

Session 2 - Starting your own business? What makes you special?

Instructor: Shawn Ferguson

Figuring out what makes your business, your passion, your idea, special. Many people start business with zero planning, thought or analysis. Here are some things to consider.

What makes your company special?

- What does your company provide that makes your company matter to others?
- What makes you special? You should be able to explain this quickly and easily.
- Think about a business you frequent. Why do you spend your money there?

Starting a Business

Start with a concept or general idea

Create a business plan

Devise a strategy for planning and development

Make decisions

- Form of ownership

- Financing

- Acquire existing business or start new?

- Buy a franchise?

Product

Good – A physical entity you can touch (a car, computer, or adopted kitten)

Service – The application of human and mechanical efforts to people or objects to provide intangible benefits to customers (air travel, dry cleaning, or haircuts)

Idea – Can be a concept, philosophy, image, or issue (attorney advice or political parties)

- A complex mix of tangible and intangible attributes that provide satisfaction and benefits

Niche Marketing

- A narrow market segment focus when efforts are on one small, well-defined group that has a unique, specific set of needs
 - Niche segments are usually very small compared to the total market for the product
 - Many airlines cater to first-class flyers, who comprise only 10% of international air travelers
 - To meet the needs of these elite customers, airlines include special perks and spacious seats

- Your goal is to separate people from their money in exchange for goods or services.
- Make your customers want to pay you.
- Make your customers happy to pay you.

The Tale of Two Realtors

- I purchased a new home in 2017. It took four months to find a home my wife and I loved. Our realtor was great at finding this home and horrible in closing the deal. Let's call her realtor A.
- I sold my condo in 2018 after moving into my new home. My new realtor, let's call her realtor B, was so supportive, accommodating and motivated that we were paid well above asking price. I was happy to pay her commission with the amazing work she had provided my wife and I.
- Since my condo sale, I have referred six other people to realtor B's business.

The Business Plan

- A precise statement of the business rationale and a step-by-step explanation of how it will achieve its goals
 - Acts as a guide and reference document
- Explanation of the business
- Analysis of competition
- Income/expense estimates
- Establish strategy for acquiring sufficient funds to keep the business going
- Revised periodically to ensure the firm's goals and strategies adapt to changes in the environment

- Imagine you are wanting to start a restaurant
- During our normal conditions it is estimated that 80% of restaurants fail in their first five years of business.
- How are you going to get capital for this business?
- How is your restaurant going to be different?
- HOW are you going to survive during this pandemic?

Hidden or Non-Calculated costs of business

- Insurance
- Electricity
- Other Utilities
- Employee benefits / government taxes
- Income taxes
- Customer issues / Customer returns

Forms of Business Ownership

- After developing a business plan, the entrepreneur has to decide on an appropriate legal form of business ownership

Sole Proprietorship

Partnership

Corporation

LLC – Limited Liability Company

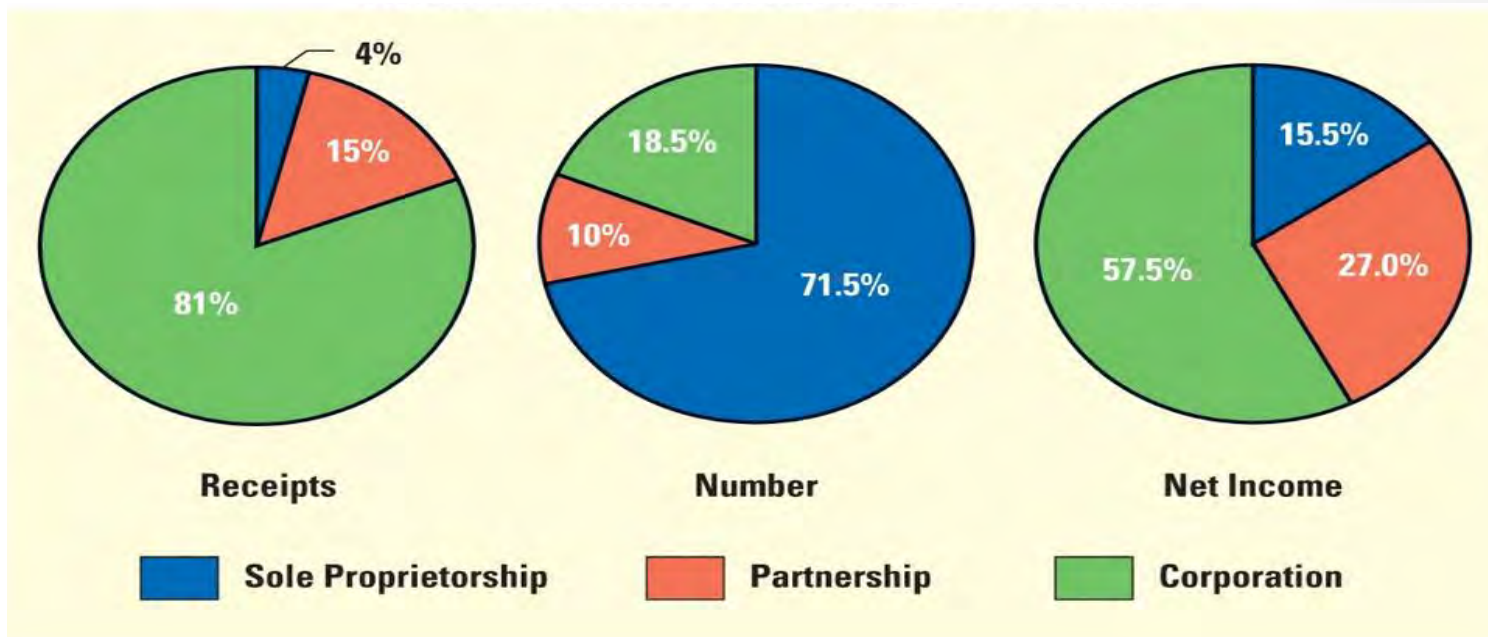
How to structure your business

- You need to consider how to form your business in order to protect your assets, family, etc., in case of failure or issues with your business.

Here are some possible issues:

- Torts (damages caused by a business)
- Bankruptcy
- Lawsuits

- **Comparison of Sole Proprietorships, Partnerships and Corporations**



Structure	Ownership	Taxation	Liability	Use
Sole Proprietorship	One owner	Individual income taxed	Unlimited	Owned by a single individual/easiest way to conduct business
Partnership	Two or more owners	Individual owners' income taxed	Somewhat limited	Easy way for two individuals to conduct business
Corporation	Any number of shareholders	Corporate and shareholder taxed	Limited	Legal entity with shareholders or stockholders
S Corporation	Up to 100 shareholders	Taxed as a partnership	Limited	Legal entity with tax advantages for restricted number of shareholders
Limited Liability Company	Unlimited number of shareholders	Taxed as a partnership	Limited	Avoid personal lawsuits

- **Sole Proprietorship**

- Businesses owned and operated by one individual; the most common form of business organization in the United States

- Many focus on services rather than large scale manufacturing

- Typically employ fewer than 50 people

- Comprise nearly three-quarters of all U.S. companies

Advantages of Sole Proprietorship

Advantages

- Ease and cost of formation
- Allow a high level of secrecy, your ideas stay in house
- Owner keeps all profits
- Flexibility and control of the business
- Government regulation is minimized
- Taxes paid only once
- Can be dissolved easily

Disadvantages of Sole Proprietorship

Disadvantages

- Unlimited liability ← huge problem
- Scarce external funding
- Owners need diverse skills
- Success is tied to the owner
- Lack of qualified employees
- Higher taxation rate

Types of Partnerships

- **General Partnership**
 - Involves a complete sharing in both the management and the liability of the business
- **Limited Partnership**
 - Has at least one general partner, who assumes unlimited liability, and at least one limited partner whose liability is limited to his or her investment in the business
- **Articles of Partnership**
 - Legal documents that set forth the basic agreement between partners

Advantages of Partnerships

Advantages

- Easy to organize
- Availability of capital and credit
- Combined knowledge and skills
- Swift decision making
- Government regulations are few

Disadvantages of Partnerships

Disadvantages

- Unlimited liability
- Responsible for each others' decisions
- A new agreement is needed if the partnership changes
- Difficult to sell a partnership interest
- Distribution of profits may be uneven
- Cannot find external funding as easily as large corporations

Limited Liability Company and Cooperatives

- **Limited Liability Company (LLC)**
 - Form of ownership that provides limited liability and taxation like a partnership but places fewer restrictions on members
 - Considered a blend of the best characteristics of corporations, partnerships and sole proprietorships
- **Cooperatives or Co-ops**
 - Organizations composed of individuals or small businesses that have banded together to reap the benefits of belonging to a larger organization
 - Set-up not to make money as an entity but so members can become more profitable or save money

The Role of Small Business in the American Economy

- Small firms represent 99.7% of all employer firms
- Small firms have generated 63% of net new jobs
- Small firms hire approximately 37% of high-tech workers (such as scientists, engineers, computer programmers, and others)
- Small firms produce 16 times more patents per employee than large patenting firms
- Small firms employ nearly half of all private-sector employees
- Small firms pay 42% of the total U.S. private payroll

The Role of Small Business in the American Economy

Firm Size	Number of Firms	Percentage of All Firms
0–19 employees	5,130,348	89.6%
20–99 employees	494,170	8.6
100–499 employees	83,423	1.5
500+ employees	18,219	0.3

Source: “Statistics of U.S. Businesses (SUSB),” *Statistics of U.S. Businesses*, www.census.gov/econ/susb/index.html (accessed February 13, 2015).

Small-Business Ownership

Advantages

- Independence
- Costs
- Flexibility
- Focus
- Reputation

Disadvantages

- High stress level
- High failure rate
- Undercapitalization
- Managerial inexperience or incompetence
- Inability to cope with growth

High Failure Rate

Half of all small businesses fail within five years

Disadvantages

- **Undercapitalization**
 - The lack of funds to operate a business normally
 - Too many entrepreneurs think that all they need is the money to get started
- **Managerial inexperience or incompetence**
 - Just because an entrepreneur has a brilliant vision, it does not mean he or she has the knowledge or experience to manage
- **Inability to cope with growth**
 - Growth requires the owner to give up an amount of direct authority

Disaster Story

- Bubba Family Fun Factory – Richmond, Michigan
- Yes this place actually existed for the summer of 2007
- I saw this business start and almost immediately fail



Macomb County Clerk & Register of Deeds - Fred Miller

Business Registration Search

[Start a new search.](#)

BUBBAS FAMILY FUN FACTORY

68286 MAIN ST
RICHMOND MI 48062

Business Type: S
Created/Renewed: 12/04/2006
Expires: 12/03/2011

Owners

[JOHN](#)

[LAURA](#)

[ANDREA](#)

[SCOTT](#)

If you click on the business owner(s) name and they are conducting business under other business names, those business names will be displayed.

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Success Story

- Smith Tool – Toledo Ohio
- 3 years in business, father & son team
- Purchased five large machine tools from me
- Purchased 3 of those 5 machines just this year. All three during the pandemic.

Success vs Failure

- What makes Smith Tool successful and Bubba's Family Fun Factory not?
- Customers
- A market, a need, a niche
- Customers want to give Smith Tool money for their services
- The owner has been a metal worker for over 25 years and a high school shop instructor for 10 years. He knows every shop, schools, company in Ohio, Michigan and Indiana.

Don't be afraid to fail

- Businesses fail
- Good businesses can fail
- Horrible businesses can fail
- Protect yourself with help, lawyers and people who know how to help you.
- Pick yourself back up after failures and try again.
- Don't let your pride get in the way of asking for help.

Need help?

- Washtenaw Community College has an entrepreneurial center. It's free to use for any previous or current student.
- <https://www.wccnet.edu/succeed/entrepreneurship-center>
- There is no single human who can build something, keep track of the money and sell it well. Talk to the entrepreneurial center on how they CAN and WILL HELP YOU

Start
Your Experience

Learn
Areas of Study

Afford
Your Education

Succeed
Support and Advice

Engage
Campus Life

WCC Gateway
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Connect with us via phone at [734-249-5880](tel:734-249-5880), or through email at

entrepreneurship@wccnet.edu; we are here for support and resources. For current business owners and future entrepreneurs, we offer one-on-one appointments via phone or video to assist you with your business questions and challenges. If you are interested in discussing your current questions, please submit a [Business Assistance Request](#) and we will be in touch!

To learn more about the Entrepreneurship Center, please [watch this short video](#).



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Help for Small-Business Managers

- Organizations and programs exist to help small-business managers
 - National publications such as *Inc.* and *Entrepreneur*
 - Small Business Administration (SBA)
 - Small Business Development Centers (SBDCs)
 - Service Corps of Retired Executives (SCORE)
 - Active Corps of Executives (ACEs)
 - Small Business Institutions (SBIs)
 - U.S. and local Departments of Commerce
 - Other small businesses

Homework

- Watch this TED Talk to gain some perspective on helping others and changing the perceptions that people have:
- Ernesto Sirolli: Want to help someone? Shut up and listen!
- <https://youtu.be/chXsLtHqfdM>