

# HOW TO START A BUSINESS:

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## The 11 Step Guide

**2021**

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**Latin American Educational Opportunities Podcast**

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# INTRODUCTION



## The basics

1. An idea
2. A team
3. A product
4. Help with legal stuff

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Every startup is different but ultimately most need an idea a team, a product, and help with legal stuff.

**The Idea:** Are you going to be making a product or service better? Or meet a need that people didn't even know they had?

**The Team:** You need to find a group of people you can work with whose skill sets complement yours. Begin with the three roles: Business, technical, and creative.

**The product:** To get started with your product, develop a prototype, a model of your service, or at the very least a realistic plan for how you'll develop your first products.

**The Legal:** Most people don't think about the legal aspect of creating your startup. You need to figure out your business structure, your name, and other legal issues. You don't want your startup to fail because you end up running into legal issues down the road after you've put so much work into it.

# INTRODUCTION



## THE 11 STEPS

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. Get federal and state tax IDs
9. Apply for licenses and permits
10. Opening a business bank account
11. Getting business insurance

# 1. CONDUCT MARKET RESEARCH



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# 1. CONDUCT MARKET RESEARCH



## You'll then want to do some direct research

Use this research to answer questions about your specific business or customers, like reactions to your logo, improvements you could make to the buying experience, and where customers might go instead of your business.



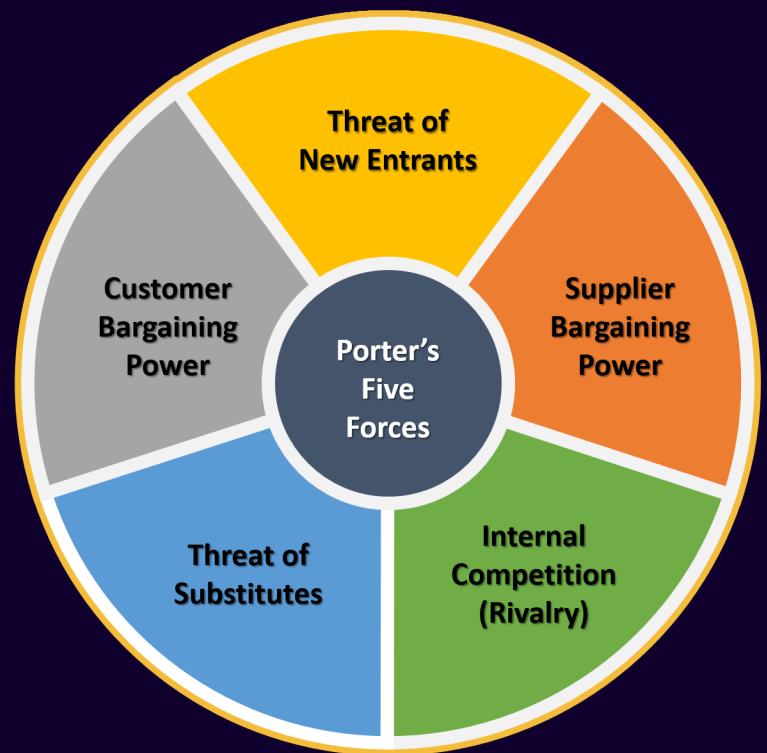
Some great methods for direct research listed on the SBA website are:

- **Surveys**
- **Questionnaires**
- **Focus groups**
- **In-depth interviews**

## FIND OUT WHAT YOUR COMPETITION IS DOING

Your competitive analysis should identify your competition by product line or service and market segment. Start by looking into the following characteristics of the competitive landscape:

- **Market share**
- **Strengths and weaknesses**
- **Your window of opportunity to enter the market**
- **The importance of your target market to your competitors**
- **Any barriers that may hinder you as you enter the market**
- **Indirect or secondary competitors who may impact your success**



Several industries might likely be competing to serve the same market you're targeting. The Department of Justice provides a diagram of Porter's Five Forces as one way you can differentiate your competitive analysis by industry. Important factors to consider include the level of competition, the threat of new competitors or services, and the effect of suppliers and customers on price.





# 2. WRITING YOUR BUSINESS PLAN



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# 2. WRITING YOUR BUSINESS PLAN



Now let's go over what the two formats could look like according to the SBA website. Keep in mind though that when writing your business plan you don't have to stick to the exact business plan outline. Use the sections that make the most sense for your business and your needs.

## TRADITIONAL BUSINESS PLAN OUTLINE

Let's begin by going over the traditional business plan outline. Traditional business plans use some combination of these nine sections.

### 1. Executive summary

- a. Briefly tells your reader what your company is and why it will be successful. Include your mission statement, your product or service, and basic information about your company's leadership team, employees, and location. You should also include financial information and high-level growth plans if you plan to ask for financing.

### 2. Company description

- a. Use your company description to provide detailed information about your company. Go into detail about the problems your business solves. Be specific, and list out the consumers, organization, or businesses your company plans to serve.
- b. Explain the competitive advantages that will make your business a success. Are there experts on your team? Have you found the perfect location for your store? Your company description is the place to boast about your strengths.

### 3. Market analysis

- a. You'll need a good understanding of your industry outlook and target market. Competitive research will show you what other businesses are doing and what their strengths are. In your market research, look for trends and themes. What do successful competitors do? Why does it work? Can you do it better? Now's the time to answer these questions.

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# 2. WRITING YOUR BUSINESS PLAN



## 8. Financial Projections

- a. Supplement your funding request with financial projections. Your goal is to convince the reader that your business is stable and will be a financial success
- b. If your business is already established, include income statements, balance sheets, and cash flow statements for the last three to five years. If you have other collateral you could put against a loan, make sure to list it now.
- c. Provide a prospective financial outlook for the next five years. Include forecasted income statements, balance sheets, cash flow statements, and capital expenditure budgets. For the first year, be even more specific and use quarterly — or even monthly — projections. Make sure to clearly explain your projections, and match them to your funding requests.
- d. This is a great place to use graphs and charts to tell the financial story of your business.

## 9. Appendix

- a. Use your appendix to provide supporting documents or other materials that were specially requested. Common items to include are credit histories, resumes, product pictures, letters of reference, licenses, permits, patents, legal documents, and other contracts.

### 2 EXAMPLES

1. <https://www.sba.gov/sites/default/files/2017-09/Sample%20Business%20Plan%20-%20We%20Can%20Do%20It%20Consulting.doc>
2. <https://www.sba.gov/sites/default/files/2017-11/Sample%20Business%20Plan%20-%20Wooden%20Grain%20Toy%20Company.doc>



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# 2. WRITING YOUR BUSINESS PLAN



## CALCULATING YOUR STARTUP COSTS

How much money will it take to start your small business? Calculate the startup costs for your small business so you can request funding, attract investors, and estimate when you'll turn a profit

The key to a successful business is preparation. Before your business opens its doors, you'll have bills to pay. Understanding your expenses will help you launch successfully.

Calculating startup costs helps you:

- **Estimate profits**
- **Conduct a break-even analysis**
- **Secure loans**
- **Attract investors**
- **Save money with tax deductions**

You can go online and search the Break-Even analysis Calculator to discover your break-even point and determine your future profits

### Break-Even Point

$$\text{Fixed Costs} \div (\text{Price} - \text{Variable Costs}) = \text{Break-Even Point in Units}$$

***Break-Even analysis calculator***

<https://www.sba.gov/breakevenpointcalculator>





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# 2. WRITING YOUR BUSINESS PLAN



## USE YOUR STARTUP COST CALCULATIONS TO GET STARTUP FUNDING

It's a good idea to create a formal report of your expected startup costs.

You want it in a format that's clear and easy to understand. Investors and lenders compare expected costs to projected revenue and determine the potential for your business to profit.

See what it will cost to start your business.

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**Download this fillable PDF spreadsheet provided by the SBA to calculate your small business startup costs.**

**<https://www.sba.gov/sites/default/files/2020-08/Startup%20Costs%20Worksheet-508.pdf>**



# 3.FUND YOUR BUSINESS



It costs money to start a business. Funding your business is one of the first — and most important — financial choices most business owners make. How you choose to fund your business could affect how you structure and run your business.



**Self- Funding**



**Loans**



**Investors**

## **FUNDING YOUR BUSINESS YOURSELF WITH SELF-FUNDING**

Otherwise known as bootstrapping, self-funding lets you leverage your own financial resources to support your business. Self-funding can come in the form of turning to family and friends for capital, using your savings accounts or even tapping into your 401(k).

With self-funding, you retain complete control over the business, but you also take on all the risks yourself. Be careful not to spend more than you can afford, and be especially careful if you choose to tap into retirement accounts early. You might face expensive fees or penalties, or damage your ability to retire on time — so you should check with your plan’s administrator and a personal financial advisor first.

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# 3.FUND YOUR BUSINESS



## HOW TO GET VENTURE CAPITAL FUNDING

There's no guaranteed way to get venture capital, but the process generally follows a standard order of basic steps.

### 1. Find an investor

a. Look for individual investors — sometimes called “angel investors” — or venture capital firms. Be sure to do enough background research to know if the investor is reputable and has experience working with startup companies.

### 2. Share your business plan

a. The investor will review your business plan to make sure it meets their investing criteria. Most investment funds concentrate on an industry, geographic area, or stage of business development.

### 3. Go through due diligence review

a. The investors will look at your company's management team, market, products and services, corporate governance documents, and financial statements.

### 4. Work out the terms

a. If they want to invest, the next step is to agree on a term sheet that describes the terms and conditions for the fund to make an investment.

### 5. Investment

a. Once you agree on a term sheet, you can get the investment! Once a venture fund has invested, it becomes actively involved in the company. Venture funds normally come in “rounds.” As the company meets milestones, further rounds of financing are made available, with adjustments in price as the company executes its plan.

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NOW THAT WE COVERED EVERYTHING THAT GOES INTO PLANNING YOUR BUSINESS IT'S TIME TO TAKE A LOOK AT ALL THE COMPONENTS TO SUCCESSFULLY LAUNCH YOUR BUSINESS.

## OUTLINE

4. PICK YOUR BUSINESS LOCATION
5. CHOOSE A BUSINESS STRUCTURE
6. CHOOSE YOUR BUSINESS NAME
7. REGISTER YOUR BUSINESS
8. GET FEDERAL AND STATE TAX IDS
9. APPLY FOR LICENSES AND PERMITS
10. OPENING A BUSINESS BANK ACCOUNT
11. GETTING BUSINESS INSURANCE



# 4. PICKING YOUR BUSINESS LOCATION



Your business location determines the taxes, zoning laws, and regulations your business will be subject to. You'll need to make a strategic decision about which state, city, and neighborhood you choose to start your business in

## RESEARCH THE BEST PLACE TO LOCATE YOUR BUSINESS

You'll want to research the best place to locate your business because you'll need to register your business, pay taxes, and get licenses and permits in the place you choose to locate your business.

Choosing where you're going to locate your business depends on the location of your target market, business partners, and your personal preferences. Other things to consider are also the costs, benefits, and restrictions of different government agencies

## REGION SPECIFIC BUSINESS EXPENSES

When calculating startup costs, think about the way different expenses might cost more or less depending on your location. Things that vary significantly by location include standard salaries, minimum wage laws, property values, rental rates, business insurance rates, utilities, and government licenses and fees.

## LOCAL ZONING ORDINANCES

If you buy, rent, build, or plan to work out of a physical property for your business, make sure it conforms to local zoning requirements. Neighborhoods are generally zoned for either commercial or residential use. Zoning ordinances can restrict or entirely ban specific kinds of businesses from operating in an area.

You might have fewer zoning restrictions if you base your business out of your home, but zoning ordinances can still apply even to home-based businesses.

Zoning laws are typically controlled at the local level, so check with your department of city planning, or similar office, to find out about the zoning laws in your area.

# 4. PICKING YOUR BUSINESS LOCATION



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# 5. CHOOSING A BUSINESS STRUCTURE



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# 5. CHOOSING A BUSINESS STRUCTURE



## REVIEWING COMMON BUSINESS STRUCTURES

### Sole proprietorship

A sole proprietorship is easy to form and gives you complete control of your business. You're automatically considered to be a sole proprietorship if you do business activities but don't register as any other kind of business.

Sole proprietorships do not produce a separate business entity. This means your business assets and liabilities are not separate from your personal assets and liabilities. You can be held personally liable for the debts and obligations of the business. Sole proprietors are still able to get a trade name. It can also be hard to raise money because you can't sell stock, and banks are hesitant to lend to sole proprietorships.

Sole proprietorships can be a good choice for low-risk businesses and owners who want to test their business idea before forming a more formal business.

### Partnership

Partnerships are the simplest structure for two or more people to own a business together. There are two common kinds of partnerships: limited partnerships (LP) and limited liability partnerships (LLP).

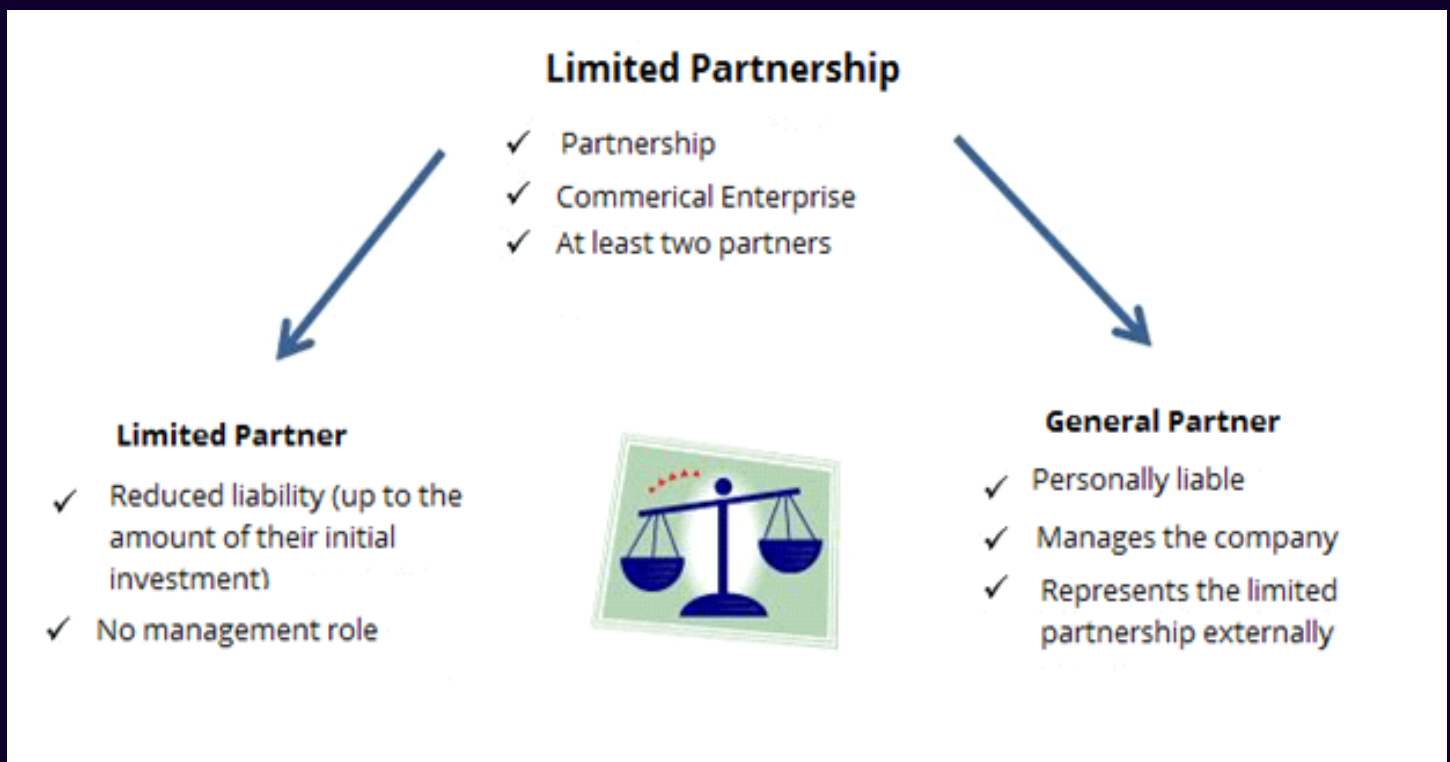
# 5. CHOOSING A BUSINESS STRUCTURE



**Limited partnerships** have only one general partner with unlimited liability, and all other partners have limited liability. The partners with limited liability also tend to have limited control over the company, which is documented in a partnership agreement. Profits are passed through to personal tax returns, and the general partner — the partner without limited liability — must also pay self-employment taxes.

**Limited liability partnerships** are similar to limited partnerships, but give limited liability to every owner. An LLP protects each partner from debts against the partnership, they won't be responsible for the actions of other partners.

Partnerships can be a good choice for businesses with multiple owners, professional groups (like attorneys), and groups who want to test their business idea before forming a more formal business.



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# 5. CHOOSING A BUSINESS STRUCTURE



## S corp

An S corporation, sometimes called an S corp, is a special type of corporation that's designed to avoid the double taxation drawback of regular C corps. S corps allow profits, and some losses, to be passed through directly to owners' personal income without ever being subject to corporate tax rates.

Not all states tax S corps equally, but most recognize them the same way the federal government does and tax the shareholders accordingly. Some states tax S corps on profits above a specified limit and other states don't recognize the S corp election at all, simply treating the business as a C corp.

S corps must file with the IRS to get S corp status, a different process from registering with their state.

There are special limits on S corps. S corps can't have more than 100 shareholders, and all shareholders must be U.S. citizens. You'll still have to follow the strict filing and operational processes of a C corp.

S corps also have an independent life, just like C corps. If a shareholder leaves the company or sells his or her shares, the S corp can continue doing business relatively undisturbed.

S corps can be a good choice for a business that would otherwise be a C corp, but meet the criteria to file as an S corp.



# 5. CHOOSING A BUSINESS STRUCTURE



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# 5. CHOOSING A BUSINESS STRUCTURE



## Nonprofit corporation

Nonprofit corporations are organized to do charity, education, religious, literary, or scientific work. Because their work benefits the public, nonprofits can receive tax-exempt status, meaning they don't pay state or federal income taxes on any profits it makes.

Nonprofits must file with the IRS to get tax exemption, a different process from registering with their state.

Nonprofit corporations need to follow organizational rules very similar to a regular C corp. They also need to follow special rules about what they do with any profits they earn. For example, they can't distribute profits to members or political campaigns.

Nonprofits are often called 501(c)(3) corporations — a reference to the section of the Internal Revenue Code that is most commonly used to grant tax-exempt status.

## Cooperative

A cooperative is a business or organization owned by and operated for the benefit of those using its services. Profits and earnings generated by the cooperative are distributed among the members, also known as user-owners. Typically, an elected board of directors and officers run the cooperative while regular members have voting power to control the direction of the cooperative. Members can become part of the cooperative by purchasing shares, though the amount of shares they hold does not affect the weight of their vote.

## Combine different business structures

Designations like S corp and nonprofit aren't strictly business structures — they can also be understood as a tax status. It's possible for an LLC to be taxed as a C corp, S corp, or a nonprofit. These arrangements are far less common and can be more difficult to set up. If you're considering one of these non-standard structures, you should speak with a business counselor or an attorney to help you decide.

# 5. CHOOSING A BUSINESS STRUCTURE



## COMPARE BUSINESS STRUCTURES

Compare the general traits of these business structures, but remember that ownership rules, liability, taxes, and filing requirements for each business structure can vary by state.

<b>Business structure</b>	<b>Sole proprietorship</b>
<b>Ownership</b>	One person
<b>Liability</b>	Unlimited personal liability
<b>Taxes</b>	Personal tax only
<b>Business structure</b>	<b>Partnerships</b>
<b>Ownership</b>	Two or more people
<b>Liability</b>	Unlimited personal liability unless structured as a limited partnership
<b>Taxes</b>	Self-employment tax (except for limited partners)  Personal tax

# 5. CHOOSING A BUSINESS STRUCTURE



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# 5. CHOOSING A BUSINESS STRUCTURE



<b>Business structure</b>	Corporation - Nonprofit
<b>Ownership</b>	One or more people
<b>Liability</b>	Owners are not personally liable
<b>Taxes</b>	Tax-exempt, but corporate profits can't be distributed

<b>Business structure</b>	Corporation - B corp
<b>Ownership</b>	One or more people
<b>Liability</b>	Owners are not personally liable
<b>Taxes</b>	Corporate tax

# 6. CHOOSE YOUR BUSINESS NAME



You can find the right business name with creativity and market research. Once you've picked your name, you should protect it by registering it with the right agencies.

## REGISTER YOUR BUSINESS NAME TO PROTECT IT

You'll want to choose a business name that reflects your brand identity and doesn't clash with the types of goods and services you offer.

Once you settle on a name you like, you need to protect it. There are four different ways to register your business name. Each way of registering your name serves a different purpose, and some may be legally required depending on your business structure and location.

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

Each of these name registrations are legally independent. Most small businesses try to use the same name for each kind of registration, but you're not normally required to.

# 6. CHOOSE YOUR BUSINESS NAME



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# 6. CHOOSE YOUR BUSINESS NAME



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# 7. REGISTERING YOUR BUSINESS



Register your business to make it a distinct legal entity. How and where you need to register depends on your business structure and business location.

## **FIND OUT IF YOU NEED TO REGISTER YOUR BUSINESS**

Your location and business structure determine how you'll need to register your business. Determine those factors first, and registration becomes very straightforward.

For most small businesses, registering your business is as simple as registering your business name with state and local governments.

In some cases, you don't need to register at all. If you conduct business as yourself using your legal name, you won't need to register anywhere. But remember, if you don't register your business, you could miss out on personal liability protection, legal benefits, and tax benefits.

## **REGISTER WITH FEDERAL AGENCIES**

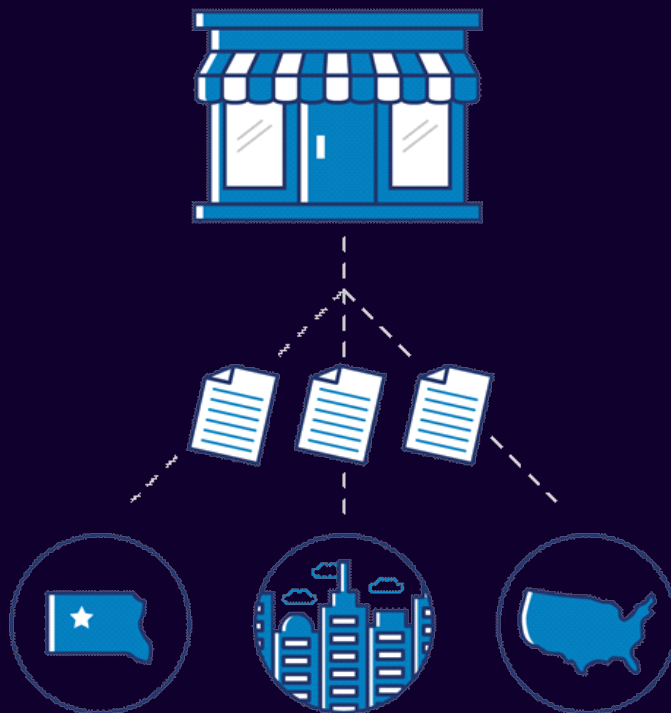
Most businesses don't need to register with the federal government to become a legal entity, other than simply filing to get a federal tax ID. Small businesses sometimes register with the federal government for trademark protection or tax exempt status.

If you want to trademark your business, brand or product name, file with the United States Patent and Trademark office once you've formed your business.

If you want tax-exempt status for a nonprofit corporation, register your business as a tax-exempt entity with the IRS.

To create an S corp, you'll need to file form 2553 with the IRS.

# 7. REGISTERING YOUR BUSINESS



## REGISTER WITH STATE AGENCIES

If your business is a limited liability company (LLC), corporation, partnership, or nonprofit corporation, you'll probably need to register with any state where you conduct business activities.

- **Typically, you're considered to be conducting business activities in a state when:**
- **Your business has a physical presence in the state**
- **You often have in-person meetings with clients in the state**
- **A significant portion of your company's revenue comes from the state**
- **Any of your employees work in the state**

Some states allow you to register online, and some states make you file paper documents in person or through the mail.

Most states require you to register with the Secretary of State's office, a Business Bureau, or a Business Agency.

# 7. REGISTERING YOUR BUSINESS



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# 7. REGISTERING YOUR BUSINESS



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# 8. GET FEDERAL & STATE TAX ID NUMBERS



Your state tax ID and federal tax ID numbers — also known as an Employer Identification Number (EIN) — work like a personal social security number, but for your business. They let your small business pay state and federal taxes.

## GET FEDERAL TAX ID NUMBER

Your Employer Identification Number (EIN) is your federal tax ID. You need it to pay federal taxes, hire employees, open a bank account, and apply for business licenses and permits.

It's free to apply for an EIN, and you should do it right after you register your business.

Your business needs a federal tax ID number if it does any of the following:

- Pays employees
- Operates as a corporation or partnership
- Files tax returns for employment, excise, or alcohol, tobacco, and firearms
- Withholds taxes on income, other than wages, paid to a non-resident alien
- Uses a Keogh Plan (a tax-deferred pension plan)
- Works with certain types of organizations

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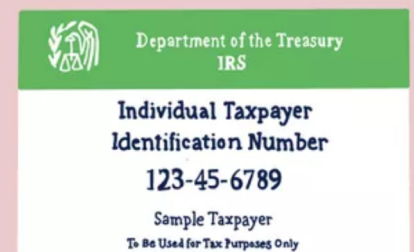
## Three General Types of Taxpayer ID Numbers



The most common identifier for tax purposes



A federal tax identification number for businesses



For people who aren't eligible for the other taxpayer ID numbers

**Apply for an EIN with the IRS assistance tool. It will guide you through questions and ask for your name, social security number, address, and your "doing business as" (DBA) name. Your nine-digit federal tax ID becomes available immediately upon verification.**



# 8. GET FEDERAL & STATE TAX ID NUMBERS



## CHANGE OR REPLACE YOUR EIN

If you already have an EIN, you might have to change or replace it with a new one if certain changes have occurred with your business.

Types of business changes that might require you to change or replace your EIN are:

- **Name change**
- **Address change**
- **Changes in ownership**
- **Changes in management**
- **Change in tax status**

Your requirements will depend on your business structure and the kind of change that occurred. [Check with the IRS](#) to determine exactly whether you need to change or replace your EIN.

## GET A STATE TAX ID NUMBER

The need for a state tax ID number ties directly to whether your business must pay state taxes. Sometimes, you can [use state tax ID numbers](#) for other functions, like protection against identity theft for sole proprietors.

Tax obligations differ at the state and local levels, so you'll need to check with your state's websites.

To know whether you need a state tax ID, research and understand your state's laws regarding income taxes and employment taxes, the two most common forms of state taxes for small businesses.

The process to get a state tax ID number is similar to getting a federal tax ID number, but it will vary by state. You'll have to check with your state government for specific steps.

## STATE INCOME & EMPLOYMENT TAXES FOR BUSINESSES

Seven states have [no income tax](#), and another two only impose tax on income from dividends. States that do tax income will determine figures based on business structure.

Taxes also vary by state on employment insurance and workers' compensation insurance. Understand these and other implications in calculating startup costs and choosing a business structure.

Visit your state's website to identify whether you need to get a state tax ID number in order to pay state taxes.

# 9. APPLY FOR LICENSES AND PERMITS



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# 10. OPENING A BUSINESS BANK ACCOUNT



Open a business account when you're ready to start accepting or spending money as your business. A business bank account helps you stay legally compliant and protected. It also provides benefits to your customers and employees.

## BENEFITS OF BUSINESS BANK ACCOUNTS

As soon as you start accepting or spending money as your business, you should open a business bank account. Common business accounts include a checking account, savings account, credit card account, and a merchant services account. Merchant services accounts allow you to accept credit and debit card transactions from your customers.

You can open a business bank account once you've gotten your federal EIN. Most business bank accounts offer perks that don't come with a standard personal bank account.

- **Protection.** Business banking offers limited personal liability protection by keeping your business funds separate from your personal funds. Merchant services also offer purchase protection for your customers and ensures that their personal information is secure.
- **Professionalism.** Customers will be able to pay you with credit cards and make checks out to your business instead of directly to you. Plus, you'll be able to authorize employees to handle day-to-day banking tasks on behalf of the business.
- **Preparedness.** Business banking usually comes with the option for a line of credit for the company. This can be used in the event of an emergency, or if your business needs new equipment.
- **Purchasing power.** Credit card accounts can help your business make large startup purchases and help establish a credit history for your business.



# 10. OPENING A BUSINESS BANK ACCOUNT



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# 11. GET BUSINESS INSURANCE



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# 11. GET BUSINESS INSURANCE



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# 11. GET BUSINESS INSURANCE



## FOUR STEPS TO BUY BUSINESS INSURANCE

**1. Assess your risks.** Think about what kind of accidents, natural disasters, or lawsuits could damage your business. If you need help, the National Federation of Independent Businesses (NFIB) provides information for choosing insurance to help you assess your risks and to make sure you've insured every aspect of your business.

**1** Assess your risks.



**2. Find a reputable licensed agent.**

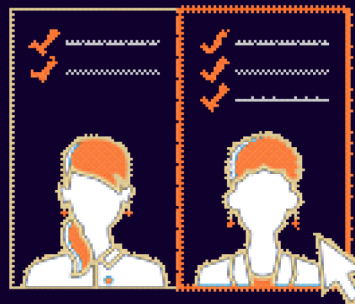
Commercial insurance agents can help you find policies that match your business needs. They receive commissions from insurance companies when they sell policies, so it's important to find a licensed agent that's interested in your needs as much as his or her own.

**2** Find a reputable licensed agent.



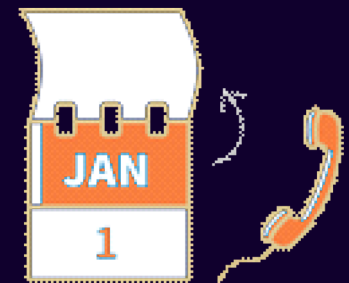
**3. Shop around.** Prices and benefits can vary significantly. You should compare rates, terms, and benefits for insurance offers from several different agents.

**3** Shop around.



**4. Re-assess every year.** As your business grows, so do your liabilities. If you have purchased or replaced equipment or expanded operations, you should contact your insurance agent to discuss changes in your business and how they affect your coverage.

**4** Re-assess every year.



# PODCAST



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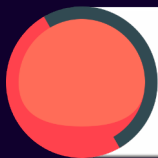
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