

How to Start Your Own Small Business: From Idea to Success



So you want to know how to start your own small business.

Good for you! You've already taken a big, scary step into the unknown, just by considering the option. Whether you're primed with a big old business degree or you couldn't recognize a marketing plan if it bit you on the nose, every first-time wanna-be entrepreneur starts in exactly the same boat. You've never done this before, you're a little bit terrified, and everyone around you probably assumes that you're crazy.

Welcome to the club!

Knowing you *want* to start your own small business doesn't necessarily mean you know *how* to start your own small business, though. For that, you have us! We're about to lay out absolutely everything you'll ever need to know in order to launch and run a successful, profitable small business that customers love.

Okay, so that's obviously a lie. But we'll certainly give you a solid head start!

(Plus, we've got a bonus [infographic](#) that lays all this out if you're a visual learner. Enjoy!)

How to Start Your Own Small Business: Finding That Perfect Idea

In our experience, there are generally two types of entrepreneurs out there.

First, there's the reluctant entrepreneur. The one who's stumbled on a business idea that's too perfect to *not* pursue, but who's a little less than sure about the whole "owning a business" thing. If that's you, skip right on ahead, because you don't need this section. *Lucky you.*

Then there's the other kind of entrepreneur. The one who was born with that ambitious, independent, adventurous vibe that can't be contained. Who can hardly stand working for a paycheck but never calling the shots, but who has *no idea* what kind of small business to start.

Sound familiar? Keep reading, friends. Perhaps answering these three primer questions will get your creativity flowing until you land on that one *perfect* idea.

What Skills Do You Have?

Figuring out how to run a small business is a steep enough learning curve without *also* having to gain skills for a new trade. So instead of reinventing the wheel with a business in a totally foreign industry, start with—what do you already know how to do?

Your answer [might involve a hobby or passion](#), skills from a previous job, your college major, or a particular natural talent.

What Resources Are At Your Disposal?

Do you already have a garage full of lawn equipment? Maybe you should start a landscaping company! Did you inherit a warehouse or retail space? What kind of business opportunity might that offer? Or if you have access to a wealth of contacts that could form your customer base in a particular field, that could also be a great lead towards a new business idea.

Starting your own small business will likely require significant investment in resources to be successful. Figuring out what you already have available can help you find a business opportunity with maximum profitability.

What Need Could You Fill?

As you look around your own little corner of the universe, what product, service, or convenience do you see as missing? What consumer need is still left to be filled? Many of the most successful business ideas come from identifying a problem and then inventing the solution. So be the customer, then build the business you wish were already available!

Well, what do you think? Did the heavens break open? Is the magic answer suddenly clear? Eh, maybe not quite. But there's always hope!

If the questions above didn't spark a particular burst of creative genius, take a lead from [some of these top business ideas](#) or get inspired by one of the [current most profitable industries](#).

Remember, you don't necessarily have to reinvent the wheel!

How to Start Your Own Small Business: Writing Your Business Plan

Whichever business idea you decide to pursue, every successful small business starts with a strong business plan.

It's true. Taking the time to sit down and write out a business plan is easily one of the smartest, most important steps you'll take in launching your business—yet it's also the step that's most often skipped.

Let's be honest. When you're feeling that entrepreneurial vibe, have landed on that one best idea, and are ready to hit the ground running, nothing sounds *less* fun than slowing down all that momentum to sit down and write a thesis. Spreadsheets? Pie charts? Statistical analysis? No thank you very much!

But hear us out, because the truth is, the bar graphs and complex output aren't what writing a business plan is about at all. There are [plenty of resources online](#) that can show you what to include in your business plan and how to make it look pretty for investors, loan officers, or anyone else who might want to see it in the future—but the important work of your business plan is much more about the process than the result.

At its core, writing a business plan is about thinking through and answering really hard questions about your small business—questions that, when considered, will force you to contemplate the purpose of your business, the market you serve, and challenges you might not have otherwise have thought of. When done right, the process of writing your business plan will lead you to refine your initial idea into something much more resilient, and ultimately more successful than it would have otherwise been.

Let's take a look at the 10 main questions you should be answering as part of your business planning process.

1. What does your small business do?

See? This whole business planning thing doesn't have to be hard! Once you have a business idea, take a moment to write out in the simplest terms what product or service your business offers.

Go ahead and write out both a long and a short answer to this question—and then commit the short answer to memory. This is known as your “[elevator pitch](#),” and it's something you'll repeat over and over and over to friends, family, customers, lenders, investors, and more.

2. Who is your small business for?

This is called your target market—the group of people whom your business is meant to serve. The more specifically you can answer this question, the better you'll be able to create products, services, and marketing campaigns that meet the needs of your demographic. Consider [creating customer profiles](#) to build a mental picture for yourself and your team members of the individuals you hope to do business with.

3. Who are your competitors?

Many of the world's most successful, experienced business owners will tell you not to worry about your competition. It's what *you* do that matters.

This is great advice for when you're in the thick of running your business. After all, you can't live your life reacting to everything your competitors do. But when you're first starting out, it's worth at least knowing who your main competitors are and how their businesses are similar and different from yours.

Do your research to identify your business's primary competition. This will save you from creating a business model that too similarly mirrors an already established alternative.

4. What is your unique value proposition?

Don't let the fancy terminology scare you. Your unique value proposition is essentially just what makes your business different from the competition. What is it about your business that will

cause your customers to choose you over your competitors? Potential unique value propositions might include your business location, a unique product feature, a commitment to quality, or even your price point.

5. How will your customers find you?

Your answer to this question will form the foundation of your business's marketing strategy. Will you primarily generate business by word of mouth? Will you pursue paid advertising, and if so, through what means? How will your website, social media, or other online presence play into connecting with your customers? These and other questions will help you define how you'll turn your target market into a loyal, repeating customer base.

6. What resources will you need?

As the saying goes, [it takes money to make money](#). What will you need in order to create your product or provide your service? Do you need manufacturing equipment? Computers and software? Retail space? Will you need to hire employees or outside contractors?

Take the time now to list out all the one-time and recurring expenses you're likely to incur as part of your cost of doing business. If you'll need other non-monetary expenses, like equipment you already own or a friend or family member's business contacts, outline those as well.

7. How will your small business make money?

You might have a great idea to offer a product or service that customers will love, but that doesn't necessarily mean your business idea will actually return a profit. Your business model determines how your business will generate revenue, cover expenses, and eventually make more money than it spends. Many popular businesses ultimately fail because of a flaw in their business model, so learn from your predecessors here by taking the time to really flesh out the specifics of how your business will make money.

8. How long will it take you to make a profit?

It's typical for new businesses to operate at a loss at the beginning—especially for the first year—as they invest in needed resources, work to acquire customers, and iron out the kinks in the business model. But in the long-run, we assume you've gone into business to make money! Use a [revenue forecast](#) to determine how long it'll take to recuperate your initial investment, [break even](#), and run a profitable business.

9. What values will you never compromise?

When the going gets tough, knowing what you stand for is critical to making the best decision at every turn. What values are most important to you, both personally and as a business? What are your non-negotiables?

Putting your business's core values on paper from the outset will help you with everything from making the right hiring to choices to deciding which direction to take when you're facing a critical fork in the road.

10. What's your endgame?

Are you building a business that you hope to eventually sell? Or are you working towards a long-term, sustainable family business that you could someday pass down to your children or grandchildren?

Knowing where you want to end up, and when, will help to inform many of your business decisions along the way. Take the time now to outline your long-term endgame, as well as the steps you think you'll take to get there.

How to Start Your Own Small Business: Making It All Official

Now that you've done the big picture planning, it's time to get down to the nitty gritty. When you're first starting out, you'll face more paperwork and legal hoops to jump through than at any other point in your business.

I know this part is no fun, but persevere! Taking the time to properly establish your new business from the beginning will save you a lot of headache (and potentially even greater consequences) down the line.

Here are the main steps you'll need to take to get your business legally established with the proper federal, state, and local authorities.

Register Your Business Name

If you plan to use a unique name for your business, go ahead and [file your "doing business as" name with your state's agency](#). Even if you decide to change your legal structure down the line, filing your DBA early will keep you from losing your clever name idea to a fellow entrepreneur.

Choose Your Legal Structure

When you're ready, the next "official" task on your new business to-do list is to decide on a legal structure for business. The structure you choose will impact how you file state and federal taxes, the roles of different team members, and how you can be held liable in the (hopefully unlikely!) event that a customer or other stakeholder files a legal claim against your business.

Because of the long-term and potentially weighty impact of your chosen business structure, it's a good idea to consult an attorney to help you make this choice. Even so, we'll give you a quick primer here into the various business structures you can choose from.

Sole Proprietorship

This is the most basic form of business structure, in which you alone own the company and are responsible for any liabilities associated with it. If you plan to operate a service business and won't be taking on fixed assets or hiring any employees, a [sole proprietorship](#) might be the perfect structure for you.

And the best news? You don't have to take any formal action to form a sole proprietorship! If you'll be operating under your own name, you can just jump right into business. And if you have a clever idea for a business name, your "doing business as" filing (see above) will be all you need.

Partnership

This structure defines a single business in which two or more individuals are owners. There are a few different [partnership structures](#) you can choose from, including a general partnership, a limited partnership, or a joint venture. Most experienced entrepreneurs don't recommend partnerships as a business structure because they don't offer much protection from liability.

It's also important to keep in mind that a partnership is much like a marriage, in that you will work closely with and be both financially and legally tied to your business partner for a long time. Make sure you choose a business partner that you can work well with for the long haul, and put clear terms and expectations in writing from the beginning detailing the roles and responsibilities of each party.

Corporation

A [corporation](#) is a more complex business structure usually reserved for larger companies or those in particularly high-liability industries looking for a little extra insulation. If you expect your business to eventually take on a lot of employees or need a complicated legal structure, it could be worth setting up a corporation now.

However, it's important to keep in mind that establishing a corporation requires having a board of directors as well as officers, and has more complicated tax filing requirements. Most small businesses can get away without filing as a corporation in the beginning.

S Corporation

This business structure is very similar to a regular C corporation... With one notable exception: [S Corporations](#) are taxed at the individual business owner level, rather than being taxed corporately. If you think you may need the structure of a corporation but don't want to mess with complicated dividend filings, an S Corporation might be a great middle ground for you.

Limited Liability Company (LLC)

Offering the liability protections of a corporation along with the flexibility and tax simplicity of a sole proprietorship or partnership, the [Limited Liability Company \(LLC\)](#) is a "best of both worlds" business structure that has grown significantly in popularity over recent years. Entrepreneurs who opt for an LLC structure can choose between a single-officer LLC, a partnership LLC, or a limited-liability corporation.

Again, choosing a structure for your business is one area where your smartest bet is to consult an attorney for individual advice. It's an important decision that will have long-term impacts on how you do business, so do your research and make sure that you fully understand the implications of whatever structure you choose.

Get a Tax Identification Number

Also known as your Employer Identification Number (or EIN for short), this number helps the IRS keep track of your business for tax purposes. Think of it like a social security number for your business.

While not all businesses need an Employer Identification Number, there are some circumstances where you may need to file for an EIN even if you don't retain employees—especially if your business is established as a corporation or partnership. Read [here](#) to determine whether your business needs an EIN.

You can obtain an Employer Identification Number by [applying online](#) at the IRS website.

Register for State and Local Taxes

In addition to federal business taxes, most U.S. states and territories will require you to pay income and employment taxes for your business. Certain states have additional fiscal requirements, like state-mandated workers' compensation and unemployment insurance.

Registration, requirements, and filing procedures vary widely from state to state, so click [here](#) to access business tax information specific to where you live.

Apply For Any Needed Trademarks or Patents

Does your business revolve around a new invention, or rely heavily on a particular brand? If so, you may need to [register a trademark](#) or [file for a federal patent](#) to protect your intellectual property. The process of obtaining an official patent or trademark from the U.S. government can take months or even years—so if you think this will be important for your business, go ahead and get those applications submitted sooner than later.

How to Start Your Own Small Business: Managing Your Finances

Some small business owners are finance and management experts. They have a fancy business degree, experience in the private sector, and strong literacy in all things related to managing small business finances.

But if you're reading this guide, we're assuming that you're the *other* kind of entrepreneur. The one with that unshakable spirit and an idea you're desperate to pursue, but who knows next to nothing about the dollars and sense of running a business.

If the idea of [managing finances for your new small business](#) is giving you heart palpitations, don't panic! It's not as hard as it sounds—we promise.

Here's a beginner's guide to what you need to know about managing finances for your new business venture:

Set Up Basic Accounting Documents

Running a small business involves a *lot* of paperwork. You'll need accounting documents to file your taxes, apply for business financing, and for internal tracking of your revenue, expenses, and profitability.

At minimum, every small business owner should regularly maintain these three basic accounting documents:

1. Balance Sheet

The balance sheet is essentially a snapshot of your business's financial standing at a given moment. It lists the assets, liabilities, and equity your company holds at a given time, and is used to calculate the net worth of your business.

Maintaining a “balanced” balance sheet—one in which total assets (everything your business owns) equals liabilities plus equity—is the foundational tenet of basic bookkeeping.

If you're not sure how to get started creating a balance sheet for your business, check out our free downloadable balance sheet template [here](#).

2. Income Statement

Sometimes called a profit and loss statement, your income statement summarizes your business revenues and expenses over the course of a year, letting you calculate your net profit or loss for that year. Maintaining an accurate income statement is critical to determining the break-even point for your new business, as well as measuring profitability over time.

Check out [our free downloadable income statement template](#) to begin tracking revenue and expenses for your small business.

3. Cash Flow Statement

Having enough cash on-hand to cover expenses can make or break a company's financial health. In fact, this issue is so important that there's an accounting document dedicated to the tracking of cash flow.

Your cash flow statement reflects the inflow of revenue and outflow of expenses resulting from all your business activities during a specific time period—usually a month or a financial quarter. Inflow will come from selling goods and receiving payment on invoices, while outflow comes from things like purchasing inventory, payroll, and paying marketing costs and other overhead expenses.

Need help tracking your company's cash flow? We have a free downloadable [cash flow template](#) you can use to get started now.

Choose the Best Accounting Software For You

Managing the documents above can quickly get overwhelming if you're trying to manage your accounts manually. Thankfully, there are several great accounting software options available that will take the guesswork out of your bookkeeping and generate these accounting documents automatically.

Check out our favorite cloud-based accounting options for small business owners to find the program that fits your needs.

QuickBooks

Considered the gold standard of accounting software by most professional small business accountants, QuickBooks has all the bells and whistles any small business—from restaurants to retail, consultants, and more—could ever need.

If you plan to eventually grow a medium to large business with multiple income sources, QuickBooks is your best bet for maximum functionality. But if you're keeping it small and are mildly tech-phobic, you might want to consider a simpler option.

Freshbooks

Does just the idea of accounting software make you hyperventilate? If so, [Freshbooks](#) might be the best option for your needs. It has an approachable look and feel, with all the features most small businesses need without additional confusing add-ons.

And the top notch support team at Freshbooks is highly responsive in helping you work through their easy-to-setup [accounting system](#), making this service ideal for brand new entrepreneurs.

Wave

If you're just looking for simple, basic accounting features and budgets are tight, Wave could be your perfect solution. As long as you don't mind a few ads in your accounting experience, Wave's most basic cloud-based program is free to use. Their paid service also offers additional features that serve as a mid-point between Quickbooks Online and Freshbooks.

Hire a Bookkeeper or Accountant

While the right software can do wonders to help you manage your small business finances, there are some areas of small business accounting that are beyond the capacity of the average small business owner.

Ask around to your attorney, banker, and fellow business owners for a recommended Certified Public Accountant, and start building a relationship with your new CPA right away. It's important to choose someone whose personality fits with yours, who will be available to answer questions as needed, and who can handle financial areas where you have less experience.

But regardless of who you choose as your accounting professional or what responsibilities you decide to hand over, it's essential that you stay personally involved in your small business finances, and that you have checks and balances in place to avoid theft or fraud. Pay attention and remember that *you* are ultimately responsible for the finances of your business!

Keep Up With Business Tax Obligations

Along with getting your books in order, understanding and fulfilling tax requirements should be a first priority in your business financial management. The consequences for failing to file your state and federal business taxes are severe—as in you could lose your business and even face criminal charges. So even though dealing with the IRS can be intimidating, this isn't something you can ignore.

Let's break down the main business tax obligations you'll need to keep track of:

Income Tax

All businesses must file annual income tax returns and make payments based on revenue received. The exact tax form you use to make income tax payments depends on the [structure of your business](#): [sole proprietorship](#), [partnership](#), [corporation](#), [S corporation](#), or [Limited Liability Company \(LLC\)](#).

Self-Employment Tax

Individuals who work for themselves (including small business owners) must pay social security and medicare taxes through a self-employment tax. This tax is similar to the taxes withheld from the pay of most wage earners.

Estimated Tax

Income and self-employment taxes both qualify as “pay as you go” taxes. You'll need to file quarterly documents estimating the taxes you owe in these categories and make payments accordingly. Click [here](#) for forms and more information about how to make quarterly estimated tax payments.

Employment Taxes

If you have employees working for your business, you'll have additional tax obligations related to those employees, including social security and medicare taxes, federal income tax withholdings, and the federal unemployment tax. Click [here](#) for specific IRS information about filing employment taxes for your business.

Excise Tax

These taxes don't impact every business. Excise taxes most often apply to businesses with heavy fuel usage, but can also apply to businesses like indoor tanning salons, manufacturers of archery equipment, and many more. Click [here](#) to determine whether you'll need to file a Federal Excise Tax Return for your business.

Are you worried about filing quarterly taxes and otherwise keeping up with your tax obligations as a business? [Here's a more extensive breakdown](#) of the steps involved and what you'll need to know.

How to Start Your Own Small Business: Funding Your Small Business

At some point in the financial trajectory of your business, you might find yourself wondering [how to finance a business](#)—either to deal with short-term cash flow challenges or to fund the growth of your business.

Entrepreneurs choose to finance their businesses in any variety of ways. Maybe you'll reach out to friends and family, pursue debt financing in the form of a business loan, or even work with an investor! Below, we'll review the basics of various financing options you may want to consider.

Small Business Loans

One of the most common ways small business owners access financing is by borrowing funds from a bank or alternative lender. The growth of the alternative lending market has brought about a wide variety of loan products to meet the needs of entrepreneurs, each with different costs, payment structures, and application processes.

If you think you may eventually need a loan to fund your business goals, take a moment to review this quick breakdown of the most common loan types sought by small business owners:

Term Loans

Probably the first thing you think of when you imagine business lending, [term loans](#) offer a set repayment time, set number of payments, and a fixed or variable interest rate.

Depending on your business needs, credit rating, and other factors, there are a wide variety of term loans available to many small business owners—both from traditional banks and from non-bank alternative lenders—and with terms ranging from 1 year with daily payments up to 5 year terms with monthly payments, and everything in between.

SBA Loans

Because of the risky nature of [small business lending](#), many [commercial lenders](#) have in the past been hesitant to lend money to small business owners. As a solution, the Small Business Administration began guaranteeing as much as 80% of the loan principal for term loans through participating lending institutions.

The SBA offers a variety of loan programs to suit a variety of different business demographics and needs. If you're considering an [SBA loan for your small business](#), check out our [downloadable cheat sheet](#) to learn about every loan program the SBA offers.

Keep in mind, though, that while this guarantee might make some lenders more willing to consider applicants who don't fall within their strict loan criteria, applying for an SBA loan still involves lengthy paperwork, and the process can take several months.

Equipment Financing

If you specifically need cash to make a big equipment purchase (think computers, machinery, vehicles, and so on) for your business, equipment financing could be the right choice for you.

This financing product works very similarly to a car loan, with the amount you can borrow depending on the price and type of equipment you're borrowing. And because the equipment itself serves as collateral, you likely won't be asked to put up additional collateral.

[Equipment financing](#) terms typically work at a fixed interest rate—usually between 8% and 30%—with a fixed term length so your payments will be the same from month to month.

Invoice Financing

Also known as [accounts receivables financing](#), invoice financing is a system in which companies buy your accounts receivable through a [quick loan](#) of about 80% of the value of your invoices. Later on, you'll receive most of the additional 20% you're owed proportional to the amount of your invoices that were actually repaid.

If delayed payments from clients are seriously endangering your cash flow, invoice financing is a great option to get your receivables back on track.

Short-Term Loans

For businesses with smaller and immediate financing needs, [short-term loans](#) can be a lifesaver. These loans work similarly to traditional term loans, but cover amounts in the \$2,500 to \$250,000 range with terms between 3 and 18 months.

With interest rates as low as 14%, short-term loan providers can often get you cash in hand in as few as 2 days, allowing you to make rent, cover payroll, or meet other immediate overhead expenses even when cash is tight.

Lines of Credit

Perhaps the most flexible form of business funding available, a business [line of credit](#) gives you capital to draw upon to meet a variety of business needs. Once established, you can draw on your line of credit as you would a personal or [business credit card](#): to get more working capital, buy inventory, handle seasonal cash flows, pay off other debts, or address almost any other business need.

If you do plan to apply for a small business loan at any point in the future, make sure that you're regularly reviewing your personal and business credit reports, as well as doing what you can improve your credit score. Along with your annual revenue, time in business, and average bank balance, your personal and business credit scores are the single most important factor that'll determine your ability to qualify for a small business loan.

Business Funding Alternatives

[Small business loans](#) aren't the only way to finance your small business. Here are just a few of the alternatives you might consider to cover the initial costs of your latest business venture:

Angel Investors

Every day, thousands of investors are contributing both finances and expertise to what they see as the "next big thing." If your business idea has a high chance of profitability, you could spark the interest of a capital investor.

Angel investors are individuals of means—often successful entrepreneurs themselves— who choose to personally invest in a wide variety of startup ventures as a means of furthering their own incomes and of giving back to other entrepreneurs with their resources and expertise.

In exchange for their funds and expertise, not only will you be giving this individual equity shares in your business, but in many cases they'll also obtain a certain amount of decision-making power. So before you hand over the proverbial keys to your business to an angel investor, be sure you've agreed to drive in the same direction.

Venture Capital Firms

Similar to angel investors, venture capital firms are more organized, established organizations that fund larger scale business ventures by purchasing a percentage of the business in a startup's "round" of funding.

Funding your business through a venture capital firm can be highly competitive and has a certain barrier to entry that not all small business owners are able to meet. Most venture capital firms make minimum investments in the million dollar range, so consider this option only if you're on the hunt for large scale funding.

Friends and Family

If your family and friends seem supportive of your business venture, they might be willing to invest funds to help your business succeed. Of course, accepting funds from friends or family comes with its own set of challenges. Even when everyone has the best of intentions, loss of income from a failed business deal can ruin relationships.

Should you choose to go this route, do everything you can to keep it professional. Offer a well thought-out and professional-quality investment proposal as you would to any other investor, and set the exact terms of the investment in writing. The more negotiated up front, the less risk you'll have of dealing with miscommunications or relational challenges with those closest to you down the line.

Crowdfunding

Platforms like [Kickstarter](#) or [IndieGoGo](#) are great for smaller ventures looking to offer product or other goodies in exchange for a contribution. Larger scale ventures might consider equity crowdfunding platforms like [EquityNet](#) that sell company equity to capital investors in a crowdfunding format.

Don't underestimate the value of a few hundred \$50, \$20, or even \$10 pledges towards your overall fundraising goal. That money adds up fast. And if your campaign goes viral—catching the attention of folks outside your immediate network—the possibilities grow even further.

How to Start Your Own Small Business: Ready, Set, Go!

There you have it, friends. That's everything you need to know to launch a successful business!

Ha! Funny, right?

The truth is, no article on the internet could ever encompass all that you need to know to launch and successfully grow a strong, healthy small business. Being an entrepreneur is truly not for the faint of heart: owning your own business is a never-ending, 24/7 adventure.

The learning curve will be constant. Google will be your best friend. And the challenges and questions that come up for each business owner will vary as widely as the different types of businesses out there.

Even so, we hope that this brief guide answered some important questions and gave you a preview of things to come. Good luck!