

MODULE 5

Self-Employment



Family Employment Readiness Program

Welcome to the Self-Employment Workshop



*“To business that we love,
we rise betime and
go to't with delight.”*

- William Shakespeare

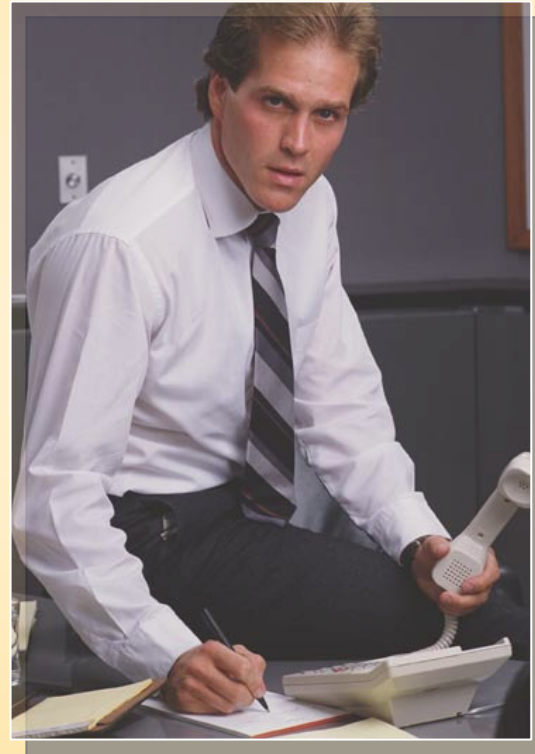


*Entrepreneur –
A Person who Organizes and
Manages a Business Assuming the
Risk for the Sake of Profit*

All Entrepreneurs are Concerned with Three Things



- A Product or Service
- Paying Customers
- A Sales Vehicle



New Businesses Must Explore

- Legal Issues
- Insurance
- Taxes
- Financing
- Marketing
- Pricing
- Military Housing Regulations



Types of Self-employment



- Consultant
- Internet-based Business
- Home-based Business
- Non-home-based Business
- Buy an Existing Business
- Buy a Franchise
- Purchase a Portion of a Business
- Participate in a Multi-level Venture
- License Your Product or Invention

Consultant



- Gives Professional Advice or Services
- Works in a Variety of Fields
- Paid by the Hour or by Assignment
- Provides Services In-person, by Telephone, or Via the Internet

Internet or Virtual Business



- Choose a Storefront Development Option
- Build Site
- Select a Way to Accept Payment
- Register With Search Engines
- Negotiate Links with Other Web Sites
- Use Traditional Marketing Strategies
- Advertise High Traffic Sites
- Participate in Associate Programs
- Offer Specials
- Track and Customize

Home-based Business



- Popular with Military Spouses
- Save Money by Not Leasing Space
- May keep Full-time Job
- Save on Childcare Costs
- No Time Wasted Commuting

Non-home-based Business



- May Start as Home-based
- Zoning May Not Allow Business in Home or Business Requires Large Inventory
- Determine Need
- Learn About Competition
- Set Prices
- Find Location
- Create Business Plan

Turnkey Business



- Existing Business
- To Find:
 - Ask Around
 - Contact Commercial Real Estate Agents
 - Check “Business Opportunities” Section of Newspapers
 - Surf the Web
 - Use a Business Opportunity Locator

Franchise



- “Business in a Box”
- Arrangement to Sell Product or Service in a Particular Area
- Pay a Percentage of Your Sales
- May Have to Follow Rules/Buy Goods From Franchisor
- You Get
 - Training
 - Procedures
 - Tested Product or Service
 - Advertising
 - On-going Support

Minority Ownership



- Purchase Part of a Business
- Share in Profits or Losses
- May be a “Silent” Owner



Multi-level Business



- Also Called “Network Marketing”
- Direct Sales
- Distributors
- Examples Include:
 - Longaberger Baskets
 - Avon
 - Creative Memories



Licensed Product or Invention



- Permission to Allow Use of Intellectual Property Rights
- Can be Nonexclusive or Exclusive
- “Patent License” Grants Permission to Use a Patented Product

To License a Product



- Locate Manufacturers
- Prepare Marketing Material
- Submit Marketing Material to Manufacturers
- Negotiate License
- Can Use a Licensing Agent or Attorney

Successful Self-employed



- Optimism
- Easily Bored
- Tired of Daily Routine
- Put Goals in Writing
- Enjoy Handling Cash
- Pursue Different Paths
- Often Prefer to be Alone
- Stubbornness
- Risk-takers
- Willing to Use Savings to Finance a Project
- Not Top Achievers in School

Legal Organization for a Company is a Trade-off Between

- Control
- Taxes
- Liability



Business Organization Types



- Sole Proprietorship
- Partnership
- Subchapter S Corporation
- Corporation
- Limited Liability Company

Sole Proprietorship Advantages

- Receive All Profits
- Profits Taxed Once
- Make All Decisions
- Low Organizational Costs
- Fewer Restrictions
- Simple to Organize
- Easy to Discontinue



Sole Proprietorship Disadvantages

- Unlimited Liability
- Fund Raising Limited
- No Legal Status



Partnership Advantages



- Easy to Organize
- Separate Legal Status
- Profits Taxed Only Once
- Taxed at Personal Rate

Partnership Disadvantages



- Unlimited Liability to a General Partner
- Divided Decision-making
- Transferability of Ownership

Corporation Advantages



- Limited Liability
- Transfer of Ownership
- Able to Raise Largest Amounts of Capital



Corporation Disadvantages



- Double Taxation
- Higher Organizational Costs
- Heavily Regulated
- Must Complete Legal Requirements to Dissolve

S Corporation Advantages



- Profits Taxed Once
- Limited Liability
- Able to Raise Larger Amounts of Capital
- Owner is also an Employee

S Corporation Disadvantages



- Higher Organizational Costs
- Heavily Regulated
- S Corporation Requirements

Limited Liability Company Advantages



- Limited Liability
- Separate Legal Status
- Profits Taxed Once
- Taxed at Member's Rate
- Members Determine Individual Controlling Interest
- No Restriction on Entity Ownership

Limited Liability Company Disadvantages



- Harder to Organize
- Divided Decision-making
- Limited Case Law
- Not All States the Same
- Heavily Regulated

Business Plan Describes



- Your Business
- Products or Services
- Management and Staffing
- Marketing Plan
- Financial Performance and Projections

Hinges on Business Plan



- Outside Funding
- Credit from Suppliers
- Management of Operation
- Management of Finances
- Marketing

Before Writing Business Plan Consider



- What Service or Product Does Your Business Provide and What Needs Does it Fill?
- Who are Potential Customers and Why Will They Purchase From You?
- How Will You Reach Your Potential Customers?
- Where Will You Get Financial Resources to Start Your Business?

Common Business Plan Elements



- Business Description
- Marketing Plan
- Financial Plan
- Management Plan



Before Seeking Financing Ask



- Do You Need More Capital or Can You Manage Existing Cash Flow More Effectively?
- How Do You Define Your Need? Do You Need Money to Expand or as a Cushion Against Risk?
- How Urgent is Your Need?
- How Great are Your Risks?
- In What State of Development is Your Business?

Before Seeking Financing Ask



- For What Purposes Will the Capital be Used?
- What is the State of Your Industry?
- Is Your Business Seasonal or Cyclical?
- How Strong is Your Management Team?

Sources of \$



- Savings
- Equity
- Stock Dividends
- Insurance Policies
- Friends or Family
- Commercial Loan
- Credit Cards

Five C's of Credit Analysis"

- Capacity
- Capital
- Collateral
- Conditions
- Character



Financing Types

- Equity
- Debt



Lenders Review



- Monthly Personal Cost of Living
- Income Statement
- Cash Flow Statement
- Total Operating Revenue
- Liabilities
- Owner's Equity

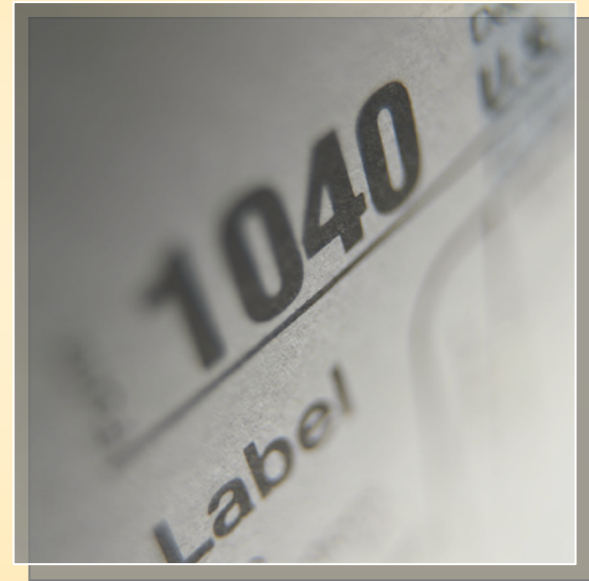
To Determine Need



- Monthly Personal Cost of Living
- Start-up Expenses
- Real Estate Costs
- Capital Equipment Costs
- Inventory Costs
- Working Capital

Taxes

- Estimate and Pay Quarterly
- Self-employment Tax (Medicare & Social Security)
- Plus Federal Income, State and Local Taxes





Marketing is the Act of Buying and Selling

Methods Used to Segment a Market



- Geographic
- Customer



Marketing Plan Includes



- Market Research Data
- Location
- Target Audiences
- Competition
- Positioning
- Product or Service
- Pricing
- Advertising
- Promotion

Define Your Business



- Product or Service
- Geographic Area
- Competition
- Price
- Competition's Promotion Methods
- Your Promotion Methods
- Your Distribution Methods or Business Location

Define Your Customers



- Current Customer Base
- How Your Customers Learn About Your Product or Service
- How You Differ From the Competition
- Patterns or Habits Your Customers and Potential Customers Share

Define Your Customers



- Qualities Your Customers Value About Your Product or Service
- Qualities Your Customers Like Least About Your Product or Service
- Prospective Customers Whom You Aren't Currently Reaching

Define Your Plan and Budget



- Most Effective Methods Used in Past
- Costs Compared to Sales
- Costs Per Customer
- Possible Future Marketing Methods to Attract New Customers

Define Your Plan and Budget



- Percentage of Profits to Allocate to Marketing
- Marketing Tools to Implement Within Your Budget
- Methods of Testing Marketing Ideas
- Methods for Measuring Marketing Campaign Results

Overall Promotional Objective/s



- Communicate Your Message
- Create Awareness of Product or Service
- Motivate Customers to Buy
- Other

Resources



- The Internet
- Library
- Chamber of Commerce
- Trade Shows
- Small Business Administration
- Service Corps of Retired Executives (SCORE)
- Women's Business Center