability Insurance	Businesses that manufacture, wholesale, distribute, and retail a product	This coverage protects against financial loss as a result of a defective product that causes injury or bodily harm.
Professional Liability Insurance	Businesses that provide services to customers	This coverage protects against financial loss as a result of malpractice, errors, and negligence.
Commercial Property Insurance	Businesses with a significant amount of property and physical assets	This coverage protects your business against loss and damage of company property due to a wide variety of events such as fire, smoke, wind, and hail storms, civil disobedience, and vandalism.
Home-Based Business Insurance	Businesses that are run out of the owner's personal home	Coverage that is added to homeowner's insurance as a rider can offer protection for a small amount of business equipment and liability coverage for third-party injuries.
Business Owner's Policy	Most small business owners, but especially home-based business owners	A business owner's policy is an insurance package that combines all of the typical coverage options into one bundle. They simplify the insurance buying process and can save you money.

FEDERAL PAYROLL TAX (EIN NUMBERS)

An Employer Identification Number (EIN), also known as a Federal Employer Identification Number (FEIN), is used to identify a business entity. Generally, businesses need an EIN to pay federal withholding tax. See page 7 for additional information about EIN numbers.

FEDERAL SELF-EMPLOYMENT TAX

Every employee must pay Social Security and Medicare taxes. If you are self-employed, your contributions are made through the self-employment tax.

FEDERAL INCOME TAX

Like the state income tax, the method of paying federal income taxes depends upon your legal form of business. See pages 8-13 for more information related to taxes based on your legal entity type.

FEDERAL PAYROLL TAX

Federal Withholding Tax: Any business employing a person must register with the IRS and acquire an EIN, and pay federal withholding tax at least quarterly. File Form SS-4 with the IRS to obtain your number and required tax forms. Call 800-829-3676 or 800-829-1040 if you have questions.

SALES TAX EXEMPTION CERTIFICATE

If you plan to buy products for resale, you will need a Certificate of Resale from the Office of the State Tax Commissioner. This certificate allows businesses to purchase tangible goods from vendors, for resale, without

paying sales tax. For information on sales tax issues, contact the North Dakota State Tax Department at 701-328-7088 tax.nd.gov/sites/www/files/documents/forms/business/sales-use/resale-cert1.pdf

SALES & USE TAX

Any business making taxable sales of tangible personal property or certain services to the end user are required to hold a North Dakota sales and use tax permit. It requires businesses to charge and collect sales tax from your customers, and remit to the state. You will have to pay penalties if it is found that you should have been collecting sales taxes and now owe back taxes to the state. Permit holders must report quarterly even if no tax is due. ND Taxpayer Access Point apps.nd.gov/tax/tap

The Online Tax Calendar contains useful information on general business taxes, IRS and SSA customer assistance, electronic filing and paying options, retirement plans, business publications and forms, common tax filing dates, and federal legal holidays. irs.gov/businesses/small-businesses-self-employed/online-tax-calendar

Taxpayer Advocate Service

The Taxpayer Advocate Service is an independent organization within the IRS, headed by the National Taxpayer Advocate, that helps individual and business taxpayers resolve problems with the IRS. Local case advocates listen to your point of view, work with you to address your concerns, and see your case through to an appropriate resolution. taxpayeradvocate.irs.gov/

SOCIAL SECURITY CARDS

All employees must have a Social Security number and card. It must be signed by its owner, and you should always ask to see and personally record the Social Security number. Failure to do so may cause your employee to lose benefits and considerable trouble for yourself in back tracking to uncover the error. Each payday, your employees must receive a statement from you telling them what deductions were made and how many dollars were taken out for each legal purpose. This can be presented in a variety of ways, including online, on the check as a detachable portion, or in the form of an envelope with the items printed and spaces for dollar deductions to be filled in.

EMPLOYEE CONSIDERATIONS

Taxes

If you have any employees, including officers of a corporation, though not the sole proprietor or partners, you must make periodic payments towards, and/or file quarterly reports about payroll taxes and other mandatory deductions. You may contact these government agencies for information, assistance, and forms.

Social Security Administration - ssa.gov

The Social Security Administration provides free electronic services online at the website linked above. Once registered for Business Services Online, business owners or their authorized representative can verify Social Security numbers through the Social Security Number Verification Service, used for all employees prior to preparing and submitting W-2s online.

Health Insurance

Compare plans in your area at healthcare.gov.

Employee Insurance

If you hire employees you may be required to provide unemployment or workers' compensation insurance.

Partnering With The Child Support Enforcement Program

Employers play an important role in the enforcement process whenever their employees are required to pay child support. As valuable, essential partners with the program, employers account for about 75 percent of child and medical support collections enforced through payroll deductions.

A guide is available through Health & Human Services: acf.hhs.gov/sites/default/files/documents/ocse/employer_guide.pdf or visit acf.hhs.gov/css/employers to better understand your responsibility as a small business owner. Questions may be sent to employerservices@acf.hhs.gov.

WORKPLACE DISABILITY PROGRAMS

Americans with Disabilities Act (ADA): For assistance with the ADA, call 800-669-3362 or visit ada.gov.

U.S. CITIZENSHIP AND IMMIGRATION SERVICES

The Federal Immigration Reform and Control Act of 1986 requires employers to verify employment eligibility of new

employees. The law obligates an employer to process Employment Eligibility Verification Form I-9. The U.S. Citizenship and Immigration Services Office of Business Liaison offers a selection of information bulletins and live assistance through the Employer Hotline. For forms call 800-870-3676, for the Employer Hotline call 800-357-2099.

E-Verify: Employment Eligibility Verification

E-Verify, operated by the Department of Homeland Security in partnership with the Social Security Administration, is the best — and quickest — way for employers to determine the employment eligibility of new hires. It is a safe, simple, and secure Internet-based system that electronically verifies the Social Security number and employment eligibility information reported on Form I-9. E-Verify is voluntary in most states and there is no charge to use it.

If you are an employer or employee and would like more information about the E-Verify program, please visit e-verify.gov/, contact Customer Support staff: 1-888-464-4218 or email e-verify@dhs.gov

SAFETY AND HEALTH REGULATIONS

All businesses with employees are required to comply with state and federal regulations regarding the protection of employees. The Occupational Safety and Health Administration provides information on the specific health and safety standards adopted by the U.S. Department of Labor. Call 1-800-321-6742 or visit osha.gov.

North Dakota Workforce Safety & Insurance

800-777-5033, workforcesafety.com

BUILDING CODES, PERMITS AND ZONING

It is important to consider zoning regulations when choosing a site for your business. You may not be permitted to conduct business out of your home or engage in industrial activity in a retail district. Contact the business license office in the city or town where the business is located.

BAR CODING

Many stores require bar coding on packaged products. Many industrial and manufacturing companies use bar coding to identify items they receive and ship. There are several companies that can assist businesses with bar-coding needs. You may want to talk with an SBDC advisor for more information.

FEDERAL TRADEMARKS AND COPYRIGHTS

See page 14 of this guide for more information on federal trademarks, patents, and copyrights.

STATE REGISTRATION OF A TRADEMARK

Trademarks and service marks may also be registered in a state.

UND Patent and Trademark Depository Library

Chester Fritz Library, 3051 University Ave.
Grand Forks, ND 58202, 701.777.2617

For patent and trademark search assistance: library.und.edu/research/government-documents Caution: Federally registered trademarks may conflict with and supersede state registered business and product names.

FINANCIAL STATEMENTS

THE IMPORTANCE OF THE BOTTOM LINE

Understanding your financial situation is vital to the success of your business. There are four different financial statements that you will need to develop and understand prior to making a loan request. Assisting in this area is what the ND SBDC is best known for. We have some basic templates available on our [website](#), however, when you work directly with an advisor, they will use proprietary software to assist in the development of your financial projections.

Personal Financial Statement is a list of your assets and liabilities and demonstrates your personal financial health. The lender will require each person listed in the business plan to submit their personal financial statement. A lender will request an updated personal financial statement on a yearly basis.

A complete business and financial plan should include three years of income and expense projections, three years of cash flow statements (year one on a month-by-month basis), a beginning balance sheet and ending balance sheets for three years.

Balance Sheet is a snapshot of the company's financial standing at an instant in time. It shows the company's financial position, what it owns (assets) and what it owes (liabilities and net worth). The bottom line of a balance sheet must always balance (i.e. assets = liabilities + net worth).

Income & Expense Statement or Profit & Loss Statement is your company's report card. Expenses are subtracted from income, which gives you the business' financial performance, net profit or loss. For start-up businesses, the information is "projected" and based on information obtained by doing thorough research and information gathering.

Cash Flow is your cash register; it provides you with an overview of cash flows in and out of your business over a given period of time. This is known as the operating cycle. The operating cycle is the system where cash flows from the purchase of inventory through the collection of accounts receivable. It measures the flow of assets into cash, and is a business stopwatch.

The same format allows you to project your cash flow for future periods of time. The advantage of

knowing when cash outlays will be made gives you the ability to plan for expenses rather than being forced to borrow to meet unexpected cash needs. Thus, a cash flow projection becomes your budget.

The four basic steps of cash flow management are:

1. List and date cash inflows from all sources.
2. List all the ways in which cash leaves your business, such as all cash expenses (amortization and depreciation are not cash expenses.) List principal payments on loans and draws by non-salaried individuals. Separate fixed disbursement, like rent or payroll, from variable disbursement, such as inventory or advertising.
3. Look at patterns. Careful analysis will show the cycle of your business and help you reschedule certain payments to ease cash flow during the slower times.
4. Establish reporting systems and controls. Once established, get a report system in place to generate the information you need.



There are a variety of excellent, easy-to-use programs for all types of computers that will allow the small business owner to track sales, payables, receivables and bank balances. These programs also generate the needed financial statements.

Remember that you as the owner need to take time to study and understand the information provided by these financial statements to determine if the financial strength in your business is improving or weakening.

BALANCE SHEET

Assets

Current Assets

Cash in Bank..... \$ _____
Inventory \$ _____
Prepaid Expenses \$ _____
Other..... \$ _____
Total Current Assets..... \$ _____

Fixed Assets

Machinery & Equipment \$ _____
Furniture & Fixtures \$ _____
Leasehold Improvements \$ _____
Real Estate / Buildings..... \$ _____
Other..... \$ _____
Total Fixed Assets..... \$ _____

Other Assets

Specify \$ _____
Specify \$ _____
Total Other Assets..... \$ _____

TOTAL ASSETS..... \$ _____

Liabilities & Net Worth

Current Liabilities

Accounts Payable..... \$ _____
Taxes Payable \$ _____
Notes Payable (due within 12 months)..... \$ _____
Current Portion Long-Term Debt \$ _____
Other Current Liabilities (specify) \$ _____
Total Current Liabilities \$ _____

Long-term Liabilities

Bank Loans Payable (greater than 12 months)..... \$ _____
Less: Short-Term Portion \$ _____
Notes Payable to Stockholders..... \$ _____
Other Long-Term Debt (specify)..... \$ _____
Total Long-Term Liabilities \$ _____

TOTAL LIABILITIES..... \$ _____

Owners' Equity (Net Worth)..... \$ _____
Total Liabilities & Net Worth \$ _____



PROFIT AND LOSS STATEMENT

Estimated Projection Of Income And Expense For Three Years

	YEAR 1	YEAR 2	YEAR 3
Net Sales	\$ _____	_____	_____
Cost of Goods Sold	_____	_____	_____
Gross Profit	_____	_____	_____
OPERATING EXPENSES			
Depreciation & Amortization	\$ _____	_____	_____
Accounting & Legal	_____	_____	_____
Advertising	_____	_____	_____
Bad Debt Expense	_____	_____	_____
Dues & Subscriptions	_____	_____	_____
Insurance	_____	_____	_____
Miscellaneous	_____	_____	_____
Officers Salaries (Corporation)	_____	_____	_____
Other Salaries	_____	_____	_____
Payroll Taxes	_____	_____	_____
Rent	_____	_____	_____
Repairs	_____	_____	_____
Selling Expenses	_____	_____	_____
Supplies	_____	_____	_____
Telephone	_____	_____	_____
Travel/Entertainment	_____	_____	_____
Utilities	_____	_____	_____
_____	_____	_____	_____
Total Operating Expense	_____	_____	_____
Operating Profit (before tax)	\$ _____	_____	_____
Interest Expense	\$ _____	_____	_____
Other Expense	\$ _____	_____	_____
Other Income	\$ _____	_____	_____
Est. Income Taxes (Corporate only)	\$ _____	_____	_____
Net Profit	\$ _____	_____	_____

TWELVE-MONTH CASH FLOW STATEMENT

	Pre-Startup	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total Item
Cash on Hand (beginning of month)														
CASH RECEIPTS (CR)														
Cash Sales														
Collections from CR accounts														
Loan/other cash inj.														
TOTAL CASH RECEIPTS														
Total Cash Available (before cash out)														
CASH PAID OUT														
Purchases (merchandise)														
Purchases (specify)														
Purchases (specify)														
Gross wages (exact withdrawal)														
Payroll, expenses (taxes, etc.)														
Outside services														
Supplies (office & oper.)														
Repairs & maintenance														
Advertising														
Car, delivery & travel														
Accounting & legal														
Rent														
Telephone														
Utilities														
Insurance														
Taxes (real estate, etc.)														
Interest														
Other expenses (specify)														
Other (specify)														
Other (specify)														
Miscellaneous														
SUBTOTAL														
Loan principal payment														
Capital purchase (specify)														
Other startup costs														
Reserve and/or Escrow														
Owners' Withdrawal														
TOTAL CASH PAID OUT														
Cash position (end of month)														
ESSENTIAL OPERATING DATA (non cash flow information)														
Sales Volume (dollars)														
Accounts Receivable														
Bad Debt (end of month)														
Inventory on hand (eom)														
Accounts Payable (eom)														
Depreciation														

HOW TO FIND THE MONEY YOU NEED

Assets:

What the company or you own.

Collateral:

Assets pledged to support a loan.

Equity:

Difference between the total assets of a business and total liabilities.

Borrowing money is one of the most common sources of funding for a small business, but obtaining a loan isn't always easy. Before you approach your banker, it is important to understand the factors the bank will evaluate when they consider making you a loan.

Finding start-up capital for a new business is challenging. Most new businesses start with initial capital from personal savings and other forms of personal equity. Others look to private sources such as friends and family when starting their business venture.

Venture capital firms provide start-up capital for new companies in exchange for equity or part ownership. This source of financing may be difficult to obtain for service or retail oriented concerns and may involve giving up some management of the business.

Grants are often publicized as a way to get capital; however, very few grants exist to start a business. They are typically for a narrowly defined purpose and for non-profit businesses.

Banks and credit unions are the most common sources of funding. These entities provide financing if you can show a sound business plan and the ability to repay the loan.

To be successful in obtaining a loan, be prepared and organized. Questions that a lender will ask you include:

- How much money do you want?
- How will the loan be used?
- How long will it take to repay the loan?
- How will the loan be repaid?
- What collateral do you have to offer?
- How much are you investing in the business?

Match your financing with the needs of the business. Short-term loans to finance working capital or accounts receivable are usually paid back in less than one year. Short-term loans are frequently set up as Lines of Credit.

Long-term loans have maturities over one year and finance business expansions, equipment, or real estate purchases.

Approval of your loan request will depend on a number of variables. Improve your chances of obtaining a loan by preparing a written loan proposal. Your loan proposal should contain a comprehensive business plan, purpose of loan, amount of loan, list of collateral, cash flow projection, and if it is an established business, a balance sheet and income statement for previous three years.

Lenders often analyze the "Five C's" in loan requests:

Character – refers to the borrower's reputation and trustworthiness in fulfilling financial obligations. It includes factors such as credit history, payment patterns, and overall reliability in meeting past commitments. Both personal and business credit reports are carefully examined. Establishing a good credit history is vitally important when requesting a business loan. Lenders assess character to determine if the borrower has demonstrated responsible financial behavior.

Capacity – evaluates the borrower's ability to repay the loan. Lenders analyze the borrower's income, employment stability, and debt-to-income ratio to assess whether they have sufficient financial resources to make timely loan payments. Capacity helps determine if the borrower has the means to handle additional debt obligations.

Capital – refers to the borrower's financial reserves or assets that can be used as a cushion in case of unexpected financial challenges. It includes savings, investments, and other valuable assets. Lenders consider capital as an indication of the borrower's ability to withstand financial setbacks and provide collateral for the loan.

THE IMPACT OF A CREDIT SCORE

Lenders also credit score every business that is a potential recipient of a loan. The credit score may have a significant impact on the amount of work the lender has to complete when applying for any loan guaranty. As such it is important for any owner of a business to be aware of their credit score and correct any discrepancies prior to approaching their lender.

Collateral – represents the assets or property that the borrower pledges as security for the loan. In case of default, the lender can seize and sell the collateral to recover the outstanding debt. Collateral can include real estate, vehicles, or other valuable possessions. Lenders assess the value and quality of collateral to mitigate their risk in case of non-payment.

Conditions – refer to the economic, industry, and market conditions that could impact the borrower's ability to repay the loan. Lenders consider factors such as the borrower's purpose for borrowing, the state of the economy, industry trends, and market volatility. By assessing conditions, lenders gauge the external factors that may influence the borrower's ability to fulfill their financial obligations.

Most importantly, does the business have sufficient cash flow to make the monthly payments on the loan request? If not, is there a secondary source of funds available to service the debt?

As a borrower, it is important to understand that each owner will be asked to sign a personal guarantee as part of the loan request. A personal guarantee is a written agreement that the owners will repay the loan if the business fails.

The professional relationship that you develop with your lender may be your most important relationship. Take time to talk to your lender about your financial needs. Each bank or credit union has different requirements, time frames, and guidelines for business lending. Keep in mind that looking for

financing is like obtaining any other commodity. Shop around and follow these tips when working with lenders:

- Make an appointment
- Dress appropriately
- Be on time
- Present a complete proposal (in 30 minutes or less)
- Be strong, positive, and honest
- Find out when you can expect an answer
- Follow up with a thank you letter and/or a phone call

Keep in mind that lenders want you to be successful because they want a portfolio of strong, profitable businesses. If your loan is rejected, get the reasons in writing. Ask if there are problems that can be corrected before approaching another lender.

One alternative to traditional financing is leasing. Advantages of leasing include: a lower down payment, longer maturity, and protection against product obsolescence. There may also be certain tax advantages with leasing. Disadvantages include higher finance costs and no ownership after all payments are made.



WHAT TO TAKE TO THE LENDER



Documentation requirements will vary depending upon the purpose of the loan. Contact your lender for the information you must supply.

Common requirements include the following:

A Business Plan that includes:

- Purpose of the loan
- History of the business (if applicable)
- Projections of income, expenses, and cash flow, as well as an explanation of the assumptions used to develop these projections
- Personal financial statements of the principal owners
- Resume(s) of the principal owners and managers
- Amount of investment in the business by the owner(s)
- Projected opening-day balance sheet (new businesses)
- Lease details
- Proposed Collateral

Three Years of Financial Statements that include:

- Balance Sheet and Income Statement (P&L) for three years (existing businesses) (Tax Returns usually suffice)
- Interim Financial Statements dated within 180 days of the request for assistance
- Schedule of term debts (existing businesses)
- Aging of accounts receivable and payable (existing businesses)

What the Lender Looks for:

- Ability to repay the loan on time from the projected operating cash flow
- Owners and operators who are of good character
- Feasible business plan
- Management expertise and commitment necessary for success
- Sufficient funds, including, but not limited to, the SBA guaranteed loan, to operate the business on a sound financial basis (for new businesses, this includes the resources to meet start-up expenses and the initial operating phase)
- Adequate equity invested in the business
- Enough collateral to fully secure the loan or, all worthwhile available business collateral plus personal real estate if the loan cannot be fully secured



SMALL BUSINESS FINANCING OPTIONS

Capital can come from a range of sources and the right option varies from business to business. The situation will help guide the best suited path forward, which might include multiple options.

*** SBDCs advise clients, but do not recommend, make, or approve loans.***

See the ND SBDC [website](#) for information on regional or state funding options available.

TYPE	EXAMPLES	PRO	CON
Bootstrapping	Self-funding, reinvesting any income, savings, home equity, 401K, credit cards, etc.	Maintain complete ownership and control, not in debt to anyone else.	Growth may be slow while relying on personal savings or sales alone. You might run out of money.
Friends and Family	Often the first to borrow or invest money with less stringent terms	Favorable term or lower interest rates. They will also spread the word about the business.	Can take a toll on relationships, particularly if terms are not well defined.
Grants	Local, state, and federal programs have often been an attractive form of non-dilutive funding, the SBIR/STTR Grant programs (SBIR.gov) award over \$2 billion annually	Typically focused on underserved demographics or specific industry segments. Research available programs in your area.	There is a perception that a lot of grant money is out there, however individuals are often ineligible to directly apply.
State Funded Programs	Usually, some sort of loan or convertible debt	Programs from Bank of North Dakota, CDCs, and other regional groups can be what is needed to pair with traditional funding and make a deal happen	Some state funding options are very industry specific or primary sector focused, limiting options for main street small businesses.
Equity	Raising money from outside investors for a piece of ownership, such as angel investors, venture capital, private equity	Investors such as this typically bring experience, connections, and industry knowledge.	This type of funding can be difficult to secure and comes at the price of giving up some ownership and control.
Debt	Borrowed funds from a bank, credit union, or other lender	Funding is dependable and predictable without giving up ownership or control.	Can be more difficult for startups. Personal guarantee may be required which opens borrower up to personal risk.
Crowdfunding	Companies will often leverage a marketing campaign to pre-sell products, exclusive merchandise, or other unique opportunities to generate capital	Maintain complete control and also gain customers. It can be a fast way to raise funds.	Can be costly to set-up. If you fail to reach funding goal, you may get nothing. Cost of campaign may use up all raised funds.
Equity Crowdfunding	Since the creation of the JOBS act, non-accredited and accredited investors have found new opportunities through equity crowdfunding – this allows for smaller investments (less than \$5,000) to be made in early-stage companies	Smaller equity investments maintain more ownership and control for the founder(s).	Investors are typically looking for high growth industries that will give them a strong ROI, limiting this option for many businesses
Licensing/Royalties	If there is attractive intellectual property with many potential applications, other business partners may seek to license the technology for their own purposes. Restrictions may be necessary in order to prevent direct competition if you intend to use the IP otherwise.	A business can earn money without investing in production, marketing, or distribution.	It can be difficult to maintain control over how the licensed asset is used. Revenues are moderate compared with other strategies.

SBA FINANCING



The U.S. Small Business Administration (SBA) does not make direct loans to help small businesses start or expand their operations. Rather, SBA sets the guidelines for loans, which are then made by its lending partners (banks, credit unions, community development organizations and microlending institutions). The SBA reduces risk to a lender by guaranteeing up to 85 percent of loans made to small businesses. This enables the lender to provide financing to small businesses when funding is otherwise unavailable on reasonable terms.

Eligibility

To qualify for SBA assistance, your business must be operated as for-profit and small according to SBA size standards. Some restrictions apply such as the following circumstances:

- If the funds are otherwise available on reasonable terms.
- If the loan is to pay off creditors in a position to secure a loss.
- If the loan is for speculation or investment (e.g. rental property).
- If the applicant failed to pay a previous government debt.

SBA Loan Process

The small business applicant first applies to a lending institution that reviews the application and decides if it requires additional support in the form of an SBA guaranty. If the lender approves the loan subject to an SBA guaranty, an application and a credit analysis are forwarded by the lender to the SBA. After SBA approval, the lender closes the loan and disburses the funds; monthly loan payments are made directly to the lender. As with any loan, the small business is responsible for repaying the full amount of the loan.

SBA Programs

7(a) Loan Guaranty – SBA’s flagship program. The maximum loan amount is \$5 million with a maximum guaranty percentage of 85% for loans \$150,000 or less and 75% on loans over \$150,000. Funds can be used for working capital, equipment, inventory, and real estate. Interest rates and terms

are negotiated between the applicant and lead lender. A reasonable equity injection is required.

Certified Development Company 504 Loan – long-term, fixed rate financing for fixed asset acquisition. This program is a partnership between a local certified development corporation (CDC) backed by SBA, a local lender and the applicant. 504 funds can be used for land, building and long-term equipment. The maximum amount is \$5 million (\$5.5 million for small manufacturers or when meeting a public policy goal) with a maturity of 10 or 20 years. Interest rates are based on bond rates when the loan is funded.

Microloan Program – SBA works with an intermediary lender who can lend up to \$50,000 directly to eligible small businesses. The program is geared to new and existing businesses that might not be able to secure funding from traditional lenders due to smaller loan amounts. Loan proceeds can fund working capital, inventory, machinery and equipment. Maximum term is six years and interest rates are negotiable.

SBA also offers several special purpose loans such as the Caplines program to fund lines of credit for financing working capital; the Lender Advantage Programs (SLA and S/RLA) with streamlined applications for small loans that make getting the SBA guaranty easier for lenders; SBAExpress and Patriot Express allowing lenders to use many of their own forms and processes; and international trade loans designed to support applicants competing in the global economy.

Additional information on SBA’s loan programs can be obtained by contacting the North Dakota District Office at 701.239.5131 or by visiting sba.gov/nd.



U.S. Small Business Administration



WORKFORCE

ADDING EMPLOYEES TO YOUR BUSINESS

Hiring your first employee can be exciting but also nerve racking. There are many questions that surface when you are ready to hire your first employee(s). The first question that is usually asked: Where do I begin? You should already be registered with the Secretary of State and have obtained your Employee Identification Number (EIN).

The following are accounts, specific to North Dakota, that need to be created:

- NDTAP – North Dakota Taxpayer Access Point – create an account and apply for ND Withholding and a Sales and Use Tax permit, if applicable.
- EFTPS – Electronic Federal Taxpayer Point System – create an account and report Federal Withholding which also includes Social Security and Medicare.
- BSO – Business Services Online – create an account and report Social Security Withholding at year end. You will not need this account right away but is good to have open prior to when you will need to report.
- UIEASY – Unemployment Insurance – create an account and report Unemployment amounts. These amounts are typically reported quarterly.
- WSI – Workforce Safety Insurance – create an account and report payroll when requested from WSI. This is typically requested annually.
- New Hire Reporting – create an account to report New Hires. All employers are required to report any newly hired employees within 20 days of the employee's first day of work.

Make sure to watch for any communication received after creating these accounts.

When the time comes, you must also find and hire the right people. This requires good interviewing skills and comprehensive screening of applicants. Having written personnel policies with specific

job descriptions will help when you meet with job applicants. These written policies will identify the type and number of employees you need in the daily operation of your business and should be given to each employee upon hiring.

There are a number of sources available which can help you recruit job applicants. The statewide network of ND Job Service Centers (jobsnd.com) can help you find qualified applicants. You may want to consider using a private employment placement service, online job site, or a classified ad in your local newspaper.

Once you have a job description on paper, decide what skills the person must have to fill the job. Make sure you spell out the employee's exact responsibilities.

When hiring new employees, consideration must also be given to federal and state laws that prohibit discrimination in employment practices because of race, color, religion, sex, national origin, age, disability, pregnancy, marital status, status with regard to public assistance, or participation in lawful activity off the employer's premises during non-working hours which is not in direct conflict the essential business-related functions of the employer.

Interviewing the job applicant may be the most important factor in hiring a new employee. Find out as much information as you can about the applicant's work background, work habits and skills, and his or her interest in the position.

Get the applicant to talk about themselves and their work abilities. Ask the applicant specific questions such as:

- What did you do on your last job?
- How did you accomplish your work?
- Why was it done that way?

Evaluate the applicant's responses. Are they evasive or unskilled in the job tasks required by your business? Can they account for discrepancies on the application? Contact references to verify information.

You are now ready to make your selection. The right employee can help you make money. The wrong employee will cost you in wasted time and materials and may even drive customers away.



For more information on hiring and retaining employees, visit [sba.gov/business-guide/manage-your-business/hire-manage-employees](https://www.sba.gov/business-guide/manage-your-business/hire-manage-employees)

Employment and training procedures should be established so there is no question about how things are completed. Topics to cover in your policies should include:

Hours

Include the number of hours and days to be worked per week, evening and holiday work, and the time and method of payment for both regular and overtime work as well as policies on breaks.

Compensation

An employee's base salary should be competitive with the pay offered by other similar firms. A minimum wage will likely apply.

Fringe Benefits

Consider offering your employees discounts on merchandise, life insurance benefits, reasonably priced health insurance, pension plans, or tuition payments at schools and colleges. Some of these may be taxable income for your employees.

Vacations

Determine how long the vacation should be, when the vacation can be taken, and if it will be with or without pay.

Time Off

Determine whether you will allow employee time off for personal needs, emergencies in the family, special days, weekends, or holidays.

Retirement

What are your plans for retirement age benefits such as social security, pension plans, and annuity plan insurance? A long-term working relationship

may require a retirement plan for employee loyalty and commitment.

Grievances

Plan for grievances and establish procedures for handling them. Consider the employee's right to demand review and establish provisions for third party arbitration.

Terminations

Always have a written policy on such matters as layoffs, seniority rights, severance pay, and the conditions warranting termination.

Promotion

Consider promotion matters such as increases of wages and salaries and changes of job titles as an incentive for quality work habits.

Explain the policy to the new employee and verify that they fully understand the document. The employee should acknowledge in writing that the policy has been received and read. Topics listed in the personnel policy statement should be standardized. All employee issues should be handled fairly and emphasize that your employee is the most important asset of your business.

Employee:

Anyone who performs services for you is your employee if you have the right to control what will be done, how it will be done, and when it will be done.

Independent Contractor:

A person that may perform services for you and your business. You have the right to control or direct only the result of the work and not the means and methods of accomplishing the results. (IRS Publication 15-A)





EMPLOYER'S CHECKLIST

Items that may need to be addressed when your company hires employees:

- IRS Form W-4, "Withholding Allowance Form" must be completed by employees.
- Form I-9, Proof of US Citizenship must be completed by employee & employer: uscis.gov/i-9
- Apply for ND income tax withholding through North Dakota Taxpayer Access Point (NDTAP), tax.nd.gov or call 701.328.7088
- ND Workers Compensation Insurance (WSI), contact to request an Application for Insurance: workforcesafety.com, 800.777.5033.
- Social Security Employer Business Services Online (BSO): ssa.gov/bsowelcome.htm
- ND Job Services for unemployment insurance (UIEASY): jobsnd.com/unemployment-business-tax. An employer must register within 20 days after first employing workers. For assistance visit jobsnd.com/contact.
- Dept. of Labor wage laws, dol.gov and select Wages from the Topics menu. To learn about state labor and employment discrimination laws and obtain required employment posters, visit nd.gov/labor or call 701.328.2660 or 800.582.8032.
- New Hire Reporting - ND Child Support Enforcement (CSE): childsupport.dhs.nd.gov/employers/new-hire-reporting. This must be completed within 20 days of hiring each employee. Call 701.328.3582 or 800.755.5830.
- Health coverage options: dol.gov and select Health Plans & Benefits from the Topics menu
- Employee Taxes - required to withhold federal income, social security, and Medicare taxes and report them on Form 941, the "Employers Quarterly Federal Tax Return," and State income tax withholding reports on Form 307.
- United States Occupational Safety & Health Administration (OSHA) for private sector employers: osha.gov/aboutosha

For more information on hiring and retaining employees, visit sba.gov/business-guide/manage-your-business/hire-manage-employees.

MARKETING

EFFECTIVE MARKETING MEANS INCREASED SALES



Focusing on marketing strategy before tactics is especially critical for small businesses. With limited resources and budget constraints, small businesses need to make every marketing effort count. By investing time and effort into developing a well-thought-out marketing strategy, small businesses can ensure that their resources are allocated wisely and effectively. A strategic approach allows businesses to identify their target market, understand customer needs and preferences, and differentiate themselves from the competition.

Small businesses can determine the most appropriate channels, messaging, and tactics that will resonate with their target audience and generate the highest return on investment. Without a clear strategy in place, small businesses risk wasting valuable time, money, and effort on marketing tactics that may not yield the desired results. By placing strategy at the forefront, small businesses can optimize their marketing efforts, maximize their impact, and achieve sustainable growth in a competitive market.

Small business success is based on growing your market. Entrepreneurs must focus on identifying, satisfying, and following up on the customers' needs. The marketing concept states that all company policies and activities should be aimed at satisfying customer needs and desires.

A comprehensive marketing approach encompasses the pricing, promotion, and distribution of goods and services to a consumer. Profitable sales volume is a better company goal than maximum sales volume, since increased sales do not always equate to additional profitability.

Using this marketing approach, a small business should focus on:

- **Market Research** - What are my customers' needs?
- **Market Strategy** - Who is my competition?
- **Target Market** - Who and where are my customers?
- **Market Mix** - What combination of products and services do I need to satisfy my customers?

Marketing:

The process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy the individual and organizational objectives.

For a successful marketing campaign, good information about the market is critical. Market research should identify trends that may affect sales and profitability levels. Good sources of information include industry databases, magazines, and associations, talking with people who have experience in the type of business you are starting, and your potential suppliers. Using state or national census information will provide information on population trends, age and income in your area. Information on employment trends and sales tax collections is public information and helpful in identifying areas of growth.

Areas to look at include:

- Demographics such as gender, age, income, location of residence or business.
- Behaviors such as current awareness of your business; the products, services, or vendors used; and loyalty to you or your competitor's business.
- Needs or desires such as benefits, how they decide whether to use your product or services and how your business can fulfill those needs.

Know your target market and those who are most likely to buy or continue buying from you. Value those who like what you do and keep tabs on the competition. How are your products or services the same as theirs? More importantly, how are they different?

Marketing mix describes how owner-managers combine the following four important variables into an overall marketing strategy.

Products and Services

Effective product strategies (1) Concentrate on a narrow product line; (2) Develop a highly specialized product or service; and/or (3) Provide an unusual amount of service.

Price

Determining price level or pricing policies is the major factor affecting total revenue. Higher prices mean lower sales volume. A loss leader policy will develop higher sales level, but less profitability. Small businesses can often command higher prices because of the personalized service they can offer. Customers will often pay more for better service.

Distribution: Small retailers should consider cost and traffic flow as two major factors in location selection, since advertising and rent can be reciprocal. Low cost, low traffic locations must spend more on advertising to distribute products. Service-based businesses, including those that travel to a site to provide a service, must be aware of the cost of travel and incorporate that into pricing. Manufacturers and wholesalers typically distribute their product through established distributors or manufacturers' agents.

Promotion/Advertising: Every employee is involved in sales. Excellent service means increased sales. High quality salesmanship is the best way for

a small business to sell its goods and services. It is inexpensive and very personal.

Advertising involves a number of activities that focus on communicating a message to the people you want as customers.

Advertising is typically the biggest expense in a marketing plan followed by public relations and market research. Your advertising should clearly and convincingly speak to your target audience, explaining the important benefits your product or service offerings. Advertising venues could include radio, television, newspapers, community magazines, signs, direct mail, and the internet.

After all marketing decisions are made, evaluate the impact of your decisions. Performance metrics should be set up so results can be evaluated against them. Data on industry norms and past performance provide the basis for comparing against present performance. Review the results to ensure money spent has a positive ROI. By tracking leads and sales, you will see if the money spent paid for itself and targeted the right audience. If you don't track the effectiveness, then you are just spending money.

To be successful, a small business owner must know the market. A concise, comprehensive marketing plan is an orderly, objective way of learning about the most important people to your business—your customers!



E-COMMERCE

DOING BUSINESS ONLINE

E-commerce is the broad definition of selling goods and services online. With people increasingly using the internet to shop for goods and services, suppliers develop special websites that allow potential customers to 'browse' as if they were in a department store. The location of the supplier is irrelevant; they can be in the same country or thousands of miles away.

For North Dakota businesses, this is a unique opportunity to broaden your customer base from local to global. If you decide to join the e-commerce world, set a budget and decide how much time, effort, and money you want to invest. List the goals and objectives for your website and identify your target market.

To conduct e-commerce you should have:

- A website to showcase the product or service.
- A way to accept orders online, often referred to as a shopping cart.
- A way to accept money online (normally a merchant's account handling credit card payments or third party payment system).
- A fulfillment facility to ship products or deliver services.
- A way to accept returns.
- A way to handle warranty claims.
- A way to provide customer service (often through email, online forms or online knowledge bases).

You will need to:

- Develop a website and choose a hosting provider that will give you commercial capabilities.
- Use an option online to build your site, purchase software to build and maintain a site, or hire a design company to do this for you.
- Differentiate yourself from the competition and get return traffic to your website.
- Integrate your website with your existing business.

To get started, first decide if you will build, post, and maintain your own website or hire someone to do it for you, and then:

- Choose an Internet Service Provider (ISP) that offers reliability, line speeds, and services you need.
- Choose a domain name, which becomes your

internet address, also referred to as URL (i.e. ndsbd.org). Domain registration sites can help you do this. Select a short and catchy name that fits your business and is easy to remember.

- Set up a process for secure transactions. This can often be done through your website host.

Sales Tax and the Internet

The following information on state sales and use tax requirements for internet sales and purchases is from the North Dakota Tax Department.

- Internet sellers located in North Dakota continue to have a responsibility to charge sales tax on those sales delivered to a North Dakota address. When a North Dakota retailer, including an internet seller, delivers tangible personal property to a purchaser in another state and the goods are not returned to the state, this sale is not subject to North Dakota sales tax.
- Effective October 1, 2018, remote sellers are required to collect North Dakota sales tax if their taxable sales shipped to North Dakota meet or exceed \$100,000 or 200 separate transactions in the previous calendar year.
- If purchases are made from a retailer outside North Dakota and the purchase has not been subject to sales tax, the purchaser is responsible for the payment of use tax. It applies to the same goods which are subject to North Dakota's sales tax. The use tax applies whether you purchase goods in person at an out of state location or by mail, phone, or Internet.

For complete information on compliance and reporting visit nd.gov/tax.

The internet should be a significant component in any new business effort. The internet is often the first place that many consumers turn to for product and company information. Creating an online presence may be intimidating to some new business owners, but don't let it stop you from exploring this opportunity.

The internet increases your ability to reach a wider audience and creates new market growth areas with fairly low barriers to entry. Creating a strong brand presence can be as simple as setting up a basic website template and exploring free social media options for promoting your business.

CHECKLIST FOR CREATING AN ONLINE BUSINESS PRESENCE

- Purchase website URL that clearly identifies your business, i.e. mybusiness.com. Avoid services that require you to include their name in your URL, i.e. freewebsite.mybusiness.com.
- Set up your website. [Wordpress.org](https://www.wordpress.org) is a great option for beginners and pros alike to find templates and apps that make your website uniquely yours. A few additional services like this include [Wix](https://www.wix.com), [Weebly](https://www.weebly.com), and [GoDaddy](https://www.godaddy.com), along with several others.
- Add a sign-up form to your website to capture leads. Do not send marketing emails to anyone that hasn't given you explicit permission. You must abide to the CAN-SPAM Act ([ftc.gov/business-guidance/resources/can-spam-act-compliance-guide-business](https://www.ftc.gov/business-guidance/resources/can-spam-act-compliance-guide-business)).
- Make sure your contact information is clearly visible throughout your website. Phone number and email address are essential pieces of information so your customer can get in touch with you.
- Include your website and social media site addresses on your offline marketing materials, such as flyers, business cards, window signage, and even invoices or receipts.
- Add your website and business to online directories. Don't forget niche directories that are specific to your industry or location.
- Consider Google AdWords or other simple pay-per-click advertising to get traffic to your website.
- Try at least one type of social media to help build your brand online. Some of the options include Facebook, X, YouTube, LinkedIn, Instagram, Snapchat, and Pinterest. It is recommended that you start with one and do it well before you add additional platforms.



The North Dakota Small Business Development Centers (ND SBDC) provides the **Shop North Dakota** platform. This free-to-use platform is for small businesses across the state to come together and sell their products and services online. Plus, the site offers support to sellers from a live team assisting with your shop, products, and orders.

A key component is that North Dakota small businesses can all sell on one website, providing an incredible convenience and a variety of product offerings for shoppers to choose from with just one checkout. Businesses have the option to sell products, services, events, virtual or customizable products, and gift cards through the site. Depending on your individual settings, customers can choose local pickup, delivery, or shipping.

To take advantage of this opportunity, your business needs to be in good standing with the Secretary of State and be a registered client of the ND SBDC (no-cost).



This can be a great first step to an online presence, providing the framework and payment processing for you. It's also a fantastic supplement to existing businesses, potentially providing exposure to new clients. The site integrates with some other existing e-commerce platforms for ease of processing and inventory as well.

STARTING A HOME-BASED BUSINESS

IS IT RIGHT FOR YOU?

While being in any business has certain basic requirements, a home-based business has some additional ones. One of the first things to decide is, can you live where you work... and work where you live? A home-based business may allow you to have a more flexible schedule, more control over your life, and a chance to be your own boss. However, you may also find that it is hard to separate business and personal tasks. Your work is always close at hand and you may wonder, "When it is my time and when is it business time?"

Good planning and an understanding of the demand on family functions should be examined before the business is established. Determine the needs and schedules of your family, the type of neighborhood you live in, the risk potential of bringing this business into your home, the local zoning requirements, and your motivation and ability to separate work from family. Firmly communicate your work schedule to family members and neighbors that, even though you are at home, you are working.

One difference in operating a home-based business is isolation from distributors, merchants, clients and co-workers.



It is important to schedule networking opportunities away from your home business to keep informed on issues related to your business.

Remember, help is available. The National Association of the Self-employed (nase.org) can provide information, as well as your local or regional SBA resource partners - ND SBDC, ND WBC, SCORE or VBOC of the Dakotas.

It is important to understand the rules related to business use of your home. To deduct expenses related to business use of your home you must have a specific area set aside for exclusive and regular use for your trade or business. There are exceptions, including use of space for storing inventory or product samples or using part of your home for a day care facility. The work space does not need to be marked off with a permanent partition.

For more information on home-based businesses, visit irs.gov and search for the self-employed tax center, specifically, review the Business Use of Home information at irs.gov/taxtopics/tc509



FRANCHISING

HOW TO PROFIT FROM EXPERIENCE



Franchisor:

A person or company who desires to expand the business by giving to selected franchisees the right to do business under their trade or service marks in accordance with the franchise agreement for a recurring royalty fee.

Overall, the entrepreneur may have a lower risk when buying a franchise than when you start a business from scratch, but this initiative must be balanced with a willingness to comply with the franchisor's business formulas.

The biggest advantage of a franchise is that the franchisor has done most of the work for you. For example, the franchisor will have already developed the product(s) or service(s), positive name recognition, eye-catching signage, interior and exterior store layout, training methods, and effective ways of operating the business. The franchisor wants you to succeed and helps you in developing the business, eliminating much of the trial-and-error, and subsequently lowering the risk of failure.

The biggest disadvantage in franchising is the cost. Franchises often have a high up-front capital investment and require ongoing payment of 4-12% or more of the gross sales for rent, marketing, royalties and advertising. The franchise will have its own protocol and will have very specific limits on what you can and cannot do.

As in all major business decisions, nothing substitutes thorough investigation, planning, and analysis of the options. Questions to consider:

- Would the business succeed without the benefits offered by the franchisor?
- Is the franchised product or service new or established?
- Does the business require special skills?
- Does the franchised product meet local demand?
- Is there a proven market for the product or service?
- If the product requires servicing, who is responsible for warranties and guarantees? The franchisee or the franchisor? If neither, are service options available?
- What kind of reputation does the product or service enjoy?
- Are supplies available in your local area?

It is also recommended to speak with other franchise owners to get more information.



- Ask for a list of all the firm's current franchisees. Visit at least one franchised location. When meeting with the franchisees, observe their operation, discuss expenses, and ask about franchisor support.
- Examine the franchisor's attitude toward you. Is the firm concerned about your qualifications? Are you being rushed to sign an agreement? Does the firm seem interested in a long-term relationship, or does that interest end with the initial fee?
- What is the legal history of the franchisor?
- Will the franchise agreement require a predetermined level of starting inventory, promotional fees or the use of standardized operations manuals? What are the full initial costs? What do those costs cover? What ongoing costs are paid to the franchisor? Determine what royalty, training or cooperative advertising costs will be required.
- Are you required to purchase supplies from the franchisor or a designated supplier? Are the prices competitive? What restrictions apply to competition with other franchises? Are there renewal rights? What about resale of the business?

The Federal Trade Commission requires the franchise seller to provide prospective investors with specific, complete and accurate information along with documentation of all earnings. Consult a franchise attorney, an accountant and/or a financial advisor to go over the disclosure document and proposed contract.

In North Dakota a franchisor must register its Uniform Franchise Offering Circular (UFOC) and maintain a registration with the North Dakota Securities Department.

For additional information go to nd.gov/securities

ND Securities Department

State Capitol, 5th Floor
600 East Boulevard Avenue
Bismarck, ND 58505-0510
701.328.2910
In-State Toll Free: 800.297.5124
ndsecurities@nd.gov

Thoroughly investigate all franchise opportunities and use the resources available to assist you in making the decision, "Should I start from scratch or buy into a franchise?"

For information about franchises, visit sba.gov/business-guide/plan-your-business/buy-existing-business-or-franchise and franchiseregistry.com.



Franchisee:

The person or company accepting the right, granted by the franchisor to retail or provide services, using the franchisor's trade name or service marks, within the terms and fees set in the franchise agreement.

//// HOW TO BUY OR SELL A BUSINESS

Fair Market Value:

The price at which property changes hands between a willing buyer and willing seller when the former is not under any compulsion to buy, nor the latter is not under any compulsion to sell, with both parties having reasonable knowledge of relevant facts.



Your decision to buy or sell a business should be a planned one. Planning the process gives both buyer and seller an advantage. For the seller, it means maximizing the value of the business by making it attractive to a greater number of potential buyers. For the buyer, it provides the data and information to make a good financial decision to invest in an enterprise that is already known and successful.

When purchasing an existing business, you may be buying tangible assets, such as land, building, furniture, fixtures, and inventory. You may also be purchasing intangible assets, such as an established customer base, employees, and a known reputation or location. These intangible assets are known as “blue sky” or “goodwill.” Goodwill is a legitimate part of a purchase-sales agreement, and both the seller and the buyer must understand how that value was determined and how and if it can be financed.

Basic information that the seller should make available to the potential buyer includes:

- Financial statements for the last three to five years including profit & loss statements, balance sheets, and tax returns
- Accounts payable and receivable listings
- Itemized list of assets being purchased with depreciation schedules
- Recently taken physical inventory with obsolete items segregated
- List of recent suppliers
- List of customers and their major purchases
- Written assurance that any zoning permits, business licenses, and other items critical to business success can be assigned to the new owner
- Copies of all current advertising brochures, fliers, price lists, commercials, and other advertising materials.

ND SBDC advisors can work with both parties in a buy/sell situation, with each party specifically working with different advisors. All business advisors have advanced certifications to assist with buying/selling, specifically exit & succession planning. In addition, our [website](#) has specific guides for selling, buying, and exit & succession planning.

The Seller

As a seller, plans to sell a business should ideally be made three to five years prior to the actual sale. This will permit the time required to make necessary changes in accounting practices that demonstrate a record of maximum profits. Remember that audited financial statements are best because they are the most easily verified by the proposed buyer. Make sure your business is presentable. A business that is clean, with a current inventory, and with equipment that is in good working order sells well.

An aggressive seller may want to have a professional business appraisal done which will help establish the asking pricing for the business. This appraisal goes beyond last year's financial report; it will include a thorough analysis of several years, and an opinion about the future of the industry, the economy and how the subject business will compete. This appraisal can be useful in establishing criteria and value of the "goodwill" being sold.

Finding a qualified buyer can be as easy as talking with your employees, advertising in the local newspaper, discussing the sale of your business with trade sources or suppliers, or utilizing business brokers or real estate agents. For more guidance in selling a business visit [sba.gov/business-guide/manage-your-business/close-or-sell-your-business](https://www.sba.gov/business-guide/manage-your-business/close-or-sell-your-business).



The Buyer

To evaluate a business that is for sale, find out why the present owner wants to sell. Review its history, the way it operates, and determine the "reputation" of the business. Obtain tax returns and other financial records to see if the business is viable. Review the provisions of key contracts, leases, franchise agreements or any legal arrangements that have a significant effect on the business. If there is a franchise, make sure the franchise is transferable to you.

Review the purchase price to determine what you are buying. Ask for an allocation of the purchase price to specific assets in the sales agreement, breaking out the intangible assets (goodwill) from the tangible assets.

For the transaction to be successfully completed, both parties must be satisfied with the price and how it was determined. Fair market value is determined by a number of factors. Special circumstances of the particular buyer and seller often have more influence on the transaction than any definition of market value.

Savvy sellers and buyers consult professionals like an attorney, accountant, or financial advisor for help in structuring the sale or purchase of a business. These professionals can advise you on important components, including tax considerations, covenants (Covenant Not To Compete), legal structures for owning a business, contract for deed, and others.

Your decision to buy or sell a business should be a planned one. The planning process gives both buyer and seller an advantage. Planning puts your head, not your heart, in the leadership role. For more guidance in buying a business visit [sba.gov/business-guide/plan-your-business/buy-existing-business-or-franchise](https://www.sba.gov/business-guide/plan-your-business/buy-existing-business-or-franchise).

EXIT & SUCCESSION PLANNING

No matter how much you enjoy working in your business, inevitably there will come a time when you need to retire or sell your business. Owners are leaving money on the table because they are focused on short-term income generation rather than long term value. In addition, 50% of exits are NOT voluntary.

Knowing this, the ND SBDC recommends having an exit plan from the beginning and has made it a part of our business plans. It is best to remember the 5

D's that often force business exits before the owner is prepared:

- Death
- Disability
- Divorce
- Distress
- Disagreement

Get started by working with our advisors on both business and personal readiness assessments.

Register for services or see our **guide**.

INTERNATIONAL TRADE

"Going global," or exporting to expand sales, is an option for established North Dakota businesses. It's a great business growth strategy. Before you launch your export program, contact the North Dakota Trade Office (NDTO) or U.S. Commercial Service.

North Dakota Trade Office

4844 Rocking Horse Cir. S #1
Fargo, ND 58104
Phone: 701.929.6702
ndto.com

U.S. Export Assistance Center

811 2nd Ave. North
Fargo, ND 58102
Phone: 701.552.0792
trade.gov/north-dakota-fargo

The North Dakota Trade Office and its network of export service providers offer assistance in every step of the export process, including international market research for North Dakota companies, helping them identify export markets best suited for their products and services. Members of the Trade Office staff are located in Bismarck, Fargo, Dickinson, and Grand Forks.

The Export Assistance Center offers assistance in identifying and evaluating international partners, navigating international documentation challenges, creating market entry strategies, and other export-related guidance.



CENTER FOR BUSINESS ENGAGEMENT & DEVELOPMENT

The Center for Business Engagement & Development is UND's business outreach hub. Hosting three separate national business assistance and resource programs, the network provides these services to individuals and businesses throughout the state – at no cost. While each of the three programs has its own unique mission and set of services, they routinely work together to help businesses start and thrive. Being located within the Nistler College of Business & Public Administration provides opportunities for collaboration with faculty experts and student engagement on real business development, highlighting the skills, offerings, and talents within the college. In addition to hosting the ND SBDC, the center hosts the ND APEX Accelerator and VBOC of the Dakotas.



ND APEX Accelerator provides specialized assistance to businesses, both small and large, to enter and succeed in the complex government contracting market. The professional advisors work with businesses to obtain, manage, and comply with contract requirements for the Department of Defense (DoD), other federal agencies, state & local governments, and businesses with government prime contracts.

U.S. SMALL BUSINESS ADMINISTRATION



VETERANS BUSINESS OUTREACH CENTERS

VBOC of the Dakotas serves active duty, National Guard and Reserve members, veterans of any era and military spouses in both North and South Dakota. Services include training through the Boots to Business workshops on military installations, Boots to Business Reboot workshops off-installation, as well as free and confidential one-on-one advising and business development assistance.

SBA RESOURCE PARTNER PROGRAMS

In addition to the ND SBDC and VBOC, additional SBA Resource Partners include the ND WBC and SCORE.



ND SBDC PARTNER ENTITIES

POWERED BY



U.S. Small Business
Administration



*Funded in part through a Cooperative Agreement with the U.S. Small Business Administration.
Match funding is provided by the Bank of North Dakota, and many generous local partners from within our state*



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