

The Business of Web Design

Creating a Michigan Limited Liability Company



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The Case For Entrepreneurship



An Entrepreneurial Nation

- ★ We are a nation of tinkerers, inventors and entrepreneurs (big and small).
- ★ Some of my favorites:
 - ★ Jefferson
 - ★ Edison
 - ★ Jobs
 - ★ Musk
 - ★ Williams

Risk

- ★ As a college student or recent grad your risk tolerance will be lower than ever.
 - ★ Low monthly expenses/cost of living
 - ★ No dependents
 - ★ Well networked in your field
 - ★ Flexible with travel and location

The Internet

- ★ Leveled the playing field and reduced the cost of starting your own business.
- ★ Ushered in digital businesses that didn't exist 10 years ago.
- ★ Huge repository of information, help and advice on starting a business.
- ★ SaaS applications have taken the place of most back office software packages.

Job Security is a Myth

- ★ More than likely, you will not be at a single company for your entire career.
- ★ Businesses are volatile, and no job is 100% secure.
- ★ You are in control of your career path and future. You can either wait for someone to offer you a salary or you can go out and find one for yourself.

Big Challenge, Big Reward

- ★ You will never be rich working for someone else*
- ★ Running a business is a huge challenge with the potential of building a wealth foundation capable of supporting more and larger businesses that employ people in your local area or around the world.
- ★ Rich *does not equal* boat-loads of cash
- ★ * 20% of the individuals with the largest AGIs as reported by the IRS, made their fortune in partnerships and corporations.

Freedom

- ★ Freedom to spend your time as you see fit. The 8-5 rules do not apply.
- ★ Freedom to live and work where you choose.
- ★ Freedom from having your finances controlled by a sole employer.
- ★ Freedom to build a business, clients and a work environment that is best for you.
- ★ Freedom to choose.

Starting a Business in Michigan



Business Organization

- ★ Sole Proprietor
 - ★ Just you and your skills
- ★ Partnership
 - ★ Just you, a friend and your skills
- ★ Limited Liability Company (LLC)
 - ★ You, possibly others, your skills and some liability protection
- ★ Corporation (C and S types)
 - ★ You, your skills, shareholders and rules

Creating a Michigan LLC

- ★ We are going to focus on the LLC:
 - ★ Easy to start and dissolve
 - ★ Works with individuals or partners
 - ★ Some separation between business assets and personal assets (The LL in LLC)
 - ★ Qualifies for an Federal EIN (even though the Feds don't recognize LLCs)

Articles of Organization

- ★ Michigan Form CD-700
 - ★ <http://www.dleg.state.mi.us/bcsc/forms/corp/llc/700.pdf>
- ★ The LLC name is important, mind all uppercase and lowercase letters as well as commas.
- ★ Print, sign and write a check. In 2-3 weeks you'll be a real company as far as the State of Michigan is concerned.

Federal EIN

- ★ Employer Identification Number
- ★ This is like a SSN for your business
- ★ You need an EIN to pay federal and state taxes and to open a bank account
- ★ You can file and receive this online:
 - ★ [http://www.irs.gov/Businesses/Small-Businesses-%26-Self-Employed/Apply-for-an-Employer-Identification-Number-\(EIN\)-Online](http://www.irs.gov/Businesses/Small-Businesses-%26-Self-Employed/Apply-for-an-Employer-Identification-Number-(EIN)-Online)

Open a Bank Account

- ★ Use a credit union for free business checking (MSUFCU)
- ★ They will want to see your FEIN and LLC Articles of Organization (you'll get this back from the State of Michigan)
- ★ Start with \$100 (this is technically called an “owner equity investment”)

Register for Michigan Taxes

- ★ You may need to register for State of Michigan Taxes (sales, use, corporate income, etc):
 - ★ <http://www.michigan.gov/uia/0,1607,7-118--89978--,00.html>
- ★ Seek advice depending on your particular type of business (are you service, retail, etc?)

Register for Local Taxes

- ★ Keep in mind that you may need to register for local taxes.
- ★ For example, Lansing has a city income tax so if your business is located in the City of Lansing, you may have to pay a local income tax on business profit.
- ★ Always seek a tax professional's advice if you have questions about what taxes you are required to pay.

Maintaining a Business in Michigan



Regular Tax Payments

- ★ You will have taxes that are due on regular monthly, quarterly and yearly schedules
- ★ On some things like estimated tax payments, you are required to make the payment on-time without a reminder (this is something a good accountant will prepare you for)
- ★ Try not to miss tax payments. Being in debt to the IRS can be a bad time :)

Insurance

- ★ At some point, you may need all or some of the following insurance:
 - ★ Health/Dental/Vision
 - ★ General Liability/Umbrella
 - ★ Unemployment
 - ★ Workers' Compensation
 - ★ Errors and Omissions
 - ★ Industry-dependent insurance

Annual Report

- ★ This is an LLC renewal and must be filed every year (with amended changes, if necessary).
- ★ This is public record and is the primary form people can search for to see if a company is “in good standing” with the State of Michigan.
- ★ The State will mail the form to your HQ where you can complete it, sign it and write the check (\$50 as of 11/2013).

Hiring Employees

- ★ Out of the scope of this presentation
- ★ Hire a qualified HR consultant to help you with the legal issues of hiring employees.
- ★ All new hires must be reported to the State of Michigan via the New Hire Reporting system:
 - ★ <http://mi-newhire.com/MI-Newhire/default.aspx>

Find Good Help

- ★ Business mentor
- ★ Accountant
- ★ Attorney
- ★ Tap people from your network

Money and Taxes



What's that going to cost?

- ★ “...from \$5,000 for a limited makeover to \$2 million for a major brand launch” (PEG 2003)
- ★ \$50 - \$250/hour
- ★ Salary ranges are highly variable
 - ★ National median of \$50,000/year*
 - ★ Range from low 30's to high 70's
 - ★ *Glassdoor.com

Calculating your hourly rate

- ★ Should be based on **costs + profit**
- ★ Labor + Overhead + Profit factor = hourly rate
- ★ **Labor:** $\$50,000 \times 1.35 = \$67,500$
 - ★ \$50k take-home requires you to make \$67k gross before taxes (~35% rate)
 - ★ 1,920 hours/year @ 60% billable = 1,152
 - ★ $\$67,500 / 1,152 = 58.6 \sim \text{\$59/hour}$
- ★ **Overhead:** $\$12,000 / 1,152 = 10.42 \sim \text{\$11/hour}$
- ★ **Profit:** 30% or **\\$21/hour**
- ★ **Final Hourly Rate: \\$91/hour**

Get it in Writing

- ★ You should never do work without a contract or engagement letter.
- ★ Engagement letters are less formal contracts that outline a statement of work and agreement between you and your client.
- ★ In general, you should always have an attorney review your company's legal documents as contract law can vary from state to state.
- ★ Contracts/Engagement letters should specify work to be completed, cost breakdowns and a delivery schedule

Know Your Rights

- ★ Who owns my design work?
- ★ Work for Hire
 - ★ Copyright belongs to the paying party rather than with the original artist.
 - ★ Happens in two situations:
 - ★ Employees of a company all perform “work for hire.”
 - ★ You sign a work-for-hire agreement
- ★ Agree or disagree, know what you are signing

Billing and Invoicing

- ★ Billing is done multiple times on most web projects:
 - ★ Initial billing for a project deposit (usually 20% of the total project fee).
 - ★ On key deliverables throughout the project.
 - ★ At the end of the project.
- ★ NET 15, 30 or 60 terms
- ★ Send monthly statements as reminders for payment.

Accounting Basics

- ★ Cash or Accrual
 - ★ In **accrual** basis, income and expenses are recorded as they are earned and incurred.
 - ★ In **cash** basis, income and expenses are recorded as they are received and paid.
- ★ Keep good records and track all income and expenses. Usually a good idea to keep receipts.
- ★ Two forms to know well:
 - ★ P&L and the Balance Sheet

Taxes

- ★ Most single-member LLC's are viewed as sole proprietors by the Federal Government.
- ★ Taxes "pass-through" to your personal returns so you'll pay income tax on the profits of the business whether or not you "take any money" from the company (equity withdraws).
- ★ Make absolutely sure you keep your business and personal accounts separate. If you don't, you risk losing your liability protection.

Taxes to be Aware Of

- ★ Corporate income (Fed/State) (no usually levied on LLCs)
- ★ Personal income (Fed/State) (pass-through LLC and S-Corp)
- ★ Sales tax (State)
- ★ Filing/Franchise fees (State)
- ★ Payroll (Fed, State, local)
- ★ Unemployment

Marketing and Selling



Finding your first client

- ★ It's all about your network
- ★ In order to find your clients, you have to go out and meet them.
 - ★ Local industry meetups and networking events.
 - ★ Entrepreneurial events (local and elsewhere)
 - ★ Professors/University contacts
 - ★ Talks and lectures
 - ★ Conferences

Polish your web presence

- ★ Your website should be up-to-date and you should have a portfolio of recent projects.
- ★ It should also be clear that you are accepting client work (you may want to brand a separate design company for this)
- ★ Your website should be a reflections of your design style and talent.
- ★ Don't go overboard. The simplest solution is often the best.

Mind your social media

- ★ You can't delete the internet. Please be careful about what you say online. If you're running a business that does business online, your online reputation matters.
- ★ Think about how you can add value when posting on social media outlets like Twitter. Don't spam people's timelines.
- ★ Use social media as one tool to promote and market your business or yourself.

Become a Thought Leader

- ★ Read, listen, think, talk and write about your industry. Form opinions and share them with the community.
- ★ Guest post on more established blogs in your industry to help build your name.
- ★ Generally be as involved as you can in your professional community.

Get to know the competition

- ★ Meet other designers in the area and talk shop. You never know when you'll need help on a big project.
- ★ Learn strengths and weaknesses of companies that do similar or complimentary work.
 - ★ If you can't help them, refer them on to a trusted partner.
 - ★ Build trust as someone who knows the local industry and players well

Back Office



Email Infrastructure

- ★ Avoid running servers, if possible. Especially email servers.
- ★ Hosted solutions are available and some registrars will offer email forwarding.
- ★ **Google Apps for Business** allows for hosted company-wide Google products including a branded Gmail for a company email portal.
- ★ <http://www.google.com/intx/en/enterprise/apps/business/>

Time Tracking and Billing

- ★ You may need to bill hourly and you may also need to track employee hours
- ★ **Tick:** <http://www.tickspot.com/>
- ★ **Harvest:** <http://www.getharvest.com/>
- ★ **FreshBooks:** <http://www.freshbooks.com/invoicing.php>

Web Hosting

- ★ You get what you pay for
 - ★ Avoid “cheap” and free hosting platforms, especially if you are going to hosting client projects.
 - ★ Look for reputable VPS and cloud dealers like Rackspace, Linode, Amazon AWS, LiquidWeb
 - ★ Expect to pay between \$50-\$150/mo for a solid hosting platform (you may need to set this up on your own.
- ★ WPEngine: <http://wpengine.com/>

Accounting

- ★ **QuickBooks:** <http://quickbooks.intuit.com/>
- ★ **FreshBooks:** <http://www.freshbooks.com/>
- ★ **Xero:** <http://www.xero.com/>
- ★ **LessAccounting:** <http://www.lessaccounting.com/>

Project & Code Management

- ★ **Basecamp:** <https://basecamp.com/>
- ★ **Github:** <https://github.com>
- ★ **Asana:** <https://asana.com>
- ★ **Jira:** <https://www.atlassian.com/software/jira>

Reading and Resources



Books

★ Pricing and Ethical Guidelines

★ <http://www.amazon.com/Graphic-Artists-Handbook-Pricing-Guidelines/dp/0932102166>

★ The Business of Creativity

★ <http://www.amazon.com/The-Business-Side-Creativity-Communications/dp/039373093X>

★ The Personal MBA

★ <http://www.amazon.com/The-Personal-MBA-Master-Business/dp/1591843529>

★ The E-Myth

★ <http://www.amazon.com/E-Myth-Revisited-Michael-E-Gerber-ebook/dp/B000RO9VJK>

★ The Millionaire Next Door

★ <http://www.amazon.com/Millionaire-Next-Thomas-Stanley-Ph-D-ebook/dp/B00CLT31D6>

Michigan Business Links

- ★ **MI Business One-Stop**

- ★ <http://www.michigan.gov/business>

- ★ **MI LLC Form (700)**

- ★ <http://www.dleg.state.mi.us/bcsc/forms/corp/llc/700.pdf>

- ★ **LEAP:** <http://www.purelansing.com/>

- ★ **The Hatch:** <http://www.cityofeastlansing.com/hatch/>

- ★ **MSU E-Net:** <http://entrepreneurship.msu.edu/>