
Metro Milwaukee New Business Planning Guide

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Why start a new Business?

Starting your own business is a challenging proposition.

More than 1.25 million businesses are started in the U.S. each year, and almost 80 percent fail within five years. In order to assist you in becoming an entrepreneur, the Metropolitan Milwaukee Association of Commerce, Milwaukee Department of City Development, Foley & Lardner and U.S. Bank Milwaukee have collaborated to produce this New Business Guide. Your chances of success will be greatly increased if you diligently follow the advice contained in this material.

Of course, those people who start businesses are among the greatest contributors to our society. Entrepreneurs improve the quality of life by satisfying consumer needs and creating jobs. In fact, more than 65 percent of all new jobs in the U.S. are created by small business. Small business owners also provide community leadership, tackling some of the toughest issues facing society.

Starting your own business can be very rewarding. While you prosper financially and professionally, all of society benefits from your efforts.

This guide is intended to help you start your business - to capitalize on the opportunity you have identified. To substantially improve your chances of getting started, work through all the material in this guide. When you are finished, you will have learned a lot about yourself and the potential of your business proposal.

Could you be successful?

Owners of successful firms share a unique set of personal traits, traits you will want to lend your business. The failure of many businesses usually can be traced to poor management. To make sure your investment is sound, you should first determine whether you are likely to be a good entrepreneur.

The attributes listed below are often found in owners of thriving businesses:

- Self-starter
- Strong leader
- Excellent organizer
- Always trustworthy
- Good communicator
- Highly creative
- Highly responsible
- Good decision-maker
- Healthy and energetic
- Results-oriented
- Persistent

What do you need to succeed besides determination?

A business is more than getting your idea to market. To be successful, your business should have the following components:

- Sufficient capital
- Understanding of competitive edge
- Controlled overhead costs
- Good business contacts
- Good employee training
- Pride in employees' success
- Good market knowledge

- Understanding of pricing strategy
- Good managerial procedures
- Knowledge of hiring quality people
- Delegation of responsibilities
- Good customer relations

Why do businesses fail?

Good ideas don't fail, but bad businesses do. It is important that you understand what can undermine your company, as well as what can make it a success. Some common causes of business failure follow:

- Poor business planning
- Lack of knowledge of the competition
- Non-aggressive selling
- Slow collection of money
- Insufficient start-up capitalization
- Poor cost control
- Financial or management quarrels with partners
- Poor judgment
- Unrealistic pricing
- Lack of product diversification
- Insufficient delegation
- Poor cost controls
- Family pressures
- Lack of specific goals

Do you have the proper personal and business characteristics to start your own company? Will you be able to avoid the common pitfalls? If you can answer these questions positively, then you may have the makings of a successful entrepreneur. If you don't fit the mold, now is the time to step back and re-evaluate your plans, before making a costly mistake.

Is your business idea a sound one?

Before you can obtain financing for your business, you must be able to clearly define it. A business is more than an idea. It is an organized plan that transforms an idea into a profit-making venture. To target your resources wisely, you must answer the following questions:

- What needs are you meeting?
- What specific products and/or services are you selling?
- Who are your company's customers?
- Why should customers buy from you instead of your competitors?
- Where will customers be able to purchase your product and/or service?
- What will be your company's image?
- How will customers find out about your business?

Definition of your market is critical.

You must know who will buy your product, why they should buy it, and how they will buy it. More important, you must know if enough people want to buy your product to make your business viable.

If enough people don't want your product, you will not succeed. It's that simple. The time to find out whether people want your product is before you go into business.

Have you done your research?

Many potential entrepreneurs don't research their markets before starting their businesses, believing market research to be too expensive or time-consuming. In reality, the time and energy spent thoroughly researching your market before you start is negligible compared to the time and money wasted on a failed business.

You can do market research two ways: 1) Hire a professional consultant or 2) Do the research yourself. The expense of professional research is worthwhile in most cases. If you don't know your market, you won't be able to obtain the capital to successfully start your business. However, if you wish to start some preliminary research on your own, here are some suggestions:

Determine the trend in your industry.

Is demand for your product increasing or decreasing? Periodicals, books and government publications are good sources of trend information. Sources to consider include Standard and Poor's Industry Surveys, marketing journals, trade magazines and general business magazines.

Determine your business's geographic market area.

Analyze your company's location in relation to customers, competitors, suppliers and transportation systems. Draw your market area on a map.

Determine your target markets.

What particular group of people (age, gender, income, education, geographical location, lifestyle, occupation, race) purchases your products or services? This is critical. Your business can't afford to waste resources on people not likely to be customers.

Collect information about the market area and target markets.

How many people in the area match your target market? How much is spent on your product in the area by your target market? Who are your competitors for your target market?

Project the revenue and expenses for your business.

Essentially, this requires estimating what share of your target market will buy from you, versus your competitors. It also requires determining how much each of your customers is likely to spend. You also will need to determine the fixed and variable costs of running your business.

Obtaining estimates from industry experts, conducting surveys and test marketing are ways to estimate sales revenue. Also, you can analyze how many people are necessary to support businesses similar to yours in other communities.

Projecting revenue is a critical step in deciding whether to start your business. If your sales revenue doesn't exceed your expenses, failure is inevitable. Make sure your sales estimates are reliable. If you have doubts, use a consultant.

How can you get investment capital?

If you need money to start your business, you can think of investors or lenders as your first customers. Just as you must convince customers that your product will work, you must first convince the investor or lender that your business will work.

Many people believe that investors or lenders are too selective in providing capital. But if lenders make too many bad decisions, they jeopardize the savings of their clients.

Therefore, getting money from an investor or lender requires a thoughtful and complete presentation. To succeed, you must be extremely well-prepared and willing and able to provide a great deal of information.

Your personal investment probably is the most important consideration.

In addition to sweat equity - your hard work and dedication to the success of your business - investors or lenders expect you to provide personal assets as either direct investments or collateral. They look at this as a statement of your personal commitment. How much are you willing to lose personally if the business fails? Lenders want to make sure that your money is also at risk when the going gets tough.

The first place to look for equity is your own savings and assets. If you still need more money before approaching an outside lender or investor, relatives and friends are another often-used source. If you are borrowing from

relatives and friends, you must explain how you will repay them.

If you intend to borrow money, you must decide what you can provide for collateral.

What are you willing to lose to the lender if your business fails? Homes, land, your business's assets and your personal possessions are common alternatives. Estimate the value of your collateral and attach any appraisals currently available. If you are seeking investors, you must decide how much of your firm's future profits you are willing to trade for their money.

Investors/lenders require a description of your business.

What are you selling, to whom, and at what price? Also, how and where are you selling it? This is typically done through a business plan, in which you describe your business entity (proprietorship, partnership or corporation) and how you will operate it.

A personal resume of each principal must be included to verify management ability.

You will need to explain what experience and management abilities you possess to make the business a success. If you lack skill or experience in key functional areas (technical skills, marketing, finance, accounting, personnel, strategic planning), explain how you will develop or hire that competence.

You must project your sales, expenses, profit and cash flows for at least three years into the future.

For existing businesses, also submit financial statements for the past three years. This includes balance sheets, income statements and an interim financial statement for the period since the last fiscal year ended.

The lender will need a breakdown of the use of the loans.

Why do you need a loan? Will it be used for buying equipment? Buying inventory? Buying land? Constructing, buying or remodeling a building? Operating capital? Provide the lender with detailed written estimates from experts familiar with the assets to be purchased.

You must outline the assets and liabilities of each owner, partner or stockholder owning 20 percent or more of the business in a personal financial statement.

It is very likely that each person will be required to personally guarantee the repayment of any loan made to the business.

The above represents just a fraction of the information a lending institution needs in order to evaluate your loan application. This information is often requested on the application you must complete. However, to secure financing, you must do more than fill out applications, you must present a well-written, well-conceived business plan.

What part does your business plan play?

The business plan often is called the blueprint for success. Without a good business plan, you will find it nearly impossible to obtain capital. The business plan starkly exposes your business knowledge (or lack of it) to lenders or investors. Preparing a business plan forces you to think through your ideas and helps you communicate them clearly. Not only does this help you obtain financing, it is vital for successfully establishing your goals and managing your business and employees.

Much of the information requested in other portions of this booklet is necessary for completing the business plan. The business plan ties together this and much more information into a document explaining most things an investor or lender would want to know about your business.

Preparing a business plan isn't easy. It takes time and money to collect the necessary information, to analyze that information, and to properly communicate your findings. This cannot be done overnight. Successful entrepreneurs usually spend six to 10 months researching and preparing their ventures. Ninety percent of them utilize professional advisers, such as lawyers or accountants, while almost 70 percent attend business seminars and regularly read business material.

An outline for a good business plan follows. Work through it to see how many questions you can fully answer. If you still think your business has what it takes to succeed and obtain capital, then you should consider attending a business plan seminar or seeking professional guidance to improve the odds of preparing a successful plan.

Business Plan Outline

Executive summary (to be completed last)

- A broad overview of your company's activities, management and objectives
- Distinguishing features of your products/services
- Attractiveness of your market
- Summary of historical financial results and financial projections
- Amount of money you seek, in what form and for what specific purposes

Description of your business and industry

- Your business
- The industry, its history and its anticipated future

Features and advantages of your products/services

- Description
- Competitive advantage and market niche
- Proprietary position
- Future potential

You should consider including some products or sales literature as exhibits.

Market research and analysis

- Existing and potential customers and markets
- Critical customers (over 10% of sales)
- Market size and trends
- Competition and strategy for competing

Estimated market share and sales

- Marketing plan
- Marketing strategy
- Pricing
- Sales tactics
- Service and warranty policies
- Advertising, public relations and promotion

Product design and development plans

- Development status and tasks
- Difficulties and risks
- Costs

Operations plans

- Production or service delivery process (flow charts may be helpful)
- Geographic location
- Existing facilities and projected improvements for future needs
- Strategy and plans
- Labor force
- Product/service distribution
- Availability of material and supplies
- Dependence on critical suppliers
- Unique or novel processes used

Management team

- Organization and ownership (charts are helpful)
- Key management personnel (credentials)
- Management strengths and weaknesses
- Management compensation
- Board of directors
- Key business advisers
- Professionals retained (accountant and attorney)

Include personal financial statements of principal owners as exhibits.

Overall schedule

- Timing of critical activities before opening (obtaining funds, incorporating the company, selecting the location, ordering supplies, hiring employees, starting operations)
- Timing of critical activities after opening (expansion, product/service extension)

Response to critical risks and problems

- Working capital shortage
- Price cutting by competitors
- Unfavorable industry-wide trends
- Design/operating costs over estimates
- Low sales
- Difficulty obtaining supplies, raw materials
- Difficulty obtaining credit
- High inflation
- Lack of trained labor
- Recession

Financial statements and projections

- Five years of annual historical financial statements (or from the period the business has been in operation, whichever is shorter)
- Profit and loss forecasts for each month of the first full year and for each of the first three years of operation
- Cash flow projections and an operating budget for each month of the first full year and for each of the first three years of operation
- Pro forma balance sheet at start-up, monthly balance sheets for the first year and at the end of each of the first three years
- Financial controls to be implemented
- Person responsible for finance and accounting matters
- Outside accountant or bookkeeper who will audit, review or compile the company's financial statements

Ownership structure

- Owners and how much they are investing
- Shareholder agreements
- Which owners are making personal guarantees?

Proposed company financing sought

- Desired amount and terms of financing and form (equity, grant or loan)
- Existing and pro forma capitalization
- Timing of required financing
- Proposed use of funds, scheduling

Once you have worked through your business plan and have a good product, you should work on your personal presentation. Remember, your ability to effectively manage is being judged, as is your business plan itself. Preparing key visual aids, developing responses for likely questions and repeated practice are good strategies.

What are some sources of investment capital?

Many people interested in starting a business immediately look to commercial banks for financing. This is understandable because of the important financial role banks play in our society. However, banks are only one source of possible financing; often a business combines several sources. The following list of potential financing sources is presented for your consideration.

Yourself

In addition to contributing your own sweat equity, you have to be willing to put up a good share of the money. No lender will give you money if you are not at personal financial risk. You may be asked to personally guarantee repayment of any loans made to your business. As well as indicating your commitment to the business, personal investment is one of your easiest sells. If you can't convince yourself to invest, who can you convince?

Savings, mortgages, personal possessions and life insurance policies are just a few sources of money that can get you started.

Relatives and friends

Again, these are people you should have a good chance of convincing to loan you money. They know you better than any potential outside lender. However, be careful. Make sure your relatives and friends know the risk involved and formalize the lending arrangement with a promissory note or loan agreement. Many personal relationships have been ruined by small business failure.

If you sell stock in your company, you may be required to consult with an attorney to ensure compliance with securities laws.

Employees

Convincing your employees to invest in the potential future success of the business can be a great motivator. Much of the information concerning investments by friends and relatives applies here, as well.

Customers

If you can fill the unmet need of a potential major customer, that customer may provide you with advance payments or loans needed to finance the work you can do for it.

Suppliers

Once you start your business, establish a credit rating as soon as possible. Some suppliers will provide limited credit to a new firm. When working with suppliers you may find that deferred payments to suppliers represent interest-free loans. However, slow payment is not a wise long-term method of meeting capital requirements.

You can lease equipment and other assets from suppliers. This is more expensive than bank financing, but helps you obtain the physical assets you need.

Government-sponsored financing programs

State and local governments offer financing options for your company, as well. Many have subsidized loan pools that provide fixed-rate, below-market business loans or grant programs. In metropolitan Milwaukee, the Milwaukee Economic Development Corp. (MEDC) provides Small Business Administration loans throughout the four-county area. MEDC also provides its own funds for lower-rate direct loans in the City of Milwaukee.

Small business investment companies (SBICs) are private companies that offer financing. Licensed by the Small Business Administration, they provide debt and equity capital to many small businesses. They will undertake more risks but also demand greater rewards through either higher interest rates or equity positions.

Minority Enterprise Small Business Investment Companies are SBICs that can only invest in minority-owned businesses.

Commercial banks

Banks operate on a small margin of error and are extremely wary of investing in a risky business. Collateral to more than fully secure the loan - including personal guarantees - is necessary to convince a bank to lend you money.

Banks focus more on lending money to businesses in the expansion stage, but some banks are increasing their commitment to small business ventures. Also, most banks are committed to local community development, which means you will have a better chance of obtaining financing from a local bank.

Individual investors

People with personal wealth sometimes are interested in financing new or expanding businesses, and some can offer valuable guidance. However, these people often are the most impatient with the setbacks and delays associated with a small business and generally require a very high rate of return on investment.

Commercial finance and leasing companies

Finance and leasing companies are a little more willing than banks to take a risk. On the other hand, they charge higher interest rates. Finance companies lend against accounts receivable, as well as assets such as equipment or inventory. Leasing companies lease equipment and charge you rent. This allows you to avoid making a large upfront capital investment, but the lessor retains ownership of the equipment.

Venture capital firms

Venture capitalists usually aren't looking for interest payments. In return for providing you with long-term financing, they become part owners and, at times, managers of your business. They take the greatest risks in financing businesses and also look to reap the greatest rewards. A common estimate is that venture capitalists look for three to five times their investment in five to seven years.

Because venture capitalists take an equity position in your business, you may have to sell it, purchase the venture firm's interest or go public once the venture firm wants its return on investment. Many venture capitalists are interested in high-technology or innovative businesses that have potential national markets. Venture capitalists are extremely rigorous in rejecting proposals that do not meet their criteria for investment.

Cash management

While not normally considered a financing tool, cash management or conservation may be one of the best ways to raise capital, or at least avoid the necessity of raising other capital. Entrepreneurs often underestimate how productive cash management can be, since it can save a considerable amount in interest payments and other expenses. Maintaining a minimum amount of inventory and raw materials and aggressively collecting accounts receivable (including offering discounts for prompt payment) are both good cash management techniques. Investing cash surplus in interest-bearing accounts or other short-term investments is another way in which you can make cash work for you.

One final note on obtaining financing for your small business - you are selling yourself as well as your business idea. The lender is investing in more than a business, it's investing in you. Are you likely to be successful? Do you have good business knowledge? Did you prepare a good business plan? Spend as much time preparing yourself as your business.

Are you informed about government permits & taxes?

New businesses are required to comply with federal and state tax codes and various government regulations, and also may be required to obtain permits before starting business. In addition, they must determine what type of organization under which they will operate for legal reasons.

It is important that tax and regulatory matters be taken care of in advance of the start-up of your business. It is much more difficult to repair improperly completed tax or permit documents once operations are under way, and it can be costly.

Federal tax documents

Businesses must prepare a number of documents for federal tax purposes. These include information required for federal income tax withholding, tax identification numbers, Social Security filing and unemployment compensation. The Internal Revenue Service provides a free publication, *Starting A Business & Keeping Records* (publication 583), covering these areas. To order, contact the IRS at (800) 829-3676.

State of Wisconsin permit and tax forms

The State of Wisconsin also requires various permit and tax identification forms for some businesses. Forms may include:

- Seller's permit
- Mobile seller's permit
- Resale (wholesalers') or exemption certificate
- Consumer use tax permit
- State withholding tax ID number
- Manufacturing exemption certificate

The state simplifies the application process by using a single form, Form BTR 101, available from the Wisconsin Department of Revenue. In Milwaukee, call (414) 227-4000.

Employment taxes

New employers also must be aware of two employment taxes. Unemployment compensation is a payroll tax that an employer must pay under certain conditions of Wisconsin employment. If the new company plans to pay more than \$1,500 in wages in a particular calendar quarter, or if the new business will hire one or more persons full time for 20 or more calendar weeks, the business will be liable for unemployment compensation taxes. For information, contact the Milwaukee area office of the Department of Workforce Development at (414) 438-7705.

Worker's compensation insurance

Wisconsin law also requires that employers carry worker's compensation insurance for their employees if they employ three or more workers, pay wages of \$500 or more in a calendar quarter, or if a farm operation, employ six or more workers for any 20 days in a calendar year. Worker's compensation insurance in Wisconsin usually is obtained through private insurance companies. For more information on worker's compensation law, call the Milwaukee office of the Worker's Compensation Division at (414) 227-4381.

Articles of Incorporation

Companies planning to do business in the State of Wisconsin as a corporation must file Articles of Incorporation with the Wisconsin Department of Financial Institutions. For more information, contact the department at (608) 261-7577, or an attorney familiar with business law through the State Bar of Wisconsin at (608) 257-3838.

Licensing

Some businesses also are required to be licensed to operate in the State of Wisconsin. Examples include collection agencies, day care centers, food processors and food retailers. Call the Wisconsin Business AnswerLine at (800) 940-7232 to determine whether your business requires a state license.

Certain occupations and professions are licensed and regulated by the state, as well. Examples include certified public accountants, pharmacists and barber/cosmetologists. The Business AnswerLine also can be used to determine if your chosen occupation requires this type of license.

Zoning restrictions

Business owners also should be aware that local zoning ordinances may predetermine business locations. New businesses should contact the local zoning office for zoning permits and the municipal clerk's office regarding other local permits, licenses and regulations. In the City of Milwaukee, contact the Milwaukee Department of City Development at (414) 286-5800.

Building codes

New businesses also must comply with state and local codes that regulate building construction, occupancy permits and plumbing and electrical installations in Wisconsin. Building and plumbing plans must be submitted for approval prior to the commencement of new construction or rehabilitation. For information about approval procedures and to obtain forms, contact the Milwaukee area office of the state's Department of Safety & Professional Services at (262) 548-8600. For City of Milwaukee locations, contact the City of Milwaukee's Development Center at (414) 286-8210.

This summary represents only a brief outline of the details regarding business permits and taxation. For more detailed summaries, contact the Metropolitan Milwaukee Association of Commerce at (414) 287-4100 or the Milwaukee Department of City Development at (414) 223-5800.

Legal structure of your business

When starting your own business, you must consider the legal form under which your entity will operate. There are several from which to choose.

A sole proprietorship is an unincorporated business completely owned by you and operated under your name or a trade name. As a sole proprietor, you are entitled to all profits and must personally bear all liabilities of the business.

A partnership is an association of two or more persons who act as co-owners of a business for profit. A partnership should be evidenced by a formal partnership agreement, evidencing all of the rights, benefits and duties of each partner. As a so-called conduit entity, a partnership is not a legal entity separate from its partners.

A general partnership typically provides that each partner participates in all profits and losses equally or based upon some agreed-upon ratio. Each partner typically has unlimited liability, which includes his or her personal assets outside the business. A limited partnership limits the liability of the limited partners to the extent of their capital contribution. These limited partners must not otherwise participate in the general management or operation of the partnership.

A corporation has the advantage of providing limited personal liability to its shareholders, centralized management and continuity of life. A corporation can be either a "C" corporation, which is taxed based on the earnings of the corporate entity, or an "S" corporation, which provides for pass-through taxation of corporate profits to the owners. A corporation also can be a regular business corporation under Wisconsin law or it can be a statutory close corporation, which allows the owners to utilize the limited liability of the corporate entity but still operate the corporation on a more informal basis like a partnership.

You should consult your legal and tax advisers about the most appropriate legal form of organization for your business.

Where can you obtain additional information or assistance?

This guide helps you to decide whether to pursue starting your own business. In other words, once you have faithfully worked through all the material in this guide, you should have a good idea of whether to start your own business.

If you are still dedicated to starting your own business, your work has only begun. Undoubtedly, this information has created as many new questions for you as it has answered. The following is a list of sources that can help address your questions in more detail.

Besides the above information, there are more than 275 accounting firms, 600 financial institutions and 600 legal firms in the metro area, many of which are members of the Metropolitan Milwaukee Association of Commerce and its Council of Small Business Executives. Many of the metro area's universities, colleges and technical schools not listed above also have services for small businesses. These schools and private consultants represent a wealth of expertise.

BizStarts Milwaukee

1555 RiverCenter Drive, Suite 210

Milwaukee, WI 53212

(414) 973-2334

Provides information, resources and assistance to startup and growing companies.

Business AnswerLine

Wisconsin Small Business Development Center
432 N. Lake Street
Madison, WI 53706
(800) 940-7232

The information center provides permit information and helps businesses obtain permits & licenses required to do business in Wisconsin.

Council of Small Business Executives (COSBE)

756 N. Milwaukee Street
Milwaukee, WI 53202
(414) 287-4100

COSBE provides networking and roundtable programs for small businesses executives.

Kohler Center for Entrepreneurship

Marquette University
707 N. 11th Street
Milwaukee, WI 53233
(414) 288-7745

The center provides assistance to entrepreneurs through courses, conferences and information.

Metropolitan Milwaukee Association of Commerce

756 N. Milwaukee Street
Milwaukee, WI 53202
(414) 287-4100

MMAC is a source of current information on available local resources, expertise and the local economy.

Milwaukee Department of City Development

809 N. Broadway Street
Milwaukee, WI 53202
(414) 286-5800

This city agency provides locational information and counseling on government services and regulations.

Milwaukee Economic Development Corporation

809 N. Broadway Street
Milwaukee, WI 53202
(414) 286-5840

This city-sponsored non-profit corporation assists in financing business projects of all sizes.

Milwaukee Public Library

814 W. Wisconsin Avenue
Milwaukee, WI 53233
(414) 286-3000

Source of a broad range of business and industry information.

Service Corps of Retired Executives (SCORE)

310 W. Wisconsin Avenue
Milwaukee, WI 53203
(414) 297-3942

SCORE provides assistance and counseling by retired business executives to new and expanding businesses.

Small Business Center

Waukesha County Technical College
800 Main Street
Pewaukee, WI 53072
(262) 695-3468

The center provides business start-up and expansion information.

Small Business Development Center (SBDC)

University of Wisconsin-Milwaukee

161 W. Wisconsin Avenue

Milwaukee, WI 53203

(414) 227-3240

The SBDC offers management assistance and educational programs.

U.S. Small Business Administration

310 W. Wisconsin Avenue

Milwaukee, WI 53203

(414) 297-3941

SBA offers management and financial counseling, workshops, and "how to" publications.

Wisconsin Innovation Service Center

University of Wisconsin-Whitewater

1200 Hyland Road

Whitewater, WI 53190

(414) 472-1365

The service center will evaluate the marketability of an idea or invention on a fee basis.

Wisconsin Supplier Diversity Program

Wisconsin Department of Administration

101 E. Wilson Street

P.O. Box 7970

Madison, WI 53707-7970

(608) 267-9550

The program provides information on the certification of minority-owned businesses.

Wisconsin Women's Business Initiative Corporation

2745 N. Dr. Martin Luther King Jr. Drive

Milwaukee, WI 53212

(414) 263-5450

The initiative provides training, counseling and loan funds to women, low-income and minority entrepreneurs.

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