



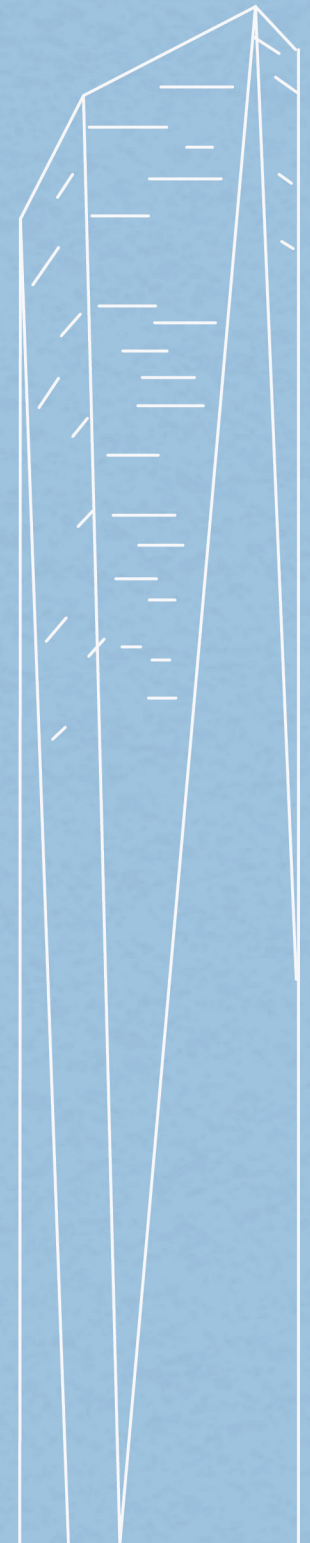
# STARTING A BUSINESS

*A love story*



BELLE WONG

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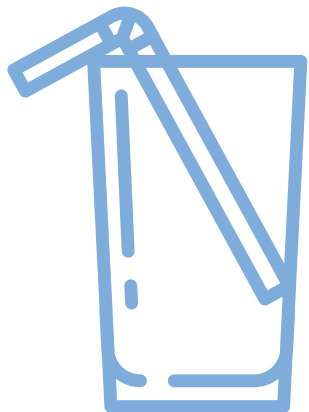


# The Spark

## The Aha Moment

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*Hanna Lim put a straw to her nine-month-old daughter’s lips—the first time ever—and was surprised to see her start drinking with ease. Hanna had no idea such a simple moment would change her life completely.*



Rather than wean her daughter with a traditional sippy cup, she would follow her pediatrician’s recommendation to use a straw cup instead. However, after purchasing several toddler straw cups, she discovered none was effective: “My daughter couldn’t get anything out of them because the spill-proof valves make sucking difficult. That’s when the idea for the Lollacup popped into my head.”

*The “aha” moment came for Alex Velez and Nikhil Arora when one of their college professors mentioned growing mushrooms in coffee waste. “We both wanted to know more. What was surprising to us was that, in a class of nearly 200 smart students, we were the only ones who thought this idea was intriguing.”*

What started as a throwaway idea grew into the “ready-to-grow” concept behind their gardening and food business, Back to the Roots. “We knew we were on to something when we took our first bucket of mushrooms to chef Alice Waters at Chez Panisse restaurant in Berkeley. She tasted them, smiled, said they were *really* good. We realized then that there might be more to our mushrooms than just a cool story.”

Not every business starts with an “aha” moment like these of Hanna and Alex and Nikhil. But their stories illustrate how often pivotal moments of our lives can appear in unexpected ways, disguised in the everyday. All businesses start somewhere—often nowhere near where you’d expect. Love can be like that, too.

*Regardless of how your idea appears, taking that first step toward owning your own business can feel a bit like standing uneasily on a precipice.*



So, you’ve had a spark of real insight; you feel it in your bones. The same way your eyes might meet those of someone new across a crowded room. But looking over the edge into what comes next can bring up a riot of conflicting feelings—excitement and fear, anticipation and anxiety, confidence and doubt. In lots of ways, it’s like falling in love.

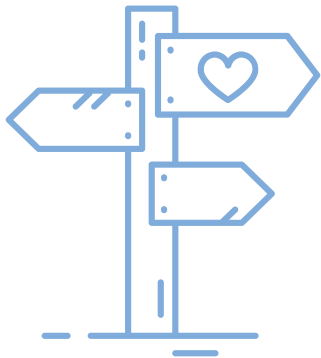
The initial idea is intoxicating—yet, as with personal relationships, starting a business and making it successful takes desire, passion, vision, and a willingness to work.

# I Think I Love You

## Testing Your Idea

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If you read business magazines like *Forbes* or *Inc.*, you know all about the critical need for passion in business. But you've probably also read how starting and building a business means understanding and performing a raft of less-than-passionate tasks.



*Faced with the long, uncertain, often scary days ahead, you'll need passion to sustain you, drive you forward, and provide an emotional foundation to help keep you on track.*

But passion is only the beginning. Once you decide to start a new business, you'll find you've entered into an all-encompassing *relationship* with your new business. And, just like a personal relationship, it's going to need a lot more from you than that initial spark. You'll need to start thinking about commitment, communication, responsibility, long-term maintenance, and growing together successfully.

These are the same factors that drive loving, long-term personal relationships—essential to happy-ending love stories since the dawn of time. But, like anything that puts you at risk, you can expect your share of fears and doubts. On top of that, your day-in-day-out effort won't always be a walk in the park. But it'll be worth it. After all, it is a love story.



## Getting to Know You: a Business Checklist

Before you jump into a new relationship with the potential to change your life, take the time to understand your business idea better. It's deceptively easy to fall in love with an idea's superficial "looks," or to become infatuated with its potential to change the world.

It's time for some preliminary planning—also known as the stage where you get to know your new business idea a little bit better. Take a few moments to mull over the following questions to see if the stars are aligned for you and your idea.

### Your Product Offering

- ❑ **How unique is your product or service?** Is there something that sets you apart from the existing or anticipated competition? How can you leverage this distinction to benefit your business?
- ❑ **Who are your competitors?** To gauge your idea's potential, identify who you'll be going up against. Having too many competitors can be bad for a new business, but *no* competitors might indicate no market demand for your product or service—or it could mean that your idea has the potential to create a whole new market.
- ❑ **How does your offering fit into your intended market?** Will you have to set up distribution channels or will you be able to take advantage of existing ones?

### Your Audience

- ❑ **Who is your target market?** Even if you have a product or service with wide appeal, it's likely that certain groups of customers will make up your ideal target demographic. Knowing specifically who this is will simplify many aspects of running your business, from marketing and product distribution, to the development of future products and services.
- ❑ **How will you reach your target market?** Having a great product or service is a good start, but the success of your business will depend on your ability to communicate about it successfully with customers or clients.
- ❑ **Is there room for growth?** While dominating a niche market can have many benefits, ideally it won't be so niche that there aren't opportunities for expanding the market or moving into new ones in the future.

### Your Partners

- ❑ **Should you take on a partner or partners?** When deciding whether or not to go it alone, be sure to weigh the impact of solo entrepreneurship on your life and that of your family. Running a business alone can be pretty all-encompassing.
- ❑ **If you decide on a partner or partners, who should it be?** Are you confident that you can work well with a potential partner? What will you do if and when there are conflicts? Will your partner's needs and goals be in sync with your own?

## **Your Staff**

- **Will your business need employees?** Will the success of your business depend on your ability to find, hire, and manage staff successfully?
- **If you need to hire staff, should you do so right away?** How critical to your business are the positions your staff members will fill? How immediate is the need for them—or can you function initially without them?

## **Your Funding**

- **How much capital will your business need to get started?** This amount can vary widely, depending on the business and economic factors specific to your particular type of business. It will also depend on the industry you'll be joining.
- **How will you get the funding to start your business?** What funding sources are available to you? Are they lending institutions, family members, personal assets, or something else? How comfortable will you be involving them? How big a deal will it be to get whichever you choose to supply your funding?

## **The Practical Stuff**

### **Business vs. Hobby**

Another important thing to consider is whether your idea is a business or a hobby. It's an important distinction to make, because even though you may have a lot of passion for the activity, turning it into a business might not be the best idea.

Having read this far, think about all that will be required of you:

- **Can you seriously commit to your business idea?**
- **Are you ready to take your idea from hobby to responsibility?**
- **Do you have the endurance that will be required in the long term?**

Or ... would it be better to have your idea or hobby stay fun and fancy free?

*Saying “yes” to a new relationship can be scary, but it’s also exciting. If you’ve done your homework, you know what makes your idea tick—and that you’re ready to get serious.*

Just as with any other relationship, starting up a business and sustaining it takes a lot of work. You need to be ready to do what it takes to get the relationship off the ground, but first you have to decide to jump in.

### ***The Commitment***

You’re going to be pouring your life into your new business (not to mention your money). Now is the time to decide if you’re ready—and if your idea is strong enough for you to persevere through the rough times. Even the most successful entrepreneurs experience bumps along the road.

With commitment and determination, you’ll be better equipped to get through the inevitable problems that come with owning a business.

### ***The Responsibility***

In the first days of your business startup, responsibility might not be something you’re thinking about too often. After all, these are thrilling times—you’re feeling all the excitement and potential of your new business idea.

Once your business idea becomes an actual business, though, reality and responsibility will have to take hold. Once you put yourself out there, you won’t just be responsible for yourself. You’ll be responsible to your clients and customers—for providing the product or services they need; to local, state, and federal governments—for complying with all the rules and regulations that apply to your

business; and to your employees—for their compensation, benefits, and working conditions. That’s a lot of responsibility, so ask yourself if you’re truly ready to take it all on.

### ***The Endurance***

Once the initial excitement of starting your business wanes, you’ll need more than passion to keep things going strong. Falling in love is the easy part, but everything else takes hard work. Just as with any other relationship, there will be times when the passion wanes. How will you sustain your enthusiasm then?

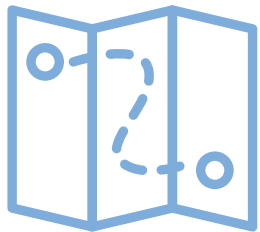
It’s your perseverance—your endurance—that will get you through those challenging times.

*If you’ve determined you have the drive and commitment to start a business, now you’re going to take everything you’ve learned and start planning.*

# Seeing the Future

## *Making a Business Plan*

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*From a practical standpoint, it's important to have a business plan. For one thing, it's crucial if you want to obtain funding, because you'll have to show a plan to prospective investors.*

However, even if you don't feel like you need to obtain financing because you have enough financial resources to get you through the startup phase, it's still a good idea to make a business plan.

Think of it as a road map, something that lays out your vision for where you want your business to go in the next five to ten years and, even more importantly, how you intend to get there. It's a helpful tool for sharpening the vision you have for your business.

## *Facing Your Fears*

Another benefit to preparing a business plan—one you might not have thought about—is that having a road map can help quell your fears and anxiety.

As Mark Lim, husband of Hanna and co-owner of Lollaland, says, “Starting a business is a very lonely path. When most of our peers were getting promoted, taking paid vacations with their families, and going to fancy company parties, we were looking for ways to maximize every dollar. There’s also a sense of dread associated with the uncertainty of a small business, in general. You find yourself second-guessing a lot, and it takes a lot of energy to drown out the negativity and forge ahead.”

When you find yourself waking up at three in the morning, panicked and anxious about the future of your business, reviewing your business plan can remind

you of what’s important. Although you may be facing challenges and uncertainty, you’ve also thought things through and put together your own personal guide—one that will help you get past the obstacles and lead you back to the vision you held for your business back when it was a brilliant idea with a lot of potential.

*When you know what your vision is, you’re better equipped to make decisions that are properly aligned with it.*

“It took some discipline to stop comparing ourselves with our more successful peers and overcome the dread that everything we have could be lost,” Mark said. “But we enjoy our work so much, and our goals are so well-aligned (to build a company that can sustain our family), that the dread is much easier to overcome.”

# The Practical Stuff

## Anatomy of a Business Plan

There's no "one size fits all" when it comes to business plans, but there are some common elements you should cover:

- **Summary** (also known as the Executive Summary). Provide readers with an overview of your business, briefly describing its purposes, as well as how you plan to achieve them. If you're hoping to attract financing, discuss matters like your company's strengths and its profit potential over the next few years.
- **Business description.** Expand on the summary. Go into more depth about your business's goals, as well as the company background, such as why you decided to launch the business in the first place. Explain how you chose your type of business entity and why this particular type is the most beneficial for the company, your creditors, and your investors.
- **Product/service offering.** Describe exactly what your business provides and who it's designed for. Include what particular needs your product or service fulfills, along with the features and benefits. Specify if it's business-to-business (B2B) or business-to-consumer (B2C).
- **Market.** Explain the market research you've done to determine who your target market is. Be sure to include your potential market size; what kind of demand exists now, and how is it predicted to look in the future; what type of competition you will be facing; and how you plan on positioning your product or service.
- **Marketing strategy.** Discuss the objectives and implementation of your marketing plan. Talk about what kinds of marketing strategies you plan to pursue and how you see these strategies affecting how you position your product or service.
- **Business management.** Focus on how you plan to manage your company. Include what roles to you plan to hire for and what skill sets they bring to your company. Also describe how you plan to manage the day-to-day operations, including your production process, if you have one.
- **Sales and forecasts.** Address your potential investors and other financing sources by discussing potential sales numbers. Provide a variety of financial forecasts, based on different possible scenarios.
- **Financing requirements.** State exactly how much money you need, and in what form you want it to be. For example, you may be looking for an operating line of credit or a bank loan, or perhaps you're looking to provide equity shares in your company in exchange for capital.

# Bringing Home the Bacon

## **Money Matters**

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*To put it frankly, money plays a big role in every close relationship. When it comes to the relationship between you and your business, nothing could be more true.*

Even if you plan on starting your business on a shoestring budget, there's no way to escape your expenses. It's enough to cause some seriously sleepless nights. Hanna and Mark Lim know this from experience. "We depleted our savings, cashed out Hanna's IRA, and took on a small business loan, all while starting a family and having children. The possibility of running out of money and not gaining any traction and sales really kept us up at night."

"After getting my MBA, I had a stable job that paid relatively well," Mark said. "I never planned to give up a steady income to start a business while trying to support a family. But, after seeing Hanna's concepts and business plan, I knew we would have to take a leap of faith."

## How Much Do You Need?

You need funds and may have a vague idea where to get some. But first, you're going to have to figure out how much you need. In business parlance, this is called startup capital.



*Just as every love story is unique, every startup will have its own unique startup capital needs.*

Some businesses will be less expensive to set up than others. A home-based consulting business, for example, is probably going to require less startup money than a retail business with a brick-and-mortar location.

If figuring out how much you need feels like a huge task, remember that, while you don't have to be accurate, you do want to be comprehensive. First, get an idea of some of the costs you might be facing, and then take it from there, making sure you've covered all your bases.

## The Practical Stuff

### **Startup Costs and Expenses**

Here are some of the expenses and costs you'll face as you start your business. This is by no means a comprehensive list, so make sure you dig a little further:

- **Legal filing costs** (name search, business registration, etc.)
- **Advisors' fees** (lawyer, accountant, etc.)
- **Permit and licensing fees** (sales tax permit, professional licensing fees, etc.)
- **Production costs** (raw material costs, equipment rental fees, etc.)
- **Site costs** (initial lease payment, site improvement costs, etc.)
- **Marketing costs** (logo design, brochure design, website coding, etc.)
- **Inventory costs** (storage, delivery, etc.)

## Finding the Money

In the early stages of your startup, you're probably not going to be making any profit. Even if you aim to do everything yourself, sweat equity will only cover so much. You can't exactly walk up to your local state office and offer your services in lieu of paying the proper filing fees.



*Once you have a good idea of how much money you'll need at startup, the next step is to figure out how to get the funds you need.*

For most people, the first source of funding that comes to mind is a bank loan, or perhaps personal credit cards. While this a great start in your quest to take care of the bills, there are actually more sources of funding that might be available to you.

## The Practical Stuff

### Funding Sources

Each of these sources has its own requirements and application methods. If you feel you might have trouble getting financing from a more traditional source on the list, it might be worth taking the time to explore some of the other financing options instead.

- **Personal savings**
- **Bank loans, overdrafts, and lines of credit**
- **Credit cards**
- **Grants**
- **Venture capital**
- **Seed funding**
- **Loans from family and friends**
- **Crowdsourcing (like GoFundMe or Kickstarter)**

# A Rose by Any Other Name

## **Naming Your Business**

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*Now it's time to get creative. Your new business deserves a good name, and you want to choose just the right one. It's going to take a little time, effort, and, most likely, a whole lot of brainstorming.*

The name you choose for your business needs to do several things: fit your overall vision (honed during the preparation of your business plan); capture people's attention (in a good way); and meet certain legal requirements.

It's not every day you get to choose a name for a brand new business, so have some fun with it. Choose wisely, though, because you'll be building your business reputation on the name you pick.

# The Practical Stuff

## Legal Requirements for Business Names



Even if you have a perfect name for your business, it's a good idea to brainstorm three to four more, in case your first choice isn't available or doesn't meet the legal requirements. The requirements will vary depending on the state in which you form your new business, as well as the type of entity you've chosen, but, in general, they'll include the following:

- **Required words or phrases.** You might be required to include certain words or phrases, such as "Corp.," "LLC," or "Inc."
- **Restricted words or phrases.** Each state has its own list of prohibited words for business names. For example, if you're registering your company as an LLC, you won't be able to use "Corporation" or "Corp." in your name. There are also certain words, such as "bank," that you might not be able to use in your company name without first obtaining approval from the appropriate government agency. Other words may be strictly prohibited from appearing in a business name.

- **Name availability.** Most states prohibit the use of corporate or LLC names that are identical to names of existing, registered businesses. You'll most likely be required to conduct a search through your state's database of business name registrations to make sure the name you've chosen isn't too similar to an already-registered name. You can get help from an online service provider to do a state business name check and reservation for you.
- **Registered trademarks.** While doing a search of the U.S. Patent and Trademark Office's trademark database won't be legally required by your state, it's still a good move. It can decrease the likelihood of running into trademark issues down the road. When your business is more successful and you've built up a thriving reputation and a solid client base, a trademark conflict could have serious consequences. You can get help online to perform a basic search of the USPTO database (which only turns up active or pending federal trademarks) or a more comprehensive search.

## *Is Your Name Internet-Ready?*

If you've come up with a name that encompasses your overall vision, and if it's catchy, it will have branding and marketing potential. Ideally, you'll have done all the necessary research and found that the name is available for registration in your state and doesn't have any potential trademark conflicts.

Before you celebrate your choice of the perfect name for your company, there's one more factor you should consider: whether your new business name is internet-ready.

If you intend to run an online business, you've most likely considered this issue from the beginning. But, even if you're running a brick-and-mortar business that will be targeting a local market, such as a retail store, you still want to consider having a domain name.

We live in a digital age and, while you'll attract a number of customers or clients by virtue of your storefront, you'll be leaving a significant segment of your target market in the dark if you don't offer them a presence online.

*When looking for an available domain name for your new business, don't be too disappointed if your exact name isn't available. A list of variations of it will be helpful, since an exact match, while nice to have, isn't a necessity.*

And don't forget about social media. You'll also want to check the availability of suitable usernames on the major platforms if your marketing strategy includes social media marketing (which it most likely will).

# Popping the Question

## **Liability and Business Entities**

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*Now for the big relationship question: What business entity will you choose for your business?*

Although this probably isn't high on the list of things you want to be thinking about right now, it's yet another legal task you need to address in order to move forward. And while "business entity" sounds very technical, it's actually just about choosing the type of operations structure your business will have.

Going back to our love story analogy, it's kind of like deciding the type of relationship you want. Open marriage? Living together? Friends with benefits? The only difference is, when it comes to

your business, you'll be choosing the legal structure you want. Will you be a sole proprietor? Or a partnership? Maybe an LLC would suit you best. Or perhaps there's a corporation in your near future, whether it's an S corp. or a C corp.

With so many choices, it can be difficult to decide which one is right for your particular circumstances. The good news is that your choice of business entity isn't set in stone. The structure you choose now can be changed at a later date if you discover it wasn't right to begin with, or if your business circumstances change and a different structure becomes the better choice. Sure, there will be some paperwork required, but converting from one business entity to another usually isn't too difficult or complicated.

## Just Who Is Liable?

Perhaps the biggest factor to consider when choosing the right business entity is liability. Liability arises when damages are suffered because of someone's actions or, in some cases, because of someone's failure to perform an action. Here's an example: If someone suffers injuries as a result of tripping and falling on a badly maintained walkway, the person who is held responsible by the courts for any resulting damages is said to be liable for those damages.

If, in our example, the property owner is responsible for keeping the walkway properly maintained but failed to do so, a court might find the property owner liable for the damages resulting from the fall. But what if the property owner were a business? Who is liable then, the owners of the business or the business itself?

Choosing your business entity is an important decision. LLCs and corporations provide limited liability, meaning that members and shareholders are not liable for the entity's business debts and liabilities. There are exceptions, of course. These exceptions include when the individual (1) provides a personal guarantee or (2) commits fraud, gross negligence, or an illegal act, or when the entity isn't properly funded or hasn't followed other legal requirements.

## The Practical Stuff

### Picking the Right Business Entity



- **Sole proprietorship.** A sole proprietorship is the easiest form of business organization to set up, but it also provides no liability protection for its owner, because there's no legal distinction between the sole proprietorship and its owner. From a tax perspective, income earned by the sole proprietorship is considered the income of the owner.
- **Partnership.** A partnership is owned by two or more individuals who share control and management of the company. From a tax perspective, a partnership is known as a "pass-through" entity, which means any income it generates is passed through to be taxed in the hands of the individual partners. While a partnership can offer some degree of liability protection, primarily to "limited partners" in what's known as a "limited partnership," it's not a form of business entity that most attorneys would recommend. However, it's still a popular choice for many people, because there's no real government oversight over partnerships and much less paperwork and formalities involved.
- **Limited liability company, or LLC.** LLC owners, also called "members," generally share in the management and control of the company. From a tax perspective, the LLC is a "pass-through" entity: Unless the LLC elects otherwise, for tax purposes, a single-member LLC is treated as a

sole proprietorship and a multi-member LLC is treated as a partnership. However, unlike sole proprietorships and partnerships, an LLC also offers its members limited liability protection. It's probably the most popular type of business entity, as it's suitable for a wide range of businesses, it's relatively easy to set up, and while there's still a certain amount of paperwork and government regulation to deal with, it's less than what would be required for a corporation.

- **C corporation.** If you don't plan to be involved in the day-to-day operations of your business, or you're hoping to attract outside funding from investors or venture capitalists, then the corporate form is probably the best type of business entity for your needs. Like an LLC, the C corporation offers its owners, who are known as "shareholders," limited liability protection. From a tax perspective, though, the C corporation is considered a separate legal entity, meaning it's taxed on its own income. One disadvantage to this is the possibility of double taxation, as not only is the C corporation taxed on its own income, when this income is then distributed to shareholders, the shareholders are also subject to tax on that income. Administratively, there's more paperwork and government regulation of a C corporation, as well as corporate formalities that must be adhered to, such as regular meetings and the need to keep minutes of meetings.

- **S corporation.** All corporations start out as C corporations. A C corporation that meets certain criteria can be reclassified as an S corporation by electing S corporation status from the IRS. Like the C corporation, the S corporation is a separate entity offering limited liability protection to its shareholders. It's subject to the same paperwork and other legal requirements as the C corporation, along with all the corporate formalities. The main difference between the two lies in their tax treatment. Unlike a C corporation, the S corporation is a pass-through entity, so it's not taxed on any income it earns. Instead, this income is passed through to its shareholders, who are then taxed on it on an individual level. An LLC also can choose to be treated as an S corporation for tax purposes. A new business owner should discuss these options with a tax professional within a few weeks after the company is formed to help tax time go more smoothly.
- **Nonprofit organization.** A nonprofit organization is a business that's formed for a purpose other than making profit, although generating profit can be a side product of running the business. Most nonprofits operate as corporations, although in some cases they may be permitted to run as LLCs or other special, state-created types of entities. A nonprofit corporation is run much like a regular corporation, but, from a tax perspective, it may be eligible to apply to the IRS for tax-exempt status.

# Setting up House

## Choosing a Business Location

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*Where you work is almost as important as what you do, so choosing a location for your business is a big decision.*

You probably have a good idea what kind of location you'll need. Retail establishments and certain types of service businesses need a physical location, but even if you plan on running your business out of your home, there are still location considerations to think about. (For more on the home-based business decision, see below.)

Here are some pointers to get you thinking:

**Location, location, location.** Here's where your business plan will come in handy. If you've done the proper preparation, you should have a pretty good idea who your target market is. Ideally, you can close your eyes and picture the individual (or entity) you want frequenting your business—which makes choosing the location a snap: Go where your market is.

**The walk-around or drive-through.** Got some potential locations in mind? Take the time to both walk and drive around the neighborhood. Look for competitors. How close are they to the

area you're considering? Who are your neighboring businesses? Will they help attract your ideal client or customer, or will they put them off? Are there any safety issues you need to be concerned about?

**The accessibility question.** Just how accessible is your potential location? Can customers get there easily using public transit? Are there ample places to park? What are local traffic patterns like? If local roadways get bogged down during rush hour, how much will this affect your business? Are there residential areas nearby, so people can walk to your business?

## *Now for the Legal Stuff*

*No matter where you decide to situate your business, one of the first things you'll need to check are zoning bylaws and any other state or local government requirements.*

Whether you'll be leasing or buying, you'll want to be certain local regulations permit your type of business to operate on the property you're considering. Depending on the area where you're looking, there might be other issues as well, such as the number of parking spots that must be available for your customers or clients, or the number of bathrooms that must be provided within your facilities.

Commercial leases are often more complicated than a standard residential lease. Make sure you go through each of the provisions in a lease before signing it. If you have questions or concerns, it's a good idea to contact an attorney specializing in commercial leases who can take you through the lease document and advise you of any potential problems.

## *Your Online Presence*

These days, we can't really talk about location without also discussing online real estate. "Going where your customers are" takes on a whole new meaning in this digital age. Of course, it goes without saying that an online business will need to have an online presence. But what if you're not running an online business? What if you have a brick-and-mortar business serving a local clientele?

The internet has taken the place of phone books, which means you'll need a website so potential customers have a way of finding you online. For many businesses, a basic website will do the trick. You just need a place on the web so people can find out where you are, how they can contact you, and the products and services you offer.

A website is also a great tool for branding and building your reputation, so, if your budget allows, it might be worth it to hire a website designer with marketing experience and get a little fancier.

And don't forget about the potential of social media marketing. Chances are, there's a place where you hang out online in your personal life. Whether it's Instagram, Twitter, or LinkedIn, most people have somewhere online where they're comfortable, so if you and your new business want to reach potential customers, you'll have to show up at the same online places they do.

For a business, establishing a social media presence takes some work. Whether you decide to blog, set up a business page on Facebook, or frequent Twitter, consistency is key. Each post, status update, or tweet helps to build your brand reputation. And, when you do it right, your business stands to reap a ton of benefits!

## *The Practical Stuff* **The Home-Based Business**



If you're thinking the location decision won't really apply to you because you're planning to run a home-based business, you'll want to think again. Sure, you won't be out and about scouting potential sites to lease, but there are still details you need to consider to make sure your home is the best location for your business:

- If you're a tenant, make sure to review your lease to ensure you won't be violating its terms by running a home-based business. Even condo owners should check their HOA documents for such a clause.
- Just like business owners looking at a separate physical location, you'll need to research local zoning bylaws.
- Don't forget about home-based business regulations that might place restrictions on your business, such as the type of signage you can use.
- If your business involves anything that requires a specific permit or license, just because you're running your business out of your home doesn't mean you get a free pass. You'll still need to get any permits or licenses that apply to your business.

# We Can Work It Out

## *Making It Legal*

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*There are things in every relationship that aren't joyous or exciting but still need to get done. These are a few of those to-dos.*



To secure this new business of yours, you've got to dot the i's and cross the t's. It may not be fun—legal stuff rarely is—but it needs to be done.

If you're feeling a little anxious right about now, it's okay. Thinking about things like registered agents, permits, licenses, and compliance requirements probably brings to mind a legal maze, without any sort of light at the end of the proverbial tunnel to guide you.

Take a deep breath, and then take a step back from it all. It's a lot to do, but it's doable. And, if you find yourself floundering, there's always help available.

## Breaking It Down

The thought of getting through all the legal stuff might feel insurmountable. When we asked Nikhil Arora and Alex Velez to tell us what they do when they're faced with operational challenges, they told us about a Will Smith quote that resonates with their team: "You don't try to build a wall. You don't set out to build a wall. You don't say, 'I'm going to build the biggest, baddest, greatest wall that's ever been built.' You don't start there. You say: 'I'm going to lay this brick as perfectly as a brick can be laid.' *You do that every single day, and soon you'll have a wall.*"

"Essentially what this means to us," said Nikhil, "is that for every challenge we meet, we break it down into pieces and build from there. Insurmountable problems become much more manageable when cut into bite-sized pieces."

## The Practical Stuff

### Legal Requirements

We've taken some of the big to-dos on the legal requirements list and broken them down into smaller steps. Place a check mark next to each step as you complete it.

#### Business registration/name registration

- Check your state's business site for instructions on registering your business and name either in person or online.
- Download the forms you'll need.
- Gather any information you'll need to fill out the forms.
- Complete the forms.
- Register the forms.

#### Permits and licenses

- Check federal requirements.
- Check state requirements.
- Check local requirements.
- Obtain application forms.
- Gather any information you'll need to fill out the required forms.

- Complete the forms.
- Register the forms.

#### Tax permits

- Check to see if each state in which you'll be operating requires a sales tax permit.
- Check with your state authority to see if you'll need a state tax identification number.
- Check with the IRS to see if you'll need an EIN (employer identification number).
- Obtain application forms.
- Gather any information you'll need to fill out the required forms.
- Complete the forms.
- Register the forms.

#### Banking

- Obtain information about the types of business accounts available at your bank.
- Check with your bank to see what documents they require to open up a business account.
- Gather any necessary paperwork.
- Visit your bank and open up a business account.

# Legal Requirements



The following is a quick overview of some of the things you'll need to check to properly start your business. The exact requirements will vary depending on the business entity you choose, as well as the state in which you'll be forming your new company.

## **Business Registration and Name Registration**

You'll be required to register your business with the state in which you wish to form your new company. Most states offer instructions for their business registration process online, as well as the various forms that must be downloaded, filled out, and filed. Most states will also register your business name as part of the business registration process.

If you will be operating under a name that's not your legal name—whether you're an individual operating a sole proprietorship, a partnership, an LLC, or a corporation—you'll likely have to file a DBA, or “doing business as” application as well.

## **Registered Agent**

Unless you're opting to run your business as a sole proprietor, you'll most likely need to have a registered agent. If you've never heard of a registered agent before, you might be thinking the whole thing sounds like a complicated process, but a registered agent just means the person you designate to receive important papers, such as notices of lawsuits and government communications, on behalf of your company.

There are certain requirements that apply—for example, a registered agent must be located in the state in which you've registered your business, must have a physical location, and must be available to accept delivery of documents during regular business hours. So long as the requirements are met, you can designate people within your company, such as an LLC member if your business is an LLC, to be the company's registered agent. You can also designate a third party, such as an attorney or an accountant, or use a third-party registered agent service.

## **Permits and Licenses**

Once you've registered your business, you may feel you're all set to go and get that first customer. However, before you take that leap and officially open for business, make sure to check out the permits and licenses you'll need in order to be compliant with the rules and regulations that apply to you. You'll need to check with federal, state, and local government authorities, as each may require you to obtain specific permits or licenses.

Some of the more commonly required permits and licenses include a general business license, a seller's permit, a zoning permit, a home occupation permit for the home-based business, various professional or occupational licenses, health and safety permits, and sign permits. If you're planning on doing any site improvements, you might have to apply for a building permit. There are also certain state and federal permits that may be required if you'll be operating within a particular industry.

## **Tax Permits**

Check with the state authority in each state in which you'll be running your business to see if you'll be required to obtain a sales tax permit. You may also have to apply to the IRS for an EIN, or employer identification number, which functions as a tax identification number for your business for federal tax purposes. Depending on your state, you may have to apply for a state tax identification number as well.

## **Annual Compliance Requirements**

It's also good to be aware of the filings you'll need to make each year in order to meet annual compliance requirements, even though you won't have to make these filings at the time of startup. These annual filings may include an annual report and/or annual information return. Check with your state authorities to see what the requirements are, so you'll be prepared when the time comes to file.

## **Banking**

One of the most important things business owners need to do is maintain a separation between personal and business finances. Not doing so puts you at risk of losing any liability protections that your chosen type of business entity may give you. Therefore, once you have all your paperwork in hand, one of the first things you should do is go to your bank and open up a business account for your company.

# **The Practical Stuff**

## **Taking the Non-DIY Route**

Some people find it fun (or at least easier on the bank account) to take the DIY route. If you're dreading all the legal requirements, don't worry, you can always hire a third-party consultant such as a lawyer to take care of most of the legal chores.

Check online and ask people you know for recommendations. Before you make your final decision, sit down with your choices and have them outline what they can and cannot do for you. A lawyer or other adviser might not be able to take care of everything for you, but you can get help for the most important things.



# You Don't Bring Me Flowers

## **Maintenance**

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*At a certain point in any relationship, you've got to start focusing on maintenance activities.*

Just as there are things you have to do to keep a relationship fresh and loving, there are things you have to do to keep your commitment to your business going strong. When you're immersed in the day-to-day tasks of operating your business, it can be easy to put those things off. Don't forget to keep bringing your business some flowers every now and then—regular maintenance is necessary for longevity.

*Now that you've gone through the startup process and addressed the fears you'll face, you're back to commitment, perseverance, and endurance.*

The startup process is just the beginning of your business love story. It's the first big step, but there is much more waiting for you: more joy, more excitement, and more fear and uncertainty. The road of the entrepreneur is never truly smooth. But if you go into the relationship expecting to encounter bumps along the way, you'll be better equipped to handle anything business life throws at you.

You might think appearing on ABC’s “Shark Tank” and partnering with Mark Cuban and Robert Herjavec would mean fairly smooth sailing, but such was not the case for Lollaland’s Hanna and Mark Lim. “Shortly after Mark and I aired on ‘Shark Tank,’ our manufacturer called us to tell us that our production molds had issues that required major repair work, which was going to cost \$60,000 and take six to nine months,” Hanna said. “Altogether, we lost out on nine-plus months of sales right after appearing on ‘Shark Tank.’ Those nine months were extremely stressful, and we felt that our business was done for.”

This was a problem on a major scale for Hanna and Mark—made especially devastating after such a promising and exciting experience. But they soldiered on and made a decision that would once again tilt their sails in the right direction. “We decided to be transparent about everything and emailed each and every one of our individual customers, as well as all our wholesale accounts, explaining the issues and giving them regular updates. This transparency, along with our commitment to the business, saved the business. We were overwhelmed by the number of people who did not cancel their purchase orders, and all the customers who were so forgiving of our growing pains.”

## The Practical Stuff

### Maintenance



- **Banking.** It’s crucial to maintain the distinction between your personal finances and your business finances, as not doing so will jeopardize any liability protection you gain from your chosen form of business entity.
- **Compliance.** The legal requirements don’t stop with your startup tasks. You’ll need to make sure you stay on top of what’s required under all the rules and regulations that apply to you.
- **HR considerations.** If your intent for your business involves growth and expansion, there will, hopefully, come a time when you’ll need to consider hiring employees. In addition to the actual hiring and selection process, keep in mind that there will also be legal requirements that must be met once you’re an employer.
- **Partner/member conflict.** No matter how well you get along with your partners or fellow LLC members, it’s inevitable that there will be occasions that give rise to conflict. Having a well-thought-out partnership agreement or LLC operating agreement can provide a neutral background for resolving such conflicts amicably.
- **Funds.** Unfortunately, coming up with financing isn’t something that only happens at startup. During their lifetimes, many small businesses will have to deal with cash flow and other funding issues. One way to prepare for the eventuality that your

business will need to raise funds is to take good care of your credit rating and that of your business. It's also a good idea to keep an eye on the different funding possibilities that may be available to you.

- **Keeping the books.** It can be tedious, but maintaining proper accounting records will make things go much more smoothly come tax time. If your business can't afford to hire a bookkeeper or accountant, doing the books will be one of the entrepreneurial hats you'll need to wear.
- **Taxes.** And, speaking of taxes, yes, tax time will roll around every year. While sole proprietors report their business income and expenses on their personal income tax returns, other businesses need to file separate business tax returns and forms.
- **Marketing.** Marketing can make the difference between success and failure for the new business. Until you've had time to build and maintain a loyal client base—and even after—you'll have to make the time in your day to focus on your marketing efforts. Depending on your particular skill set, you may be able to handle most marketing tasks on your own. If there's something you can't do, try to hire it out for an affordable fee. Remember, you'll be courting disaster if you rely on the adage to “build it, and they will come.”

## When You Feel Like Giving Up



Somewhere along the way, you're going to feel like throwing in the towel. Problems will arise, sometimes seemingly insurmountable ones. No sooner will you have put out one fire than a bigger one roars into life behind you. If you find yourself feeling overwhelmed by unending challenges, don't beat yourself up. It's natural to feel this way.

We asked Mark and Hanna whether they ever experienced those dark moments, where giving up felt like the best thing to do. “The thought of giving up has crossed our minds several times,” Mark said. “It's frustrating, especially during the slower months, to know that we could be making a higher, more secure income elsewhere. Also, there were many times we felt that we were simply chasing a dream. As our family grew, so did the pressure, and oftentimes it felt like there was no light at the end of the tunnel.”

What brought them back from the precipice? “We knew from the beginning that this journey would not be easy and we have to remind ourselves of our commitment to making this business successful. The reason we started this company was because we knew we could add value to the baby industry and that we could potentially provide for our family in ways that may not have been attainable had we stayed at our previous jobs.”

# The Luckiest

## Moving Forward

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*Since that pivotal moment when Hanna offered her daughter a straw to drink through, Lollacup has come a long way.*

Lollacup has been featured in magazines across the country and is occasionally seen in the hands of celebrity moms and dads. Add in a successful showing on ABC's "Shark Tank" and today Hanna and Mark are the proud owners of Lollaland, selling not only the ground-breaking Lollacup but also other innovative goods for infants and toddlers.

Now that you have an idea of what the startup process entails, it may all seem a little too overwhelming. How on earth will you get from here to there? There seems to be no end of things that need to be done before you can proudly say you own your own business.

## Build a Community

Mark's advice to help you get through the coming days? Network as much as you can. "It wasn't until we began reaching out to other entrepreneurs with our questions that we realized the value of simply talking with others," he said. "It's comforting to see how other small/large business owners often experience similar challenges. There is infinite value in connecting with others and simply asking candid questions."

Nikhil and Alex of Back to the Roots agree: "There is so much to gain from the wisdom from others. Tell 500 people your idea and, if you're [still] as enthusiastic about talking about your idea 500 conversations later, go for it. Talk about your idea and your business. This is the best way to start building a community to support you."

## Celebrate Your Wins

Starting your business is just the first step. Mark Lim has one final piece of advice for dealing with all the emotions you may experience during the startup phase. “Celebrate each and every success,” he says. “There are so many emotional ups and downs associated with the startup process that you really have to identify and harness the joys and successes to pull you through the more challenging times.”

*Stay faithful, stay persistent, and stay committed. Harness your joys and successes, and celebrate your wins.*



As a small business owner, you’ll be living one of the greatest stories of your life. Because, at its core, starting—and growing—a business is a love story.

# Thank you.

## About the author

Belle Wong received her J.D. from the University of Toronto, Faculty of Law, and practiced law with a large legal firm for a year before realizing she would be much happier hanging out her own shingle and practicing as a sole practitioner. While she no longer practices law, she has been running her own successful freelance writing and editing business for several years, specializing in business and legal topics. She can currently be found writing along the shores of Lake Ontario (which isn't quite as Walton-ish as it sounds, as she lives in the heart of Toronto's financial district). You can find her on Twitter as @msbookish and on Instagram as @inthebellezone.

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