



Business
experts
helping you
succeed.

Guide to Starting and Operating a Small Business

Brought to you by Michigan Small Business Development Center

TABLE OF CONTENTS

Welcome!	6
-----------------------	---

1

Starting a Business

Are You Ready to Start a Business?	7
Step 1: Self-Assessment: Are You Ready to Start a Business?	7
Steps to Starting a Small Business	8
Step 2: Select a Business Idea	9
Step 3: Perform Market Research	10
Market Research Checklist	14
Step 4: Refine and Reevaluate Your Business Idea — Is It Viable?.....	16
Step 5: Analyze Your Startup Costs	17
Step 6: Refine and Reevaluate Your Business Idea — Is It Feasible?.....	22
Step 7: Write Your Business Plan	23
Step 8: Complete the Startup Checklist	24
Step 9: Secure Financing for Your Business	26
Step 10: Start Your Business	26

2

Michigan SBDC Business Plan Outline

Section 1: Company Introduction and Description	28
Section 2: Market Analysis	28
Section 3: Management and Operations	32
Section 4: Financials	34
Section 5: Appendices	35
Final Touches	36

3

Business Legal Issues

Attending to Legal Issues Is Crucial for Planning and Operating Your Business.....	38
Choosing and Filing a Legal Structure for Your Business.....	38
Selecting and Registering a Business Name	44
Protecting Your Business' Intellectual Property	45
Licenses, Permits and Business Regulations	46
Navigating Michigan's Business Regulations	46
Environmental Considerations	46
Business Taxes and Withholding	48
Streamline Your State Taxes With Michigan Treasury Online	50
Business Insurance	51
Special Considerations for Selling to the Government	52
Procurement Technical Assistance Centers (PTAC) Can Help With Government Bidding	52
Becoming a State of Michigan Contractor	53
Small Business Certifications	54

4

Financial Management

The Benefits of Financial Management	56
Bookkeeping	57
Cash Flow and Cash Flow Projection	58
Financial Recordkeeping	58
Other Recordkeeping	58
Take Cybersecurity Seriously	60
Ransomware Attack Dos and Don'ts	62
Create Separate Bank Accounts for Your Business	63

5

Marketing Your Business

What Defines Your Brand?	66
Setting a Marketing Budget	67
Creating a Marketing Plan	68
Developing Your Message	74
The Four Ps of Marketing	76
Publicity and Public Relations	77
The Power of Online Marketing	78
Using Your Website to Grow Your Business	79
Attract New Business Through Social Media	81
Consider Pay-Per-Click (PPC) Advertising and Other Paid Online Advertisements to Gain New Visitors to Your Site	82
Managing Online Reviews	85

6

Hiring Your First Employee

Craft Your Hiring Strategy	88
The Importance of Professional Assistance	89
Employee vs. Contractor	89
Training and Developing Employees	91
Create Clear Expectations With an Acceptable Use Policy	91
New Hire Reporting Requirements	91
Payroll Taxes	92
Ensure Your Compliance With Employment Laws and Regulations	94
Health and Safety Standards	96
Required Workplace Posters for Michigan	97
Required Federal Workplace Posters	98

Michigan Small Business Development Center

Start and grow your business with the help of a business consultant! The Michigan SBDC's team provides one-on-one consulting, business education, market research and technology commercialization to entrepreneurs in all 83 counties.

Starting a small business can feel tough, but you don't have to do it alone! The Michigan SBDC is here to connect you with insight and resources to help your small business succeed. Contact the Michigan SBDC for assistance with:

- ▶ **Business Plan Development**
- ▶ **Market Research**
- ▶ **Raising Capital**
- ▶ **Business Education – In person and online training**
- ▶ **Technology Commercialization**
- ▶ **Financial Management**
- ▶ **Export Strategy**
- ▶ **Strategic Planning**
- ▶ **Human Resources & Organizational Development**

sbdcmichigan.org



.....

STARTING A BUSINESS



Welcome

Helping businesses launch and grow is a focus of the Michigan Economic Development Corporation (MEDC), state government, and all of us here at the Michigan Small Business Development Center (MI-SBDC). At the Michigan SBDC, we provide small business assistance across the state, including counseling, training, and research to help small businesses launch, grow, transition, and innovate. This guide outlines many of the steps, responsibilities, issues, and challenges facing entrepreneurs, and it seeks to answer your most common questions.

Information included in this guide is both general and Michigan-specific. It covers topics such as:

- ▶ The steps for starting a business
- ▶ Different ways to organize your business
- ▶ Key elements of a business plan
- ▶ Complying with federal, state, and local tax obligations
- ▶ Basics related to management, hiring, and marketing
- ▶ And more!

Though this guide is not a substitute for legal or financial counsel, it is an informational resource designed to make the process of starting and operating a business in Michigan a little less overwhelming.

The information in this guide was accurate at the time of publication, but it is subject to change due to revisions in law and administrative policies. Between published revisions, an online version is updated periodically if significant changes occur. The online version can be accessed at:

sbdc-michigan.org/guidetostarting 

In addition to this guide and the talented professionals at the Michigan SBDC, other resources are available for starting and operating a business in Michigan:

- ▶ Michigan Small Business Development Centers (MI-SBDCs)
- ▶ U.S. Small Business Administration (SBA)
- ▶ Michigan Economic Development Corporation (MEDC)
- ▶ Assistance from local economic development organizations, trade associations, chambers of commerce, schools, community colleges, universities and public libraries

The Michigan SBDC is ready to help! For more information or to contact any of our offices located around the state, visit:

sbdc-michigan.org 

Sincerely,
The Team at the Michigan SBDC

Personal Assessment



Are You Ready to Start a Business?

Being your own boss is an exciting idea, but self-employment isn't for everyone. If you're thinking about starting a business, you'll want to consider whether you're suited for it, both personally and professionally.

This self-evaluation is designed to help you think through your personal, professional, and financial readiness for self-employment. It will help you:

- ▶ Assess your reasons and qualifications for going into business
- ▶ Set personal and business goals
- ▶ Consider if this is the right time to start a business
- ▶ Determine if you have the freedom, flexibility, and resources to start a business
- ▶ Evaluate your health and stamina
- ▶ Plan how you will balance family and business obligations

There are no right or wrong answers to these questions. Bring a completed version of this self-assessment to your Michigan SBDC consulting sessions. It will provide insights about you and your business readiness to help make the most of your time with us. To self-assess, ask yourself the following questions and answer as honestly and in as much detail as possible.

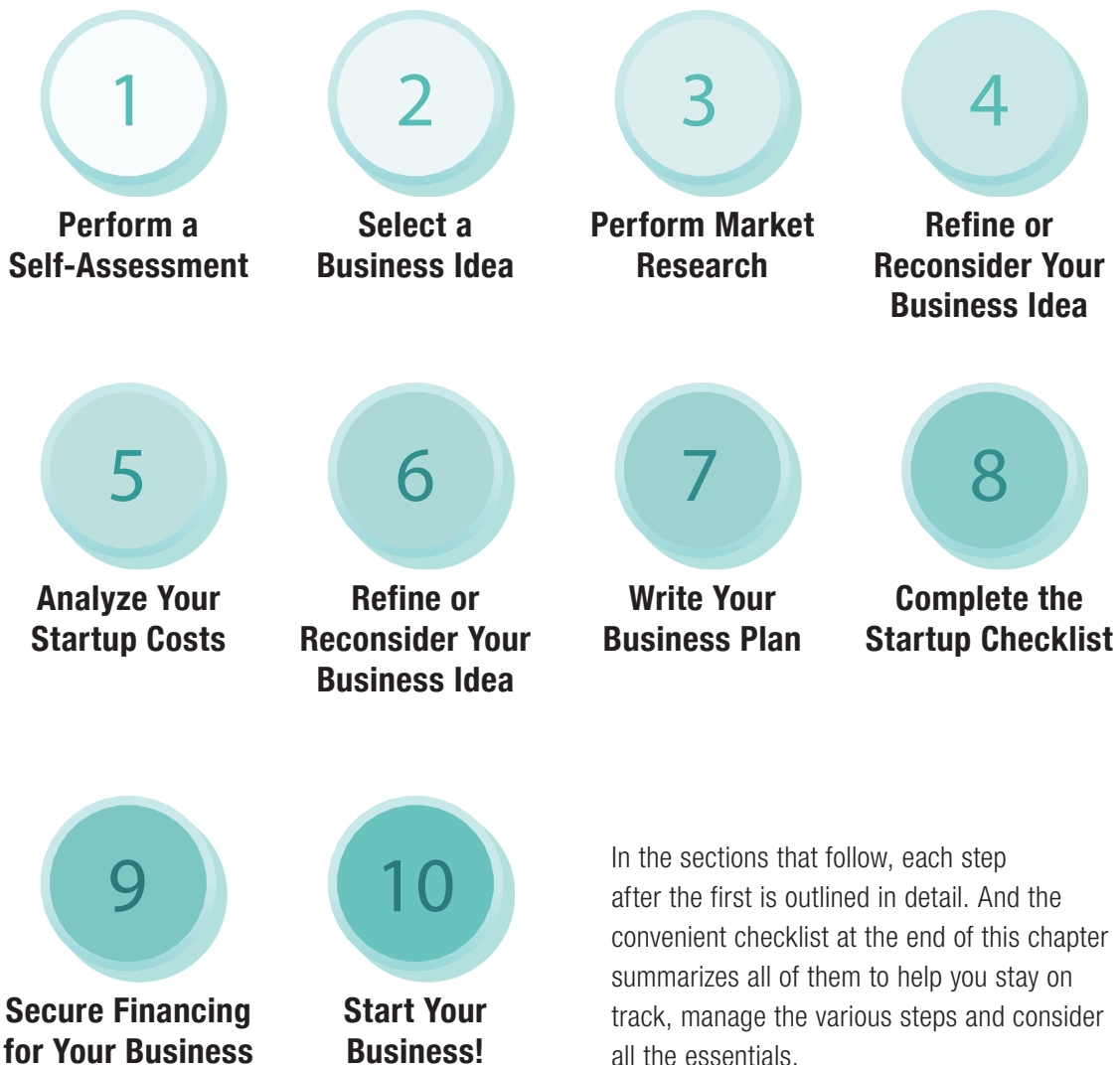
STEP 1:

Self-Assessment: Are You Ready to Start a Business?

- 1 Why do you want to start (or continue growing) a business?
- 2 What kind of business do you want to launch or expand?
- 3 Why do you think you can make this type of business work?
- 4 Why do you think this type of business is sustainable?
- 5 Do you have the necessary education, skills and experience to succeed in this industry?
- 6 Are there additional qualifications you should obtain before you start your business, and how can you achieve them?
- 7 What is the true purpose and/or goal you hope to accomplish with this business?
- 8 What is the financial goal you are seeking to achieve?
- 9 Will you need financing, and do you have the high credit score, assets, collateral and financial history to be eligible for financing?
- 10 What are your personal and professional strengths?
- 11 What are your personal and professional weaknesses?
- 12 How would you describe your physical, mental and emotional health and stamina?
- 13 What knowledge and skills do you have to start and manage the day-to-day operations of a business?
- 14 Do you know and understand the technology necessary to be competitive in this industry?
- 15 Do you generally have good judgment in people and ideas?
- 16 What sacrifices and risks are you willing to take to be successful?
- 17 How will you balance your personal life and business demands?

Steps to Starting a Small Business

Once you have completed a self-assessment, you have already completed the first step toward launching your business! Now, you may be wondering what your next steps are. There is a logical sequence of actions for starting a business that includes 10 steps in the following order:



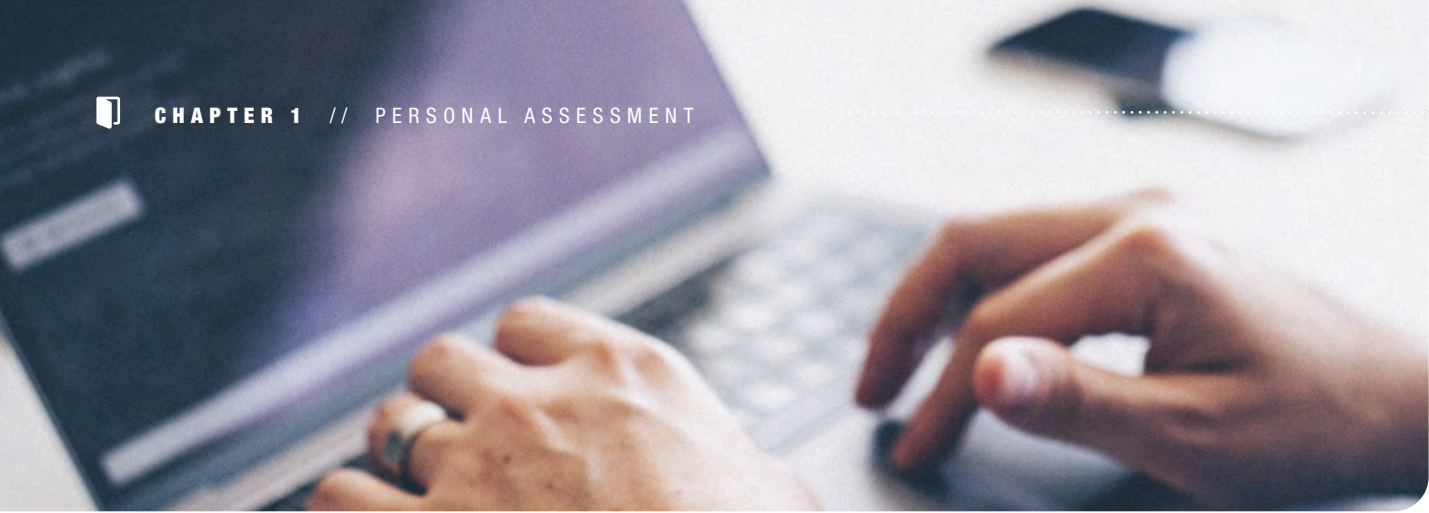
In the sections that follow, each step after the first is outlined in detail. And the convenient checklist at the end of this chapter summarizes all of them to help you stay on track, manage the various steps and consider all the essentials.

**STEP 2:****Select a Business Idea**

You first need to decide what type of business to start. Ask yourself the following questions:

- ▶ What are you good at?
- ▶ What do you love to do?
- ▶ What skills do you have that you can capitalize on?
- ▶ What problems do people have that you can help solve?
- ▶ What unmet needs do you see and how can you help address them?

Don't assume the first business idea you have is your best one. Try to make a list of 5–10 distinct business ideas and evaluate which ones fit with the personal assessment you just created. Then, you can determine the greatest opportunities for your business ideas through market research.

**STEP 3:****Perform Market Research**

The first and most important task you need to accomplish before you start your business is determining if your idea is feasible. Market research is the process of gathering facts and statistics to make an informed decision about the market potential for your business. It also helps you understand the prospects for success and the direction your business should take. Market research is crucial both at the start of your business and as your business evolves.

You'll also need to decide, broadly, who your primary customer is going to be. Businesses typically fall into two general categories:

BUSINESS-TO-CONSUMER (B2C) COMPANIES

B2C companies primarily sell products and services directly to consumers. Any time you purchase something for yourself, you're likely buying from a B2C company of some kind. Grocery stores, art galleries, hardware stores, lawn service providers, and pizza parlors are all examples of B2C organizations.

BUSINESS-TO-BUSINESS (B2B) COMPANIES

B2B companies primarily sell products and services to other businesses. Suppliers, parts manufacturers, marketing agencies, technology companies, and many others fall into the B2B category.

Some businesses may do a bit of both. A farm, for example, might sell their produce to a restaurant (B2B) and sell it directly to individuals at a farmers market (B2C). You can determine the greatest opportunities for your initial business idea through market research.

DID YOU KNOW?

Michigan SBDC consultants can help you access secondary research at no cost to you!

Next, we'll explain the components of effective market research. As an example, imagine you were considering opening a pizza parlor. A pizza parlor is classified as part of the fast food industry, and you would want to perform the following types of research to get started:

INDUSTRY RESEARCH

Industry research will help you understand the big picture of what's happening in relation to your type of business. Look for answers to questions like:

- ▶ How many pizzas get sold in the U.S., Michigan or your local area each year?
- ▶ Have pizza sales been increasing or decreasing in recent years?
- ▶ What trends exist related to specialty pizzas, healthier alternatives, changes in sizes, packaging, etc.?
- ▶ Are more pizza parlors going in (or out of) business in recent years?

In other words, what does the big picture look like for the pizza world?

RESEARCHING MARKET SIZE AND CUSTOMERS

The market includes the total population of consumers or businesses that may be interested in buying your product or service; meanwhile, customers are those who actually do buy. Within a market, there will be specific groups of customers who will represent the greatest percentage of your sales, and you can generally define them by a common set of characteristics. These groups of customers who share common characteristics are called market segments.

Questions to answer when performing market research for a pizza parlor would include:

- ▶ How many people and businesses are buying fast food in the area or location you're considering? (This is the total market size.)
- ▶ How often do they buy?
- ▶ Which segments are most likely to buy and how big are they?

If you multiply the number of likely customers by their purchasing frequency and by the price of their purchases, it will give you some idea of the market potential for your product or service. For example, if you have 100 potential customers near your business who each order 20 pizzas per year, and if you charge an average of \$15 for a pizza, you would be looking at \$30,000 in potential revenue (100 customers * 20 pizzas per year * \$15 = \$30,000 per year).

COMPETITION RESEARCH

Your competition includes two types of businesses. Direct competitors sell a product or service that is exactly like yours. Indirect competitors sell products or services that are similar or alternative to yours. Questions about your competitors might include:

- ▶ Where are other pizza shops located?
- ▶ What are they like?
- ▶ What other fast food and alternative food options exist, and where are they located?
- ▶ Why would prospective customers buy your pizza and not choose other options?
- ▶ Is there an unmet need where you are hoping to establish your business?
- ▶ Are you offering something totally unique in this space?
- ▶ Are potential customers dissatisfied with other choices for a reason that you can improve upon?



Where can you find this type of information? Unfortunately, it's rarely all in one place. Instead, you will probably need to invest some meaningful time and energy into the research phase of your business venture. Some useful sources, tools, and resources for market research include the following:

THE LIBRARY

Often, the best source for market research is still the library. Many locations have business librarians and space dedicated to business reference materials. Wherever possible, look for information in sources and references related to your type of business. Some publications in which you might find information include:

- ▶ Trade association publications
- ▶ Trade journals and industry publications
- ▶ The Encyclopedia of American Industries
- ▶ The Encyclopedia of Global Industries
- ▶ Economic census reports such as the Census of Retail Trade, Census of Wholesale Trade or Census of Service Industries
- ▶ Other governmental statistic sources published by federal, state, and local agencies
- ▶ Annual Statement Studies from the Risk Management Association (RMA)

THE INTERNET

You may also be able to find helpful tools and resources on the internet. To get the most out of internet searches, try to define your search terms as precisely as possible and use other online research strategies:

Make a list of all the keywords and strings of keywords associated with your type of business. Keep track of which searches you have performed already so you don't end up duplicating your efforts later. Save time by visually scanning search results to see if a site contains potentially significant information. If a site has good information, print out the materials so you can refer to them later and cite the source in your business plan. Start by using trusted websites that can provide insight into competitors:



PRIMARY SOURCES

You may also need to hit the pavement and do some research with primary sources. Examples include:

Industry Experts and Successful Business Owners

Talk to people in the industry. You can gain valuable insights about opportunities and challenges by speaking to people who know the industry from the inside.

You may also consider finding a mentor. A good mentor could be someone who owns a successful business like the one you want to start. Ideally, they won't be a direct competitor, and they will operate outside the geography of your intended area.

Surveys

Build and conduct a survey or focus group to gather information from businesses or potential customers.

Visit Potential Competitors

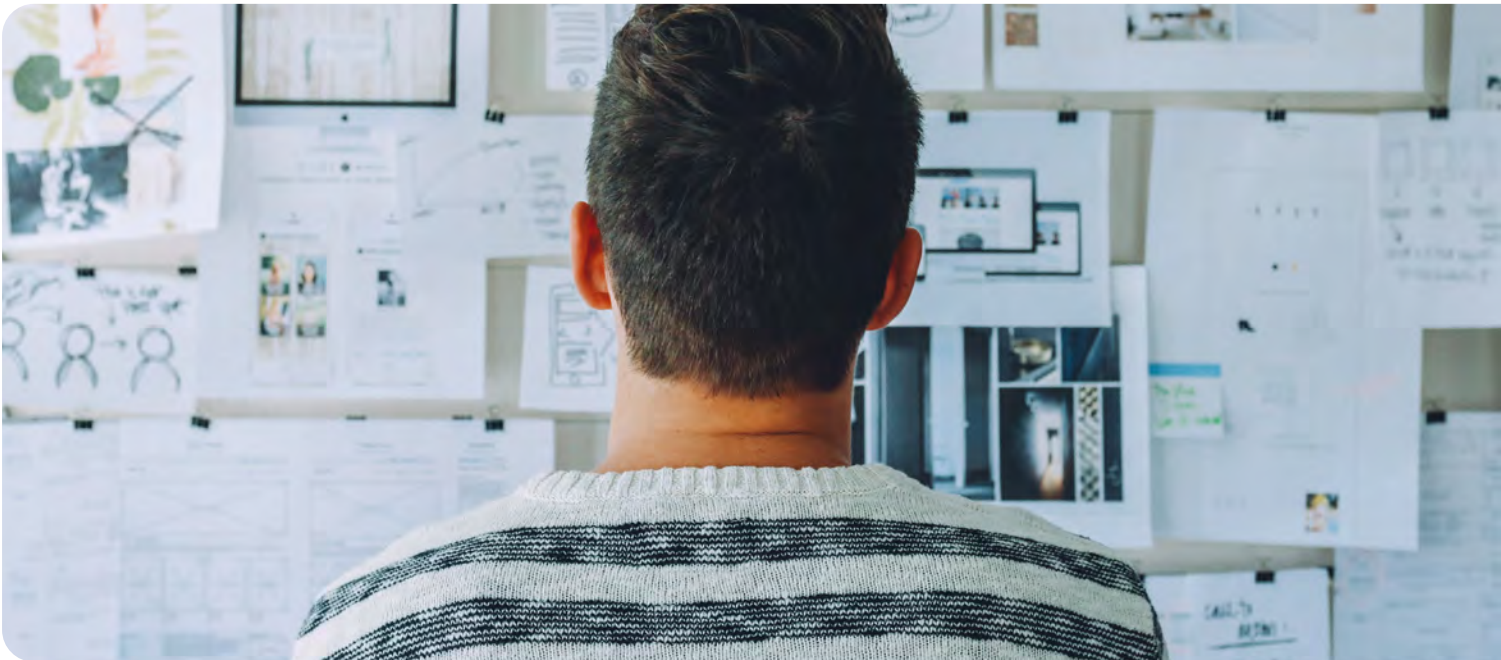
Observe your closest competitors from the perspective of a customer. This will help you gain insights about what matters most when customers are purchasing a product or service. Analyze your competition's business model to identify their strengths, which you'll have to work hard to overcome, and weaknesses, which you can turn into opportunities for your business.

Similarly, you may want to investigate competitors' websites, marketing efforts, and advertising. Study what they do, the image they present, and the style of their marketing to get a sense of what you can do to distinguish yourself.

PAID OR HIRED RESEARCH

Many companies will conduct market research for a fee and can easily be found online — along with reviews of their work. Keep in mind that high-quality research typically costs a lot.

If you are looking for a cheaper option and live near a school that offers business courses, you may be able to find instructors who are looking for “real world” projects for their students. You can identify professors teaching those courses at nearby schools and contact them directly, or you can ask your Michigan SBDC Consultant if they might introduce you. Timing may be an issue because they may need to plan your market research project into their course, and it might take several months before that could happen.



Regardless of where or how you get your information, becoming a good market researcher is a valuable business skill for you to acquire. Market research is the basis for evaluating potential opportunities and analyzing the ever-changing factors affecting your business at its start and as you grow.

MARKET RESEARCH CHECKLIST ▼



Industry Research

- Size of the industry
- Growth potential of the industry
- Historical trends in growth or losses
- Seasonal or economic trends
- Professional associations within the industry
- Other related industries
- Distribution channels
- Opportunities
- Threats



B2C Customer Research

- Size of the population
- Predominant gender
- Age(s)
- Ethnicity
- Education level
- Occupation or job title(s)
- Income level
- Average amount of debt
- Homeowners or renters
- Car owners
- Marital status
- Family status (number of children)
- Pets (type and number)
- Preferred media (magazines, newspapers, social media, television, radio, mobile phone, etc.)
- Purchase preferences (in person, internet, phone, catalog, etc.)
- Product or service characteristics that are valued most by the purchaser
- Payment preference (cash, credit, etc.)
- Frequency and quantity of purchase(s)
- Average dollars spent annually on this type of purchase
- Customer preferences and perceptions about quality, convenience, branding, image, exclusiveness, mass appeal, etc.



Market Research

- Best opportunity: businesses (B2B), consumers (B2C) or a combination of both?
- Total number of potential buyers
- Segments (groups with similar attributes)
- Segment(s) with the greatest need and/or demand
- Market trends: political, social, environmental, seasonal, etc.



B2B Customer Research

- Industries, markets or segments
- Products or services
- Number of employees
- Length of time in business
- Geography and location(s)
- Purchasing patterns (how much, how often, etc.)
- Purchasing process
- Outsourcing patterns, policies, etc.
- Local, national or international purchaser
- Economic factors that influence the market
- Government policies that influence the market



Competition Research

- Direct competitors
- Indirect competitors
- Potential future competitors
- Annual sales and revenue
- Marketing and advertising methods and results
- Geography and location(s)
- Distribution channels
- Outsourcing patterns, policies, etc.
- Sources for production, services, inventory, etc.
- Strengths
- Weaknesses
- Opportunities (especially for differentiation)
- Other notes

STEP 4:**Refine and Reevaluate Your Business Idea — Is It Viable?**

Once you've gathered and reviewed your market research, you can make data-driven decisions about your business. The important question to try and answer at this stage is this: should you refine your business idea based on your market research?

To answer that fundamental question, you'll need to answer other questions like:


- ▶ Is there a need or opportunity in the marketplace for your products or services?
- ▶ Who are your most valuable customers, and what problems do your products or services solve for them?
- ▶ What is your value proposition? Why would a customer buy from you instead of a competitor or alternative provider?

If you can answer those questions confidently, then now is the time to start making some revenue projections for your business. To get started, create a pricing “menu” for all your company’s products and services. Make sure to include the expected margins for all products and your fee schedule for all services.

As an example, let's say you're an electrician. You plan to charge \$80 per hour each visit plus an additional \$60 per hour after the first hour. If you expect 10 visits per month for the month of June, with 6 of those visits lasting 1 hour and 4 of them lasting 2 hours, your projected revenue for June would be:

$$(\$80 \times 10 \text{ hours}) + (\$60 \times 4 \text{ hours}) = \$800 + \$240 = \$1,040$$

Once you've created initial revenue projections, you'll have some basis to decide whether your small business will generate enough sales to achieve your personal and business goals.



As you evaluate your business idea, make sure you are considering the facts and

**MAKING DECISIONS
BASED ON WHAT YOU
KNOW, NOT WHAT
YOU THINK OR FEEL.**

After market research and careful consideration, most entrepreneurs adjust their original concept in some way. Usually, they reduce the scale of their idea, especially when they allow for the possibility that sales will develop more slowly than expected.



LACKING FUNDS RIGHT NOW DOESN'T MEAN YOU'LL NEVER BE ABLE TO START A BUSINESS —
it just means you need to rethink how you'll start your business.

STEP 5:

Analyze Your Startup Costs

Businesses commonly fail during the first year because they hit a financial wall before opening or soon after. Many different factors contribute to these failures, and most of them are related to financial planning. **For example:**

- ▶ Owners may fail to estimate the true cost of starting the business they have in mind
- ▶ Entrepreneurs discover that it will cost more money than they have in order to get the business open or keep the doors open
- ▶ Business founders have unrealistic expectations about available resources. Grants, tax incentives and startup loans are typically scarce, competitive and difficult to obtain.
- ▶ Business owners have unrealistic expectations about how quickly they will start making money. Most businesses need sources of cash to stay afloat until they do start making money.

In order to avoid these common financial missteps, you need a well-researched estimate of what it will cost to start the business you have in mind. With an accurate analysis of your costs, you can align the reality of your available resources with your expectations about the feasibility of your business. Based on your financial situation, you may need to refine or reconsider your idea.

Most businesses start by “bootstrapping:” using their existing resources to work toward a larger goal. Working on your business part-time, developing a group of loyal customers, and other strategies can help you build slowly but steadily until you can achieve your vision. Every large business started as a small business, and every business succeeds by growing one customer at a time.

On the next page, we have included a startup cost analysis worksheet that you can use to estimate how much funding you will need to launch your business.

STARTUP COST ANALYSIS SUMMARY ▼

LAND AND BUILDINGS

Down payment or lease costs	\$
Closing costs	\$
Remodeling or buildout	\$
Utility deposits	\$
Other	\$

EQUIPMENT

Furniture	\$
Fixtures	\$
Production machinery or equipment	\$
Computers and software	\$
Telecommunications equipment	\$
Cash registers or POS systems	\$
Signage and installation	\$
Other	\$

MATERIALS AND SUPPLIES

Starting inventory	\$
Production materials and components	\$
Office supplies	\$
Other	\$

MARKETING, IMAGE AND BRANDING

Marketing and design assets	\$
Advertising budget	\$
Promotional items and activities	\$
Other	\$

OPERATION FEES AND EXPENSES

Professional fees (accountant, lawyer, etc.)	\$
Patent and trademark fees	\$
Insurance (health, life, fire, liability, etc.)	\$
Licenses and permits	\$
Trade association memberships	\$
Other	\$

PERSONAL LIVING EXPENSES

From last paycheck to opening day	\$
3-6 months after opening day	\$
Moving expenses	\$
Other	\$

CASH RESERVE AND CONTINGENCY FUNDS

Opening expenses	\$
Wages, salaries, and taxes	\$
Other	\$

TOTAL	\$
--------------	-----------

Some of the following items may not apply to your business

For each item on this list, you should have an accompanying list of itemized details

FUNDING YOUR BUSINESS

Now that you've estimated your costs, it's time to start figuring out how you will raise funding for your business. In the following section, we'll discuss various options to secure small business funding.

▼ PERSONAL FINANCIAL RESOURCES

Evaluating your personal finances and assets is a good way to start understanding your current financial situation. Common forms of personal financial resources include:

- Liquid cash in checking and savings accounts
- Financial potential from selling assets, like a vehicle
- Funds you could receive as a gift (or investment) from friends and family
- Home equity
- Credit cards
- Cash value of life insurance
- Cash value of retirement investments
- Income from a full-time or part-time job while you build your business

Utilizing any of your personal financial resources carries risk. The more time and energy you invest into planning, analysis and refining your business idea, the easier it will be to thoughtfully consider the risks and potential benefits of investing your personal finances into your business.

▼ GRANTS

Are you hoping for a grant? We've all seen infomercials, ads and websites telling us about "millions in free money" for startups and small businesses. The myth of "free money" has been around for decades, and clever scammers often extract a hefty fee without delivering the results you sought. Federal and state government grant programs exist, but grant funding rarely goes directly to businesses or individuals.

Virtually all state or federal grant money flows to local governments, state agencies, and non-profits with highly restrictive eligibility requirements to help support regional or community programs.

If you still want to look for grants, you can search at

www.grants.gov



You can also search the United States Small Business Administration (SBA) grants section at

sba.gov/funding_programs/grants



However, keep in mind that government grants are funded by your tax dollars and, therefore, require very stringent compliance and reporting measures to ensure that the money is well spent. Some business grants are available through state and local programs, nonprofit organizations and other groups. These grants are not necessarily free money, and they usually require the recipient to match funds or combine the grant with other forms of financing, such as a loan.

▼ LOANS

Traditional and non-traditional lenders use specific criteria to qualify or reject business loan requests. The following are key lender considerations:

Character and Credit History

Lenders and financiers are looking for reliable borrowers who have demonstrated responsibility and have a high credit score (typically 650 and above) over a period of at least 3-5 years.

Cash

Lenders expect you to be invested in your own business and pay 20%-30% of the total startup cost either as cash or cash plus equity investment.

Collateral

Lenders also expect you to pledge assets against the loan that have a net value greater than the loan amount. Note that “purchase value” isn’t the same as “resale value.” Banks and other lenders may discount the value of brand-new equipment to an amount they think they could get if sold it to satisfy the debt.

▼ COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIS)

Community development financial institutions (CDFIs) are private financial institutions that provide loans to small business owners, entrepreneurs and community organizations that might not qualify for traditional financing. Many CDFIs focus on serving low-income, disadvantaged and underserved communities. CDFIs are certified by the Community Development Financial Institutions Fund (CDFI Fund) at the U.S. Department of the Treasury, which provides funds to CDFIs through a variety of programs.

For a list of CDFIs in Michigan, visit:

<http://cdfi.org/wp-content/uploads/2015/03/michigan.pdf>



▼ SBA LOANS

The SBA does not directly provide loans. However, a variety of loan guarantee and other support programs are available through commercial lenders and Certified Development Financial Institutions (CDFI's). For more information, visit:

sba.gov/funding_programs/loans



CROWD FUNDING

Crowdfunding is a relatively new form of raising money to support ideas or projects. With crowdfunding, contributions or loans from individuals or interested parties are collected and distributed via a networked and publicly observable platform. It is being used to support artists and journalists, political campaigns, charitable causes, new inventions, entrepreneurship, scientific research and more. Various platforms offering this type of funding can be found on the internet. Because it is relatively new, state and federal rules governing these kinds of solicitations and securities are still evolving. If you're considering crowdfunding, make sure to seek professional advice from a qualified financial advisor.

Three primary types of crowdfunding exist:

- 1 Donation-Based Crowdfunding**

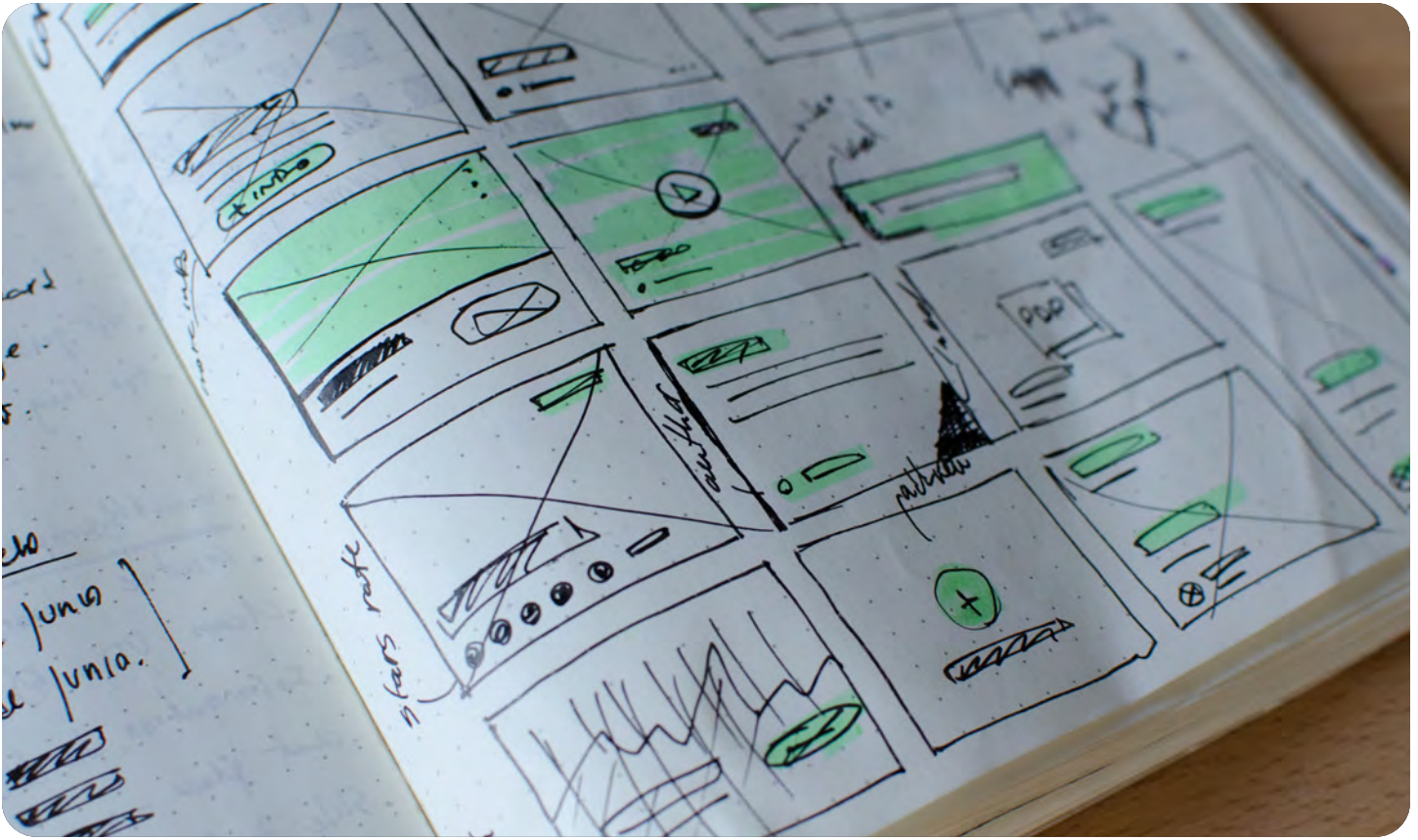
Any crowdfunding where contributors receive no return could be considered donation-based crowdfunding. These campaigns are typically reserved for charities, disaster relief, helping people pay for medical bills, and similar causes.
- 2 Rewards-Based Crowdfunding**

With rewards-based crowdfunding, contributors get a reward such as a product or service that the company receiving donations will be creating. By offering a reward, entrepreneurs can retain ownership of their business. However, it comes with some risks. Will you be able to fulfill all your reward commitments? Will the costs of fulfilling the rewards sink your business below the profitability threshold? Will your investors become repeat buyers? Again, more research, analysis and planning will help you accurately determine how much money you will need to raise and how feasible providing your rewards will be for the long-term health of your business.
- 3 Equity-Based Crowdfunding**

Equity-based crowdfunding (also known as ownership-based crowdfunding) allows investors to become part-owners of your business and receive a return on their investment as well as dividends or distributions based on a share of your business' profits. Equity crowdfunding is still a complex work in progress at the federal level with the United States Securities and Exchange Commission (SEC).

In Michigan, the state legislature passed legislation called the "Michigan Invests Locally Exemption" (MILE). This allows small businesses to raise capital by reaching out to Michigan residents to invest in their companies. Many regulations govern this type of funding, and serious consequences can come from violations of federal or state regulations. For more information on MILE and crowdfunding, visit the State of Michigan's website at michigan.gov and search for "MILE crowdfunding."

Regardless of what type of crowdfunding you are considering, thoroughly research the advantages and disadvantages, and consult an attorney or finance professional who is knowledgeable and experienced in crowdfunding. In addition, it is extremely important to consult with a securities attorney for guidance before pursuing equity crowdfunding.



STEP 6:

Refine and Reevaluate Your Business Idea — Is It Feasible?

Again, after you've carefully reviewed and analyzed the costs associated with starting your business, you can make data-driven decisions about moving forward. The important question to try to answer at this stage is this: should you refine your business idea based on your financial situation?

In order to answer that fundamental question, you will need to answer other questions like:

- ▶ Will investing in your business idea put you in financial jeopardy?
- ▶ Can you justify the financial risk with the potential business value of your idea?
- ▶ Will you be able to generate enough sales in a reasonable amount of time to offset the costs of launching your business?

After financial analysis and careful consideration, most business owners adjust their original concept. Usually, they reduce the scale of their idea, especially when they allow for the possibility that expenses will likely be higher than estimated.

STEP 7:**Write Your Business Plan****GAIN FINANCING AND INVESTORS ▼**

If you seek financing or investment, lenders and investors require a written plan. A complete business plan provides information they need and clearly communicates your plan. Their decisions about investing in your business will be based on all the information in your business plan, not just the financials.

CONSOLIDATE ALL YOUR INFORMATION ▼

Ideas and thoughts in your head aren't a plan. The process of putting a business plan together helps you synthesize all of the information you have gathered and organize it in one place. Developing a comprehensive business plan forces you to see your business project in its entirety, including its strengths and shortcomings.

TEST YOUR IDEA ▼

Writing your business plan acts as a virtual simulation. Before you invest your time, energy and money, the business plan helps you understand the economic environment, envision different financial scenarios, identify and locate your markets, sort out the logistics of operations and management and much more. It also allows you to consider your idea in its entirety and adjust your business model for needs or opportunities. By writing a business plan, you reduce your risk and increase your chances for success!

MANAGE YOUR BUSINESS AFTER LAUNCH ▼

Your written business plan is also a management tool. It provides benchmarks and milestones to help you measure your success. It communicates business goals and priorities to your team and keeps everyone heading in the same direction.

Almost every entrepreneur needs help putting a business plan together, and that's where your Michigan SBDC consultant becomes your personal, confidential partner! Well-written brochures and books are also available at libraries and bookstores for guidance. And many large accounting firms have manuals available. Various legal and financial consultants can be found online along with reviews of their services.

Michigan SBDC consultants have templates that can help with writing your business plan. To request business consulting and see a schedule of Michigan SBDC workshops and seminars about business planning, visit:

sbdcmichigan.org



In another chapter, we have provided a comprehensive outline of a standard business plan you can use to develop a draft that you can work from as you move closer to starting your own business!



DISCOVER MORE ABOUT CREATING A BUSINESS PLAN IN ANOTHER CHAPTER: **"WRITING A BUSINESS PLAN"**



STEP 8:**Complete the Startup Checklist**

The following tasks are related to forming and finalizing your business structure and legal entity. You may have accomplished a few of these tasks already, and these tasks may be completed at any time in the startup process. However, we recommend first determining if there is a market opportunity for your business before moving forward.

By investing in research and planning early in the process, you can avoid losing money and suffering through the complicated process of having to undo establishing and registering an entity, filing for an EIN, and other registrations. Once you have completed your research and business plan, you can begin handling some of the logistics of starting your business:

IF NEEDED, PURCHASE AN EXISTING BUSINESS

If you are considering purchasing a business, it is important to understand what you are getting into. You should require detailed information from the seller regarding business operations and finances. As the purchaser of even a portion of a business, you may be responsible for the previous owner's liabilities regardless of any contractual language to the contrary. So make sure the seller provides proof that there are no existing or hidden liabilities. Before signing anything or a closing date, make sure you have reviewed the seller's tax clearance information. In order to receive this documentation, the seller needs to complete Form 5156: Request for Tax Clearance Application. You can point them to the online resource available at michigan.gov/taxclearance to request a tax clearance from the Michigan Department of Treasury. For further questions, you may contact the Michigan Department of Treasury, Tax Clearance Section, at **(517) 636-5260**.

For a helpful checklist of items to consider before purchasing an existing business, visit:

<https://sbdcmichigan.org/guidetostarting/> 

DEVELOP YOUR BUSINESS' IMAGE AND BRANDING

A critical aspect of establishing and growing a business is your brand. Your branding will help you attract customers and communicate the character of your business. Plan it carefully and consider its staying power. Much of the value of a business accrues from the recognition of its brand and the reputation you achieve.

NAME AND LEGAL STRUCTURE

Selecting a name for your business and deciding on legal structure both need to be carefully considered. It is important to choose a name that is not already being used by another business, and there are many different forms of legal entities (which is not the same as a license to do business). Selection of your legal structure depends on the type of business, potential risks, liabilities, income taxes, investment needs and other considerations.

The decision about which legal structure to select may be very complicated, therefore, it is recommended that you consult an attorney and/or tax professional before deciding which structure is best for you.

▶ ▶ ▶ DISCOVER MORE ABOUT CREATING A BUSINESS PLAN IN ANOTHER CHAPTER: **"BUSINESS LEGAL ISSUES"**

LICENSING

Not every business is required to be licensed by the State of Michigan. Licenses are required for certain activities that may be conducted in the course of doing business. Local governments may also require certain business licenses. To find out if your business will require a state license or permit, visit michigan.gov/statelicensesearch. Keep in mind that legal entity registration is not a license.

▶▶▶ DISCOVER MORE ABOUT LICENSING IN ANOTHER CHAPTER: “**BUSINESS LEGAL ISSUES**”

FOOD BUSINESS LICENSING

Food establishments are governed by the Michigan Food Law and the Michigan Modified FDA Food Code. Licenses are required for different categories of Michigan food service businesses. Examples include temporary, fixed, mobile, vending machine, seasonal and special transitory. Food service establishments are licensed via local health departments that are empowered to set their own fees. For most questions related to licenses, contact your local health department. Make sure to contact the health department about licensing as early as possible, before making large capital purchases or starting on any construction activities.

If you are thinking of starting off smaller, the Cottage Food Law allows individuals to make and store certain types of foods for sale in an unlicensed home kitchen. Specific rules and limitations apply to making, storing and selling foods under Cottage Law. A special checklist for starting a cottage food business can be viewed at:

michigan.gov/documents/mda/A_Cottage_Foods_Checklist_353382_7.pdf 

For more detailed information about food business requirements and licensing, visit the Michigan Department of Agriculture and Rural Development website at:

michigan.gov/mdard/ 

STATE AND FEDERAL TAX REGISTRATION

For more information on how to access services for doing business in the state Michigan, visit:

michiganbusiness.org/services/business_assistance/ 

▶▶▶ DISCOVER MORE ABOUT EINS IN ANOTHER CHAPTER: “**BUSINESS LEGAL ISSUES**”

EMPLOYER IDENTIFICATION NUMBER (EIN) AND TAXPAYER IDENTIFICATION NUMBER

An EIN identifies a business for federal and state tax purposes. Generally, an EIN is required by the IRS if the business will have employees and/or the business operates as a corporation or partnership.

▶▶▶ DISCOVER MORE ABOUT EINS IN ANOTHER CHAPTER: “**BUSINESS LEGAL ISSUES**”

ZONING AND LOCAL REQUIREMENTS

Startups and expanding businesses need to make sure that the location of their space complies with all local laws and regulations. Although Michigan does not have a generic business license, check with your local governments (cities, townships, villages, etc.). They may require businesses to be licensed. Unforeseen costs could arise for items like change-of-use permits and architectural drawings, so make sure to check with your local municipality before you launch your business!

▶▶▶ DISCOVER MORE ABOUT LICENSING AND ZONING IN ANOTHER CHAPTER: “**BUSINESS LEGAL ISSUES**”

EMPLOYEE CONSIDERATIONS

If employees are hired, business owners have additional responsibilities at both the state and federal government levels.

► ► ► DISCOVER MORE ABOUT HIRING EMPLOYEES IN ANOTHER CHAPTER: **“HIRING YOUR FIRST EMPLOYEE”**

INTELLECTUAL PROPERTY (IP): PATENTS, TRADEMARKS, SERVICE MARKS, COPYRIGHTS, ETC.

A patent is a grant of an enforceable property right to the inventor, issued by the United States Patent and Trademark Office. A trademark is a word, phrase, symbol, device or any combination used to represent a company or product. A service mark is similar to a trademark and is used to identify and distinguish between services sold or advertised by a business from similar services of others. A copyright enables its owner to exclude others from reproducing certain kinds of works.

► ► ► DISCOVER MORE ABOUT INTELLECTUAL PROPERTY IN ANOTHER CHAPTER: **“BUSINESS LEGAL ISSUES”**

BUSINESS INSURANCE

Contact an insurance agent to determine the types of insurance your business should purchase. And make sure to shop around. Insurance rates and types of coverage vary greatly across insurance carriers.

► ► ► DISCOVER MORE ABOUT INTELLECTUAL PROPERTY IN ANOTHER CHAPTER: **“BUSINESS LEGAL ISSUES”**

STEP 9:

Secure Financing for Your Business

If traditional lending is your financing path, begin visits to lenders just as soon as the business plan is completed before a site lease or purchase agreement is signed. Your Michigan SBDC office can provide information about lenders in your area.

► ► ► DISCOVER MORE ABOUT FINANCING IN ANOTHER CHAPTER: **“FINANCIAL MANAGEMENT”**

STEP 10:

Start Your Business

Congratulations! Your planning, persistence and determination have paid off. Now the journey and real hard work of running a business begins. For ongoing assistance with operating and growing your business, the Michigan SBDC is ready to help! For more information or to contact any of our offices located around the state, visit:

sbdcmichigan.org 

If you're starting a company that has a B2B sales component, another valuable resource is the Michigan Economic Development Corporation's (MEDC's) Pure Michigan Business Connect (PMBC). PMBC is a free service that connects Michigan goods and service suppliers with all levels of corporate purchasers. To find out more about how PMBC can help you forge partnerships and grow your business, connect with PMBC or sign up for one of their matchmaking events at:

<https://www.michiganbusiness.org/services/pure-michigan-business-connect/> 

.....

MICHIGAN SBDC

BUSINESS PLAN OUTLINE





Michigan SBDC Business Plan Outline

A business plan should tell a compelling story as it communicates information about your business, your goals, the market, and more. As you write your business plan, find ways to make each section more interesting to readers, especially if the plan will be used to acquire funding.

Drafting your major sections first will help you organize your overall plan and then create a cover sheet and table of contents. Every business plan should include the following major sections, and we have provided guidance about each one to help you as you work.

Section 1: Company Introduction and Description

Introduce and describe your company. Answer questions like:

- ▶ How and why was your company formed?
- ▶ How long has your company been in operation?
- ▶ Where is the company located?
- ▶ What is its legal entity?

You may want to highlight the following elements within this section as well:

- ▶ Overview of company capabilities
- ▶ Location and hours of operation
- ▶ Product or service description
- ▶ Present state of development (if applicable)
- ▶ Mission, vision and values
- ▶ Intellectual property status of patents, copyrights, etc. (if applicable)
- ▶ Brief overview of commercialization strategies (if applicable)
- ▶ SWOT analysis (your strengths, weaknesses, opportunities, and threats)

Section 2: Market Analysis

Your market analysis should include a wide variety of information that pulls together all the research you did in earlier planning stages. You might consider breaking up your market analysis into several large sections, such as the following:

INDUSTRY

Paint a picture of what is happening in your specific industry overall, and explain how you can plan how to take advantage of opportunities within the industry. Use your understanding of the industry to demonstrate how your sales projections are realistic. For example, show how the industry is large enough to support another supplier. Explain how fast your industry is growing with sales, numbers of customers and profits. Discuss if any segments are growing faster than others and how you might leverage that information.

You may want to highlight the following elements within this section:

- ▶ Current industry size, status and trends (to show how you will position your company for market opportunities and to identify areas of growth or decline)
- ▶ New products or services in the industry, especially ones that will affect your business either directly or indirectly
- ▶ Trade associations that support your product or service and that you will be contributing to
- ▶ Opportunities and threats affecting the industry (and how you will capitalize on the opportunities and handle the threats)

MARKET

Provide a good description of your market (anyone who might buy your product or service). Then, group them into primary and secondary markets. Your primary market is the group of customers who are most likely to buy your products or services often or at a high volume. Your secondary market includes customers who are likely to buy but not at the same volume or frequency. These two groups comprise your target markets.

When identifying your primary and secondary markets, try and describe them in terms of their attributes, demographics (age, gender and income or business type, size and location), and buying behavior. Also, describe what problems your product or service is solving for them and why your selling approach will appeal to them.

Next, estimate how large your target markets are, both in number of potential customers and how much those customers are likely to spend in a given year. You may also want to estimate how fast your target markets will grow. But be realistic. Even if every customer loves your product or service, they all have limits on their ability to spend.

CUSTOMERS

Describe your ideal customer in terms of their attributes and demographics (age, gender and income or business type, size and location). And describe how your selling approach will make sense to each of them.

You may want to highlight the following elements within this section:

- ▶ Description of your ideal customer and their attributes
- ▶ Geographic areas and limitations of your target customers

COMPETITION

Describe the competitive landscape of your business. Discuss direct competitors who provide the same products or services and indirect competitors who provide similar or alternative products or services. Answer questions such as:

- ▶ How much of the market do your competitors hold?
- ▶ Who has the largest share of the market, and what are their strengths and weaknesses?
- ▶ What gives you a competitive advantage?

You may want to highlight the following elements within this section:

- ▶ Analysis of individual competitors: what each one does, how they do it, their strengths and weaknesses, how you might differentiate from them, etc.
- ▶ Market share held by competitors and their annual sales volume
- ▶ The problem(s) that your company is solving for each of your customer segments
- ▶ Customer buying behavior: how often, how much, etc.
- ▶ Customer's decision-making process: how much lead time, who is involved, if it's a group decision, etc.



MARKETING AND SALES PLAN

Your marketing and sales plan should focus on how you will reach your customers based on their characteristics, demographics, purchasing behavior and attitudes about your product or service. It should answer this fundamental question: How will you get customers to buy from you and not a competitor?

▶ ▶ ▶ DISCOVER MORE ABOUT FINANCING IN ANOTHER CHAPTER: **“FINANCIAL MANAGEMENT”**

You will want to start by establishing realistic sales goals based on the information you have already provided: the size of your industry, the size of your target market, how strong your competitors may be, and your ability to deliver your product or service.

Once you have outlined sales goals, you will want to help readers understand how you will achieve them with sales force and distribution plans. Will you implement a direct sales approach? Will customers feel comfortable ordering from you online? Will you be offering demonstrations or trials of your product or service to customers? How many (and what types) of contact will customers need before agreeing to a purchase?

In tandem with sales, you will also want to outline your communications strategy for reaching enough potential customers to reach your sales goals. Once potential customers have a need for your product or service, they will follow some version of the buyer’s journey before they make a purchase from you. That journey involves three major phases:

PHASE 1: AWARENESS

Customers need to be aware of your company before they make any progress toward purchasing from you. In your communications plan, be sure to incorporate the marketing channels and platforms that your ideal customers use to make purchasing decisions. **Examples include:**

- ▶ Search engines like Google and Bing
- ▶ Your website
- ▶ Online advertisements
- ▶ Billboards
- ▶ Social media sites
- ▶ Direct mail
- ▶ Events
- ▶ Radio
- ▶ Podcasts
- ▶ Print ads in magazines, trade journals, etc.
- ▶ Direct mail
- ▶ Email
- ▶ Text messaging

By focusing your marketing efforts in areas that will resonate most with your ideal customers, you will save time, effort and money while also maximizing your return on marketing investment.

**PHASE 2:
CONSIDERATION**

Once customers are aware of your business, they will consider it along with your competitors before they make a purchase. Your communications strategy should outline the important talking points you want to use throughout your marketing and advertising materials to distinguish you from competitors. Often, this involves carefully considering your brand: what is the look and feel you want people to experience when they encounter your business? To capture more potential customers during the consideration stage, you need to know what matters most to them and address how your business can fulfill their need.

Common differentiation points for a business include:

- ▶ Price
- ▶ Quality
- ▶ Customer experience
- ▶ Social proof (online reviews, testimonials, etc.)
- ▶ Approach (eco-friendly, locally owned, etc.)
- ▶ Values (charitable giving, volunteering in the community, etc.)

**PHASE 3:
PURCHASING
DECISION**

Once a customer has narrowed their list down to the businesses they are willing to purchase from, they will likely contact you by adding items to their online cart, stopping in your business, requesting a quote, etc. Their customer experience in this last phase of the buyer's journey will determine which business they ultimately decide to buy from.

As you create a marketing plan, consider how you can develop messages that will reach potential customers in each of these three phases of the buyer's journey.

You will also want to create a regular schedule for getting the word out about your business that includes regular communications throughout the year.

Within the marketing and sales plan section of your business plan, you may also want to discuss:

- ▶ Marketing and sales objectives
- ▶ What your customers are looking for or need at different stages in the buyer's journey
- ▶ How your sales team can target and follow up with customers at each stage of the buyer's journey
- ▶ Your pricing model and how it may affect sales
- ▶ A detailed sales plan that includes methods, procedures, expectations for salespeople, distribution channels, customer service policies, warranties, etc.
- ▶ A detailed marketing and advertising plan that includes an in-depth calendar and budget for year one as well as a broad outline with budgets and strategy for years two through five.

Section 3: Management and Operations

The management and operations section needs to focus on how the business will be run. Even the best and brightest entrepreneurs cannot do everything. As you work on creating an operations strategy, you will want to focus on how you will achieve these goals:

- ▶ Ensuring customer satisfaction
- ▶ Clearly outlining the roles and responsibilities of staff members
- ▶ Determining when — and how — your company will grow as demand for your product or service increases

In order to accomplish these goals, you will need to consider both high-level ideas and specific details. For example, you'll need to decide what departments you will have, the specific responsibilities for people within those departments, and how you will measure the effectiveness of people at fulfilling their responsibilities.

Any documentation that you create related to organization structure, job descriptions, processes, expectations, etc. will help you consistently provide quality in production, sales, delivery and customer care.

Included within your overall management and operations plan, you will need to address the following key areas:

HUMAN RESOURCES

In this section, you should discuss your team. Discuss your core management team and the experience and skills each member brings to the business. In addition, explain any skills gaps that may require new hires or outside help. Describe areas where you will need to incorporate specialized assistance. Some common examples include:

- ▶ Financial and tax management help from an accountant or bookkeeper
- ▶ Legal advice from an attorney
- ▶ Risk and compliance management assistance from an insurance agent
- ▶ Site and facilities purchasing help from a realtor or local economic development organization
- ▶ Marketing and advertising support from an agency or consultants
- ▶ Human resources assistance from a staffing service or consultant
- ▶ Technology and computer systems installation and support from an IT company or consultant

You will also want to cover other information in your human resources section, such as:

- ▶ How many staff members will you hire in which roles?
- ▶ Will you be utilizing full-time, part-time and/or contract employees, and what will the associated costs be?
- ▶ How will new employees be trained?
- ▶ What are your team's greatest strengths, and what skill areas and team members need to be added?
- ▶ An organization chart that includes departments such as operations, sales, and finance (at a minimum)
- ▶ Job duties and work schedules for all team members
- ▶ The board of directors or advisory board (if applicable)

OPERATIONS

If human resources covers who will be doing the work at your business, operations covers the how it will get done. You will need to carefully consider what crucial processes need to be in place in order to run your business as efficiently as possible. That includes everything from how important decisions are made at your company down to how you will keep customers satisfied after they have purchased your product or service.

Within the operations section, you'll want to focus on answering questions like:

- ▶ How will you know when you need new team members?
- ▶ What will your interview, hiring and onboarding processes look like when you need new team members?
- ▶ How will new employees be trained?
- ▶ How will work be processed within your organization? For example, how will you manage new orders from purchase to completion?
- ▶ What quality control measures will you put in place?
- ▶ How will subcontractors fit into your processes and workflows?
- ▶ How will you manage your customers' data?
- ▶ How will you process returns or order changes?
- ▶ What project management tools will you need to ensure that everyone on the team is accountable for their responsibilities?
- ▶ How will you handle performance reviews, and how often will you conduct them?

GROWTH AND DEVELOPMENT

While you may be excited to hit the ground running with your current idea, you should also have broad plans for your company's future and growth. Whether you will be developing new products, branching into additional locations or expanding your targeting to new types of customers, a growth plan is important to help set your vision for the future and help you make decisions now that will help you achieve it.

As you write this section of your business plan, you'll want to cover topics like:

- ▶ What are your goals and plans for growth and expansion?
- ▶ What obstacles do you foresee while trying to achieve your objectives?
- ▶ What finance objectives will you need to reach in order to push beyond your current operations?
- ▶ Will you need additional financing to grow?
- ▶ What important milestones will you need to work toward and monitor in order to avoid difficulties and risks associated with growing your business?

Some businesses are focused on transitioning an idea or invention from conception to the marketplace. For these businesses, you will want to include a commercialization strategy that outlines the current status of the new product or services as well as the timeline for making it marketable and purchase-able.

Section 4: Financials

In this section, you will want to identify the financial goals and projections for your company. You will need to outline the funds you need and how you will obtain them. Start by providing your estimated monthly costs, both fixed and variable. Then you can logically work backwards to show how many products you need to sell or how many hours of service you need to complete in order to break even or turn a profit at different levels.

The financials section of your business plan will need to be detailed, technical and accurate. In order to effectively communicate your financial needs and projections to investors, partners and others, you should include the following key elements:

Startup Costs

Detail and itemize all the costs associated with launching your business

Monthly Costs

Detail and itemize all the costs associated with operating your business on a monthly basis

Sales Estimates

Detail and itemize the expected monthly sales of your product or service and how much revenue those sales will bring in.

Break-Even Analysis

A break-even analysis can help you identify what sales goals your company needs to meet in order to make a profit. To perform a break-even analysis, you'll need to determine your:

- ▶ Fixed costs per month: All costs like rent and payroll that don't change much from month to month
- ▶ Variable costs per unit: All costs like inventory, shipping and sales commissions that go up or down with your sales volume, calculated on a per-unit basis
- ▶ Average price per unit: The price a customer will pay for one unit of your product or service

Once you have these three pieces of information, you can use them to calculate your monthly break-even quantity (BEQ), which is the number of units you need to sell each month to cover your costs.

To calculate your BEQ, use the following formula:

$$BEQ = FC / (AP - VC)$$

(FC = fixed costs per month, AP = average price per unit, VC = variable costs per unit)

Any amount of monthly sales above your BEQ should turn into profits. However, when your monthly sales dip below the BEQ, you'll lose money.

Monthly Cash Flow Projections for 3–5 Years

Compare the estimated money coming into your business through sales to the estimated costs of operating your business in order to demonstrate your profitability. Your local Michigan SBDC consultant can provide templates to help you accomplish this.

Financial Assumptions

This section describes the methods you used to estimate revenue and expenses in your cash flow projections. It's important to describe your financial assumptions logically and make sure they're realistic.

Profit and Loss Statements (If Applicable)

P&L statements are more detailed and comprehensive than cash flow projections. A P&L statement will break your costs down into different categories, such as sales, operating expenses, etc. This can then be used to determine if your business is reaching its financial goals. If you have been operating your business in some way in the past, P&L statements can help demonstrate business potential and profitability. If you have not been operating your business yet, you will benefit from building a template for your P&L statements that can be used to assess your financials each year, quarter, or even month.

Prior Financing (If Applicable)

If you have prior personal or commercial financing that will impact your business, you will want to provide detailed information about any existing debt, equity and other financial arrangements.

Financial Need

Based on the numbers presented in earlier sections, you will want to outline exactly what finances are needed in order to launch or expand your business. Along with that, you will want to explain how you intend to obtain those finances. How much of it will be covered by your personal contributions? How much will come from investors, and how will investors be compensated for their investment? How much will come from loans or other financing options, and what will the terms and conditions be?

Exit Strategy

In this section, you will want to answer questions about how money will be extracted from the business. How will profits be used? Do you plan to sell the business? Will it be inherited (and by whom)?

Section 5: Appendices

Throughout your business plan, you may want to refer to supporting documentation that doesn't fit neatly into any section or that would detract from the forward momentum of your plan's structure. In those areas, you may want to leave a brief note in parentheses: (see Appendix A). In your appendices at the end of your business plan, you can then include supporting documentation such as:

- ▶ Resumes or biographies of individuals mentioned
- ▶ A list of owners
- ▶ Personal income tax forms (if applicable)
- ▶ Letters of recommendation
- ▶ Existing purchase orders
- ▶ Market research studies or results
- ▶ Site floor plans
- ▶ Existing or pending contracts
- ▶ Any other relevant supporting document

Final Touches

In this section, you will want to identify the financial goals and projections for your company. You will need to outline the funds you need and how you will obtain them. Start by providing your estimated monthly costs, both fixed and variable. Then you can logically work backwards to show how many products you need to sell or how many hours of service you need to complete in order to break even or turn a profit at different levels.

The financials section of your business plan will need to be detailed, technical and accurate. In order to effectively communicate your financial needs and projections to investors, partners and others, you should include the following key elements:

COVER PAGE

The front page of your business plan should include all the following information:

- ▶ Company name
- ▶ Company logo (if available)
- ▶ Address
- ▶ City, state and zip code
- ▶ Website (if available)
- ▶ Company owner's name
- ▶ Business or owner's email address
- ▶ Business or owner's phone number
- ▶ Business or owner's fax number
- ▶ Date

EXECUTIVE SUMMARY

Immediately after the cover page, you will want to include a one- or two-page executive summary. The executive summary section provides a high-level overview of the business plan. It will highlight the primary ideas from each of the business plan components, and it should explain the primary purpose for writing the plan; for example, "to obtain financing."

The order in which you present highlights depends on the audience who will be reading it. For example, if investors will be reading the plan, you might choose to lead with strong financial highlights to make a more compelling case for obtaining their financial support.

TABLE OF CONTENTS

Your table of contents should exactly follow the sections you include in your plan and have accurate page numbers so that readers can easily navigate your document. Below is an outline based on all the information presented in this chapter.

- ▶ **Executive Summary**
- ▶ **Company Introduction**
- ▶ **Market Analysis**
 - Industry
 - Market
 - Customers
 - Competition
 - Marketing and Sales Plan
- ▶ **Management and Operations**
 - Human Resources
 - Operations
 - Growth and Development
- ▶ **Financials**
 - Startup Costs
 - Monthly Costs
 - Sales Estimates
 - Cashflow Projections
 - Financial Assumptions
 - Profit and Loss Statements
 - Prior Financing
 - Financial Need
 - Exit Strategy
- ▶ **Appendices**

Don't forget that your local Michigan SBDC consultant can help you with your business plan at no cost! Michigan SBDC also maintains an on-demand library of webinars that's curated specifically for busy entrepreneurs looking to start or grow their businesses. To access our online webinar library, register online at: <https://clients.sbdcmichigan.org/workshop.aspx?ekey=1380109>

.....

BUSINESS

LEGAL ISSUES





Business Legal Issues

Attending to Legal Issues Is Crucial for Planning and Operating Your Business

Your business will face a wide variety of legal issues. They will range from selecting the correct type of business entity, complying with state and federal laws and regulations and performing accurate tax withholdings. Periodically, you should ask yourself the following questions:

- ▶ Does my business' structure allow it to operate efficiently and profitably while sufficiently protecting its owners and investors from liability?
- ▶ Do I have the necessary permits and licenses?
- ▶ Am I compliant with state and federal business regulations?
- ▶ Am I protecting my business' intellectual property?
- ▶ Do I have the appropriate insurance coverage?
- ▶ Am I following Michigan and federal employment laws?

While this guide provides basic information about Michigan and federal business laws, you should not consider it legal advice. If you have specific questions about your business' legal compliance, consult an experienced attorney. You may also want to consult a certified public accountant (CPA). A CPA can assist with choosing a legal structure for your business, advise you about financial strategies for entrepreneurs and help make sure you don't run into trouble with the IRS.

Choosing and Filing a Legal Structure for Your Business

You can choose between creating a sole proprietorship, partnership, corporation or LLC. Before you choose a legal structure, you should consider the type of business you run and your relationship with investors, partners and other key members of your team. The major factors to consider in choosing a legal entity include:

- ▶ Your business' potential risks and liabilities
- ▶ Income taxes and investment needs
- ▶ The formalities and expenses associated with each business structure

Choosing a legal structure can be very complicated, and we strongly recommended that you consult with a business attorney and tax professional before you register your business. In the following sections, we will discuss the different types of legal entities so you can be informed and make the most of your time with an attorney, a tax professional or your management team.



Sole Proprietorship or Sole Proprietor DBA

A sole proprietorship is a business structure with one owner. Because they're relatively easy to set up and maintain, most small businesses are sole proprietorships. If you do not formally choose a legal structure, your business will default to a sole proprietorship because there is no paperwork to file other than additional schedules on your personal income tax returns.

However, if you plan to operate your sole proprietorship under a name that is not your personal name, then you must file for an assumed name DBA ("doing business as") certificate with the county clerk in the county where your business is located. Note that a DBA certificate only applies for doing business in the county where you registered and does not cover the entire state.

There is no legal separation between the business and the owner in a sole proprietorship. This means that you will have all responsibility for the liabilities and debts of the business. For instance, if the business cannot pay money owed to a vendor, that vendor may sue you individually. It also means that any income or losses of the business are accounted for on your personal tax return.



ADVANTAGES

- ✓ **Easy and inexpensive to establish**
- ✓ **Profits are taxed once at the owner's income tax rate**



DISADVANTAGES

- ✓ **Owner has unlimited personal liability for the business' debts**
- ✓ **Ownership is limited to one person**



Partnerships

Two types of partnerships exist: general partnerships and limited partnerships. A general partnership is similar to a sole proprietorship except that it has two or more owners. Like a sole proprietorship, it is easy to set up and maintain. You do not have to register a general partnership with the state unless you operate under a business name other than that of your partners. In that case, you only need to file a DBA certificate with the county where the business is located.

A limited partnership has one or more general partners and one or more limited partners. The general partners control and operate the business and are 100% liable for the business' debts. The limited partners do not participate in the day-to-day operation of the business, and their personal liability is limited to their contribution to or investment in the partnership.

To form a limited partnership in Michigan, you must file a certificate of limited partnership with the Michigan Department of Licensing and Regulatory Affairs (LARA). If a limited partnership does not follow statutory requirements, it will be treated as a general partnership, so you should consult with an attorney before creating a limited partnership.

We also highly recommended that all partners work together to create a partnership agreement or operating agreement that addresses roles, responsibilities and contingencies in order to avoid disagreement and conflict between the partners. You will need to produce this agreement for lenders when seeking financing. In a general partnership, the owners have unlimited liability for the debts of the business. This means that even though the partners share the profits, each partner is 100% responsible for any debts of the business.



ADVANTAGES

- ✓ **General partnerships are easy and inexpensive to establish**
- ✓ **Each partner's share of the profits is only taxed once**
- ✓ **Allows for ownership by more than one individual**

DISADVANTAGES

- ✓ **General partners have unlimited personal liability for business debts**
- ✓ **The partnership is legally responsible for the business acts of each partner**
- ✓ **A general partner's interest in the business can only be sold or transferred by consent of all partners**



Corporations

A corporation is a separate legal entity with its own rights, privileges and liabilities separate from its owners. Its owners, sometimes called shareholders, are not personally responsible for the debts of the business unless they personally guarantee those debts. A corporation usually has more than one shareholder, but it can be 100% owned by one person. A corporation's governance structure has three layers:

- ▶ **Shareholders who elect a board of directors.**
- ▶ **The Board of Directors oversees major policies and decisions for the company and hires officers.**
- ▶ **Officers run the company on a day-to-day basis.**

The rights and obligations of shareholders are generally set by Michigan law, and the corporation's bylaws establish the rights and obligations of directors and officers. Due to its three-tiered organizational structure and legally mandated formalities, a corporation may be more expensive and complex to establish than the other business structures.

A corporation is created by filing Articles of Incorporation with LARA along with the appropriate fee. The corporation must also pay an annual fee with LARA to continue its existence.

► C AND SUBCHAPTER S CORPORATIONS

By default, the IRS characterizes corporations as C corporations. A C corporation (the entity itself) pays taxes at special corporate tax rates on the profits it earns and retains. C corporations also distribute earnings to shareholders as dividends, and those shareholders pay taxes on this income. Therefore, many people say corporate earnings are subject to “double taxation,” once at the corporation level and once at the shareholder level.

However, qualified small corporations and LLCs can ask the IRS to treat them as a subchapter S corporation. Subchapter S entities do not pay taxes on the earnings of the business; instead, the income passes through to individual shareholders or members and gets reported on their personal income tax returns. This eliminates the corporate “double taxation” of C corporations.

To be eligible for subchapter S status, businesses must meet a series of requirements, including having 100 or fewer shareholders or members.

^

ADVANTAGES

- ✓ Easier to raise capital through sale of stock
- ✓ Limited liability for business debts – shareholders only risk their investment
- ✓ Easy to transfer ownership
- ✓ Can elect Subchapter S status with the IRS

DISADVANTAGES

- ✓ More expensive to set up and maintain than other entity types
- ✓ Corporate formalities are complex but must be strictly followed to maintain corporate status and limited liability of shareholders
- ✓ Closely regulated by both federal and state government
- ✓ Double taxation if not eligible or fail to elect Subchapter S status with the IRS



Limited Liability Company (LLC)

In many ways, a limited liability company (LLC) combines the advantages offered by both partnerships and corporations. An LLC’s members, or owners of the business, have limited liability protection like shareholders in a corporation, but they also gain the simpler operation and pass-through tax characteristics of a partnership.

In Michigan, you must file your LLC’s Articles of Organization with LARA along with the appropriate filing fee. Like a corporation, an LLC must pay an annual fee with LARA to continue its existence. Business owners can file their Articles of Organization online at the LARA website:

michigan.gov/lara 

In addition to the Articles of Organization, an LLC's members should create and enter an operating agreement. This document establishes consistency and understanding about how the company:

- ▶ Makes decisions and structures its management hierarchy
- ▶ Assigns duties to members
- ▶ Requires contributions from members
- ▶ Calculates profits and losses
- ▶ Limits its members' liability and protects them
- ▶ Adds, terminates or changes its membership

^

ADVANTAGES

- ✓ **Limited liability for business debts and claims**
- ✓ **Flexible tax options**
- ✓ **Easier to establish and maintain than a corporation**

DISADVANTAGES

- ✓ **More complex start-up requirements than partnerships or sole proprietorships**



Low-Profit Limited Liability Company (L3C)

A low-profit limited liability company (L3C) is a relatively new business entity and can be formed as a new entity or by converting an existing one. Michigan is one of a few states that allow this hybrid entity. An L3C is a for-profit company with a charitable mission. Because they have simplified compliance guidelines with the IRS' program-related investment rules, it's easier for private foundations to invest in these socially beneficial businesses.

However, the business must significantly further one or more charitable purposes, and the production of income and appreciation of property cannot be a significant purpose of the L3C. Similarly, an L3C cannot pursue any political or legislative purposes.

You create an L3C by filing Articles of Organization with LARA along with the appropriate filing fee. You must also include the words "low-profit limited liability company" or the abbreviation "L.3.C." or "l.3.c." in the name of the new entity (Article I of the form) and cross or white out the "all-purpose" clause in Article II.

Michigan law also requires that the definition of L3C business purpose include specific language, so you should consult with an attorney before filing your business as this type of legal entity. If you choose to convert an existing entity to an L3C, it is essential to consider the legal and tax implications and consult with an attorney.

Like an LLC, Michigan does not require the filing of an operating agreement to form an L3C, but it's in your best interest to draft and execute one. Your operating agreement structures your business' key policies and procedures, including how you will manage it, make decisions, calculate profits and losses and handle changes in membership.

^

ADVANTAGES

- ✓ All the benefits of LLC structure
- ✓ Qualification as PRI (Program Related Investment), facilitating foundation investments
- ✓ Not subject to nonprofit regulation
- ✓ Branding and marketing opportunities

DISADVANTAGES

- ✓ PR investments are rare and considered risky, with potential excise tax liability to the foundation
- ✓ There are many unresolved questions about how rules and regulations will be interpreted and applied



Professional Service Corporation (PC) or Professional Limited Liability Company (PLC)

A professional service corporation (PC) is a corporation that practices certain licensed or “learned professions,” such as law, medicine or architecture. A professional limited liability company (PLC) is an LLC formed for the same purpose. All shareholders or members of a professional entity must be licensed professionals. For example, if a law firm is a PC or PLC, all of its shareholders must be licensed attorneys.

To create a PC, you must file Articles of Incorporation with LARA. A PLC requires Articles of Organization. In both cases, the entity must pay a filing fee and annual fees to continue operation. Additionally, the entity must provide updated lists of licensed professional equity holders each year.

Do You Still Have Questions About Creating a Business Entity in Michigan?

For more information about filing documents for a limited partnership, corporation or limited liability company, please call the Department of Licensing and Regulatory Affairs, Corporations, Securities and Commercial Licensing Bureau at **517-241-6470** or go to:

michigan.gov/corporations 

Selecting and Registering a Business Name

As you're choosing your business' legal structure, you'll also need to select its name. In Michigan, a business name is registered at the time the business legal entity is formed. While you can use your personal name as your business' name, many businesses opt to use a different or assumed name.

If you choose an assumed name, you must pick a name that is not already being used by another business, and you should run a series of online searches to determine that the name is not already in use or registered. You can check business names and registrations at the U.S. Patent and Trademark Office ([uspto.gov](https://www.uspto.gov)) and the Michigan Corporations Name Availability Search:

cofs.lara.state.mi.us/corpweb/CorpSearch/CorpSearch.aspx 

If your business' name is integral to its success or you plan to invest significant money in marketing materials, you should also consult with an intellectual property attorney before choosing and registering your name.

How you select and register your business name will depend on your business' structure, which is why it is important to consider these two facets of your business at the same time. Keep in mind the following facts:

- ▶ A sole proprietorship or partnership using the names of the owners does not have to register their business name.
- ▶ If the sole proprietorship or partnership is assuming a different name, they must file a DBA (doing business as) certificate with the county clerk of the county where the business is located.
- ▶ Corporations and PCs register a name when filing Articles of Incorporation.
- ▶ LLCs, L3Cs and PLCs register a name when filing Articles of Organization.

Again, we recommend that you conduct a thorough entity search before filing your paperwork.

Finally, a business may choose to operate under a name different from the official name, or it may choose to operate multiple businesses through one legal entity. For corporations or LLCs, this form of DBA is not the same as one filed with the county. A corporation, PC, LLC, PLC, or L3C must file a Certificate of Assumed Name for each name used by the business, which can be done through the Corporations Division of the LARA website at:

michigan.gov/corporations 



Remember, just because the State of Michigan allows you to register your business name, it does not mean you have absolute rights and ownership of that name. If you have any questions or concerns about choosing a name for your business, you should consult an attorney.

Protecting Your Business' Intellectual Property

In addition to protecting yourself from financial issues by choosing an appropriate business structure, you will want to protect the products and services you provide. Your business' intellectual property is incredibly valuable, but many business owners don't understand patents, trademarks, service marks and copyrights.

PATENTS

The United States Patent and Trademark Office (USPTO) issues patents for inventions, which grant property rights to the inventor. Generally, the right conferred by the patent grant is “the right to exclude others from making, using, offering for sale or selling” the invention in the United States or importing the invention into the United States for a period of time, typically 20 years.

Obtaining a patent is a complicated and highly technical process. If you have questions about the patent application process, you should strongly consider speaking with a patent attorney. You can also visit the U.S. Patent and Trademark Office's website at:

[uspto.gov](https://www.uspto.gov) 

TRADEMARKS

A trademark is a word, phrase, symbol, design or combination of words, phrases, symbols or designs that identifies and distinguishes one party's goods from those of others. A service mark is the same as a trademark, except that it identifies and distinguishes the source of a service rather than a product.

You don't need to register all marks, but registration has certain advantages. Registration notifies the public of your claim of ownership and establishes a legal presumption that you have the exclusive right to use the registered mark. There are several different ways to designate a trade or service mark.

TM provides notice of a claim of rights to an unregistered trademark but does not guarantee protection under trademark laws.

SM functions similarly to the TM symbol; it covers an unregistered service mark but does not guarantee protection under trademark laws.

The ® symbol should be used only in connection with registered marks.

Registration of a mark used in Michigan gives the owner of the mark certain limited legal protections. Use of ® with any unregistered trademark could result in fraud claims or other problems enforcing trademark rights. Contact the Department of Energy, Labor & Economic Growth, Bureau of Commercial Services, Corporation Division at **517-241-6470** if you have questions or concerns about a registered mark.

For use throughout the United States, you can register trademarks and service marks with the United States Patent and Trademark Office (USPTO). Call **800-786-9199** or visit the USPTO online at:

[uspto.gov](https://www.uspto.gov) 

There are fees associated with the state and federal trademark registration processes.

COPYRIGHTS

A copyright gives its owner property rights and prevents others from reproducing certain works, such as books, musical compositions, technical drawings or computer programs. Copyright notice is the symbol © or “Copyright,” followed by the year of the work's first publication and the name of the copyright holder.

The copyright notice for sound recordings of musical or other audio works is a sound recording copyright symbol ℗. Similarly, the phrase “All rights reserved” may also be used to assert copyright.

You may register a copyright by filing an application with the Library of Congress. Call toll free at **877-476-0778** or visit:

[copyright.gov](https://www.copyright.gov) 



Licenses, Permits and Business Regulations

Depending on the type of business, you may need a specific certification, license or permit to operate, but there is no generic Michigan business license. If you're unsure whether your business will require a license, you can access the State License Search site at michigan.gov/statelicensesearch.

Local licensing, permits and regulations may differ from the state's rules. You should check with your county, city, village or township clerk to determine if any local licenses or registrations are required and to obtain the necessary forms. Note also that some municipalities require a license for home-based businesses.

Navigating Michigan's Business Regulations

Small business regulations and laws are becoming increasingly complex to address an array of issues from consumer protection to environmental preservation. While compliance may seem difficult, the good news is that the government offers many assistance programs. In the following sections, we'll discuss some of the most important regulations to consider and provide guidance about where to get additional help.

ENVIRONMENTAL CONSIDERATIONS

When a business' activities impact the environment or generate air emissions and solid or liquid waste, a business may need permits, licenses or other authorizations from the Michigan Department of Environment, Great Lakes and Energy (EGLE), which was formerly called the Department of Environmental Quality (MDEQ).

For more information and specific program contacts at EGLE, visit their website at michigan.gov/egle/.

EGLE regulates business activities involving:

- ▶ The release of air emissions
- ▶ Solid waste disposal and processing
- ▶ Storage, hauling and disposal of hazardous waste
- ▶ Major alterations to the landscape
- ▶ Building near waterways or wetlands

The Department of Natural Resources also has some permitting and licensing programs related to the use of use and sale of environmental resources. You can learn more from their Customer Services Guide: michigan.gov/documents/dnr/DNR_customer_service_guide_407568_7.pdf

Other environmental-focused resources for new and existing businesses are also available from a wide variety of sources, such as: ▶ ▶ ▶

1 The Environmental Assistance Center

You can receive free technical assistance, consultations and guidance by calling **800-662-9278** or visiting:

michigan.gov/egle/0,9429,7135330736106,,00.html 

2 The Michigan Guide to Environmental, Health and Safety Regulations

This guide is a general and informational reference that provides an overview of regulatory programs that apply to many businesses, not just manufacturers. It is available online at:

michigan.gov/egle/0,9429,7135330815820,,00.html 

3 The EGLE Permit Information Checklist

This simple checklist can help you determine if your project requires any type of environmental permit, and it is available online at:

michigan.gov/documents/deq/deq_oea_cau_permits_eqp3580_415019_7.pdf 

4 Baseline Environmental Assessment (BEA)

You should consider the possibility of environmental contamination when looking at the lease or purchase of an existing building or property. In Michigan, a Baseline Environmental Assessment allows people to purchase or begin operating at a facility without being held liable for existing or previous contamination. To learn more about BEAs, visit the EGLE website at:

michigan.gov/egle/0,9429,7135331141094212,,00.html 

5 The EPA's Brownfields Program

A brownfield is a property that is complicated to expand, redevelop or reuse because of the presence of hazardous substances or contaminants. The U.S. Environmental Protection Agency (EPA) operates its Brownfields Program to support revitalization of brownfields. The Brownfields Program provides grants to fund environmental assessment, cleanup and job training. To see if remediation funding is available in your area, visit your local economic development offices. You can also visit the EPA's Brownfields Program website to learn more:

https://www.epa.gov/brownfields/overview_epas-brownfields-program 

Business owners should also check with county and local authorities about whether they need additional local permits or licensing. Even though the costs of adhering to regulations may seem burdensome for a business owner, the cost of non-compliance, including fines, penalties and even business closure, can be much greater.

CONSIDERATIONS ABOUT ZONING, BUILDING CODES AND ORDINANCES

Another important regulatory area to investigate as you start or expand your business is related to zoning, building codes and other ordinances. In addition to state regulations, startups and expanding businesses must comply with local laws and regulations, including zoning and building codes. Before you buy or lease a property, contact the city assessor and city, township or village clerk about applicable rules.

You should also contact a local building inspector about codes and regulations before you start any construction project. Most communities set strict standards and rules related to building, electrical systems, mechanical systems and plumbing as well as construction, alteration, renovation, demolition, occupancy and use of buildings.

A home-based business is subject to the same local laws and regulations, so you will need to check with your local government to determine if you need any special permits.

For example, certain products cannot be produced in the home. Most states outlaw home production of fireworks, drugs, poisons, explosives, sanitary or medical products and toys. Strict rules also apply to the processing of food and drinks, the manufacturing of clothing and other occupations.

If your business operates in violation of the local government's laws and regulations, you could face fines or closure. For information about city, county, township or village-level rules, contact your local government agency.

ACCESSIBILITY CONSIDERATIONS

Barrier-free design has been part of Michigan's building code since 1966. In 1992, barrier-free design also became federal law as part of the Americans with Disabilities Act (ADA). These regulations try to ensure that public facilities are accessible to and usable by all citizens. No exceptions to the state requirements can be made by a local government or a state department, agency or person, except the Barrier-Free Design Board.

A person requesting an exception must demonstrate "compelling need," as defined in section 5a of 1966 Public Act (PA)1, MCL 125.1355a. For additional information, visit the Department of

Licensing and Regulatory Affairs (LARA), Bureau of Construction Codes website at michigan.gov/bcc. You can also contact the Plan Review Division by calling **517-241-9328**.

Business Taxes and Withholding

Understanding your tax obligations and preparing your taxes can be confusing and complicated. If returns are neglected or filed improperly, federal state and local revenue agencies may levy penalties. This chapter provides an overview of state and federal tax laws that impact businesses. However, we strongly recommend that you consult with a professional on all business tax matters, as the rules can be complicated and subject to change.

EMPLOYER IDENTIFICATION NUMBER (EIN)

An Employer Identification Number (EIN) identifies your business for federal and state tax purposes. You must obtain an EIN if your business pays wages to one or more employees regardless of whether it is set up as a partnership, a corporation for profit or nonprofit, a limited liability company, a trust or estate or a sole proprietorship. Sole proprietorships without employees are not required to have an EIN and may use the owner's Social Security number for tax purposes, but they may apply for an EIN if they are concerned about identity theft.

If you become the new sole owner of an existing business, you cannot use the EIN of the previous owner. However, an existing business that adds, opens or acquires a new operation of a similar type may use its current EIN for both the existing and new operations. You must obtain a new EIN if the establishment's line of business is different from your existing operations, though.

You must include your EIN on any return, statement or other official financial document if you are an employer. And individuals who file Schedule C or I must use an EIN when filing excise, employment, alcohol, tobacco or firearms returns.

Keep in mind that many financial institutions will not allow you to open a commercial banking account without an EIN.

If you become the new sole owner of an existing business, you cannot use the EIN of the previous owner. However, an existing business that adds, opens or acquires a new operation of a

similar type may use its current EIN for both the existing and new operations. You must obtain a new EIN if the establishment's line of business is different from your existing operations, though.

You must include your EIN on any return, statement or other official financial document if you are an employer. And individuals who file Schedule C or I must use an EIN when filing excise, employment, alcohol, tobacco or firearms returns.

Keep in mind that many financial institutions will not allow you to open a commercial banking account without an EIN.



Applying for an EIN is a free service offered by the Internal Revenue Service, and you should

BE CAUTIOUS OF WEBSITES THAT CHARGE A FEE FOR AN EIN.

WITHHOLDING INCOME AND OTHER TAXES

Any employer of one or more persons must withhold federal, state and possibly local income taxes from its employees' wages. Employers are also responsible for paying into the Social Security and Medicare systems and withholding a matched amount from employees' wages. State and federal unemployment insurance payments must be paid entirely by the employer and not from an employee's wages. **Those obligations may include:**

> Self-Employment Taxes


Just as employers must withhold taxes and report them to various government agencies, so must self-employed individuals. You are considered self-employed if you operate a trade, business or profession, either by yourself or as a partner.

> Personal Income Tax

As a sole proprietor or partner, the owner pays taxes on the income from the business on a personal income tax return with the state and federal governments. To do so, you will need to file an additional schedule that identifies the income and expenses of the business.

Partners file a partnership return in addition to the personal income tax return; the partnership return distributes profits and losses between partners according to the partnership agreement.

Corporations pay taxes on business income at corporate tax rates. Shareholders and employees (including paid corporate officers) pay individual income tax on any salary and dividends received from the corporation.

Most businesses are also required to make estimated tax payments every quarter for Michigan income tax, federal income tax and self-employment tax. For more information about your tax obligations and the proper forms, contact the Michigan Department of Treasury at **517-636-6925**; for state taxes and the IRS, call **800-829-4933** or visit: 

If an owner of a corporation provides services to the corporation, the owner is an employee of the corporation and subject to all payroll and employment taxes.

> **Sales and Use Taxes**

Anyone who engages in retail sales of tangible personal property (goods that one can possess or exchange) from a Michigan location needs a sales tax license. At the time of this guide's publication, the Michigan sales tax is 6 percent of retail sales receipts and local governments cannot levy sales tax in Michigan.

When out-of-state businesses sell or lease tangible personal property to a Michigan customer, they must register for use tax, which is also 6 percent, currently.


To register for sales and use tax, you can enroll online on the Michigan Treasury Online website or by paper registration. For more information, you can refer to the Michigan Business Taxes Registration Booklet at:

> **Corporate Income Tax**

Since January 1, 2012, the primary business tax in Michigan is the Corporate Income Tax (CIT). It is based on business income and applies to a business that is taxed as a C corporation for federal tax purposes.

Taxpayers with less than \$350,000 in allocated or apportioned gross receipts are not required to file a Michigan business return or tax. However, the gross receipts filing threshold does not apply to insurance companies and financial institutions; instead, these taxpaying entities are not required to file or pay if annual liability is less than or equal to \$100. For more information, please consult with a tax specialist or accountant.

> **Motor Fuel Taxes**


The state levies motor fuel taxes on highway, marine and aviation fuel. International Field Tax Agreement (IFTA) and intrastate motor carriers should contact the Michigan Department of Treasury, Special Taxes Section by calling **517-636-4600** or by visiting michigan.gov/taxes. For additional information, please refer to the Michigan Public Service Commission Motor Carrier Division online at: www.michigan.gov/mpsc 

> **Local Taxes**

Local governments in Michigan levy property taxes. Since property tax rates vary by locality, make sure to consult your local city, township or village offices for specific information. The local treasurer's office can provide information about other local taxes that may apply along with information about registration and payment requirements.

Streamline Your State Taxes With Michigan Treasury Online

Michigan Treasury Online (MTO) lets registered businesses access, view and make changes to their information. The MTO self-service tool improves taxpayers' convenience and efficiency when notifying the Michigan Treasury of routine account changes. A registered business can access its information and submit changes via MTO rather than sending a form.

The MTO self-service tool is easy to access, easy to navigate and available 24/7. You can only access it through the Michigan Treasury Online website at: mto.treasury.michigan.gov 

At the MTO, you can also register for unemployment taxes and the following Michigan business taxes:

- ▶ Corporate income tax
- ▶ Flow-through withholding
- ▶ International Fuel Tax Agreement (IFTA)
- ▶ Motor fuel
- ▶ Sales
- ▶ Use
- ▶ Withholding
- ▶ Tobacco

MTO also allows businesses to delegate and share access to appropriate staff members or outside representatives. The Michigan Treasury Online website is located at mto.treasury.michigan.gov; you can also call the Michigan Department of Treasury at **517-636-6925**.

For more information on various Michigan taxes, visit michigan.gov/taxes/0,4676,7-238-43519---,00.html. To download and print a copy of the Michigan Business Taxes Registration Booklet including mail filing forms, go to

michigan.gov/documents/518_3620_7.pdf 

Business Insurance

In addition to planning for taxes, you will also want to consider what types of insurance you need for your business. Some insurance coverage is required by law, and other coverage simply makes good business sense. To learn more about the coverage that is best for your specific business, you can contact an insurance agent who writes business insurance, or “business lines.”

You can also check into insurance programs offered by Chambers of Commerce or trade associations related to your type of business. Insurance is a very competitive business. Be sure to contact more than one source and shop around to get the best coverage for the lowest price. Types of insurance that you will want to investigate include the following:

LIABILITY INSURANCE

Your business faces many forms of potential liability. When your employees or agents cause someone harm, you may be responsible for their damages. There are many types of liability, including some related to specific industries, and the law is constantly changing. A competent professional should perform an analysis of your liability insurance needs to determine the adequate and appropriate level of protection for your business.

PROPERTY INSURANCE

Many different types of property insurance and levels of coverage are available. Before you buy coverage, make sure you know the property’s value and what you’d need to repair or rebuild if something were to go wrong. You must also understand the terms of the insurance, including any limitations or waivers of coverage.

WORKERS’ COMPENSATION

Most employers must provide workers’ compensation insurance for their employees to cover injuries and occupational diseases incurred during the course of their employment. Under Michigan law, you must either purchase a workers’ compensation policy from a private insurance company or meet strict self-insurance requirements. For further information, visit the Michigan Workers’ Compensation Agency’s website at michigan.gov/wca.

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 funds to help pay your fixed expenses while your business is not operational.

KEY PERSON

If you or any other individual is 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. Banks or government loan programs frequently require this type of insurance. It can also be used to provide continuity in operations during a period of ownership transition caused by death or incapacitation of an owner or other key employees.

AUTOMOBILE

A vehicle owned by your business should be insured for both liability and replacement purposes. However, you may also need special insurance (called non-owned automobile coverage) if you use your personal vehicle on company business. This policy covers the business for any damage that may result from such usage.

OFFICERS AND DIRECTORS

Under certain circumstances, officers and directors of a corporation may become personally liable for their actions on behalf of the company. An officer and director insurance policy can help cover this liability.

HOME OFFICE

If you are establishing an office in your home, it is a good idea to contact your homeowner’s insurance company to update your policy to include coverage for office equipment. This coverage is not automatically included in a standard homeowner’s policy.

Special Considerations for Selling to the Government


Like taxes, insurance and other regulations, selling to government agencies requires special legal considerations. And the government does buy a lot from small businesses: nearly \$400 billion worth of goods and services each year! From market research to janitorial services, if you want to make the government your customer, there’s a good chance they need what you have to offer.

By becoming registered to sell to the government at the local, state or federal level and by proactively marketing to secure government contracts, you can diversify and improve the income potential of your business. Eligibility for government contracts usually requires that a business has been operational for at least two years.

Procurement Technical Assistance Centers (PTAC) Can Help With Government Bidding

Getting your business registered for bidding on contracts or direct government purchases requires specific procedures. The Michigan Economic Development Corporation (MEDC) provides support to a statewide network of PTAC and MEDC Procurement Offices that assist businesses with federal, state and local government contracts. A PTAC can help you:

- ▶ Obtain the most current and relevant information available
- ▶ Provide insight into the research process
- ▶ Coach you through the government contracting process from start to finish

Most services available through the PTACs of Michigan are free of charge. To find the PTAC or MEDC Procurement Office nearest to your business, visit: www.ptacsofmichigan.org/ 

Procurement support includes, but is not limited to:

- ▶ One-on-one counseling
- ▶ Orientation to the procurement system
- ▶ Training seminars and conferences
- ▶ Bid match for government solicitations
- ▶ Government specifications
- ▶ Bid package assistance
- ▶ Providing bid history and contract award results
- ▶ Linking local companies to federal and state government agencies
- ▶ State of Michigan contracting assistance
- ▶ Assistance after a bid is won

The Michigan Defense Center is the arm within MEDC that strategically connects defense buyers and prime contractors with Michigan's capable supply chain. With the goal of creating Michigan jobs by bringing more defense contracts to Michigan, the MDC aggressively seeks and identifies established Michigan companies to create and compete in supply chains by leveraging their unique abilities to meet defense goals. PTACs and MEDC Procurement Offices are the front line of the Michigan Defense Center. For more information or to register with the Michigan Defense Center, visit:

Becoming a State of Michigan Contractor

The Michigan Department of Technology, Management and Budget (DTMB) competitively bids all solicitations for the state, and Michigan businesses are encouraged to participate in the state contracting process. The Michigan DTMB and MEDC work closely to provide valuable tools and training for Michigan businesses that want to become state contractors.

The Michigan DTMB-Purchasing Operations' Contract Connect website provides information and educational services to businesses looking to contract with the State of Michigan. The Michigan DTMB manages the procurement of commodities, services and information technology valued at \$25,000 and above for all state agencies. The Contract Connect website also provides opportunities in design and construction and real estate leasing.

At the website, **michigan.gov/micontractconnect**, you can view the current contract portfolio or DTMB-Purchasing Operations Contract List. You can also find training materials and upcoming events to help guide you through the state contracting process. To contact purchasing staff, please email DTMB- **micontractconnect@michigan.gov**. You can also find detailed contact information for individual state agencies handling procurements over \$25,000 by visiting:

michigan.gov/micontractconnect 

Small Business Certifications

When the federal government allocates government spending, it establishes set-asides — a percentage of total government contract money to be spent that is “set aside” and required to be spent with small businesses that meet certain criteria and are certified as:

Disadvantaged Small Businesses

FOR MORE INFORMATION ABOUT THIS DESIGNATION, VISIT:

sba.gov/content/disadvantaged-businesses 

8(a) Certification

FOR MORE INFORMATION ABOUT THIS DESIGNATION, VISIT:

sba.gov/blogs/sbas-8a-certification-program-explained 

Historically Underutilized Business Zones (HUB Zones)

FOR MORE INFORMATION ABOUT THIS DESIGNATION, VISIT:

sba.gov/contracting/government-contracting-programs/hubzone 

Woman-Owned or Controlled Small Business or 8(m) Woman-Owned Small Business Program

FOR MORE INFORMATION ABOUT THIS DESIGNATION, VISIT:

sba.gov/content/women-owned-small-business-program 

Indian-Owned Economic Enterprises and Organizations

FOR MORE INFORMATION ABOUT THIS DESIGNATION, VISIT:

sba.gov/content/native-americans 

Veteran-Owned and Service-Disabled Veteran-Owned Businesses

FOR MORE INFORMATION ABOUT THIS DESIGNATION, VISIT:

sba.gov/content/veteran-service-disabled-veteran-owned 

Some certifications are self-certifying, while others require third-party certification. Your PTAC consultant can assist you in determining if you would qualify for certification and where and how to complete it. To find your local PTAC, visit the PTACs of Michigan website at:

www.ptacsofmichigan.org/ 

There is a common misunderstanding that small business certifications confer special treatment to certified small businesses. While such certifications may have independent marketing and sales value, they primarily apply to small businesses engaged in government contracting. Small business certifications generally offer no advantage related to grants or funding.

.....

FINANCIAL MANAGEMENT



Financial Management and Cybersecurity

The Benefits of Financial Management

Financial management is the language of business, and you need to pay careful attention to your financial management practices from the moment you start your business. The process of proper financial management includes bookkeeping, projections, financial statements and financing, which form the foundation for reaching your goals and making sound business decisions. Financial management also reveals if you are making a profit and helps you decide what you can afford in terms of your store or office location, inventory purchases, employees and equipment.

You need sound financial information for many reasons, like setting your prices and selecting your vendors. Financial management also gives you the tools to plan for business growth, diversification of your product lines, or reaching new markets. It gives you tools to chart your course into the future, adjust your direction when needed, and help you find your way through challenging times. If your business growth requires financing, financial management provides the information to know how much you can afford for your business. It gives you the documentation needed for a loan application, and it helps you discuss your business circumstances with a lender in terms that improve your ability to qualify for the loan.

You should also register your business with the business credit reporting company Dun & Bradstreet (D&B) so you can receive a DUNS number and begin establishing a business credit history. A DUNS number is like your business' Social Security number; similar to how you would provide your personal Social Security number for a personal credit application or whenever someone wants to check your personal credit history, your DUNS number will let a creditor or another business easily view your business' credit report.

To get a DUNS number for your business from Dun & Bradstreet, visit:

dnb.com/duns-number/get-a-duns.html



Establishing a Budget

Creating a budget is the first place to start with your financial management practices. A budget is a list of all your (monthly or yearly) expenses, organized by categories. **A budget is a tool that helps you:**

- ▶ Track all your business expenses
- ▶ Plan for the future
- ▶ Economize when you need to
- ▶ Plan for expansion
- ▶ Make a profit

Once you create a budget, you can then use it to compare what you've budgeted to your actual expenditures.

Bookkeeping

Bookkeeping is the organized process of tracking all income and expense transactions, and it's a critical component of financial management. Good bookkeeping leads to better business decisions regarding financing, taxes, owner's draw and retirement. Here are 10 basic bookkeeping steps which you should begin following immediately once you start your business:

- 1 Obtain Business Accounting Software**
Proper software selection is critical for success.
- 2 Open Separate Business Bank Accounts**
Do not mix business and personal financial accounts.
- 3 Reconcile Your Business Accounts**
Each month, reconcile your accounts using business accounting software or a cloud computing reconciliation process.
- 4 Track Sales**
Create an airtight system for tracking sales using tools such as a register tape, invoices and a sales book. Always use this sales tracking system.
- 5 Deposit All Sales**
Using duplicating deposit slips, deposit all sales in your business checking account. Alternately, remote deposit capture (RDC) may be available for depositing checks. This technology allows you to deposit a check into your account from your office by sending the bank an electronic image of the check. Total sales should equal total deposits. Do not spend cash sales. Link all forms of sales documentation (such as invoices, cash register tapes and sales books) with a specific deposit.
- 6 Write Business Checks or Use a Business Check Card for All Business Expenses**
Don't use a petty cash system until you gain significant experience at bookkeeping.
- 7 Obtain a Separate Business Credit Card**
If you plan to use a credit card for business expenses, consider obtaining a card in your company's name. Doing so will help you keep track of business expenses.
- 8 Always Pay Business Expenses First**
Many new businesses start as sole proprietorships. In sole proprietorships, you, the owner, do not get a salary; rather, you take an owner's draw. But how much should you take? Here's a rule of thumb: Sales pay for business expenses first and personal expenses last.
- 9 Run a Profit and Loss (P&L) Statement**
A checking account balance is not a good indication of how much profit the business has made or what amount is available for an owner's draw. A P&L statement can provide a better picture of the financial health of the organization.
- 10 Pay Yourself With an Owner's Draw**
Owners should pay themselves by writing a check or making an electronic transfer from the business account to a personal account. If you are a sole proprietor, assign those draw checks to an equity account called "draws."

Cash Flow and Cash Flow Projection

Cash flow can be defined in two ways:

- ▶ Balance of cash received minus the amount of cash paid out over a period of time
- ▶ Moving cash in or out of a business

A cash flow projection is a financial statement that shows how cash is expected to flow in and out of a business over a period of time. It is used to see if projected cash receipts (called “inflows”) will be sufficient to cover projected cash disbursements (called “outflows”). Unfortunately, a business can be profitable and still run out of cash. A cash flow projection can help you manage your cash so you can pay your bills in a timely way and keep the doors of your business open.

You can also use a cash flow projection to set sales goals, plan for related expenses and determine your break-even point during a start-up or expansion phase. If you need to plan for a large expenditure, such as an equipment purchase or moving to a new location, a cash flow projection is the perfect tool to help you effectively manage your finances during that time. Similarly, if you have a seasonal business with large inventory purchases, a projection can help you plan to have the cash on hand necessary to make a large inventory investment. Unlike a P&L statement, which can mask cash shortages, a cash flow projection helps you see the cash status of your business now and plan into the future.

Access a sample cash flow worksheet at:

<https://sbdc-michigan.org/guidetostarting/> 

Financial Recordkeeping

Accurate and complete financial records are the basis of understanding and monitoring the health of your business. An accountant or bookkeeper can be indispensable to a new or growing business, not only as a financial record keeping service but also as a key adviser on issues related to taxes, cash flow, payroll, credit, systems management and changes within the tax system. Good financial recordkeeping allows

you to create reports of current data so you can compare your current status to your financial goals and business plan.

Using your financial records, it is essential to:

- ▶ Regularly review and compare your balances
- ▶ Evaluate the reasons for differences, whether positive or negative
- ▶ Consider changes to your business activity
- ▶ Make necessary adjustments to your business and financial plan

Other Recordkeeping

Along with your financial records, you will want to make sure that you have an orderly and disciplined practice of storing other business records. Your success depends on creating and maintaining an effective recordkeeping system not just for your finances, but for other important documentation. Recordkeeping systems range from simple manila folder filing systems to commercial software programs to complex online cloud-based systems.

However you want to collect and store your records, you will want to make sure that you maintain the following types of documentation:

- ▶ Accounting records related to cash flow, income, expenses, balance sheets, petty cash, etc.
- ▶ Client files
- ▶ Contracts and vendor files
- ▶ Corporate or organization records about meetings, resolutions, etc.
- ▶ Bank and credit card statements
- ▶ Annual tax returns, quarterly tax filings and other tax documentation
- ▶ Personnel files (for specific requirements related to this, consult with a qualified human resources professional and/or MI-SBDC consultant)
- ▶ Inventory and status reports
- ▶ Vehicle use logs, travel logs, equipment logs, etc.

Create Separate Bank Accounts for Your Business

Before you start accepting or spending money for your business, you should open a business bank account. Common business accounts include a checking account, savings account, credit card account and merchant services account. Merchant services accounts allow you to accept credit and debit card transactions from your customers.

Most business bank accounts offer perks that don't come with a standard personal bank account. Examples include the following:

> PROTECTION AND SECURITY

Business banking offers limited personal liability protection by keeping your business funds separate from your personal funds. Merchant services also offer purchase protection for your customers to ensure that their personal information is secure.

> PROFESSIONALISM AND CONVENIENCE

Customers will be able to pay you with credit cards and make checks out to your business instead of directly to you. Plus, you'll be able to authorize employees to handle day-to-day banking tasks on behalf of the business.

> PREPAREDNESS

Business banking usually comes with the option of a line of credit for the company. This can be used in the event of an emergency or if your business needs new equipment.

> PURCHASING POWER

Credit card accounts can help your business make large startup purchases and help establish a positive credit history for your business.

Some business owners open a business account at the same bank they use for their personal accounts. Rates, fees and options vary from bank to bank, so you should shop around to make sure you find the lowest fees and the best benefits. When you're opening a business checking or savings account, ask about the following items:

- ▶ Introductory offers
- ▶ Interest rates for savings and checking
- ▶ Interest rates for lines of credit
- ▶ Transaction fees
- ▶ Early termination fees
- ▶ Minimum account balance fees

When you're opening a merchant services account, you'll want to consider additional factors, such as:

- ▶ Discount rate (the percent charged for every transaction processed)
- ▶ Transaction fees (any additional amount charged for each transaction)
- ▶ Address Verification Service (AVS) fees
- ▶ Automatic clearing house (ACH) daily batch fees
- ▶ Monthly minimum fees

Payment processing companies are an increasingly popular alternative to traditional merchant services accounts. Payment processing companies sometimes provide extra functionality, like accessories that let you use your phone to accept credit card payments. The fee categories that you need to consider will be similar to merchant services account fees. If you find a payment processor that you like, remember that you'll still need to connect it to a business checking account to receive payments.

Opening a business bank account is easy once you've picked your bank. Simply go online or to a local branch to begin the process. Banks typically ask for the following information when you open a business account, but some banks may ask for more.

- ▶ Employer identification number (EIN) (or a social security number, if you're a sole proprietorship)
- ▶ Your business' formation documents
- ▶ Ownership agreements
- ▶ Business license

Cybersecurity: Take It Seriously!

Businesses have become increasingly engaged in online business activities like sales, vendor purchases, email, marketing, website hosting, e-commerce, and much more. For some businesses, your entire operation can be quite literally in your computer's hard drive and online.

Protecting your business and your customers' data from online threats has become a critical consideration for everyone, especially small businesses. Guidelines about the sharing of passwords, use of personal devices on business systems and the reporting of possible security breaches should be covered in a signed policy document such as an acceptable use policy.

▶ ▶ ▶ DISCOVER MORE ABOUT EMPLOYEE POLICIES IN ANOTHER CHAPTER: **"HIRING YOUR FIRST EMPLOYEE"**

On the following pages, we have a cybersecurity planning sheet and a checklist of ransomware dos and don'ts. These documents will help you create a protection plan for your business' records and help you respond to cybersecurity threats.

PASSWORD SECURITY

- Do you save passwords in your browser?
- How safe is your Social Media password?
- Do you write passwords down?
- Do you save passwords in a file on your computer?
- Do you have a password on your phone?
- Do you use complex passwords?
- Do you use shared passwords?
- Do you use the same password for multiple logins?

COMPUTER SECURITY

- Is your technology up to date?
- Who takes care of your computers?
- Who do you call in the event of an emergency?
- Who takes care of your software?
- Do you use antivirus and malware protection?
- Do you use cloud services?
- Are your computers physically secure?
- Are your computers encrypted?
- Do you share computers?

INTERNET SECURITY

- Who is your provider?
- Do you have a firewall?
- Who uses your internet?
- Do you use Social Media?
- Who is watching out for you on the internet?
- Do you deal with vendors on the internet?
- Do you do business internationally?



SMARTPHONE SECURITY

- Who is your provider?
- What is on your phone?
- Do you lock your phone?
- Do you leave wireless (Bluetooth, WiFi or Location) on?
- Who uses your phone?
- Are your smartphones encrypted?
- Do you use antivirus and malware protection?
- Can you remote locate and remote wipe your smartphone?
- Do you share your phone?

DATA SECURITY

- Where is your data?
- Do you have a disaster recovery plan?
- Do you know who to call when your data is gone?
- How do you protect your data?
- Do you have a plan in case your data is unavailable?
- Do you have a data classification policy?
- Do you have a data handling standard?
- Do you know what data you have?

Ransomware Attack Dos and Don'ts

Ransomware locks all available files on your computer system, and the attackers will make you pay for a code to restore them. It may also lead to losing all of your files! Ransomware attacks can affect any business. If you fall for it, it will infiltrate your system, regardless of company size.

Do

Backup your computer somewhere you cannot always access. The more often, the better

Ransomware will encrypt anything it has access to, including network drives, connected local drives and any system that acts as external storage.

Have a disaster recovery plan

Ransomware can be a disaster. Make sure you have planned for it and have tested every option.

Train your people, even in a small company

Training is the best defense; people are often the weak link that lets ransomware in.

Use a firewall

Some ransomware attacks through known security issues; make sure it can't get through with a business-class firewall.

Use IPS/IDS

Intrusion detection and intrusion prevention can isolate an attack as it gets in. It also offers protection for your users when they are in the wrong place.

Use antivirus and antimalware software

Antivirus software saves people all the time. The statistics are indisputable. Make sure you pick a good (not free) version of a trusted antivirus program.

Use a DNS protection system

Sometimes one extra layer of security is something that will save you. Consider an extra layer of protection like Umbrella.

Know who to call

Whether it is for ransomware or other questions, don't rely just on internet searches. Look for a credible company to help you when you need it.

Don't

Open emails from unknown sources

Ransomware will encrypt anything it has access to, including network drives, connected local drives, and any system that acts as external storage.

Underestimate the threat

No one is safe from ransomware.

Wait to install updates or security patches

Many ransomware exploits are solved quickly in patches. Waiting to update your system could leave you and others vulnerable.

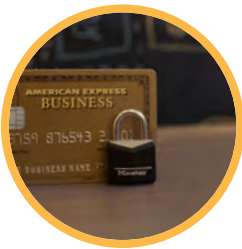
Keep your data only on site

Remember that you should keep several copies of your data as a backup: 3 copies, 2 media types, 1 off-site.

Create Separate Bank Accounts for Your Business

One place where you don't have to worry about cybersecurity as much is a bank. Before you start accepting or spending money for your business, you should open a business bank account. Common business accounts include a checking account, savings account, credit card account and merchant services account. Merchant services accounts allow you to accept credit and debit card transactions from your customers.

Most business bank accounts offer perks that don't come with a standard personal bank account. Examples include the following:



PROTECTION AND SECURITY

Business banking offers limited personal liability protection by keeping your business funds separate from your personal funds. Merchant services also offer purchase protection for your customers to ensure that their personal information is secure.

PROFESSIONALISM AND CONVENIENCE

Customers will be able to pay you with credit cards and make checks out to your business instead of directly to you. Plus, you'll be able to authorize employees to handle day-to-day banking tasks on behalf of the business.



PREPAREDNESS

Business banking usually comes with the option of a line of credit for the company. This can be used in the event of an emergency or if your business needs new equipment.

PURCHASING POWER

Credit card accounts can help your business make large startup purchases and help establish a positive credit history for your business.



Some business owners open a business account at the same bank they use for their personal accounts. Rates, fees and options vary from bank to bank, so you should shop around to make sure you find the lowest fees and the best benefits. When you're opening a business checking or savings account, ask about the following items:

- ▶ Introductory offers
- ▶ Interest rates for savings and checking
- ▶ Interest rates for lines of credit
- ▶ Transaction fees
- ▶ Early termination fees
- ▶ Minimum account balance fees

When you're opening a merchant services account, you'll want to consider additional factors, such as:

- ▶ Discount rate (the percent charged for every transaction processed)
- ▶ Transaction fees (any additional amount charged for each transaction)
- ▶ Address Verification Service (AVS) fees
- ▶ Automatic clearing house (ACH) daily batch fees
- ▶ Monthly minimum fees

Payment processing companies are an increasingly popular alternative to traditional merchant services accounts. Payment processing companies sometimes provide extra functionality, like accessories that let you use your phone to accept credit card payments. The fee categories that you need to consider will be similar to merchant services account fees. If you find a payment processor that you like, remember that you'll still need to connect it to a business checking account to receive payments.

Opening a business bank account is easy once you've picked your bank. Simply go online or to a local branch to begin the process. Banks typically ask for the following information when you open a business account, but some banks may ask for more.

- ▶ Employer identification number (EIN) (or a social security number, if you're a sole proprietorship)
- ▶ Your business' formation documents
- ▶ Ownership agreements
- ▶ Business license

.....
**MARKETING YOUR
BUSINESS**





Marketing Your Business

What Defines Your Brand?

Every business has a brand, but the most successful businesses have brands that have been carefully and thoughtfully designed. Branding is the process of crafting your business' brand, and even though branding and marketing are closely related, they are different processes.

Think of it this way: branding is the process of deciding on the story you want to tell about your company, and that story is your brand. Meanwhile, marketing is the process of going out and telling that story to consumers in a compelling way.

Many people think of visual elements when they think of a brand: logos, color schemes, particular ads they've seen, and so on. Other people may think of an advertising tagline or a news article they read about the brand. For local businesses, customers may associate a brand with a particular person or group of people.

Keep in mind that since your brand is the story of your business, even very deliberate and effective marketing and branding can't completely define your brand. For example, if a potential customer hears from a friend about a negative experience with your business, no amount of advertising is likely to make the potential customer forget it. Whether you like it or not, that negative experience is now part of your brand in that potential customer's mind.

If you don't have a strong sense of your brand, it will be difficult to market your business. After all, if you don't understand what's special about your business and your products or services and what's unique about your story, then how can you communicate it to anyone else?

To define your brand better, write down the answers to questions like:

- ▶ Why does your business exist?
- ▶ What is your business' story? How does it relate to your own story?
- ▶ What problems can your products or services help customers solve?
- ▶ Why would customers choose your business over the competition?
- ▶ What other brands do you look up to?
- ▶ What do you want people to think of when they hear your business' name?

While all your marketing efforts (and many other factors) will play a role in defining your brand, there's no denying that strong visual elements like logos, color schemes, and headlines play an enormous role in influencing how consumers perceive brands. At the very least, your business should have a logo, and you should strive for consistency in the look and voice of your marketing communications.



“I do not regard advertising as entertainment or an art form, but as a medium of information. When I write an advertisement, I don’t want you to tell me that you find it ‘creative.’”

I WANT YOU TO FIND IT SO INTERESTING THAT YOU BUY THE PRODUCT.”

– David Ogilvy, Ogilvy on Advertising

Setting a Marketing Budget

Setting money aside for marketing may seem difficult, but remember that your business can’t succeed without marketing. As a general rule, many experts agree that small businesses with revenues less than \$5 million should devote about 7 to 8 percent of their annual revenue to marketing. Some businesses, like retail stores, may require a lot more; many retail stores spend up to 20 percent of their annual revenue on marketing during their early years.

Your marketing budget will also determine whether you’re able to hire a professional marketer or a marketing agency to help you build your brand and grow your business. A good marketing partner can not only help you create a thorough marketing plan but should be able to help you execute every aspect of the plan. Make sure the marketing partner communicates with you readily and provides clear billing and reporting that you can understand. You should always know what you’re paying for and what results you’re getting from the money you devote to marketing.

If you don’t have the budget to hire an agency or a marketing professional, that’s okay too. It may take time and effort, but there are always options to effectively market your business, even if you’re working on your own and don’t have experience in marketing.

To get a sample worksheet for your monthly marketing budget, visit:

<https://sbdcmichigan.org/guidetostarting/> 

Judging the Success of Your Marketing Strategies

No matter what marketing tactics you use, it’s important to track results and make sure your marketing efforts are delivering a clear return on investment (ROI). To decide whether your marketing efforts are succeeding, you’ll need to establish key performance indicators (KPIs), which we’ll discuss more later in this chapter as we guide you through the process of creating a marketing plan.

Remember that just because a marketing tactic doesn’t succeed instantly doesn’t mean it’s time to throw it away. It takes time to develop strong marketing messages and identify the most effective ways to reach your desired customers. However, you may need to discard marketing tactics that consistently fail to deliver returns, even after many adjustments.

On the other hand, don’t assume because a marketing tactic has worked in the past that it will continue to work in the future. Markets are always changing, and so are your customers. Even the most tried-and-true strategies need to be continuously evaluated based on KPIs and then adjusted or discarded if they’re no longer delivering results.

Creating a Marketing Plan

Your business can't succeed without an effective marketing and communications strategy, which is why you should begin developing this strategy from the moment you start planning your business and continue to refine it for as long as your business exists.

Creating a marketing plan involves four essential steps:

- 1 Assess your company's current situation
- 2 Identify your target audience
- 3 Define your marketing goals
- 4 Research and select your tactics

In the following sections, we'll discuss these steps in greater detail.

STEP 1:

Assess Your Company's Current Situation

The first section of your marketing plan should define your business and its products or services, then explain how your business sets itself apart from the competition. Marketers use a time-tested method to analyze a company's current situation, and this method is called a SWOT analysis. To perform a SWOT analysis, you need to identify your company's strengths, weaknesses, opportunities and threats.

STRENGTHS

How are your company's products and services different from and better than your competitors' offerings? Why is your business in a better position to succeed than theirs?

WEAKNESSES

What do your competitors do better than you? What advantages do they have over you?

OPPORTUNITIES

What are the opportunities you created your business to capitalize on? Is the market for your products or services expanding, or is there a current need in the market that's going unmet?

THREATS

What factors could realistically cause your business to fail? These could be factors within your control (like organizational issues) or outside your control (like an economic downturn or competitors lowering their prices).



Be brutally honest when identifying your company's weaknesses and the threats you face — knowing them is the only way to overcome them. And don't forget that you may already have information about these areas from your market research.

▶ ▶ ▶ DISCOVER MORE ABOUT MARKET RESEARCH IN ANOTHER CHAPTER: "STARTING A BUSINESS"

TIPS FOR IDENTIFYING COMPETITORS

Remember that your strengths, weaknesses, opportunities and threats are only important as they relate to your competitors. After all, if your company had no competition, you wouldn't need marketing at all. But every business has competitors, no matter how innovative or unusual their products or services are.

To help you perform your SWOT analysis, you should gather plenty of information about your competitors. Make sure to identify your indirect competitors as well as direct competitors. For example, if your company provides guard services to warehouses, other companies that offer guard services within your service area are your direct competitors. However, electronic alarm systems for warehouses might provide an alternative to human guards, so businesses selling alarm systems may be indirect competitors.

To help you objectively evaluate your company against your competitors, try to fill out the table below. Rate your company and your top two competitors in each of the areas listed using a 1-5 scale, with 5 as very strong and 1 as very weak. Remember to be as impartial and honest as you can.

	Your Company	Competitor 1	Competitor 2
QUALITY			
PRICE/VALUE			
CONVENIENCE			
LOCATION			
CUSTOMER SERVICE			
OTHER			

TIPS FOR IDENTIFYING YOUR COMPANY'S UNIQUE VALUE PROPOSITION?

Also known as a "unique selling proposition," your unique value proposition describes what your company offers, how you help solve customers' needs and how your company differs from the competition. Identifying your unique value proposition is an essential part of assessing your company's strengths. Communicating these strengths is the most important purpose of your marketing messages and your overall marketing strategy.

Once you've created a SWOT analysis and taken a snapshot of your company's current situation, your marketing plan has a strong foundation. You now know your company's most important advantages and opportunities as well as the potential challenges your marketing strategy needs to overcome.

STEP 2:

Identify Your Target Audience

Next, you'll want to identify your ideal customer — the type of person or company who is most likely to buy your company's products or services. (Make sure to stay grounded in the real world when thinking about your ideal customer — a billionaire tech entrepreneur who wants to buy out your inventory might be the "ideal customer," but you can't count on them coming along.) Marketers call your ideal customers your "target audience."

Keep in mind also that the target audience for your product may be different from the end user. For example, if you create toys for very young children, the children won't be the ones buying your toys. In this case, the children's parents are your primary target audience.

The characteristics you'll want to identify to define your target audience will differ depending on whether your business is primarily based around business-to-consumer (B2C) sales or business-to-business (B2B) sales.

For B2C businesses, the characteristics of your target audience may include:

- ▶ Geographic location
- ▶ Age
- ▶ Gender
- ▶ Marital status
- ▶ Family size
- ▶ Education
- ▶ Income
- ▶ Occupation
- ▶ Hobbies
- ▶ Buying frequency
- ▶ Attitudes toward your product and competitor products

If you operate a B2B company, the characteristics of your target audience may include:

- ▶ Geographic location
- ▶ Industry (NAICS or SIC code)
- ▶ Size (number of employees or annual sales)
- ▶ Length of time in business
- ▶ Type of products or services they provide
- ▶ Whether they import or export products
- ▶ Buying process
- ▶ Decision-makers
- ▶ Level of need for your product
- ▶ Degree of loyalty to vendors
- ▶ Buying frequency

You can assemble much of the information about your target audience from the data you gathered during market research, although identifying all the important characteristics of your target audience may require additional research as well. If you have current customers or clients, asking them questions is one of the best ways to gather more information about your target audience. Ask them how they found out about your business, what they like about your brand, where they tend to shop and purchase products, what they read and watch and which websites and social media platforms they use.

▶ ▶ ▶ DISCOVER MORE ABOUT MARKET RESEARCH IN ANOTHER CHAPTER: **“STARTING A BUSINESS”**

TARGETING YOUR MARKETING WITH AUDIENCE SEGMENTS

Many businesses will have more than one type of person or company who is likely to be interested in their products or services. To represent these different types of potential customers, you can break down your target audience into smaller audience segments. To do this, group types of prospective customers into categories based on similar characteristics so you can reach and serve them more relevant marketing messages.

As an example, let’s return to the idea that your company makes toys and games for children, only now you make them for children who are a bit older — say ages 10-12. These children probably don’t have their own income yet, but they may have an allowance, and they almost certainly tell their parents when they want a toy or game. The parents may go out and buy your toys and games on their own as a gift for their child, but they may also buy your products because their child saw an ad online and won’t leave them alone about it.

In this case, both the children and their parents are part of your target audience. Children spend their time differently and respond to different types of ads compared to their parents, so you’ll need to come up with different strategies to market to them. The children and their parents are two different segments of your target audience.

One of the best ways to document the segments of your target audience is to develop for each audience segment a simple, one-paragraph profile of a fictional person who embodies the qualities of that audience segment. Marketers call these profiles “personas,” and they can help you keep track of your audience segments, relate to them as real people, and refer to them clearly and memorably.

Remember that your ideal potential customers already have busy lives and established buying patterns that don’t include your business. If you want to convert them into a real customer, you’ll need to give them a good enough reason to break those established patterns and form a relationship with your business.

Also, don’t forget that your target audience may include existing customers and clients, especially if your business model encourages repeat transactions. There are always competitors looking to lure away your loyal customers, so don’t take them for granted! Tailoring specific marketing efforts to your existing customers, including loyalty programs, rewards and discount offers, can help you reinforce the strength of your existing customer base while you attract new customers and prospects to grow your business.

STEP 3:

Define Your Marketing Goals

A good marketing plan needs to define specific, measurable goals tied to sales and profitability. What do you hope to accomplish with your marketing efforts? Are you trying to bring in five new customers a day, ten clients a month or \$100,000 a year?

One of the best ways to make sure you're setting the right goals is to make sure your goals are SMART, which is an acronym that stands for specific, measurable, attainable, relevant and time-bound. Here are some examples to help you develop SMART goals:

SPECIFIC

- ▶ Example of a non-specific goal: Raise money.
- ▶ Example of a specific goal: Raise \$10,000 by September 1.

MEASURABLE

- ▶ Example of a non-measurable goal: Improve customer satisfaction.
- ▶ Example of a measurable goal: Improve the number of highly satisfied responses on customer surveys by 25%.

ATTAINABLE

- ▶ Example of an unattainable goal: Make \$100,000 in a month when you've never made that much in a year.
- ▶ Example of an attainable goal: Increase monthly revenue by 10 percent.

RELEVANT

- ▶ Example of an irrelevant goal: Improve our company image.
- ▶ Example of a relevant goal: Increase sales among one audience segment by 30 percent.

TIME-BOUND

- ▶ Example of a non-time-bound goal: Increase revenue to \$150,000.
- ▶ Example of a time-bound goal: Increase average quarterly revenue to \$37,500 over the four quarters of next year.

Your goals will be unique to your business, but as you set them, you should tie them to key performance indicators (KPIs). KPIs are measurements that communicate important information about the health and future of your business. Examples of possible KPIs for your marketing efforts include:

- ▶ Revenue
- ▶ Sales growth rate
- ▶ Number of leads
- ▶ Cost per lead
- ▶ Number of customers
- ▶ Cost of acquiring a customer

If goals are the destination you want to get to, KPIs are the signs telling you you're headed in the right (or wrong) direction.

STEP 4:

Research and Select Your Tactics

Now that you know what you want to accomplish, it's time to figure out the specific marketing methods you'll use to reach your target audience and convert them into customers or clients. You need to develop strategies that incorporate your goals, build on your strengths and embrace your unique competitive advantages.

Marketers call the blend of strategies that a business uses a “marketing mix.” The exact mix of marketing tactics that makes the most sense varies widely from business to business, and finding that mix often takes a lot of experimentation. The most effective tactics for your business will depend on the nature of your business as well as on your target audience and how they behave.

For example, do your ideal customers typically make a buying decision because they saw a billboard or a TV ad? Or do you offer the type of product or service that people often purchase because they read an online review or saw a post about it on social media? Understanding how your target audience consumes information and makes purchasing choices will help you make informed decisions about how to spend your marketing and advertising dollars to get the most effective results.

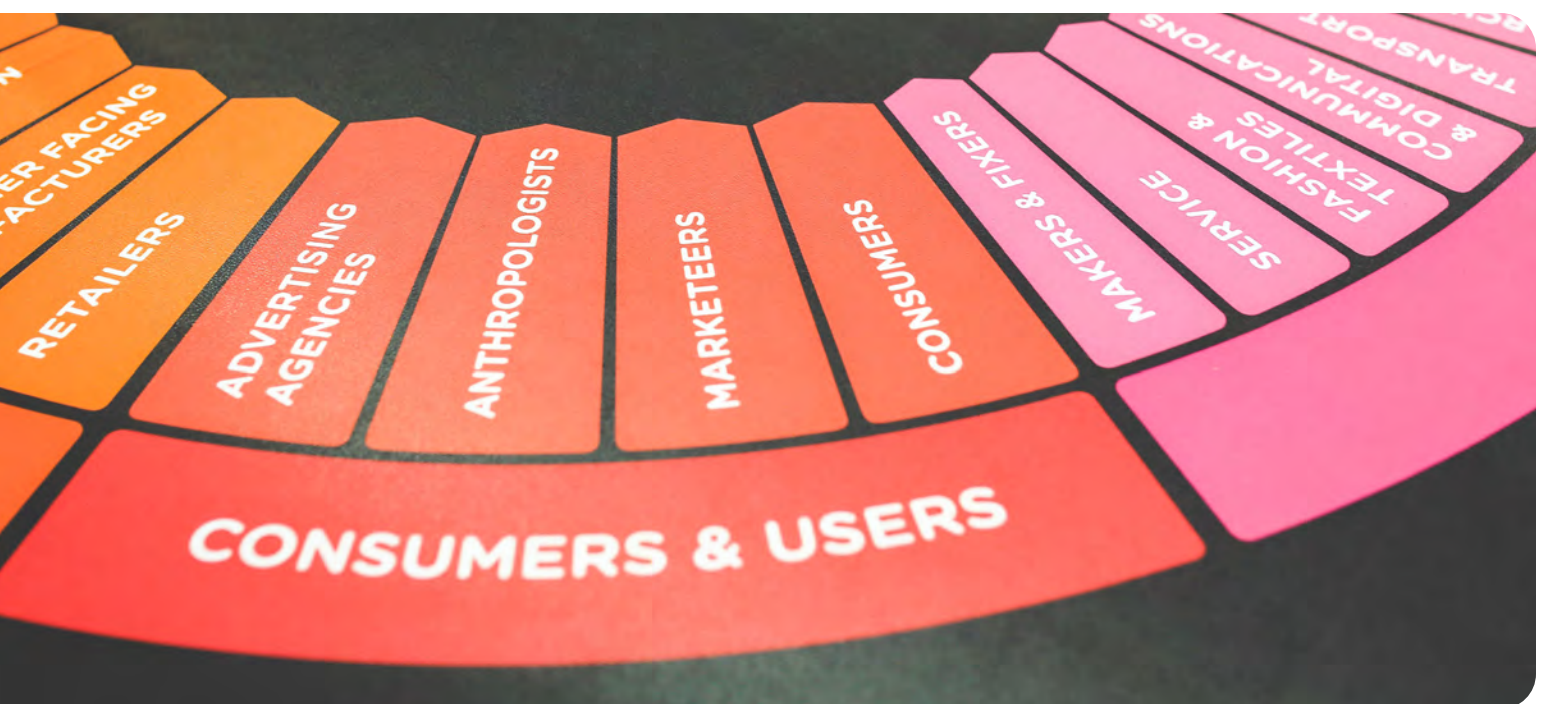
Examples of some popular and proven marketing tactics are:

- ▶ Billboard and poster ads
- ▶ Television and radio advertisements
- ▶ Print media ads (newspapers, magazines)
- ▶ Newsletters and direct mail
- ▶ Brochures, letterheads and business cards
- ▶ Promotional events
- ▶ Direct sales (telephone, door-to-door, etc.)
- ▶ Online advertising, including:
 - Website
 - Social media
 - Email advertisements
 - Video ads
 - Display advertisements on other websites
 - Ads in search engines like Google

Every marketing tactic has its benefits and downsides compared to other tactics. For example, billboards and television ads can reach lots of people, but they cost a lot of money up front. These ads also don't specifically target your potential customers, so you're paying to show your ad to a lot of people who have no chance of becoming customers.

Also, you can plan and execute some tactics, like direct sales, direct mail and building a website, by yourself. Other tactics, like running television, radio and print media advertisements, will require you to work with a media buyer or other agent who may require a commission or fee.

There is no universal right or wrong answer when it comes to a mix of marketing tactics — only what makes sense for your business based on your target audience and your budget.



Developing Your Message

Once you have a documented marketing plan in place, you will need to start creating your marketing assets. Many people who are inexperienced in marketing believe that the most important quality of a good advertisement or ad campaign is that it gets the attention of potential customers. However, that's not true. The most important criteria to judge your marketing efforts is whether they lead to more clients or customers and help your business grow. If an advertisement or marketing strategy gets people's attention but doesn't lead them to trust your business and purchase your products and services over those of your competition, then that advertisement or strategy does nothing for your business.

Regardless of the medium or strategy, most effective marketing messages contain four fundamental elements:

- 1 A clear, concise and memorable headline
- 2 A value proposition that briefly explains why your product can help meet potential customers' needs (and do so better than alternatives)
- 3 A reason for the potential customer to act now, like a time-based promotional offer such as a coupon code or an explanation of how your product or service will improve your customers' lives immediately
- 4 A clear call-to-action (CTA) statement that tells the customer what you want them to do (call now, sign up, subscribe, try a free sample, etc.)

Most ads should also contain an eye-catching image that conveys and reinforces the mood or tone you want your ad to capture. Make sure your images fit the scale of your advertisement and look clear and visually pleasing.

Choosing Your Marketing Mix

If you understand your target audience, then you've already got much of the information you need to choose a successful marketing mix. Your goal is to find your potential customers and deliver marketing messages that will engage them and energize them to become customers. Where that process happens and how it happens depend on the behavior of your target audience.

To evaluate your options for your marketing mix, ask yourself the following questions about your target audience:

- ▶ What types of advertising messages do they notice and respond to?
- ▶ What types of media do they watch, read and interact with?
- ▶ Where do they look for information about products and services?
- ▶ Where do they make purchasing decisions?
- ▶ How long does it take them to make a purchasing decision?

Besides asking questions about your target audience, it also helps to observe what your competitors are doing. Study the strategies your competitors use to market themselves and ask questions like:

- ▶ What are my competitors doing well? What are they doing poorly?
- ▶ Are there things about my competitors' marketing tactics that I like but feel I could improve on?

If you're able to identify what marketing strategies your competitors are using successfully while discarding the tactics that don't deliver results for them or wouldn't work for your business, you'll most likely have the beginnings of a very effective marketing mix.

Regardless of which tactics you decide are best, it's usually not wise to spend your entire budget on one marketing tactic. No matter how much research you perform or planning you undertake, there's no surefire way to know which marketing tactics will deliver the best results without trying them, observing the results and adjusting them over time.

The Four Ps of Marketing

One system that many marketers use to evaluate marketing strategies and decide on a marketing mix is called the four Ps. **The four Ps are:** ▶

If you understand the four Ps as they relate to your business, you can use them to make decisions about which marketing strategies are likely to deliver the best results for you. To understand the four Ps, ask questions like these:



▼ PRODUCT

- What does my product or service do for the buyer? What need does it meet?
- What features does my product have? How do those features compare to those of my competitors' products?
- How and where will the customer use my product?
- What does my product look and feel like? Does it create an experience for the customer?
- How do I differentiate my product from competing products?

▼ PRICE

- What is the value of my product or service for the buyer?
- How do my prices compare to those of my competitors?
- Are my customers price-sensitive? If I raise or lower prices, will they respond quickly?
- If I offer discounts to specific customers or audience segments, will it increase sales and/or revenue significantly?

▼ PLACE

- Where do my potential customers look for products and services? Where do they make purchasing decisions?
- Where do my potential customers work? Where do they spend their free time?

▼ PROMOTION

- Where can I get my marketing messages in front of my target audience? When are they most likely to respond to those messages?
- How many times do I need to interact with my potential customers before they will make a purchasing decision? (Remember that one interaction is rarely enough to convince someone to buy a product or service.)
- What is the best time to promote? Is my business seasonal or cyclical?
- How do my competitors promote their products and services? How will my marketing messages stand out from theirs and capture the attention of potential customers?

STEP 5:

Create a Marketing Calendar

Once you decide on the blend of marketing tactics that will make up your marketing mix, you'll want to create a marketing calendar that will establish timelines, implementation schedules, budgets, and assigned responsibilities for all your marketing campaigns. Ideally, your marketing calendar should detail these aspects of all your marketing activities for the entire year.

Online tools exist that can help you create a calendar that's clean and easy to look at, but you can also use a spreadsheet program to create a basic calendar that meets your needs. Whatever tool you use to create your calendar, make sure you update entries, keep track of important milestones and note your results.

Although creating a detailed marketing calendar takes time and patience, it's worth the investment. Consistency is key when marketing your business, and if you only make time for marketing when you feel like you have time to spare, your marketing efforts will be spotty and occasional — if they happen at all.

Publicity and Public Relations

Public relations (PR) is different from marketing, but the two are closely related and sometimes overlap. Public relations is the process of creating and cultivating a positive reputation with the public. Like marketing, public relations activities can occur on many different channels, including traditional media, social media and face-to-face communications.

When many people hear the term public relations, they think of a big company responding to a disaster with a carefully planned news conference or press release. But public relations isn't just for emergencies, and it's not just for large corporations, either. For example, many small businesses engage in public relations every day by maintaining their social media pages and interacting with members of the public online. Others are active in the community on a regular basis. These activities can be seen and shared in the public arena, and whether they directly relate to your business or not, they will be associated with your business in the public eye.

Aspects of your business you may want to publicize can include:

- ▶ Success stories from your clients or customers
- ▶ New products or offerings
- ▶ Community involvement and charitable events
- ▶ Your expertise within your field or market

Hosting events, workshops and seminars — including online “webinars” — are also forms of marketing that double as public relations.

Many businesses work with PR professionals who handle their public relations campaigns. Even if you don't have much budget to devote to PR, you may be able to hire a consultant who works with you for a few hours a week on your PR efforts. And even if you have no money to spend on PR at all, you can still cultivate relationships with reporters, bloggers and other media contacts by contacting them with news about your business. Just remember to keep your messages relevant. Sending even one or two personalized PR communications to local media professionals who may be interested in your business' story is much better than sending thousands of messages to a mailing list full of random people who don't care.

The Power of Online Marketing

Very few businesses today can succeed without an online presence, and even fewer should want to. For many small businesses, online marketing should be the first avenue they explore to help them engage with potential new customers and establish their brand.

Today, 82 percent of consumers conduct research online before buying a product or service, and the average consumer now spends more time online than with all other types of media combined. As more customers use the internet to research products and make purchases, online marketing can deliver more of the benefits of traditional marketing tactics like TV and radio ads without high up-front costs and risks.

Creating a Website

The first and most important step to establishing an online presence is to create a website. Many online services allow you to register a domain name (the URL or online address of your website; for example, www.mymichigansmallbusiness.com). Then, you can create your website using a customizable template. Using these tools, most people can create a functional, professional-looking website for their business in a matter of days or even hours.

The most important qualities of a good website are:

- 1 It's visually appealing
- 2 Its appearance, feel and content line up with the look, personality and voice you've established for your brand
- 3 It's intuitive and easy to navigate for potential customers
- 4 It contains valuable offers and strong calls-to-action that encourage website visitors to become leads and leads to become customers or clients

If your business requires a more complex website or you want something that looks more professional and polished, you may wish to hire an outside partner to build your website. In many cases, the up-front investment to have a professional build your website is worth it. However, make sure to compare your options and shop around aggressively for the best price, which is not always the cheapest price. A simple website containing a handful of pages should not cost your company tens of thousands of dollars. However, make sure to ask for examples of work before choosing a partner for your website build, and ask to see mockups and working drafts throughout the process. If you're not happy with any aspect of the website, speak up right away.

If you hire someone to build a website for your company, also make sure you own your website's domain name and have full access to the website at all times. If you don't, you may run into serious problems if you want to hire a different person to manage the website or decide to manage it on your own.

The Michigan SBDC is an official partner of "Grow With Google," a series of courses designed to teach entrepreneurs how Google's suite of tools can help them grow their businesses. View upcoming Grow With Google partner training events at:

sbdcmichigan.org/training 

To get a personalized plan of Google products to help grow your business, you can also visit:

smallbusiness.withgoogle.com/ 

Using Your Website to Grow Your Business

Your website forms the foundation of your online presence and all your online marketing tactics. Once you've got a website, your next goals should be:

- 1 Use website contact forms and other tools to gather information from website visitors so you can convert them into leads
- 2 Follow up with leads and strengthen your relationship with them so you can convert them into customers or clients
- 3 Attract new visitors to your website by creating valuable content
- 4 Use the data you gather from your website and related tools to measure your results and keep improving your strategy

Next, we'll discuss strategies you can use to realize these goals.

Attract New Visitors Through Search Engine Optimization (SEO)

One of the best and most sustainable ways to attract more visitors to your website is by engaging in search engine optimization. SEO is the process of improving your website so it ranks better in search engines like Google. That way, when people search online for products or services like yours or for related topics, they will be more likely to come across your website and visit it.

CREATING CONTENT FOR SEO

The single most important factor to SEO, according to statements published by Google, is to provide high-quality, original content (words, images, videos, etc.) on the pages of your website, especially the homepage.

Some of the most important types of content for SEO include:

- ▶ Your homepage
- ▶ Pages that describe your individual products or services
- ▶ An "about" page that tells your company's story in brief
- ▶ Blog articles
- ▶ Lists of answers to frequently asked questions (FAQs)
- ▶ Images and videos

When you create content with SEO in mind, you'll want to think about keywords, which are the words that your potential customers might plug into search engines when they're searching for products or services like yours or when they are searching for related topics. For example, if you run a lawn care business, your target audience might be searching for terms like "lawn care services" and "lawn maintenance."

Keywords break down into two broad categories: head terms and long-tail keywords:

HEAD TERMS

These broad, one- or two-word topics usually get a lot of traffic, but that traffic can be very mixed. Some people are just trying to learn more about it, while others may be trying to purchase.

Examples: lawn care, lawn maintenance, grow a lawn, seed a lawn, fertilize a lawn, etc.

LONG-TAIL KEYWORDS

These longer phrases tend to get less traffic, but people are searching for very specific topics

Examples: how to plant Kentucky Bluegrass, how much fertilizer does my yard need, best lawn care service in Michigan, cheapest lawn care service near me, free estimates for lawn maintenance, etc.

Many business owners want to rank at the top of Google for head terms. If you're operating a lawn care service, wouldn't it be great to be number one for "lawn care"? The truth is, not really. First, you'd be competing with every other lawn care service that exists online, which means bringing a very big budget. Second, most searches on the internet (over 70%) are actually for those long-tail keywords. If someone searches for "lawn care," they could be looking for a service, but they could also be looking for jobs, tutorials to do it themselves, statistics and facts, or any number of other things unrelated to your business.

But if someone searches for the long-tail keyword "free estimate for lawn mowing near me," you know they are shopping around for services. If you can rank well for that search (and other searches like it), then you are going to attract more qualified potential customers — and you'll be able to provide them with more targeted messaging.

And not all of the best keywords to rank for are going to be focused on sales. A person searching for "how to plant Kentucky Bluegrass in Michigan" might be interested in lawn care services too — but they might not even know it yet. If you provide a helpful article for them and they find it in search engine results, they might visit that page on your website, browse around your site and realize your lawn care services could make their life easier. By targeting a long-tail keyword with your content, you just created a potential customer.

So, website content should target a wide range of keywords. One of the easiest ways to balance the two is to base your core website pages (your homepage and pages about your products and services) around head terms and then write blogs based around long-tail keywords.

Keep in mind that search engines today are much smarter than in years past, and they can figure out the overall context of a webpage. If you want to write a page based around the keyword "lawn care services," you don't have to say "lawn care services" over and over when you write the page. In fact, doing that can make search engines ignore your website. Just write helpful information about lawn care and your products and services, using the term "lawn care services" once or twice (especially in the page title and main heading), and search engines will notice and understand what your page is about.

Also, search engines can recognize when keywords are similar and treat them as interchangeable. For an example, go to an online search engine and search for "lawn care services," then try another search for "lawn maintenance services." You'll most likely see a lot of the same results, with maybe a few small variations. So, your website probably doesn't need two separate pages for "lawn care services" and "lawn maintenance services." The main lawn care page can target both terms.

OTHER SEO TACTICS

In addition to creating quality content, you can also improve your website's SEO by:

- ▶ Improving the website's structure — reducing the depth of your site's navigation, getting rid of old content, fixing or removing links that don't work, etc.
- ▶ Reducing your site's load times
- ▶ Making your site mobile-friendly
- ▶ Attracting links naturally from other websites by publishing useful content like blog articles

SEO TACTICS THAT DON'T WORK INCLUDE:

- ▶ Repeating the same keywords over and over on a page or cramming as many different keywords as possible into a page
- ▶ Creating lots of different pages and posts that mostly contain the same information
- ▶ Paying other websites to link to your website

Optimizing your site for search engines can take a while to deliver results, but the results you do receive from SEO will tend to be very sustainable, meaning they will build over time without additional spending and will remain stable even if you have to cut back on spending for a while.

Attract New Business Through Social Media

Marketing your business on social media is a low-cost, low-risk form of marketing that only becomes more important as younger audiences get older and become the prime consumers of most products and services. Most young people today were raised with social media platforms and take them for granted as a part of their everyday lives. And people from a wide variety of demographics regularly use popular platforms like Facebook and Twitter.

Some of the benefits of social media for small businesses include:

- ▶ The ability to promote awareness of your brand and content among new and different audiences, some of whom you might not be able to reach any other way
- ▶ Building a dedicated following and keeping your existing customers engaged with your brand
- ▶ Improving performance in local search results (the location-specific results that appear at the top or side of many search engine results pages)

Note that many social media platforms offer “sponsored posts” and other types of premium posts that businesses can purchase for greater visibility, but you don’t need to spend any money to create the social media profiles that can help your business reach more potential customers.

Some of the most popular and well-established social media sites include:

FACEBOOK



GOOGLE MY BUSINESS



YOUTUBE



TWITTER



INSTAGRAM



YELP



LINKEDIN



SNAPCHAT

At a minimum, almost every business should have a Facebook page. Almost 70 percent of people in America use Facebook regularly, and businesses who don't have a Facebook page will miss out on lots of potential opportunities to get their brand and messaging in front of potential customers.

You should also create a listing for your company on Google My Business. Google My Business is Google's free listing service for businesses, and it also provides some social media capabilities. Creating your company's Google My Business listing won't cost you anything, and it will help your business appear in local search listings and maps results when potential customers in your area search for products and services similar to what you offer.

To create your Google My Business listing or to claim and update an existing listing for your business, visit:

google.com/business/ 

Consider Pay-Per-Click (PPC) Advertising and Other Paid Online Advertisements to Gain New Visitors to Your Site

If you've used a search engine before, you may notice that when you perform your search, you receive results labeled "AD" that appear first. Pay-per-click advertising lets your business bid money to appear in these ad results. With PPC ads, you pay a fee each time someone clicks on your ad. When the user clicks your ad, they'll arrive at a page of your choosing on your website.

Every search engine has its own system for buying PPC ads. If you want your business to appear in the ad results at the top of Google searches, for example, then you'll need to create an account with Google Ads.

Note that with PPC advertising, you pay each time someone clicks your ad, not each time someone becomes a customer or client. You can spend lots of money getting clicks and still receive no customers or clients at all, especially if the webpage where your ads lead doesn't grab users' attention or offer a clear value proposition and a quick call to action.

PPC ads at the top of search results aren't the only type of paid online advertisements, though. You can pay for your advertisements to appear as display ads, which are banners and images on other websites. You can also create video ads and pay for them to run before videos on sites like YouTube. You can develop retargeting ads that follow your website visitors to other sites after they leave. You can pay for your company to sponsor content like blog articles on other websites. You can pay to run a variety of social media ads. There are lots and lots of options.

With so many options, creating and managing online ads can become complex, and it's easy to spend lots of money on these types of ads without getting significant returns, especially if you're new to online marketing. If you think online ads could be particularly helpful to your business, you may want to consider working with a marketing agency who can manage your online ad campaigns for you. Paid online ads also won't deliver useful results if you haven't already established a strong online presence, so it's best to think of paid online advertisements as a "next step" you can consider after you've built a website, worked to optimize your website for search engines and created social media profiles for your business.

You Have Visitors to Your Website — Now What?

Once visitors get to your website, the quality and helpfulness of your content (including blogs, videos, images and website copywriting) as well as the user-friendliness and visual appeal of your website will decide whether visitors stay to learn more about your products or services.

Common reasons that website visitors quickly leave a website (or “bounce,” in online marketing terms) include:

- ▶ Long load times
- ▶ Unappealing design
- ▶ Confusing structure or lack of clear navigation options
- ▶ Annoying popups or other intrusive ads

For users who stay on your website, you want to provide not only educational content like blog articles they can browse if they just want information, but also content that can make potential customers feel more familiar with your brand and begin to trust you.

Examples of content that can develop trust in potential customers include:

- ▶ Testimonials from happy customers or clients
- ▶ Case studies that explain how you met a client’s or customer’s unique needs
- ▶ Information about you as a person and other key people from your business’s team
- ▶ Stories of your business engaging with the community in a positive manner
- ▶ Pictures of your company, your products and satisfied customers

However, even after viewing this information, many potential customers won’t feel ready to trust you with their hard-earned money just yet. For those customers, your goal is to gather their contact information by getting them to fill out a contact form on your website. Remember that your customers’ contact information is valuable to you, so you’ll have to offer them something of value in return for it. Examples of items you can offer in exchange for contact information include:

- ▶ Discounts, coupon codes and other promotional offers
- ▶ Chances to win prizes like apparel and other promotional items (“swag”)
- ▶ In-depth pieces of content, like infographics and ebooks, that provide lots of information about a topic that interests your potential customers
- ▶ A subscription to your company newsletter (which may itself provide additional promotional offers)

The most effective website contact forms are simple and only require a name and an email address. If your business absolutely needs a phone number or mailing address to follow up with a lead, then you can ask for that information, but the number of website visitors who fill out your contact forms will drop dramatically with every additional piece of information you ask for.

Always Follow Up With Online Leads!

Once a website visitor gives you their contact information, they become a lead. That’s an important step, but the process of turning them into a customer is far from complete, and many businesses struggle to follow up with online leads effectively.

Many business owners think it’s acceptable to follow up with leads within a day or so, but studies show otherwise. In fact, experts have determined that you’re 100 times more likely to reach a lead and 21 times more likely to qualify that lead (meaning find out if they’re a realistic prospect or not) if you follow up within the first 5 minutes of them contacting you compared to following up within 30 minutes. And after 20 hours have passed from the initial contact, studies show there’s nothing you can do to improve your chances of contacting a lead and qualifying them — every call you make after that point only hurts your chances.

Certain businesses may be able to manage this problem by being extra-vigilant and dropping everything to contact a lead whenever one comes in. However, with online marketing, leads can come in at all hours of the day, even at night.

Various digital tools exist that can help you make sure no lead slips through the cracks and that every lead receives almost immediate follow-up, especially once you start getting more leads from your website than you can handle on your own. Options include:



CALL CENTERS

You contract with a call center company that hires and trains employees to speak with leads and do some of the initial qualification work for you before passing the lead to you.



MANAGED LIVE CHAT

You contract with a company that installs a chat popup on your website where visitors can chat with a trained representative. (Sometimes the initial chat will even be conducted by a software program that will ask for basic information and then refer the lead to a representative after that.)



EMAIL MARKETING

You create pre-built email messages that leads automatically receive after they fill out a contact form on your website. These emails can offer information that’s more tailored to the lead compared to what’s on your website. Many online tools allow you to deliver emails that are personalized to include the lead’s name and customized around the lead’s interests.

For some businesses, none of these options can replace the personal touch of a direct phone call or face-to-face interaction with a lead. However, these digital tools can help keep a lead engaged and keep your brand at the top of their mind long enough for you or a sales representative to contact them while they’re still excited about talking to you.

Never Stop Improving Your Online Marketing

Google provides data to most website owners for free. Data helps you answer questions like:

- ▶ Where are my website's visitors coming from?
- ▶ How many of them are becoming leads?
- ▶ Which marketing strategies are giving me the best return on my investment?

To start receiving this data, you'll need to sign up for a Google Analytics account and add a tracking code to your website. (Google has resources related to Google Analytics that can walk you through this process.) Once you add the code to your website, Google will start collecting data. Before long, you can start viewing that data.

If you browse through the data for your website, you'll see data like:

USERS

This is the number of people who visited your website or a specific page over a given time period.

PAGE VIEWS

This number tells how many views a particular page or set of pages received.

AVERAGE TIME ON PAGE

This is the average amount of time users spend looking at a particular page or set of pages.

BOUNCE RATE

This is the percent of visitors who leave a particular page without doing anything else on your site.

It can be hard to know what to make of these numbers at first, and even when they show improvement, it won't necessarily translate to more customers and revenue for your business right away. However, if you see your users, page views and average time on page going up over time, then you'll know you're at least on the right track in terms of developing and promoting your website. Bounce rate should trend downward over time. If you don't see improvement in these numbers or they start moving in the wrong direction over the long term, then it's probably time to re-evaluate what you're doing.

Managing Online Reviews

Most consumers today read online reviews when looking for a business or while shopping for specific products and services, so receiving good reviews can play an extremely important role in attracting new customers. Since reviews are so critical, sitting and waiting for them to come in isn't enough. Instead, you should personally talk to your happy customers about leaving a review. Automated email messages are also one of the most reliable and least annoying ways to follow up with your customers so you can ask them to write a review. You should not offer monetary incentives for reviews, and you should not ask customers to leave a review while they are at your business.

And if your company receives a negative review, don't panic. Instead, respond quickly but keep a level head. Don't argue with the customer. Instead, respond politely and sympathetically. First, acknowledge their issue and then offer to make things right. If possible, offer to contact the customer offline and follow up with them further.

Unfortunately, scammers know about the power of online reviews, and sometimes they'll make up a negative review to try and get something from a business, even if they've never had any previous interaction with that business. If this happens to you and you're sure it's not a legitimate complaint from a real customer, try to contact the company operating the review platform — whether it's Google, Facebook, Yelp or another site — to explain the situation and ask them to remove the review.

Judging the Success of Your Marketing Strategies

No matter what marketing tactics you use, it's important to track results and make sure your marketing efforts are delivering a clear return on investment (ROI). Remember the key performance indicators (KPIs) you established in your marketing plan and try to track them for every marketing tactic you implement.

Just because a tactic doesn't succeed instantly doesn't mean it's time to throw it away. It takes time to develop strong messaging and identify the best channels to reach your target audience. However, you may need to discard tactics that consistently fail to deliver returns, even after many adjustments.

On the other hand, don't assume because a tactic has worked in the past that it will continue to work in the future. Markets are always changing, and so are your customers. Even the most tried-and-true strategies need to be continuously evaluated based on KPIs and then adjusted or discarded if they're no longer delivering results.

I've Created My Plan — What's Next?

Now that you've got a marketing plan, you know how to concentrate your limited resources on the greatest opportunities to increase sales so you can achieve a sustainable competitive advantage. You may want to draw from your marketing plan, especially your unique value proposition, to create a brand positioning statement. Your brand positioning statement should be a short (just a paragraph or two) internal document that communicates your brand's unique strengths in relation to your competitors.

A brand positioning statement should clearly answer:

- ▶ Why should potential customers buy from you, and why should current customers keep coming back?
- ▶ When current and potential customers hear your company name, what should they think of?

The value of an effective brand positioning statement is that anyone in the company should be able to refer to it and quickly evaluate whether a marketing strategy or other business decision aligns with your brand positioning. If it doesn't, then you may want to re-evaluate that strategy or decision.

Finally, remember that a marketing plan is always a work in progress. Every aspect of the plan, whether it's your SWOT analysis, your target audience segments and personas or your mix of tactics and strategies, should be re-examined on a regular basis to respond to changes in the market and the ongoing evolution of your business.

.....

HIRING YOUR FIRST EMPLOYEE





Hiring Your First Employee

Craft Your Hiring Strategy

Employees add another layer of complexity to your business that requires careful consideration and planning. It is important to hire the right people, train them well, keep them happy so they will stay and meet your tax obligations and other legal requirements.

Hiring and managing employees requires good recordkeeping systems, careful compliance and a formal training plan to assure consistency and quality in performance. We encourage the following best practices:

- ▶ Prepare a written job description that indicates exactly what is expected of each employee. Make sure to set measurable metrics you can use to conduct performance reviews for each job.
- ▶ Develop at least a simple employment handbook that outlines the following:
 - The mission and vision of the business
 - Employment policies such as work periods, time-keeping, holidays, etc.
 - Standards of employment.

There are many resources available that provide a framework for developing an employee handbook that meets state and federal legal compliance.

- ▶ Establish a hiring process. A resume is a good way to get a first impression of a candidate. From there, selected candidates should complete an application form and schedule an interview. Ask each candidate for the same position the same questions and document the interview. There are many good sample sets of structured interview questions and application forms on the internet. Depending on the skill required for the position, many employers ask candidates to perform a trial assignment or take an aptitude test.
- ▶ It can also be helpful to have a stated 30- or 90-day introductory period during which employer and employee can evaluate skills and compatibility with the organization and the position. Be sure to have a written declaration (handbook, application form or otherwise) that employment is “at will,” meaning the employer or employee may terminate the employment relationship at any time with or without cause or prior notice.

In some cases, it may make sense to start slow and hire an intern before you hire a full-time employee. Hiring an intern is often a more affordable and practical option for small businesses that are just starting out.

One place to start looking for your next great hire in Michigan is mitalent.org/employer. The U.S. Small Business Administration’s (SBA) also provides a wealth of online resources for hiring at:

[sba.gov/starting business/hire retain employees/hire your-first employee](https://sba.gov/starting-business/hire-retain-employees/hire-your-first-employee) 

The Importance of Professional Assistance

Many business owners are wary about the cost of hiring professional consultants. But the expense of using skilled professional consultants can be insignificant compared to the gains you could make by putting your time to revenue producing activity — or the costly consequences you could avoid if you don't make the mistakes of failing to adhere to regulations, failing to submit documents, or making uninformed decisions.

There is no substitute for professional services to keep a business operating within financial and legal parameters. Professionals can assist with every aspect of a business, and they may be a good bridge as you grow from where you are now to hiring more full-time staff.

Listed below are some of the most important professional services most businesses need, especially early on.

- ▶ Financial consultants can help you handle accounting, bookkeeping, tax prep, and cash flow analysis and projections.
- ▶ Legal consultants can help you with your business organization, contracts, agreements, and other general consulting.
- ▶ Bankers can help with loans, billing, and credit.
- ▶ Information technology specialists can help you set up, manage, and monitor hardware, software, and internet connectivity.
- ▶ Insurance brokers can help you get the coverage you need at a competitive price.
- ▶ Marketing consultants or agencies can help you create your brand, build a website, manage your social media, develop positive public relations, and more.

If you don't have much experience in a particular area of your business, talking to a professional consultant can make your life a lot easier. A lot of small business owners feel bogged down by the daily grind of operations, and you may be able to put your skills to better use by working with outside professionals to handle the nitty-gritty, especially early on when you want to find new, talented employees to help you deliver your products and services to customers.

Technology is a uniquely difficult area for most business owners to handle on their own, especially since it is constantly evolving. Professional services can help you determine which types of software and hardware you need and how you can keep your records and the records of your customers secure.

▶▶▶ DISCOVER MORE ABOUT RECORDKEEPING AND CYBERSECURITY IN ANOTHER CHAPTER: **"FINANCIAL MANAGEMENT"**

Employee vs. Contractor

If you don't have enough work for someone to join your team full time, hiring outside contractors or temporary help is also an option. However, important distinctions exist between employees and contractors. No matter who is helping you get the work done, their employment status will affect your tax burden, liability and benefit costs. The question of employee vs. contractor is a critical issue that does not have a simple answer and can have significant consequences. For example, if you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes and penalties.

The IRS can apply many different tests to determine whether an individual is an employee or contractor. If you are considering using contractors instead of employees for your business, be sure to consult with a competent tax advisor before making a decision.

INDEPENDENT CONTRACTORS

People such as doctors, dentists, veterinarians, lawyers, accountants, contractors, subcontractors, public stenographers or auctioneers who are in an independent trade, business or profession and offer their services to the general public are generally considered independent contractors. However, whether these people are independent contractors or employees depends on the facts in each situation.

The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done. The earnings of a person who is working as an independent contractor are subject to self-employment tax.

HELPFUL TIPS FOR DECIDING IF SOMEONE IS AN INDEPENDENT CONTRACTOR

Three types of evidence can help determine if the person has enough control and independence over their work to be considered an independent contractor:

Behavioral

Does your company control or have the right to control what the worker does and how the worker performs his or her job?

Financial

Are the business aspects of the worker's job controlled by the payer? These factors include how the worker is paid, whether expenses are reimbursed, who provides tools and supplies, etc.


Type of Relationship

Are there written contracts or employee type benefits in place for insurance, vacation pay, retirement, etc.? Will the relationship continue? Is the work being performed a key aspect of your business?

You need to consider all of these factors to determine if a worker is an independent contractor. And it may not be a simple answer; some factors may indicate that the worker is an employee, while others indicate that the worker is an independent contractor. No set number of criteria makes the worker an employee or an independent contractor, and no one factor stands alone in making this determination.

The keys are to look at the entire relationship, consider your ability to direct and control the work and document exactly how you determined whether someone would be considered an employee or independent contractor.

Form SS-8

If, after the evidence, you and the worker are still not sure about their status, Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding (PDF) can be filed with the IRS: irs.gov/pub/irs-pdf/fss8.pdf 

The IRS will review the facts and circumstances and officially determine the worker's status. Unfortunately, it can take six months or longer to get an answer. If you continually hire the same types of workers to perform particular services, it may be a good idea file Form SS-8.

For more information on determining the differences between independent contractors and employees, you can refer to the IRS website: irs.gov/Businesses/Small-Businesses-&Self-Employed/Independent-Contractor-Self-Employed-or-Employee. Or you can consult with a qualified human resources professional.

Training and Developing Employees

Training employees is extremely important. You want well-qualified employees who properly and consistently represent your business, add value to your brand and image, maintain the quality you expect and build customer goodwill. A well-defined company policy handbook along with job descriptions that outline duties, responsibilities, ethical standards and criteria for success are important employment tools.

To assure consistency and the quality of your employees' work, we suggest that you continually document your steps, processes and requirements for specific tasks or activities and that you create a training plan to ensure every employee understands these expectations and requirements. Cross-training employees in areas outside their job descriptions can also be very beneficial for small businesses. Some employers may also choose to invest in their employees by giving them opportunities and incentives for specialized or advanced education and training.

To keep employees motivated and involved with the business, develop and maintain effective strategies and methods of two-way communication. Many business owners find it beneficial to include employees in strategic, operational and process planning and to work together to set individual goals that contribute to achieving overall business objectives.

Create Clear Expectations With an Acceptable Use Policy

In addition to open communication, you should make sure to clearly outline expectations with your employees. A handbook and clear job description can help employees understand what they do and how they should act as an employee, and acceptable use policies are guidelines and expectations a business should provide for employees to understand what is or is not allowed in the use of company-owned property. For example, you may have policies defining the acceptable use of company vehicles, copy machines or other types of machinery and equipment.

Given the high level of technology integration in businesses today, having an acceptable use policy related to your company's technology equipment and systems is also extremely important. You may also wish to add policies regarding acceptable or prohibited use of personal technology devices in the workplace. Acceptable use policies serve as a means of limiting your liability should an employee misuse company equipment. They can also serve as a means of limiting workplace and workflow disruption.

Any policy should be understood by every employee, and acknowledgment of the policy or policies should be documented by a signed and dated receipt for the policy document. Reading and signing documents should be incorporated into new employee onboarding and training.

New Hire Reporting Requirements

Employers in all 50 states are required by federal law to report their new hires and re-hires to a state directory to expedite the collection of child support payments. This requirement establishes the employers' role as a key partner in efforts to facilitate a family's financial stability and for children to get the support to which they are entitled. You must report the following:

- ▶ New employees who reside or work in the State of Michigan to whom the employer anticipates paying earnings. You must report employees, even if they work only one day and are terminated.

- ▶ Re-hires or recalled employees who return to work after being laid off, furloughed, separated, granted leave without pay or terminated from employment after 60 days. Employers must also report any employee who remains on the payroll during a break in service or gap in pay and then returns to work after 60 days. This includes teachers, substitutes, seasonal workers, etc.
- ▶ Temporary agencies must report any employee who they hire to report for an assignment. You only need to report employees once; they do not need to be re-reported each time they transfer to a new client. They do need to be reported as a re-hire if the worker has a break in service or gap in wages.

For more detailed information and reporting forms, contact the Michigan New Hires Operations Center at **800-524-9846** or by visiting:

[mi.newhire.com/mi Newhire/default.aspx](https://mi.newhire.com/mi/Newhire/default.aspx) 

Payroll Taxes

Any business with employees must comply with federal and state payroll tax withholding requirements. It is critical that you understand the various deadlines and requirements, or that you use the services of someone who does. The major types of payroll taxes in Michigan are:

- ▶ Income Tax Withholding (federal, state, and, if applicable, local)
- ▶ Federal Social Security and Medicare Tax (FICA)
- ▶ Federal Unemployment Tax Act (FUTA)
- ▶ Michigan Unemployment Tax (UIA)

Every employee of your business is subject to these taxes — including you. Typically, business owners can expect to pay about 16% of their draws to satisfy the four types of taxes listed above. More information about the different payroll taxes is provided in the following sections.

INCOME TAX WITHHOLDING ▼

Any employer of one or more persons must withhold federal and state income taxes from wages paid to employees. A city income tax may also apply. To find out if a city levies a tax, contact that particular city tax assessor or city treasurer. Each employee should complete a Federal Withholding Exemption Certificate (W-4) and a Michigan Withholding Exemption Certificate (MI-W4). Your business will then need to withhold a designated amount of taxes from each employees' wages, including the following:

Federal

For more information about federal income tax withholding, contact the IRS at **800-829-4933** or visit: irs.gov 

State


Before hiring employees, an employer must register online at mto.treasury.michigan.gov or by contacting the Michigan Department of Treasury at **517-636-4660**. State filing requirements vary based on the amount of state taxes that need to be withheld. You can also refer to the Michigan Business Taxes Registration Booklet, available online at:

https://www.michigan.gov/documents/taxes/518_10_17_605471_7.pdf 

City or Local


Contact your city treasurer to determine if a city income tax is applicable for your new employees. If the city does have an income tax, the city treasurer can provide the required registration forms.

SOCIAL SECURITY AND MEDICARE WITHHOLDING ▼

In addition to federal income taxes, federal law also requires that employers withhold and deposit Social Security taxes from employees' wages. The employer must also pay an equal amount. Tax rates and maximum earnings subject to tax may vary from year-to-year. The latest information is available at irs.gov  or by calling

800-829-4933.


FEDERAL UNEMPLOYMENT INSURANCE ACT ▼

The Federal Unemployment Insurance Act gives authority to the IRS to collect fees and for the U.S. Department of Labor to pay administrative expenses in order to operate state unemployment systems. If you file an application for an employer identification number (EIN) with the IRS and indicate that employees will be hired, the IRS will mail a packet of information that includes forms for FUTA tax deposits and an annual report form. For more information about the FUTA tax, forms and deposit requirements, contact the IRS at **800-829-4933** or online at: irs.gov 

STATE UNEMPLOYMENT INSURANCE ▼

The Unemployment Insurance Agency (UIA) operates Michigan's unemployment insurance program, which collects unemployment taxes from employers and provides temporary income for workers who are unemployed through no fault of their own. Employers pay both state and federal unemployment taxes, and no deductions can be made from an employee's wages to cover these taxes.

Any business that employs one or more persons in Michigan is considered a contributing employer and is required to register with the Unemployment Insurance Agency. UIA offers an online process to register for and receive your UIA Employer Account Number, which is faster, easier, more convenient than mailing in forms.

With online registration, you can receive your UIA Employer Account Number, which is faster, easier, more convenient than mailing in forms. With online registration, you can receive your UIA Employer Account Number in less than three days. To register online go to: michigan.gov/uia/0,1607,7_118_89978_00.html 

The Michigan Business Taxes Registration Booklet also contains Form 518 for paper registration, and it's a good reference tool to have on hand even if you're registering online. It is located at:

michigan.gov/documents/518_3620_7.pdf 

A contributing employer is required to file tax reports with the UIA at the end of each calendar quarter and pays a state unemployment tax based on the rate applied. Contribution rates and requirements vary. Visit michigan.gov/uia or call the UIA at **800-638-3994** to learn more.

Ensure Your Compliance With Employment Laws and Regulations

Employers have legal and ethical obligations to provide a safe and equitable workplace. You must follow state and federal regulations governing workplace health and safety, as administered by the Michigan Occupational Safety and Health Administration. MIOSHA's Consultation Education and Training (CET) Division offers free statewide safety and health assistance to employers and employees with a wide range of customized services to assist managers and staff in creating and maintaining a safe, healthy workplace. To learn more about CET services, call **800-866-4674** or download an information flyer at:

michigan.gov/documents/dleg/wsh_cet0165_216929_7.pdf 

Michigan employers must also display certain posters in the workplace, and posters are available for free from various government agencies. A few key posters and the associated regulations are listed below, but there may be more poster requirements for your business if you have additional requirements under federal or state jurisdiction.

At the end of this chapter, we have a larger list of state and federal required posters and agency contact information. For general information on safety posters, go to:

AMERICANS WITH DISABILITIES ACT ▼

Employers are required to comply with the Americans with Disabilities Act (ADA). The ADA gives civil rights protections to individuals with disabilities similar to those provided to individuals based on race, color, sex, national origin, age and religion. The ADA prohibits job discrimination against people with disabilities if they can perform the job's essential functions with or without reasonable accommodations, and it guarantees equal opportunity for individuals with disabilities in public accommodations, employment, transportation, state and local government services and telecommunications.

For publications and technical information about the ADA, contact the U.S. Department of Justice by phone at **800-514-0301** or online at:

ada.gov 

DRUG-FREE WORKPLACE ▼

Employers need to be aware of issues involving employees' use of drugs and alcohol and how that can affect their work and your workplace. For additional information about programs to make the workplace free of drugs and/or alcohol, contact the Substance Abuse and Mental Health Services Administration (SAMHSA) at

800-967-5752 or by visiting: samhsa.gov 

EQUAL EMPLOYMENT OPPORTUNITY ▼

The U.S. Equal Employment Opportunity Commission (EEOC) is responsible for enforcing federal laws that make it illegal to discriminate against a job applicant or employee based on the person's race, color, religion, sex (including pregnancy, gender identity and sexual orientation), national origin, age, disability or genetic information. It is also illegal to discriminate against a person because the person complained about discrimination, filed a charge of discrimination or participated in an employment discrimination investigation or lawsuit. Of the many antidiscrimination acts within EEOC, three standouts include:

Age Discrimination in Employment Act

This prohibits any form of discrimination against applicants or employees older than 40 because of their age.

Equal Pay Act (EPA)

Employers can't pay female employees less than male employees for equal work on jobs that require equal skill, effort and responsibility.

Pregnancy Discrimination Act (PDA)

This act prohibits job discrimination based on pregnancy, exclusively as it pertains to an employee's ability or inability to work.

FAIR LABOR STANDARDS ACT (FLSA) ▼

The Fair Labor Standards Act (FLSA) establishes a minimum wage, overtime pay requirements, recordkeeping regulations and youth employment standards covering employees in both the private sector and in federal, state and local governments.

Employees whose jobs are governed by FLSA are either "exempt" or "nonexempt." Nonexempt employees are eligible for overtime pay, and exempt employees are not. For an employee to be classified exempt from overtime FLSA requirements, the job must meet strict salary and duty tests. To learn more, you should consult with a qualified human resources professional or employment lawyer. For further information about FLSA, visit:



FAMILY AND MEDICAL LEAVE ACT ▼

The Family and Medical Leave Act (FMLA) allows employees with at least a year of service to take up to 12 weeks per year of unpaid, job-protected time off for the birth of a child or adoption of a child or to care for themselves or a sick child, spouse or parent who has a serious health condition. The FMLA applies to organizations with 50 or more employees. For more information, go to the U.S. Department of Labor's website at



MICHIGAN MINIMUM WAGE LAW ▼

Minimum wage can vary over time and can be different at the federal and state level. Employers subject to both state and federal minimum wage law should pay the higher applicable rate of those two.

Public Act 138 applies to employers in Michigan that have two or more employees age 16 and older. The law covers minimum wage, overtime, compensatory time and wage rates for tipped employees. For more detailed Michigan minimum wage information visit:



or call the Wage and Hour Division at **517-284-7800**.



Immigration documentation must be kept separate from personnel records and

NEVER INSERTED INTO AN INDIVIDUAL'S PERSONNEL FILE.

PATIENT PROTECTION AND AFFORDABLE CARE ACT ▼

While there may be changes in the future to the Patient Protection and Affordable Care Act (also known as the Affordable Care Act or ACA), at the time of this guide's printing, the regulation was still in effect. It was designed to ensure that Americans have access to quality, affordable health insurance.

- If you have no employees, ACA does not apply to you.
- Generally, an employer with fewer than 50 full-time employees or equivalents will be considered a small employer and is not required to provide health insurance coverage for employees.
- Employers with 50 or more full-time employees or equivalents will be considered a large employer and have responsibilities related to how and what health insurance they offer to their full-time employees.

More details on the Affordable Care Act as it applies to small or large businesses, and as it may change over time, can be found at irs.gov/affordable-care-act/employers. For enrollment information as well as how the Affordable Care Act may affect your business, visit [HealthCare.gov](https://www.healthcare.gov).

UNIFORMED SERVICES EMPLOYMENT AND REEMPLOYMENT RIGHTS ACT ▼

The Uniformed Services Employment and Reemployment Rights Act (USERRA) makes it illegal to discriminate against employees who volunteer or are called to military duty. When reservists return from active duty tours of less than five years, they must be reemployed to their old jobs or equal jobs. To discover more about USERRA, visit:

dol.gov/vets/programs/userra/userra_fs.htm 

For more information about employment laws and discrimination, you can contact the Michigan Department of Civil Rights online by visiting michigan.gov/mdcr or by calling **517-335-3165**. For EEOC information, visit [eeoc.gov](https://www.eeoc.gov) or call **800-669-4000**.

Health and Safety Standards

Employers are required to comply with federal and state health and safety standards and laws through the Michigan Occupational Safety and Health Act (MIOSHA). For a complete set of safety and health standards by industry, contact MIOSHA at **517-284-7777** or online at:

michigan.gov/miosha 

TRACKING WORKPLACE INJURIES AND ILLNESSES

An often-overlooked key component of MIOSHA standards is the requirement for employers to record and report workplace injuries and illnesses. Failure to do so can result in citations and penalties. Each employer is required to keep records of:

- ▶ Work-related fatalities (must be reported within eight hours to the current fatality line 800-858-0397)
- ▶ Injuries and illnesses that meet one or more of the general recording criteria including days away from work
- ▶ Restricted work
- ▶ Transfer to another position
- ▶ Medical treatment
- ▶ Loss of consciousness
- ▶ Significant injury or illness diagnosed by a health care professional
- ▶ Work-related amputation, loss of an eye or in-patient hospitalization of any employee (must be reported within 24 hours of the incident).

MIOSHA provides forms for recording and reporting as well as an online system. For more information, visit michigan.gov/lara/0,4601,7-154-11407_30929---,00.html or phone MIOSHA at **517-284-7777**.

WORKERS' COMPENSATION

All states require employers to carry insurance coverage for employees' work-related illnesses and injuries. Benefits are usually paid through an insurance company on behalf of an employer, though some larger businesses may be approved for self-insurance.

Approximately 500 different rating classifications for workers compensation insurance exist based on the type of business an employer operates. Premium rates for a given classification vary widely among insurers. Insurers also have different merit and experience rating plans, schedule-rating plans and premium discount tables, which can affect an employer's final premium cost, so shop carefully.

Additional information and assistance are available at the Workers' Compensation Agency of the Michigan Department of Licensing and Regulatory Affairs. Call **888-396-5041** or visit:

michigan.gov/wca 

Required Workplace Posters for Michigan

The following is a list of Michigan required workplace posters and where they can be obtained.

Annual Summary of Injuries and Illnesses, Form 300

michigan.gov/lara/0,4601,7-154-89334_11407_30453-174563--,00.html

Michigan Employment Security Act Notice to All Employees

michigan.gov/documents/uia/1710_Notice_to_All_Employees_Poster_3-16_516388_7.pdf

Michigan Law Prohibits Discrimination

michigan.gov/documents/mdcr/Discrimination_poster_2017_2_554046_7.pdf

Michigan Safety and Health Protection on the Job

michigan.gov/lara/0,4601,7-154-89334_11407_30453-174563--,00.html

Material Safety Data Sheets (MSDS)

michigan.gov/lara/0,4601,7-154-89334_11407_30453-174563--,00.html

Michigan Wage and Hour Posters Required by Law

michigan.gov/lara/0,4601,7-154-59886_27909-152535--,00.html

Michigan Whistleblowers Protection Act

michigan.gov/lara/0,4601,7-154-89334_11407_30453-174563--,00.html



Required Federal Workplace Posters

The following is a list of workplace posters required by the federal government and where they can be obtained.

Job Safety and Health: It's the Law!

[osha.gov/Publications/osha3165-8514.pdf](https://www.osha-slc.gov/Publications/osha3165-8514.pdf)

Equal Employment Opportunity Is the Law

www1.eeoc.gov/employers/poster.cfm

Fair Labor Standards Act (FLSA) Minimum Wage Poster

[dol.gov/whd/flsa/](https://www.dol.gov/whd/flsa/) (you may need to scroll down the page to find links to the posters)

Employee Rights for Workers With Disabilities Paid at Subminimum Wages

[dol.gov/whd/regs/compliance/posters/disabc.pdf](https://www.dol.gov/whd/regs/compliance/posters/disabc.pdf)

Employee Rights Under the Family and Medical Leave Act

[dol.gov/whd/regs/compliance/posters/fmlaen.pdf](https://www.dol.gov/whd/regs/compliance/posters/fmlaen.pdf)

Employee Rights Under the National Labor Relations Act

[nlrb.gov/news-publications/publications/employee-rights-poster](https://www.nlr.gov/news-publications/publications/employee-rights-poster)

Your Rights Under USERRA: The Uniformed Services Employment and Reemployment Rights Act

[dol.gov/sites/dolgov/files/VETS/legacy/files/USERRA_Private.pdf](https://www.dol.gov/sites/dolgov/files/VETS/legacy/files/USERRA_Private.pdf)

Employee Rights: Employee Polygraph Protection Act

[dol.gov/whd/regs/compliance/posters/eppac.pdf](https://www.dol.gov/whd/regs/compliance/posters/eppac.pdf)

Other Required Posters for Your Business

Other posters may be required for specific types of businesses or employment circumstances. For more information, visit the United States Department of Labor website: [dol.gov/general/topics/posters](https://www.dol.gov/general/topics/posters).



LAFLEUR™

Design, copywriting, and editing assistance provided by LaFleur. LaFleur is your forward-thinking marketing partner. We create innovative, data-driven marketing strategies and assets for law firms, healthcare organizations, and growing businesses just like yours.

Visit us online at lafleur.marketing or call **888-222-1512**



Funded in part through a cooperative agreement with the U.S. Small Business Administration. All opinions, conclusions or recommendations expressed are those of the author(s) and do not necessarily reflect the views of the SBA.