A Guide to Starting Your Own Small Business in Montana

Montana Department of Commerce | Montana SBDC Network | U.S. Small Business Administration

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Introduction

This guide is a publication of the Montana Small Business Development Center (SBDC) Network. The Montana SBDC Network is a partnership between the Montana Department of Commerce, the U.S. Small Business Administration, regional economic development organizations and the Montana higher education system.

The SBDC Lead Center is located at the Montana Department of Commerce and supports ten SBDC offices throughout the state that provide free, confidential, one-on-one business consulting and training programs to small business owners and entrepreneurs. The Montana SBDC Network has been servicing the Montana small business community since 1989.

The SBDC Directors and Business Advisors assist clients every day with the preparation or fine-tuning of business plans, financial management, operations assistance, loan packaging and marketing initiatives. SBDC training seminars and workshops cover timeless small business issues such as cash flow management, as well as new and emerging trends.

The SBDCs are dedicated to helping small businesses throughout Montana achieve their goals of growth, expansion, innovation and success. The SBDC Network combines the resources of federal, state and local organizations with that of the private sector and education system to meet the specialized and complex needs of the small business community.

This guide has been collaboratively designed by the SBDC Network as a step-by-step introduction to the issues that every new business will face. The primary goal is to provide information that will help a potential small business owner plan for the successful start-up and operation of their business.

SBDC Business Advisors are available for one-on-one counseling sessions to help guide you through the start-up and business development process, but advanced preparation is highly recommended.

If you decide to pursue your business idea, the next step is most likely the completion of a detailed and well-researched business plan. The preliminary work covered in this guide will put you well on your way toward an effective business plan.

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Evaluating Your Business Idea

Ask Yourself Some Tough Questions

Do you have what it takes to start your own business? Potential small business owners may tend to think they only need financing and help with legal and tax issues to start a business, but these are only a few of the considerations entrepreneurs need to address. The following are several more questions that should be addressed when considering the leap into small business ownership.

- ☐ Am I confident in my abilities to overcome obstacles?
- ☐ Do I accept responsibility for my actions?
- ☐ Do I like being in charge?
- ☐ Am I able to function in an environment of uncertainty?
- ☐ Am I able to motivate and inspire people?
- ☐ Am I an effective salesperson?
- ☐ Am I a fair negotiator?
- ☐ Do I understand my own limitations and know when I need to ask for help?
- ☐ Am I easily discouraged?
- ☐ Am I willing to devote whatever time and energy it takes to be successful?
- ☐ Is the risk of my financial assets worth the expected rewards?
- ☐ Do I have a history of success at things to which I am committed?
- ☐ Do I have a strong support group of family and friends?

Research Your Market Potential

Conducting market research is an essential part of the business development process to ensure that you understand your market and the potential demand for your product or service. There are two kinds of market research:

Secondary Research

Secondary research means using published sources of information such as:

- Industry Profiles
- Trade Journals
- Newspapers
- Magazines
- Census Data
- Demographic Profiles

This type of information is available on the internet, at public libraries, from government agencies, industry associations and chambers of commerce.

Primary Research

Primary research means gathering your own data, including:

- Your experience and connections in your industry
- Observing and interviewing similar businesses
- Asking potential customers to determine what they want
- Employing students or interns to conduct surveys
- Interviewing suppliers, vendors and bankers

Your market research will become the basis of the marketing section in your business plan. Use the questions below (including in the Initial Business Assessment) to guide your market research efforts.

1. Describe in detail the products/services you will sell.
2. Why will customers want to buy your products/services? What is your competitive edge?
3. Describe the characteristics of your potential customers (including age, income, location, attitudes, etc.).
4. How did you determine these customer characteristics? What sources of information did you use?
5. How will you reach customers and motivate them to buy your products/services?
6. List and describe your direct competition. How will you compare to them?

Free Market Research Resources (Online)

- Census & Economic Information Center http://www.ceic.mt.gov
- Department of Labor & Industry http://www.ourfactsyourfuture.mt.gov
- U.S. Census Bureau http://www.factfinder.census.gov
- Montana Site Selector http://www.montanasiteselector.com

New Business Checklist

Before Start-up

- ✓ Evaluate your business idea and conduct thorough market research.
- ✓ Begin gathering data and information for your business plan.
- ✓ Register your assumed business name with the Montana Secretary of State's Office.
- ✓ Determine the appropriate legal structure for your business.
- ✓ Apply for federal and state employer tax identification numbers if needed.
- ✓ Obtain the proper state and local licenses, registrations and certifications that apply to your business.
- ✓ Apply for workers' compensation and other insurance through private insurance carriers (Workers' compensation is required in Montana for every business with employees).
- ✓ Apply for any trade name registration, trademarks, copyrights, or patents necessary to protect your assets.
- ✓ Determine your startup financing needs and develop financial projections.
- ✓ Work through the formal business planning process.
- ✓ Engage and consult qualified advisors in law and taxes as needed.

After Start-up

- ✓ Make estimated income payments and file tax returns for both state and federal taxes.
- ✓ If you have employees, comply with all state and federal requirements for withholding and payment of payroll taxes.
- ✓ As your business grows, periodically check requirements that may apply to larger businesses.

Start-up Basics

The following information is not all-inclusive and should not be considered a substitute for assistance from qualified legal and accounting professionals.

Register Your Business Name

All businesses (regardless of legal structure) conducting business under a name *other than their full, true and correct name* must file an Application for Assumed Business Name with the Montana Secretary of State's Office and pay a $10 filing fee. The form requires that you list the name, type, and location of your business, as well as the date you intend to start business.

Tip: Wait to order stationary, forms, business cards, and marketing materials until you get final approval that your documents have been filed and your business name is approved!

Contact: Montana Secretary of State's Office
Business Services Division
(406) 444-3665
http://www.sos.mt.gov

Choose a Legal Structure

Your determination for choosing the legal structure of your business will be based on several factors, including:

- The degree of control you want over the business,
- The degree of formal organization you need,
- The need to protect against liability for business actions,
- The ability to attract investors, and
- Tax considerations for both you and your investors (if any).

While it is not necessary to engage an attorney to file business documents, it is strongly advisable that you consult with an attorney, accountant, financial advisor and/or banker to help you determine which legal structure is most suitable for your business.

Sole Proprietorship

This type of business is owned by a single individual. A sole proprietor has total control of and responsibility for his or her business, receives all profits, and can make important decisions quickly. The sole proprietor is also responsible for all taxes and liabilities of the business.

General Partnership

A partnership is an association of two or more people acting as co-owners of a for-profit business. Individuals may create a partnership by oral or written agreement. Under this arrangement, the partners share personal liability for all claims against the partnership, as well as share all profits and losses. Profits are taxes personal income for each individual partner.

A partnership agreement is generally maintained *by the partnership itself.* If you choose, you may file a partnership agreement with the Secretary of State's Office for a $20 filing fee.

Limited Partnership

A limited partnership is more closely regulated than a general partnership. There must be at least one general partner who manages the business and who is fully and personally responsible for claims against the business. In addition, there are investors who play no part in the management of the business and whose liability for the business is limited to the extent of their investment.

If you plan to operate a domestic limited partnership, you must file a Certificate of Domestic Limited Partnership with the Secretary of State's Office. If you plan to operate a foreign limited partnership*, you must file a Registration of Foreign Limited Partnership.

*Foreign limited partnerships are limited partnerships formed under the laws of any state other than Montana.

Limited Liability Partnership

A limited liability partnership operates much like a general partnership, except none of the partners can be held personally liable for claims against the business. Partners are not liable for the errors or negligence of the other partners or their employees unless they themselves are supervising, directing, or involved in the action for which a claim has been filed. As with a general partnership, profits are taxed as personal income for each individual partner.

To start this type of business, you must file an Application for Registration of a Limited Liability Partnership with the Secretary of State's Office, and *you must make reference to this status in your business name.*

Corporation

A corporation is a more complex form of business organization. It exists apart from its owners or shareholders and is a legal entity in its own right. As a separate entity, it has its own rights, privileges, and liabilities apart from the individuals who form it.

A corporation has shareholders who invest money in the business and therefore own it. The shareholders hold an annual meeting at which they elect a board of directors. The board makes policy decisions for the company and selects the corporate officers who manage the company's daily affairs.

A corporation affords limited liability to its shareholders and can continue on after the death of or transfer of shares by one or more of the owners. A corporation pays taxes on its profits, and its shareholders pay taxes on dividends. Domestic and foreign corporations are required to register and file an Annual Report with the Secretary of State's Office.
There are several types of corporations; some operate for profit and others are not for profit. An attorney can best advise you as to which type best suits your needs.

Among these types are:

- S Corporations

  These generally do not pay taxes. Profits or losses are passed on to the individual shareholders' gross incomes for tax purposes. You must apply to the Internal Revenue Service to get S Corporation status. The IRS places limits on who can be a shareholder. A domestic profit corporation must file Articles of Incorporation with the Secretary of State's Office. A foreign profit corporation* must file a Certificate of Authority.

  *Foreign profit corporations are organized under the laws of a state other than Montana.

- Statutory Close Corporations

This type of structure allows a business to eliminate many of the formalities of a standard corporation. For example, the business can elect to operate without a board of directors. A shareholder of a statutory close corporation may not sell his shares in the business without the approval of other shareholders. As with S Corporations, a domestic profit corporation must file Articles of Incorporation with the Secretary of State's Office. A foreign profit corporation must file a Certificate of Authority.

- Professional Corporations

  Individuals who are licensed in certain professions may form a professional corporation. This provides them with the benefits of a corporate structure for the business aspects of their practices while preserving the personal and professional relationship between them and the clients they serve. Shareholders may only be people who are licensed to render the specific professional service; at least half of the officers and directors must also be licensed. A domestic professional corporation must file Articles of Incorporation with the Secretary of State's Office and supply a copy of the Articles to each professional licensing authority. A foreign professional corporation must file a Certificate of Authority and supply a copy of the Certificate to each professional licensing authority.

- Nonprofit Corporations

  A nonprofit corporation is established solely for the benefit of charitable, religious, educational or scientific purposes. No earnings are distributed to members, trustees, officers or other individuals, except for compensation for services rendered. A nonprofit corporation is exempt from income tax. You must apply to the IRS for nonprofit status, and you must files Articles of Incorporation with the Secretary of State's Office.

Limited Liability Company

This form of business offers both the protections from personal liability of a corporation and the favorable tax treatment of a partnership. It provides for flexibility in the contribution and distribution of assets. Under this type of structure, you do not need to hold annual meetings. Domestic limited liability companies are required to file Articles of Organization with the Secretary of State's Office. Foreign limited liability companies are required to file a Certificate of Authority.

Apply for Business Licenses, Registrations and Certifications

One of the most common questions heard by SBDCs from start-up business owners is "Where do I get my business license?" The state of Montana does not have a one-size-fits-all general business license. However, depending on your location and type of business, there are certain business licensing and registration requirements you will need to comply with, including:

Local City and/or County Licenses

Contact your local city and county offices to find out what licenses, registrations and permits they require for businesses.

☎ Montana Association of Counties
http://www.mtcounties.org
(406) 449-4360

Professional and Occupational Licenses

Businesses that are engaged in specific (non-healthcare related) professions and occupations are licensed and regulated. If you are unsure whether or not your business requires a professional license, double check with the Department of Labor & Industry's Business and Occupational Licensing Bureau.

☎ Montana Department of Labor & Industry
Business and Occupational Licensing Bureau
http://bsd.dli.mt.gov/license/license.asp
(406) 841-2300

One-Stop Licenses

One-stop business licensing lets certain businesses apply or renew up to 7 state licenses all at once, including: Food Purveyor, Tobacco Retail and Wholesale, Off-Premise Beer and Wine, Nursery, Petroleum Dealer (Meters), Weighing Device (Scales), and Underground Storage Tanks. This method of licensing is especially convenient for grocery and convenience stores with gas pumps.

☎ Montana Department of Revenue
One-Stop Business Licensing
http://www.revenue.mt.gov/forbusinesses/onestop_licensing
(406) 444-6900
doronestop@mt.gov

Agricultural Certifications

Several types of licenses, registrations and certificates are issued by the Department of Agriculture, including Commodity Dealer, Feed Program, Seed Dealer, Honey Bee Registration, Organic Certification and more.

☎ Montana Department of Agriculture
Technical Services Bureau
http://www.agr.mt.gov/agr/business/licensing
(406) 444-5400
agr@mt.gov

Construction Contractor Registration

All incorporated construction contractors and construction contractors with employees must registration with the Montana Department of Labor & Industry. Construction contractors without employees, plumbers and electricians may register but registration is not required.

☎ Montana Department of Labor & Industry
Construction Contractor Registration Unit
(406) 444-9586

🕮 CR Application Form

Independent Contractor Exemption Certificate (ICEC)

Montana workers are required by law to either be insured under a workers' compensation policy, or they may apply for the ICEC. A person with an ICEC states the occupation they are exempt under. The application & waiver along with the business documentation and a $125 fee are required for processing. The ICEC is effective for a two-year period.

☎ Montana Department of Labor & Industry
Independent Contractor Central Unit
(406) 444-9029

There may be other Montana licenses that could be applicable to your business in addition to the ones listed above. Find a FULL list of Montana licenses, registrations and certifications at http://www.license.mt.gov.

Obtain an Employer Identification Number

You will need an Employer Identification Number (EIN) if your business meets any one of the following:

- The business is a corporation, partnership, or limited liability company,
- You have employees,
- You have a Keogh Plan, and/or
- You file one of these tax returns: excise; fiduciary; or alcohol, tobacco, and firearms.

A sole proprietor with no employees and none of the other items listed above does not need an EIN; the business owner's social security number is the business's tax number.

☎ Internal Revenue Service (IRS)
1 (800) 829-4933
http://www.irs.gov

🕮 Do You Need an EIN?
How to Apply for an EIN
Understanding Your EIN

Understand Your Business Tax Obligations

The form of business you have chosen determines what taxes you pay and how you pay them. We will give a brief overview of the four general types of business taxes. It is highly advisable that you consult with an accountant or read through the IRS publications included at the end of this section to help you understand what the tax obligations associated with your business are.

- Income Tax
- Self-Employment Tax
- Employment Taxes
- Excise Taxes

Income Tax

All businesses *except partnerships* must file an annual income tax return. Partnerships file an information return. The form you use depends on how your business is organized. Refer to IRS publications at the end of this section for which forms you file to report these taxes.

Self-Employment Tax

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. Your payments of SE tax contribute to your coverage under the social security system. You must pay SE tax and file Schedule SE (Form 1050) if either of the following applies:

1. Your net earnings from self-employment were $400 or more, or
2. You had church employee income of $108.28 or more.

You can deduct a portion of your SE tax as an adjustment to income on your Form 1040.

Employment Taxes

Employment taxes include the following:

- Social security and Medicare taxes
- Federal income tax withholding
- Federal unemployment (FUTA) tax

Excise Tax

Federal excise taxes are paid when purchases are made on a specific good, such as gasoline. Excise taxes are often included in the price of the product. There are also excise taxes on activities, such as on wagering or highway usage by trucks. Excise tax has several general excise tax programs. One of the major components of the excise program is motor fuel.

Internal Revenue Service Publications

- 334 Tax Guide for Small Business
- 505 Tax Withholding and Estimated Tax
- 535 Business Expenses
- 583 Starting a Business and Keeping Records
- 587 Business Use of Your Home
- Employer's Tax Guide

File for Trademarks, Copyrights and Patents

If your business has an innovative concept or product, you may wish to consider your intellectual property protection options (if you have not already).

Trademarks

A trademark is a brand name. A trademark (or service mark) includes any word, name, symbol, device or any combination, used or intended to be used to identify and distinguish the goods/services of one seller or provider from those others, and to indicate the source of the goods/services. Although federal registration of a mark is not mandatory, it has several advantages, including notice to the public of the registrant's claim of ownership of the mark, legal presumption of ownership nationwide, and exclusive right to use the mark on or in connection with the goods/services listed in the registration.

- ☎ U.S. Patent & Trademark Office
  http://www.uspto.gov
  1 (800) 786-9199

Copyrights

Copyright is a form of protection provided by the law of the United States to the authors of "original works of authorship," including literary, dramatic, musical, artistic, and certain other intellectual works. This protection is available to both published and unpublished works.

- ☎ U.S. Copyright Office
  http://www.copyright.gov
  1 (877) 476-0778

Patents

A patent is granted by the government and given only to the inventor or discoverer of a new and useful process, machine, article of manufacture, or composition of matter. A patent grants the owner a monopoly on one invention, with rights to exclude all others from making, using, selling, or offering for sale the invention for approximately 20 years.

- ☎ U.S. Patent & Trademark Office
  http://www.uspto.gov
  1 (800) 786-9199

- ☎ World International Patent Organization
  http://www.wipo.org

There are many in-depth resources for more information on intellectual property and not enough space to detail them all here. The Montana Technology Innovation Partnership (MTIP) offer resources, information and guidance for technology companies and businesses interested in pursuing intellectual property protection, especially patents.

- ☎ Montana Technology Innovation Partnership (MTIP)
  http://www.mtip.mt.gov
  (406) 841-2749
  mtip@mt.gov

Building Your Team

Hiring Employees

There are several steps you will need to take to ensure that you are compliant with key federal and state employer regulations:

Obtain an Employer Identification Number (EIN)

This step was covered in the previous section, **Start-up Basics.**

Set Up Records for Withholding Taxes

According to the IRS, you must keep records of employment taxes for at least four years. Keeping good records can also help you monitor the progress of your business, prepare financial statements, identify sources of receipts, keep track of deductible expenses, prepare your tax returns, and support items reported on tax returns. There are three types of withholding taxes you will need for your business:

Federal Income Tax Withholding
Every employee must provide an employer with a signed withholding exemption certificate (Form W-4) on or before the date of employment. The employer must then submit the Form W-4 to the IRS.

- 🕮 Form W-4

Federal Wage and Tax Statement
Every year, employers must report to the federal government wages paid and taxes withheld for each employee. This report is filed using Form W-2, wage and tax statement. Employers must complete a W-2 form for each employee who they pay a salary, wage or other compensation. Employers must send a copy of the W-2 forms to the Social Security Administration by the last day of February to report wages and taxes of your employees for the previous calendar year. In addition, employers should send copies of W-2 forms to their employees by January 31 of the year following the reporting period.

- 🕮 Form W-2 (For information use only)
  Form W-2 Filing Instructions

Montana Income Tax Withholding
Employers must apply for a State Withholding Account Number through the Montana Department of Revenue. Individuals who earn wages by performing services in Montana are liable for Montana income tax. As an employer, it is your duty by law to deduct the tax from the wages you pay. Every employer who resides in Montana and every nonresident employer who pays wage for services performed in Montana must withhold Montana income tax.

- ☎ Montana Department of Revenue
  http://www.revenue.mt.gov
  (406) 444-6900

- 🕮 Taxpayer Access Point (TAP)
  Montana Wage Withholding Tax Information

Verify Employee Eligibility

Federal law requires employers to verify an employee's eligibility to work in the United States. Within three days of hire, employers must complete Form I-9, Employment Eligibility Verification, which requires employers to examine documents to confirm the employee's citizenship or eligibility to work in the U.S. Employers can only request documentation specified on the I-9 form. Employers do not need to submit the I-9 form to the federal government but are required to keep it on file for three years after the date of hire or one year after the date of the employee's termination, whichever is later.

- 🕮 Form I-9

Register With the Montana New Hire Reporting Program

In 1997, legislation was passed on both a national and statewide level which requires all employers to report the hiring of new employees. The New Hire Reporting (NHR) Program allows employers to assist in the state's efforts to locate non-custodial parents using one of several reporting methods. Child support staff then use the information to collect child support and reduce public assistance costs.

- ☎ Montana Department of Public Health and Human Services
  New Hire Reporting Program
  1 (888) 866-0327

- 🕮 New Hire Booklet

Obtain Workers' Compensation Insurance

The Department of Labor and Industry is the regulatory agency for the workers' compensation system in Montana. Employers must provide workers' compensation insurance. Insurance may be purchased from insurers that are authorized in Montana and have workers' compensation included in their authority. Or, the Department may grant an employer the ability to self-insure its workers' compensation liabilities if it has the requisite financial ability to pay workers' compensation indemnity and medical benefits.

- ☎ Montana Department of Labor & Industry
  Employment Relations Division: Workers' Compensation Regulations Bureau
  http://erd.dli.mt.gov/workers-comp-regulations-bureau.html
  (406) 444-0566

- 🕮 Montana Workers' Compensation and Occupational Disease Blue Book ($25)

Apply for an Unemployment Insurance Account

Employers pay state unemployment insurance (UI) taxes. If you are an employer subject to the UI law, you are a "covered" employer and must pay UI taxes. It is against the law to take UI taxes out of your employees' wages. Any employer whose total annual payroll for the calendar year equals or exceeds $1,000 is considered a "covered" employer and thus subject to UI taxes.

- ☎ Montana Department of Labor & Industry
  Unemployment Insurance Division
  http://www.uid.dli.mt.gov
  (406) 444-3834

- 🕮 Montana Unemployment Insurance Employer Handbook

Selecting Professional Advisors

Most small businesses usually do not have the necessary capital to hire full-time experts to work within their organizations. In the beginning, you may not have all the necessary expertise either. Therefore, you may need to hire external professional services, such as marketing and management consultants, accountants, attorneys, engineers, graphic designers, technical consultants and others.

Some advisors, especially accountants and attorneys, are widely used by businesses of all sizes because of licensing and legal requirements. No business can function without maintaining financial records, filing required reports, paying income and other taxes, or having complete financial records for use in dealing with banks, suppliers and investors who need to know the financial position of your business. You may also need legal advice concerning the legal structure of your business, contractual arrangements with suppliers and distributors, and leases.

While the services of attorneys and accountants may seem obvious, it does not diminish the need to select individual advisors carefully. You should choose your legal, accounting and other business advisors with great care, including checking for adequate credentials and references. Engineers, technical specialists and management consultants, as well as anyone else who provides specific specialized advice, should be carefully screened as well. The expertise that advisors bring to you should be verified also. Follow the general steps below to ensure that you are thoughtful in your selection of professional advisors.

Define What Type/Kind of Advice You Think You Need

Advice may include general (legal, accounting, etc.) or specific (sales contract, audit, marketing analysis, technical consultation, etc.). By writing out your thoughts, you will be able to shorten your search time and reduce costs.

List Potential Advisors

- ☐ Ask business associates and friends
- ☐ Ask your industry association or chamber of commerce
- ☐ Ask your current advisors (if you have them) about other advisors
- ☐ Ask professional associations (CPA Society, Bar Association, etc.)

Screen Your List to Determine:

- If they have expertise with similar businesses
- How long have *they* been in business?
- What professional certification have they achieved?
- What references can they provide?
- What fees do they charge and how are they determined?
- When will they be available to do your work?

Verify Your Potential Advisors' Credentials

Conduct personal interviews. Make your decision based on the following:

- Are they knowledgeable about your needs?
- Do they have the necessary and professional credentials?
- Can they provide references?
- Have they demonstrated an ability to work within an organization?
- Without interrupting ongoing business or alienating employees?
- What rapport and trust have you developed with the potential advisor during your interviews, phone conversations and reference verifications?

Have the Potential Advisor Submit a Written Proposal Which Outlines:

- The objective and scope of the assignment,
- The nature and form of the final report as well as an outline for completing the project,
- A synopsis of what the advisor will do, what you and your business will do and provide, what work will be completed jointly,
- The anticipated cost of the project (fees and expenses) and the terms of payment, and
- The conditions under which you and/or the advisor may cancel your agreement, including any liabilities or restrictions incurred by each party.

Review the Proposal

With the advisor, review and resolve any outstanding questions or ambiguities before agreeing to proceed or to signing any contract.

Cooperate with Your Advisor as Work Proceeds

- ⇒ Inform your regular staff about details of the project in order to reduce anxieties and to ensure cooperation,
- ⇒ Be available to review progress, answer questions, clarify information and assist with roadblocks as the project progresses, and
- ⇒ Don't try to short circuit the work or change the agreed upon work schedule. However, do insist on timely completion of the project.

Review the Finished Project

Ask yourself if you got what you wanted and requested. Would you hire this advisor again?

Some types of advisory work can be evaluated more easily and readily than others. An accountant dealing with financial statements and audits may require a longer period of time to evaluate than someone working on a short-term project such as a lease or purchase contract. If you would choose to hire an advisor again, then you have probably had a successful experience. If you would not re-hire the advisor, evaluate the situation to determine what went wrong and try to prevent the situation in the future. Choosing and using professional advisors is critical to businesses of all types and sizes. A good working relationship with your advisor(s) can help determine the long-term chances of reaching your business goals.

Financing Your Business

What You Need to Know

Financing for your business may be obtained from private investors, lenders, and other financial institutions. Most new businesses are initially financed by personal investments from the owner, family, friends and personal business contacts. While it not *impossible*, it is often more difficult for new businesses to obtain outside financing. The majority of outside financing for small businesses comes from commercial banks, savings and loan institutions.

As you seek financing, there are many questions you should ask:

- For what do I need financing?
- How much do I need?
- How much can I borrow?
- For which programs does my business qualify?
- What information do I need to provide lender/investor?
- Do I have to pay interest?
- If so, will the interest rate vary over the term or will it be a fixed rate?
- Will I be required to "share" ownership in my business?
- How long will it take to acquire the money?
- What are the repayment terms?

The 5 C's of Small Business Lending

No matter which type of financing option you choose, the lender will judge your ability to repay the loan and evaluate your collateral. Lenders often talk about the 5 "C's" of Lending. They are:

Cash Flow

Ability to repay the loan is determined by cash flow projections. Your business must be profitable sometime in the first year or early second year when considering startup costs and matching month-by-month expenses to month-by-month revenues.

Character

Experience you bring to the table, such as small business management and education are important. The fact that you can produce something that people in the market want to buy does not guarantee the success of your business. You also have to manage marketing, hiring employees, record keeping, problem solving and planning.

Credit

Your personal credit history is important. If you feel you may have credit problems, obtain a copy of your credit report and be prepared to explain any problems or discrepancies. Your credit will be checked and your score will be a major factor.

Capital

You must put cash in your business if you expect someone else to provide funds. There are no 100% financing programs. Be prepared to provide at least 20% of all startup costs and/or equipment.

Collateral

Lenders want security for the funds they lend with a pledge of business assets (vehicles, equipment, etc.) and if necessary, personal assets. Home equity funds obtained through separate financing may be subsequently used for business financing.

Lenders will also require certain documents, including:

- A business plan, including projected financial statements
- A personal financial statement
- (At least) one year of projected monthly cash flows, income statement and balance sheet
- Sources and uses funds
- 3 years of personal federal income tax returns
- 3 years or business federal income tax returns or audited financial statements (for existing businesses)

Sometimes additional documents will be required, including:

- An appraisal of land or building(s) and any cost estimates for construction
- Any relevant contracts, leases or buy-sell agreements
- Letters of commitment from other lenders or investors
- Personal financial statement of any guarantors or co-signers
- Articles of organization or incorporation, partnership agreement(s) and by-laws

Developing Financial Projections

Financial projections demonstrate what your business will look like at a certain future period of time. To compile the financial portion of your business plan, you will need to compile the following information:

Estimate fixed asset requirements for start-up, including:

- Land, buildings, leasehold improvements
- Equipment and vehicles
- Deposits on leases and utilities

Estimate and itemize start-up expenses:

- One-time expenses such as installation of utilities, initial marketing materials, and legal fees for any licenses, registrations and certifications.

Estimate and itemize fixed expenses by month for at least one year:

- These usually include such things as rent, insurance, utilities, salaries, marketing, legal/accounting fees, loan payments, etc. Determine all categories which apply to your business.

Estimate sales by month for one year:

- If you have multiple product lines, estimate sales for each line individually. If you sell on credit, realize the delayed impact on cash flow.

Calculate gross profit percentage for each product line:

- Sales Price – Cost of Goods Sold = Gross Profit $
- Gross Profit $ / Sales Price = Gross Profit %

Determine the amount of inventory required for your type of business:

- $ For start-ups, initial inventory in $ amount; after start-up, express in number of days, sales or turnover.

Determine how fast you must pay your vendors:

- $ What percent of total accounts payable will be paid in the month incurred and what percent of total accounts payable will be paid in 30 days, 60 days, etc.

Using the information you have compiled, you will be able to set the foundation for the financial plan section of your business plan, which includes financial statements, your pricing strategy and gross profit margin, a Break-Even analysis, and projected cash flow.

Sources of Financing

Short-Term Financing Methods

- $ Credit Lines. Under a revolving credit line agreement, the lender (usually a bank), supplies a business with funds intended to fill temporary shortages in cash that are brought about by timing differences between cash outlays and collections. Credit lines are typically used to finance inventories, accounts receivable or for project or contract related work. You must often have a track record before you can receive a credit line, and collateral may be required. There is usually a time limit that is negotiated on the credit line. Banks will generally require that you maintain a designated balance of funds in your commercial bank account.

- $ Short-Term Loans. These types of loans may be used for seasonal build-ups of inventory and receivables, as well as to take advantage of supplier discounts or pay lump sum expenses, such as taxes or insurance. Generally, you repay short-term loans in a lump sum at loan maturity. Short-term loans are generally made on a secured (or collateralized) basis and are for a term of a year or less.

- $ Asset-Based Loans. These are loans where the lender advances funds to the small business based on a percentage of your current assets, usually accounts receivable or inventory. The loan is used as a source of funds for working capital needs. The lender takes a security position in the assets owned by your business.

- $ Contract Financing. One method of arranging financing for contracts for goods or services or purchase order is to use your contract(s) as collateral for a short-term loan. In contract financing, funds are advanced to you as work is performed. Payments by the contracting party, the business for whom you are working, are generally made to the lender. A major consideration for a lender is your business' ability to satisfactorily perform and complete the contract or purchase order.

Intermediate and Long-Term Financing Methods

- $ Term Loans. These can be used to finance your permanent working capital, purchase new equipment, construction of buildings, business expansion, and refinance existing debt and business acquisitions. Commercial lenders are the major source of terms loans. Other sources include commercial finance companies and government agencies. The maturity of term loans varies significantly. The term of the loan is based largely on the useful life of the assets being financed or used to collateralize the loan. Term loans are repaid from the long-term earnings of your business. Therefore, your projected profitability and cash flow from operations are two key factors lenders consider when making term loans. Most term loans are repaid on an installment basis, and your cash flow must be sufficient to cover the payments. Generally, interest rates on

long-term loans are higher than for short-term loans. Collateral and compensating balances are generally required and the lender will often impose restrictions on your business to reduce the bank's risk.

- Equipment and Real Estate Loans. These are terms loans fully secured by the equipment being purchased. Commercial banks will typically loan from 60 – 80% of the value of the equipment being purchased. The loan is repaid monthly over the life of the equipment. Commercial banks and other financial institutions make long-term loans secured by commercial or industrial real estate. The loan is usually approved for up to 75% of the value of the real estate being financed. You will repay the loan in installments over a 10 – 20 year period. Commercial banks, commercial finance companies and other financial institutions will also make second mortgages on commercial and industrial real estate. The amount of the second mortgage is based upon the appraised market value of your property minus the amount of your first mortgage.

- Leasing. This has become a significant source of intermediate-term financing for small companies in recent years. Virtually any type of fixed asset may be financed through a leasing arrangement. Leasing can be accomplished through a leasing company, commercial bank, the equipment owner or a commercial finance company. Leasing offers a great deal of flexibility as it can be used to finance even small amounts. If you are interested in leasing a fixed asset, your business will be subject to the same type of review as you are when seeking a loan. The leasing company will be particularly interested in the cash flow of your company. The value of the leased equipment and its useful life are used to determine the amount of financing available. Generally, the equipment leases are for three to five years. When leasing, the total cash outlays may be greater than the total cost of an outright purchase or even a loan to finance the purchase. However, the after-tax costs must be determined to compare the actual cost of each option. At the end of a lease, there are three options: purchase the equipment, renew the lease or return the equipment to the lessor.

SBA Finance Programs

The Small Business Administration (SBA) provides financial assistance through its participating lenders in the form of loan guaranties, not direct loans. The SBA does not provide grants for business start-up or expansion. There are a variety of different loans available for very specific purposes. Below is a brief introduction to the four main types of loan programs offered by the SBA followed by links for more information.

For more information, contact a local commercial lender or the Montana SBA District Office at the contact information below.

Contact: Montana SBA District Office
10 W. 15th Street, Suite 1100
Helena, MT 59626
(406) 441-1081

Equity Financing

This type of financing allows investors to buy into the ownership of your business.

- Private Investors. These include family, friends and colleagues, as well as sophisticated private investors, such as wealthy individuals or so-called "angels". Often the size, growth rate and investment amount of a small business are too small to attract a venture capital firm; however this may represent an excellent opportunity for the wealthy individual or successful entrepreneur

looking to assist another entrepreneur. Private investors are difficult to find and require detailed business plans. Investors may be identified by contacting accountants, bankers, stockbrokers, venture capitalists or entrepreneur clubs. You must determine that your goals are compatible with those of your prospective investor.

- Venture Capital Firms. These are the most risk-oriented investors. Most venture firms have specific investment preferences – both in terms of business stage (ranging from seed stage to buyouts and acquisitions) and industry. In addition, venture capitalists generally have a large minimum size investment requirement. They are looking for rapid growth and high returns. The most important factor a venture capitalist considers is the management team and the ability to recapture his/her investment with a substantial return within five to seven years. Venture capital is typically available to less than one-half of one percent of all new businesses.

- Private or Limited Stock Offerings. This is a form of equity financing that may be ideal for the small company. It affords the company the opportunity to raise significant amounts of equity from outside investors without the high cost and regulatory burden or a full-scale public offering of stock.

- Going Public. While not many small businesses elect to go public, offering shares of stock in the company to the general public, it is certainly an option for the profitable, well-managed, growing small business. It gives the business access to growth capital and can allow you to cash in your equity in the company. Through the growth in the equity base, the business can be leveraged to allow for increased borrowing capacity.

The Business Plan

Why Write a Business Plan?

The preparation of a well thought-out business plan should be one of the primary goals of any and every business, existing or start-up. The formal business plan process may seem intimidating, but it is actually quite straightforward. Here are five good reasons why you should write a business plan.

To test the feasibility of your business idea.

Writing a business plan is the best way to test whether or not an idea for starting a business is feasible, other than going out and doing it. In this sense, the business plan is your safety net; writing a business plan can save you a great deal of time and money if working through the business plan reveals that your business idea is unsustainable. An idea for starting a business may be discarded at the marketing analysis or competitive analysis stage, freeing you to move on to a new (and better) idea.

To give your business the best possible chance of success.

Writing a business plan will ensure that you pay attention to both the broad operational and financial objectives of your business and the details, such as budgeting and market planning. Taking the time to work through the process of writing a formal business plan will make for a smoother start-up period and fewer unforeseen problems as your business becomes established.

To secure funding.

You're going to need both operating and start-up capital to start a new business, and you have slim chance of obtaining funding from established financial institutions (banks) without a well-developed business plan.

To make business planning manageable and effective.

A business plan is essential if you're thinking of starting a business, but it's also an important tool for established businesses. Viable businesses are dynamic; they change and grow. The company's original business plan needs to be revised as new goals are set. Reviewing the business plan can help you see what goals have been accomplished, what changes need to be made, or what new directions your company's growth should take.

To attract investors.

Whether you want to shop your business to venture capitalists or attract angel investors, you need to have a solid business plan. A presentation might pique their interest, but they'll need a well-written document they can take away and study before they'll be prepared to make any investment commitment. Be prepared for your business plan to be scrutinized.

Business Plan Outline

A business plan describes the business: how it operates, how it is managed, how it interacts in the marketplace, how it functions financially and what its strengths and weaknesses are. Here is a basic business plan outline. The Business Plan Template located in the Appendix explains each section in further detail.

I. Executive Summary
   a. Introduction
   b. Products / Services Offered
   c. Markets / Customers Served
   d. Current Status, Vision & Business Goals
II. Business Overview
   a. Name and Brief Description of Business
   b. Date Founded and By Whom
   c. Legal Structure and Ownership
   d. Mission Statement and Business Goals
   e. Key Officers and Management
III. Marketing Plan
   a. Product / Service Differentiation
   b. Industry Profile
   c. Competitive Analysis
   d. Market Demographics
   e. Target Market / Customer Profile
   f. Marketing Strategy / Market Share
IV. Operational Plan
   a. Personnel
   b. Production / Service Methods
   c. Quality Control
   d. Facilities
   e. Suppliers
   f. Recordkeeping Policies and Procedures
   g. Billings and Collection Policies and Procedures
V. Financial Plan
   a. Financial Statements
   b. Pro-Forma Financial Statements
   c. Pricing Strategy and Gross Profit Margin
   d. Break-Even Analysis
   e. Projected Cash Flow Spreadsheet
   f. Forecasting Assumptions
   g. Risk Analysis and Alternative Plans of Action
VI. Request for Financing
   a. Amount, Purpose of Request, Collateral
   b. Sources and Uses of Funds
   c. Repayment Plan
   d. Debt Repayment Contingency Plan
VII. Attachments

Appendix

Business Assistance Resource Providers

Montana resource providers are dedicated to providing quality technical assistance to start-up businesses. Some services are provided on a no-cost basis while others may charge a nominal fee for their services. The following list provides information on programs and partners that the Montana SBDC Network works with on a daily basis to help assist small business owners and entrepreneurs:

- Montana Women's Business Center (WBC)
- Montana Procurement Technical Assistance Centers (PTAC)
- Montana Manufacturing Extension Centers (MMEC)
- Montana Technology Innovation Partnership (MTIP)
- Business Expansion and Retention (BEAR) Program
- Incumbent Worker Training (IWT) Program
- Montana SCORE "Counselors to America's Small Businesses"
- Montana Department of Commerce; Business Resources Division (BRD)
    - Made in Montana Program
    - Big Sky Economic Development Trust Fund (BSTF)
    - Primary Sector Workforce Training Grant Program (WTG)
    - Census and Economic Information Center (CEIC)
    - Community Development Block Grant-Economic Development Program (CDBG-ED)
    - Montana International Marketing Assistance
    - Entrepreneur Development Program
    - Indian Country Economic Development Program (ICED)
    - Montana Board of Research & Commercialization Technology (MBRCT)

Montana Women's Business Center (WBC)

The Montana Women's Business Center (WBC) is a program of the Prospera Business Network and is partially funded by the U.S. Small Business Administration. Established in October 2009, the Montana WBC is one of over 100 business centers across the country. The Montana WBC provides the necessary tools and support to help women establish, grow and sustain businesses throughout the state of Montana.

The Montana WBC is focused on providing counseling, training, mentoring and networking services to women entrepreneurs and women in business, and is a critical resource to those who are economically or socially disadvantaged. The Montana WBC gives women the opportunity to excel in business and contributes to the growth of economies throughout the state.

☎ Montana Women's Business Center
Prospera Business Network
(406) 587-3113
http://www.montanawbc.org

Montana Procurement Technical Assistance Centers (PTAC)

The Procurement Technical Assistance Center Program (PTAC) was authorized by Congress in 1985 in an effort to expand the number of small businesses capable of participating in the Government Marketplace successfully. PTAC's are located across the United States. Montana PTAC counselors provide a wide range of assistance – most free of charge – to businesses through one-on-one counseling sessions, classes, seminars and matchmaking events.

The Montana PTAC staff members possess backgrounds in government acquisitions and participate in ongoing training, enabling them to keep pace with the continually changing acquisition marketplace and its policies and procedures.

Montana PTAC's can provide assistance to your business in a wide range of areas whether you are in the beginning, intermediate or advanced stages of government contracting.

☎ Montana PTAC Program
Big Sky Economic Development
(406) 869-8411
http://www.bigskyeconomicdevelopment.org/selling-to-the-government.php

Montana Manufacturing Extension Centers (MMEC)

The Montana Manufacturing Extension Center (MMEC) is a statewide manufacturing outreach and assistance center staffed by full-time professionals with degrees in engineering and extensive experience in manufacturing and business in a variety of industries. MMEC has a proven record of positive impact for client firms and the economy.

The MMEC home office is in the College of Engineering at Montana State University in Bozeman, with field offices at the MSU and in Missoula, Kalispell, Billings and Helena. MMEC has provided assistance to over 750 clients across Montana, from Alzada to Eureka and Corvallis to Opheim!

MMEC can assess your business operations today and help you move ahead for tomorrow. The field staff is knowledgeable, unbiased, and forthright in their observations as they work with you to improve your business.

☎ Montana Manufacturing Extension Center
(406) 994-3812
mmec@coe.montana.edu
http://www.mtmanufacturingcenter.com

Montana Technology Innovation Partnership (MTIP)

The Montana Technology Innovation Partnership (MTIP) is a Montana Department of Commerce initiative created to promote technology commercialization in the state of Montana. MTIP's mission is to build the short-term benefits of technology research and development into the long-term rewards of economic development through commercialization.

MTIP is driven by six objectives: (1) to offer technical assistance for SBIR and STTR proposals, (2) to assist businesses in securing seed capital for research and development, (3) to provide education opportunities that target Montana's technology-based businesses and service providers, (4) to identify and guide businesses to appropriate local and national resources – technical, business, financial or university, (5) to deliver results-oriented services to help technology-based businesses achieve personal commercialization goals, and (6) to complement, not duplicate, the services of other resource providers.

☎ Montana Technology Innovation Partnership
2310 University Way, Building 2, Suite 110
Bozeman, MT 59717-4255
(406) 994-3885
mtip@mt.gov
http://www.mtip.mt.gov

Business Expansion and Retention (BEAR) Program

The Governor's Office of Economic Development, Montana Department of Commerce, Montana Department of Labor and the Montana Economic Developers Association (MEDA) formed a partnership that allows Montana to be one of several states to make the Business Expansion and Retention (BEAR) Program available statewide.

The BEAR Program pulls together local business and community leaders to form a volunteer assessment team to address local needs. Assessment team members are trained in both the assessment process and in interviewing. Local area businesses who request the free service are visited by interviewers from the Assessment Team to conduct on-site surveys of the issues and needs of their local business. After reviewing the confidential survey, the Assessment Team connects the client business to state, area, and local resources that will assist with the identified needs and issues.

☎ Business Expansion and Retention
Statewide Coordinators: Mike and Gloria O'Rourke
(406) 563-5259
Gloria@medamembers.org
http://businessresourcesmt.gov/BEAR

Incumbent Worker Training (IWT) Program

Montana's Incumbent Worker (IWT) Program is a competitive grant opportunity that provides funding for job training for employees of small businesses. The employer must apply for an IWT grant through one of three organizations that will assess eligibility and need: Montana Manufacturing Extension Centers (MMEC), Small Business Development Centers (SBDC), and the Business Expansion and Retention (BEAR) Teams.

☎ Incumbent Working Training Program
Montana Department of Labor and Industry
(406) 444-3351
http://wsd.dli.mt.gov/service/iwt.asp

Montana SCORE "Counselors to America's Small Business"

Montana SCORE is the district organization of SCORE "Counselors to America's Small Business" and is a source of free and confidential small business advice to help you build your business – from idea to startup to success. Montana SCORE has volunteer counselors based in Billings, Bozeman, Butte, Great Falls, Helena, Hamilton and Kalispell. The 190 plus volunteer business counselors are there to help you succeed and are part of a national network of over 10,500 other volunteers. SCORE counselors offer a high level of service and personal attention to help you stay on track as you build your business. SCORE is a national nonprofit organization and resource partner with the U.S. Small Business Administration.

☎ Montana SCORE
(406) 756-5271

Montana Department of Commerce: Business Resources Division

The Business Resources Division at the Montana Department of Commerce is comprised of a variety of programs aimed at improving, enhancing and diversifying Montana's economic and business climate. Working closely with the private sector, the Governor's Office, the Legislature, economic and community development partners, other department divisions, state agencies and federal and private programs, the division strives to enhance the economic base of Montana through business creation, expansion and retention efforts.

Made in Montana

The Made in Montana program, which includes Grown in Montana and Native American Made in Montana components, helps build recognition for products that are "authentically" Montana. That means they are grown, created, made and/or enhanced in the state resulting in 50% or more added-value. The program requires that individuals and businesses meet the program's value-added definition to utilize the trademarked image on their qualifying products.

☎ Made in Montana Program
International Trade & Relations Bureau
Montana Department of Commerce
(406) 841-2757
http://www.madeinmontanausa.com

Big Sky Economic Development Trust Fund (BSTF) Program

The Big Sky Economic Development Trust Fund (BSTF) is a state-funded program created by the 2005 legislature. It is designed to aid in the development of good paying jobs for Montana residents and promote long-term stable economic growth in Montana. The BSTF program is designed to provide financial assistance in two categories:

Category I: Economic Development Job Creation Projects (awarded to local and tribal governments in the form of grants or loans to assist businesses in creating net new eligible jobs that pay the average county wage, excluding benefits).

Category II: Planning Projects (awarded to Certified Regional Development Corporations, tribal governments and other qualified economic development organizations).

☎ Big Sky Economic Development Trust Fund
Montana Department of Commerce
(406) 841-2744
http://www.bstf.mt.gov

Primary Sector Workforce Training Grant (WTG) Program

The Primary Sector Workforce Training Grant (WTG) is a state-funded program that provides grant funds to businesses for training of new full-time and part-time jobs. The program is administered by the Department of Commerce with the Department Grant Review Committee making the actual grant award decisions. The Committee may award workforce training grants to primary sector businesses that provide education or skills-based training for employees in newly created jobs. Potential applicants should contact the Department directly for guidance and funding availability before submitting a formal application.

☎ Primary Sector Workforce Training Grant Program
Montana Department of Commerce
(406) 841-2744
http://www.wtg.mt.gov

Census and Economic Information Center (CEIC)

The Census and Economic Information Center (CEIC) provides demographic and economic data and analysis, GIS support, technical assistance and training. CEIC assists Montana businesses and communities along with schools and government agencies to access and use this information for decision making. Business data, available from a variety of sources including government and non-government entities, covers many topics and trades such as sales volume at furniture stores or payroll for the manufacturing industry. Other topics include the number and type of business establishments in the state, major industries, and characteristics of business owners.

☎ Census and Economic Information Center
Montana Department of Commerce
(406) 841-2740
ceic@mt.gov
http://www.ceic.mt.gov

Community Development Block Grant – Economic Development (CDBG-ED) Program

The CDBG-ED Program is designed to stimulate economic development activity by assisting Montana's private sector to create or retain jobs for low and moderate income (LMI) persons. The program assists businesses by making fixed-rate financing available to them at reasonable interest rates and by providing public improvements in support of economic development activities. CDBG-ED funds are intended to be used in situations where a funding gap exists and alternative sources of public and private financing are not adequate.

☎ CDBG-ED Program
Montana Department of Commerce
(406) 841-2730
http://www.cdbged.mt.gov

Montana International Marketing Assistance Program

The Montana International Marketing Assistance Program is a state-federal partnership providing financial assistance to qualified Montana small businesses for international marketing efforts in beginning exporting or market expansion. It is designed to help increase the number of small businesses that are exporting and to raise the value of exports for those small businesses that are currently exporting so they can grow and create jobs.

☎ Montana International Marketing Assistance
International Trade & Relations Bureau
Montana Department of Commerce
(406) 841-2724
http://www.exportmontana.com