

7.23: Ten Steps to Starting a Business

Learning Objectives

- List the steps to starting a business
- Briefly describe the steps to starting a business



The Small Business Association's (SBA) [10 Step Guide to Starting a Small Business](#) includes the following action items, with links to the associated detail page.

1. [Conduct market research](#)
2. [Write your business plan](#)
3. [Fund your business](#)
4. [Pick your business location](#)
5. [Choose a business structure](#)
6. [Choose your business name](#)
7. [Register your business](#)
8. [Obtain federal and state tax IDs](#)
9. [Apply for state licenses and permits](#)
10. [Open a business bank account](#)

The IRS site is the source of federal action items, including requesting employer IDs and accessing tax forms and publications. [Direct link to the IRS Small Business and Self-Employed portal](#). For state-specific guidelines, you can use the IRS' [State Government Websites](#) page as a jumping off point or use a search phrase such as “starting a business in [state].” Your city or county may have additional requirements; refer to the relevant site for any permit or licensing requirements.

The nonprofit small business education and mentoring organization SCORE is another source of start-up information including a [Simple Steps for Starting Your Business](#) workbook, online course and additional resources and webinars. [Visit SCORE's website](#) if you want to learn more. Finally, your city or county may have an economic development program that provides business planning expertise, relevant economic data and access to funding.

Practice Question

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In this section, we'll discuss each of the 10 start-up steps briefly, so you understand the flow and see the connections between the individual action items.

Step 1: Conduct Market Research

As Peri Pakroo notes in The Women's Small Business Start-Up Kit (an excellent resource regardless of your gender), “Before you launch any business—even before you write a business plan—you'll need to gather information and do research to demonstrate that your idea will be successful.” The key insight is that doing research first allows you to test drive and fine tune—or reject, if necessary—your business concept, reducing the risk of your new venture.

SBA's Conduct Market Research page recommends two areas of research: market and competitive. You'll use market research to understand consumer behavior and market and economic factors. Competitive research will inform your business offering and positioning relative to the existing product or service providers in your market.

Step 2: Write Your Business Plan

We'll drill down into business plans in the next section. Interim perspective: Your business plan distills your research and analysis into an actionable plan, including your unique value proposition, competitive strategy and what it will take—in specific operating and financial statement terms—to succeed.

Step 3: Fund Your Business

There's a range of options for funding your business: self-financing, microloans, crowdfunding (see [Fundly's top 40 ranking](#)), regional development or government grants and loans, business competition awards and venture capital. What's important to note is that a business' start-up costs (developed in the business plan) and choice of funding have implications for the business structure and business ownership/management.

Step 4: Pick Your Business Location

Selecting a business location depends on a range of factors including your type of business, proximity to your target market, business partners, economic development support, suppliers and your personal preferences. In addition, you will need to factor in taxes, zoning laws and other fees and regulations relevant to your business operation.

Step 5: Choose A Business Structure

As the SBA site notes: “The business structure you choose influences everything from day-to-day operations, to taxes, to how much of your personal assets are at risk. You should choose a business structure that gives you the right balance of legal protections and benefits.” The table below summarizes the options and liability and tax implications.

Liability and Tax Implications for Different Types of Business Ownership

Business structure	Ownership	Liability	Taxes
Sole proprietorship	One person	Unlimited personal liability	Personal tax only
Partnerships	Two or more people	Unlimited personal liability unless structured as a limited partnership	Self-employment tax (except for limited partners) Personal tax
Limited liability company (LLC)	One or more people	Owners are not personally liable	Self-employment tax Personal tax or corporate tax
Corporation – C corp	One or more people	Owners are not personally liable	Corporate tax
Corporation – S corp	One or more people, but no more than 100, and all must be U.S. citizens	Owners are not personally liable	Personal tax
Corporation – B corp	One or more people	Owners are not personally liable	Corporate tax
Corporation – Nonprofit	One or more people	Owners are not personally liable	Tax-exempt, but corporate profits can't be distributed

Note as well that the business structures entail different levels of administrative paperwork and cost of incorporation. For example, the cost of a sole proprietorship is generally just the cost of registering a “DBA” or Doing Business As (also referred to as a trade name, fictitious name if you're not conducting business in your own name; incorporating requires extensive record-keeping, operational processes and reporting as well as higher registration or filing fees. If you're particularly focused on social impact and/or sustainability, you may want to explore structuring as a Benefit Corporation, Certified B Corp or “L3C,” low-profit limited liability company structures.

Step 6: Choose Your Business Name

Choosing a business name is an opportunity to communicate not only what you do but who you are: the personality and your unique value proposition. You may want to create multiple options and test drive your short list with people who represent your target audience. Also consider how your name will look in print and using the type of signage and advertising you plan to use. Prior to committing to a name, check domain name and DNA registrations to make sure the name is available and use a trademark search tool such as the [U.S. Patent and Trademark Office's trademark search tool](#) to avoid infringement.

Depending on your business, your social media presence may be your website, so be sure to claim and manager your business identity on relevant rating sites such as Yelp, TripAdvisor. One way to monitor your business reviews is to [set up a Google Alert](#) on your business name.

Step 7: Register Your Business

Business registration requirements are based on business structure and location. As the SBA site notes:

- Entity name protects you at state level
- Trademark protects you at a federal level
- Doing Business As (DBA) doesn't give legal protection, but might be legally required
- Domain name protects your business website address

To the DBA point: A duplicate name will generally not be approved. Prior to filing, conduct a DBA search to verify that the name you want to use is not already in use. At a local If you're conducting business using your legal name (versus a DBA), there is generally no registration required.

Step 8: Obtain Federal and State Tax IDs

The downstream effect of income is taxes. Enter federal and state tax IDs. At a minimum, you will need an Employer Identification Number (EIN) or federal tax ID number, with the potential exception of sole proprietors. For elaboration on that point, refer to the [When does a sole proprietor need a EIN?](#) Discussion on the NOLO site. In addition to paying federal taxes, you will need an EIN to hire employees, open a business bank account and apply for business licenses and permits. To determine whether you need a state tax ID, use the state lookup function on the SBA site and research from there.

Step 9: Apply For State Licenses and Permits

Depending on where you plan to open your business, the licenses and permits will vary. The SBA advises that in order to make an informed strategic decision about your business' location and activities, you will need to apply for state licenses and permits and keep track of when they expire.

Step 10: Open A Business Bank Account

The SBA advises new business owners to open a business bank account as soon as they start accepting or spending money as a business. Doing so avoids one of the risk factor the commingling of personal and business assets cited as a failure risk factor in the prior section. Business author and coach Peri Pakroo also cautions against running your business out of your personal account, citing two specific reasons:

1. If you created an LLC or a corporation to protect your personal assets, commingling business and transactions undermines that protection.
2. If combining business and personal transactions will make it much more difficult to do essential financial management tasks.

You may want to read a few Best Banks for Small Business articles to evaluate the options. SmartAsset's [Best Banks for Small Business](#) (2020) analysis is one of a number of analyses.

? Practice Question

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