

Are you ready?

Is Entrepreneurship For You?

In business, there are no guarantees. There is simply no way to eliminate all the risks associated with starting a small business - but you can improve your chances of success with good planning, preparation, and insight. Start by evaluating your strengths and weaknesses as a potential owner and manager of a small business. Carefully consider each of the following questions.

Are you a self-starter? It will be entirely up to you to develop projects, organize your time, and follow through on details.

How well do you get along with different personalities? Business owners need to develop working relationships with a variety of people including customers, vendors, staff, bankers, and professionals such as lawyers, accountants or consultants. Can you deal with a demanding client, an unreliable vendor, or a cranky receptionist if your business interests demand it?

How good are you at making decisions? Small business owners are required to make decisions constantly - often quickly, independently, and under pressure.

Do you have the physical and emotional stamina to run a business? Business ownership can be exciting, but it's also a lot of work. Can you face six or seven 12-hour work days every week?

How well do you plan and organize? Research indicates that poor planning is responsible for most business failures. Good organization of financials, inventory, schedules, and production can help you avoid many pitfalls.

Is your drive strong enough? Running a business can wear you down emotionally. Some business owners burn out quickly from having to carry all the responsibility for the success of their business on their own shoulders. Strong motivation will help you survive slowdowns and periods of burnout.

How will the business affect your family? The first few years of business startup can be hard on family life. It's important for family members to know what to expect and for you to be able to trust that they will support you during this time. There also may be financial difficulties until the business becomes profitable, which could take months or years. You may have to adjust to a lower standard of living or put family assets at risk in the short-term.

Why Small Businesses Fail

Success in business is never automatic. It isn't strictly based on luck - although a little never hurts. It depends primarily on the owner's foresight and organization. Even then, of course, there are no guarantees.

In his book *Small Business Management*, Michael Ames gives the following reasons for small business failure:

- 1:Lack of experience
 - 2:Insufficient capital (money)
 - 3:Poor location
 - 4:Poor inventory management
 - 5:Over-investment in fixed assets
 - 6:Poor credit arrangements
 - 7:Personal use of business funds
 - 8:Unexpected growth
- Gustav Berle adds two more reasons in *The Do It Yourself Business Book*:
- 9:Competition
 - 10:Low sales

More Reasons Why Small Businesses Fail

These reasons aren't meant to scare you, but to prepare you for the rocky path ahead. Underestimating the difficulty of starting a business is one of the biggest obstacles entrepreneurs face. However, success can be yours if you are patient, willing to work hard, and take all the necessary steps.

On the Upside

It's true that there are many reasons not to start your own business. But for the right person, the advantages of business ownership far outweigh the risks.

- You will be your own boss.
- Hard work and long hours directly benefit you, rather than increasing profits for someone else.
- Earning and growth potential are far greater.
- A new venture is as exciting as it is risky.
- Running a business provides endless challenge and opportunities for learning.

For more information on assessing your readiness download the SBA's:

[Do You Have What it Takes?](#)

[Assessing Your Skills, Education, and Experience](#)

[Know Yourself](#)

Finding a Niche

A market in its entirety is too broad in scope for any but the largest companies to tackle successfully. The best strategy for a smaller business is to divide demand into manageable market niches. Small operations can then offer specialized goods and services attractive to a specific group of prospective buyers.

There are undoubtedly some particular products or services you are especially suited to provide. Study the market carefully and you will find opportunities. As an example, surgical instruments used to be sold in bulk to both small medical practices and large hospitals. One firm realized that the smaller practices could not afford to sterilize instruments after each use like hospitals did, but instead simply disposed of them. The firm's sales representatives talked to surgeons and hospital workers to learn what would be more suitable for them. Based on this information, the company developed disposable instruments which could be sold in larger quantities at a lower cost. Another firm capitalized on the fact that hospital operating rooms must carefully count the instruments used before and after surgery. This firm met that particular need by packaging their instruments in pre-counted, customized sets for different forms of surgery.

While researching your own company's niche, consider the results of your market survey and the areas in which your competitors are already firmly situated. Put this information into a table or a graph to illustrate where an opening might exist for your product or service. Try to find the right configuration of products, services, quality, and price that will ensure the least direct competition. Unfortunately, there is no universally effective way to make these comparisons. Not only will the desired attributes vary from industry to industry, but there is also an imaginative element that cannot be formalized. For example, only someone who had already thought of developing pre-packaged surgical instruments could use a survey to determine whether or not a market actually existed for them.

A well-designed database can help you sort through your market information and reveal particular segments you might not see otherwise. For example, do customers in a certain geographic area tend to purchase products that combine high quality and high price more frequently? Do your small business clients take advantage of your customer service more often than larger ones? If so, consider focusing on being a local provider of high quality goods and services, or a service-oriented company that pays extra attention to small businesses.

If you do target a new niche market, make sure that this niche does not conflict with your overall business plan. For example, a small bakery that makes cookies by hand cannot go after a market for inexpensive, mass-produced cookies, regardless of the demand.

Buying a Business

Many find the idea of running a small business appealing, but lose their motivation after dealing with business plans, investors, and legal issues associated with new start-ups. For those disheartened by such risky undertakings, buying an existing business is often a simpler and safer alternative.

Advantages

The main reason to buy an existing business is the drastic reduction in start-up costs of time, money, and energy. In addition, cash flow may start immediately thanks to existing inventory and receivables. Other benefits include pre-existing customer goodwill and easier financing opportunities, if the business has a positive track record.

Disadvantages

The biggest block to buying a small business outright is the initial purchasing cost. Because the business concept, customer base, brands, and other fundamental work has already been done, the financial costs of acquiring an existing business is usually greater than starting one from nothing. Other possible disadvantages include hidden problems associated with the business and receivables that are valued at the time of purchase, but later turn out to be non-collectable. Good research is the key to avoiding these problems.

Review this valuable course: [Entrepreneurship: Starting & Managing Your Own Business](#)

Buying a Franchise

An important step in the small business start-up process is deciding whether or not to go into business at all. Each year, thousands of potential entrepreneurs are faced with this difficult decision. Because of the risk and work involved in starting a new business, many new entrepreneurs choose franchising as an alternative to starting a new, independent business from scratch.

One of the biggest mistakes you can make is to hurry into business, so it's important to understand your reasons for going into business, and to determine if owning a business is right for you.

If you are concerned about the risk involved in a new, independent business venture, then franchising may be the best business option for you. But remember that hard work, dedication, and sacrifice are essential to the success of any business venture, including franchising.

What is Franchising?

A franchise is a legal and commercial relationship between the owner of a trademark, service mark, trade name, or advertising symbol and an individual or group wishing to use that identification in a business. The franchise governs the method of conducting business between the two parties. Generally, a franchisee sells goods or services supplied by the franchisor or that meet the franchisor's quality standards.

Franchising is based on mutual trust between the franchisor and franchisee. The franchisor provides the business expertise (marketing plans, management guidance, financing assistance, site location, training, etc.) that otherwise would not be available to the franchisee. The franchisee brings to the franchise operation the entrepreneurial spirit and drive necessary to make the franchise a success.

There are primarily two forms of franchising:

- Product/trade name franchising and
- Business format franchising.

In the simplest form, a franchisor owns the right to the name or trademark and sells that right to a franchisee. This is known as "product/trade name franchising." The more complex form, "business format franchising," involves a broader ongoing relationship between the two parties. Business format franchises often provide a full range of services, including site selection, training, product supply, marketing plans, and even assistance in obtaining financing.

To learn more about:

- The advantages and disadvantages of franchising,
- The franchisor's responsibilities,
- What is contained in a franchise packet, and
- Understanding the franchise contract,

[Franchise Registry](#)
[Franchise Directories & Evaluation](#)

For additional information:

[Consumer Guide to Buying a Franchise](#)

Protecting Your Ideas

It's not easy to think about ideas as property, but for some businesses it's vital. Most of us have had an idea for a new product or service only to dismiss, postpone, or neglect it. Sometimes we later find that others had the same idea, but took it to market before we did. By that time, it is too late for us to take advantage of the idea.

Ideas are relatively easy to come by, but inventions are more difficult. It takes knowledge, time, money, and effort to refine an idea into a workable invention, even on paper. Turning an invention into an innovation - a new product accepted by the marketplace - takes a lot of effort and a little luck. There are substantial barriers in the path of those who pursue innovation. Overcoming them requires careful planning and plenty of input from others.

Hundreds of thousands of inventors and innovators file each year for protection under U.S. patent, trademark and copyright laws. However, it can be hard to decide which of the three vehicles is most appropriate for the protection of a particular invention. Although a single product or service may require a patent, a trademark, and a copyright, each category protects a distinct aspect of a creative work or expression.

Patents, copyrights and trademarks, as well as know-how or trade secrets, are often collectively referred to as intellectual property. Many firms have such property without even being aware of it or of the need to take measures to protect it.

Many people's notions of intellectual property are unrealistic. Some believe, for example, that simply having a patent on a product will enable one to succeed in the marketplace. Consequently, they may spend thousands of dollars to obtain the exclusive rights to market something that no one wants or can afford to buy. Others may decide that intellectual property protection is not worth the trouble.

People who may not be interested in protecting their own rights must still take precautions to avoid infringing on the rights of others. This calls for more than the avoidance of copying. Some copying is unavoidable; but one can easily infringe on the rights of others without deliberately imitating specific features of goods or services.

More information about intellectual property:

[U.S. Patent and Trademark Office - Patent Section](#)

[U.S. Patent and Trademark Office - Trademark Section](#)

[U.S. Copyright Office](#)

[Trademarks](#)

[Copyright](#)

[Trade Secrets](#)

[Federal vs. State Laws](#)

Product Basics

Products may be described in terms of their features and benefits. Features are product characteristics; benefits are customer needs served by those features. Some examples of features are size, color, horsepower, functionality, design, hours of business, and fabric content. Benefits are less tangible but always answer the customer's question: What's in it for me?

While product features are usually easy to define, product benefits can be trickier because they exist in the customer's mind. The most compelling product benefits are those that provide emotional or financial rewards. It's not the brighter smile that the toothpaste offers that is its benefit; it's what the smile might bring you (a good-looking mate, a better job, etc.).

Emotional rewards run the gamut of human emotions, but basically allow the buyer to feel better in some way. For example, sending flowers to a friend or family member allows the buyer to feel supportive or loving. Buying products made from recycled materials offers the buyer the chance to feel environmentally responsible.

Products that deliver financial rewards allow the buyer to save money (e.g., a discount long-distance phone plan) or make money (e.g., computer software for managing a home-based business).

Discovering Your Product's Benefits

To identify your product's benefits, you must consider your customers' needs. Imagine yourself in your customers' shoes, talk to them directly, or conduct surveys asking about their needs and perceptions.

If possible, hire an independent firm to conduct a focus group with a sample group of customers to test your product for usability and desirability.

Examine customers who have purchased your product in the past. What do their customer profiles tell you about your product's benefits?

Once you have a basic sense of your product's benefits, you can set up systems to develop and track their evolution:

- Ask customers for suggestions for improvement.
- Pay careful attention to customer complaints and prospect inquiries. Train and reward employees for questioning customers and prospects to learn what they like and don't like about your product.
- Watch your competitors. Do the changes in their product offerings suggest product benefits you hadn't yet considered?

Why is it important to understand my product's features and benefits?

Understanding product features and benefits allows you to:

- Describe your products in terms relevant to your customers.
- Differentiate - explain how your product is different than the competition's, with different benefits.
- Effectively choose pricing and positioning strategies. Refer to strategy ideas below in "Strategies that are based on features."

Differentiation

Products may be highly unique (specialty products), virtually indistinguishable from competitors' products (commodity products), or in between these extremes. No level of uniqueness is necessarily better than any other, but they do require different marketing strategies. A potentially important strategy for specialty products is differentiation, which sets them apart from the competitors' products in the

minds of customers. A thorough understanding of how your product's benefits compare to your competitors' allows you to compete effectively with them through **differentiation**.

Commodity Products Few, if any, perceived differences among competing products

Specialty Products Highly unique features compared to other products competing for buyers dollars

Strategies that are based upon features

- **Introducing** - Identifying yourself as the first to offer a new product feature is a proven competitive strategy. For example, specifying a product as the first organic body lotion containing Vitamin E will position your company as a leader, at least for a while.
- **Improving/Modifying** - Instead of being at the head of the pack with a totally new feature, you might modify or improve your product's features, which creates the impression that your company cares about satisfying its customers. Modifying product features is a strategy many businesses use when a competitor has lowered prices. For example, if the maker of one organic body lotion lowers its price, the maker of another may add Vitamin E as a "new and improved" feature but keep its price the same. It is important to remember that modifying features usually leads to changes in benefits. Stay aware of the evolution of perceived benefits your product offers so you can use them in your marketing.
- **Grouping** - Often, features are grouped into different product models — and prices — escalating from a basic model to a "fully loaded" model. Automobiles, electronic devices, and vacation packages each offer features that may be added to a basic product model. Services can also be grouped in this fashion. For example, an accountant might offer a certain fee for preparing annual tax returns, another fee to also process payroll, and another to manage all of a client's financial affairs.

Small Business

Startup Guide

This small business guide is intended to serve as a roadmap for starting a business. It is both comprehensive and easy to use. It also includes numerous electronic links for additional information. Use this powerful interactive tool, with many supporting resources to help you start a successful business.

Supporting Resources

❖ Online Business Planning Course	❖ Small Business Training Network
❖ Local SBA Resources	❖ Library
❖ Business.gov	❖ 10 Steps to Start a Business
❖ Forms	❖ Business Matchmaking Online Network
❖ Have a Question?	❖ Training & Counseling Resources

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GLOSSARY OF TERMS

ASK YOURSELF

Is Entrepreneurship For You?

There is no way to eliminate all the risks associated with starting a small business. However, you can improve your chances of success with good planning and preparation. A good starting place is to evaluate your strengths and weaknesses as the owner and manager of a small business. Carefully consider each of the following questions.

Are you a selfstarter? It will be up to you - not someone else telling you - to develop projects, organize your time and follow through on details.

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How will the business affect your family? The first few years of business startup can be hard on family life. The strain of an unsupportive spouse may be hard to balance against the demands of starting a business. There also may be financial difficulties until the business becomes profitable, which could take months or years. You may have to adjust to a lower standard of living or put family assets at risk.

On The Upside

It's true, there are a lot of reasons not to start your own business. But for the right person, the advantages of business ownership far outweigh the risks.

- ✓ You get to be your own boss.
- ✓ Hard work and long hours directly benefit you, rather than increasing profits for someone.
- ✓ Earning and growth potential are far less limited.
- ✓ A new venture is exciting.
- ✓ Running a business will provide endless variety, challenge and opportunities to learn.

How to Start a Small Business

Starting and managing a business takes motivation, desire and talent. It also takes research and planning.

Like a chess game, success in small business starts with decisive and correct opening moves. And, although initial mistakes are not fatal, it takes skill, discipline and hard work to regain the advantage.

To increase your chance for success, take the time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and wellthoughtout business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you set out to raise money for your business. It should also provide milestones to gauge your success.

Getting Started

Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

- ✔ You want to be your own boss.
- ✔ You want financial independence.
- ✔ You want creative freedom.
- ✔ You want to fully use your skills and knowledge.

Next you need to determine what business is "right for you." Ask yourself these questions:

- ✔ What do I like to do with my time?
- ✔ What technical skills have I learned or developed?
- ✔ What do others say I am good at?
- ✔ How much time do I have to run a successful business?
- ✔ Do I have any hobbies or interests that are marketable?

Then you should identify the niche your business will fill. Conduct the necessary research to answer these questions:

- ✔ Is my idea practical and will it fill a need?

- ✔ What is my competition?
- ✔ What is my business advantage over existing firms?
- ✔ Can I deliver a better quality service?
- ✔ Can I create a demand for your business?

The final step before developing your plan is the pre-business checklist. You should answer these questions:

- ✔ What business am I interested in starting?
- ✔ What services or products will I sell? Where will I be located?
- ✔ What skills and experience do I bring to the business?
- ✔ What will be my legal structure? (see overview below)
- ✔ What will I name my business?
- ✔ What equipment or supplies will I need?
- ✔ What insurance coverage will be needed?
- ✔ What financing will I need?
- ✔ What are my resources?
- ✔ How will I compensate myself?

Your answers will help you create focused, wellresearched business plan that should serve as a blueprint. It should detail how the business will be operated, managed and capitalized.

Types of Business Organizations

When organizing a new business, one of the most important decisions to be made is choosing the structure of a business. Factors influencing your decision about your business organization include:

- ✔ Legal restrictions

- ✓ Liabilities assumed
- ✓ Type of business operation
- ✓ Earnings distribution
- ✓ Capital needs
- ✓ Number of employees
- ✓ Tax advantages or disadvantages
- ✓ Length of business operation

The advantages and disadvantages of sole proprietorship, partnership and corporation are listed below.

Sole Proprietorship

This is the easiest and least costly way of starting a business. A sole proprietorship can be formed by finding a location and opening the door for business. There are likely to be fees to obtain business name registration, a fictitious name certificate and other necessary licenses. Attorney's fees for starting the business will be less than the other business forms because less preparation of documents is required and the owner has absolute authority over all business decisions.

Partnership

There are several types of partnerships. The two most common types are general and limited partnerships. A general partnership can be formed simply by an oral agreement between two or more persons, but a legal partnership agreement drawn up by an attorney is highly recommended. Legal fees for drawing up a partnership agreement are higher than those for a sole proprietorship, but may be lower than incorporating. A partnership agreement could be helpful in solving any disputes. However, partners are responsible for the other partner's business actions, as well as their own.

A Partnership Agreement should include the following:

- ✓ Type of business.
- ✓ Amount of equity invested by each partner.
- ✓ Division of profit or loss.
- ✓ Partners compensation.
- ✓ Distribution of assets on dissolution.
- ✓ Duration of partnership.
- ✓ Provisions for changes or dissolving the partnership.

- ✓ Dispute settlement clause.
- ✓ Restrictions of authority and expenditures.
- ✓ Settlement in case of death or incapacitation.

Corporation

A business may incorporate without an attorney, but legal advice is highly recommended. The corporate structure is usually the most complex and more costly to organize than the other two business formations. Control depends on stock ownership. Persons with the largest stock ownership, not the total number of shareholders, control the corporation. With control of stock shares or 51 percent of stock, a person or group is able to make policy decisions. Control is exercised through regular board of directors' meetings and annual stockholders' meetings. Records must be kept to document decisions made by the board of directors. Small, closely held corporations can operate more informally, but record-keeping cannot be eliminated entirely. Officers of a corporation can be liable to stockholders for improper actions. Liability is generally limited to stock ownership, except where fraud is involved. You may want to incorporate as a "C" or "S" corporation.

Business Plan Outline

The following outline of a typical business plan can serve as a guide. You can adapt it to your specific business. Breaking down the plan into several components helps make drafting it a more manageable task.

Introduction

- Give a detailed description of the business and its goals.
- Discuss the ownership of the business and the legal structure.
- List the skills and experience you bring to the business.
- Discuss the advantages you and your business have over your competitors.

[In-depth help on developing a sound business plan](#) can be found on the SBA Web site in the Starting Area.

Marketing

- Discuss the products/services offered.
- Identify the customer demand for your product/service.
- Identify your market, its size and locations.
- Explain how your product/service will be advertised and marketed.
- Explain the pricing strategy.

Financial Management

- Explain your source and the amount of initial equity capital.
- Develop a monthly operating budget for the first year.
- Develop an expected return on investment and monthly cash flow for the first year.
- Provide projected income statements and balance sheets for a twoyear period.
- Discuss your breakeven point.
- Explain your personal balance sheet and method of compensation.
- Discuss who will maintain your accounting records and how they will be kept.
- Provide "what if" statements that address alternative approaches to any problem that may develop.

Operations

- Explain how the business will be managed on a daytoday basis.
- Discuss hiring and personnel procedures.
- Discuss insurance, lease or rent agreements, and issues pertinent to your business.
- Account for the equipment necessary to produce your products or services.
- Account for production and delivery of products and services.

Concluding Statement

- Summarize your business goals and objectives and express your commitment to the success of your business.
- Once you have completed your business plan, review it with a friend or business associate or a [SCORE](#) or Small Business Development Center ([SBDC](#)) counselor.
- When you feel comfortable with the content and structure make an appointment to review and discuss it with your lender. The business plan is flexible document that should change as your business grows.

To Lease or Not to Lease: Things To Know

Get The Answers

Here are some questions to ask before signing a lease:

1. Does the lease specifically state the square footage of the premises? The total rentable square footage of the building?
2. Is the tenant's share of expenses based on total square footage of the building or the square footage leased by the landlord? Your share may be lower if it's based on the total square footage.
3. Do the base year expenses reflect full occupancy or are they adjusted to full occupancy (i.e., base year real estate taxes on an unfinished building are lower than in subsequent years)?
4. Must the landlord provide a detailed list of expenses, prepared by a CPA, to support increases?
5. Does the lease clearly give the tenant the right to audit the landlord's books or records?
6. If use of the building is interrupted, does the lease define the remedies available to the tenant, such as rent abatement or lease cancellation?
7. If the landlord does not meet repair responsibilities, can the tenant make the repairs, after notice to the landlord, and deduct the cost from the rent?
8. Is the landlord required to obtain nondisturbance agreements from current and future lenders?
9. Does the lease clearly define how disputes will be decided?

Learn The Lingo

Lease terms you should know:

Lessor	Landlord
Lessee	Tenant
Right of First Refusal	Before vacant space is rented to someone else, landlord must offer it to the current tenant with the same terms that will be offered to the public.
Gross Lease	Tenant pays flat monthly amount; landlord pays all operating costs, including property taxes, insurance and utilities.

Triple Net Lease	Tenant pays base rent, taxes, insurance, repairs and maintenance.
Percentage Lease	Base rent, operating expenses, common area maintenance, plus percentage of tenant's gross income (most common for retailers in shopping malls).
Sublet	Tenant rents all or part of space to another business; tenant is still responsible for paying all costs to landlord.
Assign Lease	Tenant turns lease over to another business, which assumes payments and obligations under the lease.
Anchor Tenant	Major store or supermarket that attracts customers to a shopping center.
Exclusivity Provision	Shopping center can't lease to another who provides the same product or service that existing tenant does.
CAM	Common area maintenance charges including property taxes, security, parking lot lighting and maintenance; may not apply to anchor tenants in retail leases.
Nondisturbance Clause	Tenant cannot be forced to move or sign a new lease if building or shopping center is sold or undergoes foreclosure.

FINDING THE MONEY YOU NEED

Financing Your Business Start-Up

One key to a successful business startup and expansion is your ability to obtain and secure appropriate financing. Raising capital is the most basic of all business activities. But, as many new entrepreneurs quickly discover, raising capital may not be easy; in fact, it can be a complex and frustrating process. However, if you are informed and have planned effectively, raising money for your business will not be a painful experience.

This information summary focuses on ways a small business can raise money and explains how to prepare a loan proposal.

Finding the Money You Need

There are several sources to consider when looking for financing. It is important to explore all of your options before making a decision.

Personal savings: The primary source of capital for most new businesses comes from savings and other forms of personal resources. While credit cards are often used to finance business needs, there may be better options available, even for very small loans.

Friends and relatives: Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest free or at a low interest rate, which can be beneficial when getting started.

Banks and credit unions: The most common source of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound.

Venture capital firms: These firms help expanding companies grow in exchange for equity or partial ownership.

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Borrowing Money

It is often said that small business people have a difficult time borrowing money. This is not necessarily true.

Banks make money by lending money. However, the inexperience of many small business owners in financial matters often prompts banks to deny loan requests.

Requesting a loan when you are not properly prepared sends a signal to your lender. That message is: High Risk!

To be successful in obtaining a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

[Learn more..](#)

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SBA Loan Maturities

SBA loan programs are generally intended to encourage longer term small business financing, but actual loan maturities are based on the ability to repay, the purpose of the loan proceeds, and the useful life of the assets financed. However, maximum loan maturities have been established: twentyfive years for real estate; up to ten years for equipment (depending on the useful life of the equipment); and generally up to seven years for working capital. Shortterm loans are also available through the SBA to help small businesses meet their short term and cyclical working capital needs.

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Types of Business Loans

Terms of loans may vary from lender to lender, but there are two basic types of loans: shortterm and longterm.

Generally, a shortterm loan has a maturity of up to one year. These include workingcapital loans, accountsreceivable loans and lines of credit.

Longterm loans have maturities greater than one year but usually less than seven years. Real estate and equipment loans may have maturities of up to 25 years. Longterm loans are used for major business expenses such as purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

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How to Write a Loan Proposal

Approval of your loan request depends on how well you present yourself, your business, and your financial needs to a lender. Remember, lenders want to make loans, but they must make loans they know will be repaid. The best way to improve your chances of obtaining a loan is to prepare a written proposal.

A well written loan proposal contains:

General Information

- ✓ Business name, names of principals, Social Security number for each principal, and the business address.
- ✓ Purpose of the loan exactly what the loan will be used for and why it is needed.
- ✓ Amount required the exact amount you need to achieve your purpose.

Business Description

- ✓ History and nature of the business details of what kind of business it is, its age, number of employees and current business assets.
- ✓ Ownership structure details on your company's legal structure.

>Management Profile

Develop a short statement on each principal in your business; provide background, education, experience, skills and accomplishments.

Market Information

- ✓ Clearly define your company's products as well as your markets.
- ✓ Identify your competition and explain how your business competes in the marketplace.
- ✓ Profile your customers and explain how your business can satisfy their needs.

Financial Information

- ✓ Financial statements balance sheets and income statements for the past three years. If you are starting out, provide a projected balance sheet and income statement.
- ✓ Personal financial statements on yourself and other principal owners of the business.
- ✓ Collateral you would be willing to pledge as security for the loan.

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How Your Loan Request Will Be Reviewed

When reviewing a loan request, the lender is primarily concerned about repayment. To help determine this ability, many loan officers will order a copy of your business credit report from a creditreporting agency. Therefore, you should work with these agencies to help them present an accurate picture of your business. Using the credit report and the information you have provided, the lending officer will consider the following issues:

- ✓ Have you invested savings or personal equity in your business totaling at least 25 percent to 50 percent of the loan you are requesting? (Remember, a lender or investor will not finance 100 percent of your business.)
- ✓ Do you have a sound record of creditworthiness as indicated by your credit report, work history and letters of recommendation? This is very important.
- ✓ Do you have sufficient experience and training to operate a successful business?
- ✓ Have you prepared a loan proposal and business plan that demonstrate your understanding of and commitment to the success of the business?
- ✓ Does the business have sufficient cash flow to make the monthly payments?

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SBA Financial Programs

The SBA offers a variety of financing options for small businesses.

Whether you are looking for a long-term loan for machinery and equipment, a general working capital loan, a revolving line of credit, or a microloan, the SBA has a financing program to fit your needs.

These programs are discussed in detail in the **Assistance** section of this guide and additional in-depth information is available on SBA's Web site in the [Financing area](#).

REGULATIONS

Government Regulations and Your Business

It may be inconceivable to you that your homebased consulting service or handknit sweater business would have to comply with any of the numerous local, state and federal regulations, but in all likelihood it will. Avoid the temptation to ignore regulatory details. Doing so may avert some red tape in the short term, but could be an obstacle as your business grows. Taking the time to research the applicable regulations is as important as knowing your market.

Below is a checklist of the most common requirements that affect small businesses, but it is by no means exhaustive. Bear in mind that regulations vary by industry. If you're in the food service business, for example, you will have to deal with the health department. If you use chemical solvents, you will have environmental compliance to meet. Carefully investigate the regulations that affect your industry. Being out of compliance could leave you unprotected legally, lead to expensive penalties, and jeopardize your business.

Business Licenses

There are many types of licenses. You need one to operate legally almost everywhere. If the business is located within an incorporated city limits, a license must be obtained from the city; if outside the city limits, then from the county. For more information contact the county or city office in your area or try these [state web sites that offer business license information](#)

You may also try going to [your state Home Page](#), locating their "SEARCH" feature and typing in "**business license**" or "**county information**."

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Certificate of Occupancy

If you are planning on occupying a new or used building for a new business, you may have to apply for a Certificate of Occupancy from a city or county zoning department. For more information contact the county or city office in your area.

You may also try [going to your state Home Page](#), locating their "SEARCH" feature and typing in "**certificate of occupancy**" or "**county information**".

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Business Organization

There are many forms of legal structure you may choose for your business. The most common structures are Sole Proprietorships, General and Limited Partnerships, C and S Corporations and Limited Liability Companies. Each legal structure offers organizational options which are appropriate for different personal situations and which affect tax and liability issues. We suggest you research each legal structure thoroughly and consult a tax accountant and/or attorney prior to making your decision.

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Fictitious Business Name

Businesses that use a name other than the owner's must register the fictitious name with the county as required by the Trade Name Registration Act. This does not apply to corporations doing business under their corporate name or to those practicing any profession under a partnership name. For more

information contact your state or local government.

You may also try [going to your state Home Page](#), locating their "SEARCH" feature and typing in "**trade name registration**" or "**county information**".

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Protecting Your Idea

If applicable to your business, you may want to apply for [trademarks, patents and your copyright](#).

[Learn more..](#)

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Trademarks

Trademarks are names or symbols used in any commerce that is subject to regulation by state government or the U.S. Congress.

State Registration of a Trademark:

Trademarks and service marks may be registered in a state for a term of ten years. For more information about Applications for Registration of Trademark or Service Mark in your state, contact [your state government](#).

Federal Registration of Trademark and Patent

To register a trademark contact:

U.S. Patent & Trademark Office

Mail Stop: USPTO Contact Center
400 Dulany Street
P.O. Box 1450
Alexandria VA 22313-1450
(800) 786-9199

To register a patent, contact:

Asst. Commissioner for Trademarks, Patent Applications
Washington, D.C. 20231
(800) 786-9199

Also, visit their web site at <http://www.uspto.gov>

Caution: Federally registered trademarks may conflict with and supersede state registered business and product names. Businesses are encouraged to check for conflicts with federal trademarks.

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Patents

Contact:

Superintendent of Documents

P.O. Box 371954
Pittsburgh, Pennsylvania 152507954
(412) 5121800

New and useful inventions can be protected by a U.S. patent. Professional assistance from a patent attorney is strongly urged because patent procedures are detailed and technical. A patent search is performed to see if a patent currently exists on the same or nearly the same device and, if not, to make proper application with the Patent Office.

Note: Only attorneys and agents registered with the U.S. Patent Office may represent inventors in related matters. The office has geographical and alphabetical listings of the more than 11,000 registered agents. Only these agents may perform patent searches in the patent office. Inventors or their attorneys can make arrangements with one of those agents. U.S. patents are issued by the Assistant Commissioner of Patents, Washington, D.C.

Additional information is provided in the publication, *General Information Concerning Patents* and other publications distributed through the [U.S. Patent and Trademark Office](#).

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Copyrights

Contact:

[U.S. Library of Congress](#)
James Madison Memorial Building
Washington, D.C. 20559
(202) 7079100 Order Line
(202) 7073000 Information Line

Copyrights protect the thoughts and ideas of authors, composers and artists. A copyright prevents illegal copying of written matter, works of art or computer programs. In order to ensure copyright protection, the copyright owner should always include notices on all copies of the work.

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Tax Information

Business owners are required by law to withhold the following from the wages paid to employees: federal income taxes, state income taxes and FICA (Social Security) Insurance.

Income taxes will also be levied by the federal and state governments on earnings of any business. Therefore, each business must file an income tax return with both agencies. Businesses may be required to file estimated tax returns and pay estimated taxes on a quarterly basis.

For federal tax information, contact:

[U.S. Internal Revenue Service \(IRS\)](#)

You can go to [IRS's website area for business taxes](#) or call [your local IRS office](#) to receive a number of publications that are available upon request to small businesses. One of the most helpful is *Your Business Tax Kit*, which includes data and forms for a Federal Employer Identification Number and a tax guide for small businesses that can be ordered by calling Forms and Publications at (800) 829-3676 or through a visit to your local IRS office.

You may want to contact [your local Social Security Administration Office](#) for (FICA) Insurance

information or visit one of these helpful SSA web sites:

- [Employers' Information](#)
- [Social Security Forms](#)

For State tax information, [try these state web sites for tax information](#), call your state government or visit your [official state Web site](#).

[Learn more..](#)

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Federal SelfEmployment Tax

Everyone must pay Social Security Tax. If you are selfemployed, your Social Security contribution is made through the self-employment tax. You will need to calculate how best to report earnings and pay your business taxes.

Contact the IRS at (800) 8291040, visit [your local IRS office](#), go to [the Official IRS Web site](#) for more information. The IRS may seem like a complicated maze, but there are publications, counselors and workshops available to help you sort it out.

[Learn more..](#)

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Business Insurance

Like home insurance, business insurance protects the contents of your business against fire, theft and other losses. Contact your insurance agent or broker. It is prudent for any business to purchase a number of basic types of insurance. Some types of coverage are required by law, other simply make good business sense. The types of insurance listed below are among the most commonly used and are merely a starting point for evaluating the needs of your business.

Liability Insurance -- Businesses may incur various forms of liability in conducting their normal activities. One of the most common types is product liability, which may be incurred when a customer suffers harm from using the business product. There are many other types of liability, which are frequently related to specific industries. Liability law is constantly changing. An analysis of your liability insurance needs by a competent professional is vital in determining an adequate and appropriate level of protection for your business.

Property -- There are many different types of property insurance and levels of coverage available. It is important to determine the property you need to insure for the continuation of your business and the level of insurance you need to replace or rebuild. You must also understand the terms of the insurance, including any limitations or waivers of coverage.

Business Interruption -- While property insurance may pay enough to replace damaged or destroyed equipment or buildings, how will you pay costs such as taxes, utilities and other continuing expenses during the period between when the damage occurs and when the property is replaced? Business Interruption (or "business income") insurance can provide sufficient funds to pay your fixed expenses during a period of time when your business is not operational.

"Key Man" -- If you (and/or any other individual) are so critical to the operation of your business that it cannot continue in the event of your illness or death, you should consider "key man" insurance. This type of policy is frequently required by banks or government loan programs. It also can be used to provide continuity in operations during a period of ownership transition caused by the death or

incapacitation of an owner or other "key" employee.

Automobile -- It is obvious that a vehicle owned by your business should be insured for both liability and replacement purposes. What is less obvious is that you may need special insurance (called "non-owned automobile coverage") if you use your personal vehicle on company business. This policy covers the business' liability for any damage which may result for such usage.

Office and Director -- Under some circumstances, officers and directors of a corporation may become personally liable for their actions on behalf of the company. This type of policy covers this liability.

Home Office -- If you are establishing an office in your home, it is a good idea to contact your homeowners' insurance company to update your policy to include coverage for office equipment. This coverage is not automatically included in a standard homeowner's policy.

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Sales Tax Number

In your state there is a percent sales and use tax which applies to the retail purchase, retail site, rental, storage, use or consumption of tangible personal property and certain services. In other words, sales tax must be collected on just about every tangible item sold.

A sales tax number is required for each business before opening. The number, plus instructions for collection, reporting and remitting the money to the state on a monthly basis, can be obtained from [your state government](#).

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Other Considerations...

All businesses with employees are required to comply with state and federal regulations regarding the protection of employees. For information on state labor laws, work force availability, prevailing wages, unemployment insurance, unionization, benefits packages and employment services contact [your state government](#).

Federal information may be obtained by contacting the:

[U.S. Department of Labor](#)

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Unemployment Insurance Tax

Businesses are required by the state to pay unemployment insurance tax if the company has one or more employees for 20 weeks in a calendar year, or it has paid gross wages of \$1,500 or more in a calendar year. The taxes are payable at a rate of 2.7 percent on the first \$8,500 in annual wages of an employee. Go to [your state home page](#) to check the figures for your state.

Unemployment insurance must be reported and returns made to the state.

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Immigration Act

The Federal Immigration Reform and Control Act of 1986 requires all employers to verify the employment eligibility of new employees. The law obligates an employer to process Employment

Eligibility Verification Form I-9. The U.S. Citizenship and Immigration Services Office of Business Liaison of the Department of Homeland Security offers a selection of information bulletins and live assistance for this process through the Employer Hotline. In addition, INS forms and the Employer Handbook can be obtained by calling the Forms Hotline.

For Forms: (800) 870-3676

Employer Hotline: (800) 357-2099

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Health and Safety

[The Federal Occupational Safety and Health Administration \(OSHA\)](#) outlines specific health and safety standards employers must provide for the protection of employees. Many states have similar standards.

For state information contact [your local OSHA office](#).

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Workers' Compensation

If a business employs three or more people, workers' compensation insurance must be carried to provide protection to those injured in onthejob accidents. The State Board of Workers' Compensation aids people who need claim assistance.

For more information contact [your state government](#).

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Minimum Wage

Virtually all business entities are subject to the federal minimum wage, overtime and child labor laws. Information on these laws and other federal laws, may be obtained from:

[U.S. Department of Labor](#)
Wage and Hour Division

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Bar Coding

[GS1 US, formerly the Uniform Code Council](#), (not a government agency) assigns a manufacturer's ID code for the purposes of bar coding. Many stores require bar coding on the packaged products they sell. For Additional Information contact: GS1 US, 7887 Washington Village Drive, Suite 300 , Dayton OH 45459-8605 . (937) 435-3870

SBA ASSISTANCE

[Financial Programs and Other Assistance](#)

The Small Business Administration (SBA) is the largest source of longterm small business financing in the nation. In order to determine whether you qualify for, or if an SBA business loan best suits your financing needs, please read this material carefully. If you have further questions, please contact your banker, one of the active SBA guaranteed lenders listed in this guide, or an SBA loan officer.

[The 7\(a\) Loan Guaranty Program](#)

The 7(a) Loan Guaranty Program is the SBA's primary loan program. The SBA reduces risk to lenders by guaranteeing major portions of loans made to small businesses. This enables the lenders to provide financing to small businesses when funding is otherwise unavailable on reasonable terms.

The eligibility requirements and credit criteria of the program are very broad in order to accommodate a wide range of financing needs.

When a small business applies to a lending institution for a loan, the lender reviews the application and decides if it merits a loan on its own or if it requires additional support in the form of an SBA guaranty. SBA backing on the loan is then requested by the lender. In guaranteeing the loan, the SBA assures the lender that, in the event the borrower does not repay the loan, the government will reimburse the lending institution for a portion of its loss. By providing this guaranty, the SBA is able to help tens of thousands of small businesses every year get financing they would not otherwise obtain.

To qualify for an SBA guaranty, a small business must meet the 7(a) criteria, and the lender must certify that it could not provide funding on reasonable terms except with an SBA guaranty. The SBA can then guarantee as much as 85 percent on loans of up to \$150,000 and 75 percent on loans of more than \$150,000. In most cases, the maximum guaranty is \$1 million. Exceptions are the International Trade, and 504 loan programs, which have higher loan limits. The maximum total loan size under the 7(a) program is \$2 million.

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How it Works

You submit a loan application to a lender for initial review. If the lender approves the loan subject to an SBA guaranty, a copy of the application and a credit analysis are forwarded by the lender to the nearest SBA office. After SBA approval, the lending institution closes the loan and disburses the funds. You make monthly loan payments directly to the lender. As with any loan, you are responsible for repaying the full amount of the loan.

There are no balloon payments, prepayment penalties, application fees or points permitted with 7(a) loans. Repayment plans may be tailored to each business.

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Use of Proceeds

You can use a 7(a) loan to: expand or renovate facilities; purchase machinery, equipment, fixtures and leasehold improvements; finance receivables and augment working capital; refinance existing debt with compelling reason; finance seasonal lines of credit; construct commercial buildings; and/or purchase land or buildings.

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Terms, Interest Rates and Fees

The length of time for repayment depends on the use of the proceeds and the ability of your business to repay: usually five to 10 years for working capital, and up to 25 years for fixed assets such as the purchase or major renovation of real estate or purchase of equipment (not to exceed the useful life of the equipment).

Both fixed and variable interest rates are available. Rates are pegged at no more than 2.25 percent over the lowest prime rate* for loans with maturities of less than seven years and up to 2.75 percent for seven years or longer. For loans under \$50,000, rates may be slightly higher.

The SBA charges the lender a nominal fee to provide a guaranty, and the lender may pass this charge on to you. The fee is based on the maturity of the loan and the dollar amount that the SBA guarantees. On any loan with a maturity of one year or less, the fee is just 0.25 percent of the guaranteed portion of the loan.

On loans with maturities of more than one year where the portion that the SBA guarantees is \$150,000 or less, the guaranty fee is 2 percent of the guaranteed portion. On loans with maturities of more than one year, where the SBA's portion exceeds \$150,000 but not more than \$700,000, the guaranty fee is 3 percent, and it is 3.5 percent on loans over \$700,000.

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Collateral

You must pledge sufficient assets, to the extent that they are reasonably available, to adequately secure the loan. Personal guaranties are required from all the principal owners of the business. Liens on personal assets of the principals may be required. However, in most cases a loan will not be declined where insufficient collateral is the only unfavorable factor.

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Eligibility

Your business generally must be operated for profit and fall within the size standards set by the SBA. The SBA determines if the business qualifies as a small business based on the average number of employees during the preceding 12 months or on sales averaged over the previous three years. Loans cannot be made to businesses engaged in speculation or investment.

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Maximum Size Standards

- ✓ **Manufacturing** - from 500 to 1,500 employees
- ✓ **Wholesaling** 100 employees Services from \$2.5 million to \$21.5 million in annual receipts
- ✓ **Retailing** - from \$5 million to \$21 million
- ✓ **General construction** from \$13.5 million to \$17 million
- ✓ **Special trade construction** average annual receipts not to exceed \$7 million
- ✓ **Agriculture** - from \$0.5 million to \$9 million

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What You Need to Take to the Lender

Documentation requirements may vary; contact your lender for the information you must supply. Common requirements include the following:

- ✓ Purpose of the loan
- ✓ History of the business
- ✓ Financial statements for three years (existing businesses)
- ✓ Schedule of term debts (existing businesses)
- ✓ Aging of accounts receivable and payable (existing businesses)
- ✓ Projected opening day balance sheet (new businesses)
- ✓ Lease details
- ✓ Amount of investment in the business by the owner(s)
- ✓ Projections of income, expenses and cash flow
- ✓ Signed personal financial statements
- ✓ Personal resume(s)

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What the SBA Looks for:

- ✓ Good character
- ✓ Management expertise and commitment necessary for success
- ✓ Sufficient funds, including the SBA-guaranteed loan, to operate the business on a sound financial basis (for new businesses, this includes the resources to meet startup expenses and the initial operating phase)
- ✓ Feasible business plan
- ✓ Adequate equity or investment in the business
- ✓ Sufficient collateral
- ✓ Ability to repay the loan on time from the projected operating cash flow

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[Special Loan Guaranty Programs 7\(a\) Program](#)

There are a number of special loan guaranty programs under the 7(a) program that address specific needs of startup or established businesses. They are governed, for the most part, by the same rules, regulations, fees, interest rates, etc., as the regular 7(a) loan guaranty. Your lender can advise you of any variations.

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[SBAExpress](#)

SBAExpress is available for loans up to \$350,000. The program authorizes SBA preferred lenders to use

mostly their own forms, analyses and procedures to process, service and liquidate SBA guaranteed loans. The SBA guarantees up to 50 percent of an SBAExpress loan. Loans under \$25,000 do not require collateral. Like most 7(a) loans, maturities are usually five to seven years for working capital and up to 25 years for real estate or equipment. Revolving lines of credit are allowed for a maximum of five years.

Contact your [local SBA office](#) for the names of approved banks.

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The Export Working Capital Loan

The Export Working Capital Program is a line of credit for financing foreign accounts receivable. It is a transaction-based program and can be revolving or nonrevolving. The SBA provides a 90 percent guarantee to the lender. The business must have been in operation for at least 12 months prior to the application, and the proceeds can be used to finance materials and labor needed to manufacture or purchase goods and services for sale in foreign markets, including such items as consulting services, overseas travel to establish a market, and participation at trade shows. Funds cannot be used to refinance existing debt or purchase fixed assets. The maturity is generally 12 months or less but can be renewed up to a total of 36 months.

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International Trade Loan

This program provides shortterm and longterm financing to small businesses that are engaged in international trade, preparing to engage in international trade, or adversely affected by competition from imports. The SBA can guarantee up to \$1.25 million for a combination of fixedasset financing and permanent working capital.

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SBA 504 Loan Program

504 is the SBA's economic development instrument that supports American small business growth and helps communities through business expansion and job creation. The SBA 504 loan program provides longterm, fixedrate, subordinate mortgage financing for acquisition and/or renovation of capital assets including land, buildings and equipment. Virtually all types of for-profit small businesses are eligible for this program.

The SBA 504 loan is distinguished from other SBA loan programs in these ways:

- Lower down payment; allows a business to conserve valuable operating capital by injecting just 10% of total project cost.
- Fixed interest rate; borrower knows cost of occupancy for the next 20 years.
- Rate is usually below market rate.
- All project costs can be financed, including acquisition (land and building, land and construction of building, renovations, machinery and equipment) and soft costs such as title insurance, legal, appraisal, environmental and bridge loan fees. Closing costs may be financed.
- Collateral is typically assets financed; allows other assets to be free of liens and available to secure other needed financing.
- Longterm: real estate loans are 20-year term, heavy equipment 10 or 20-year terms and are selfamortizing.
- 504 program encourages banks and other lenders to make loans in first position on reasonable terms, helps them retain growing customers, and provides CRA credit.
- 504 program benefits the borrower's community through job creation and retention.

Businesses that receive 504 loans are:

- Small net worth under \$6 million, net profit after taxes under \$2 million, or meet other SBA size standards.
- Organized as forprofit.
- Any type of business retail, service, wholesale or manufacturing.

The SBA's 504 lending intermediaries, Certified Development Companies (CDCs) serve your community to finance business expansion needs through 504. Its professional staff works directly with you to tailor a financing package that meets program guidelines and the credit capacity of your business. The 504 Loan Program is the first national financing program specifically designed for expanding small business whose investment will create jobs.

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The Certified and Preferred Lenders Program

The most active and expert lenders qualify for the SBA's Certified and Preferred Lenders Program. Participants are delegated partial or full authority to approve loans, which results in faster service. Certified lenders are those that have been heavily involved in regular SBA loan guaranty processing and have met certain other criteria. They receive a partial delegation of authority and are given a three-day turnaround on their applications (they may also use regular processing).

Certified lenders account for 10 percent of all SBA business loan guaranties. Preferred lenders are chosen from among the SBA's best lenders and enjoy full delegation of lending authority. This authority must be renewed at least every two years, and the lender's portfolio is examined by the SBA periodically. Preferred loans account for 18 percent of SBA loans. For list of certified/preferred lenders in your area contact your [local SBA office](#).

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The 7(M) Microloan Program

These loans are provided directly by a network of intermediaries approved by the SBA for the purpose of making microloans (from \$500 up to \$35,000) to small businesses for the purchase of machinery, equipment, furniture, fixtures, inventory and also for working capital. These intermediaries also provide technical and management assistance to the owners. Most small businesses who are unable to obtain funding through conventional sources or the other SBA guaranteed loan programs should contact the microloan lenders in their area.

Contact your [local SBA office](#) for information on local Microloan Lenders.

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The Small Business Investment Company (SBIC) Program

There are a variety of alternatives to bank financing for small businesses, especially business startups. The Small Business Investment Company Program is the gap between the availability of venture capital and the needs of small businesses that are either starting or growing. Licensed and regulated by the SBA, SBICs are privately owned and managed investment firms that make capital available to small businesses through investments or loans. They use their own funds plus funds obtained at favorable rates with SBA guaranties and/or by selling their preferred stock to the SBA. SBICs are forprofit firms whose incentive is to share in the success of a small business. In addition to equity capital and longterm loans, SBICs provide debt equity investments and management assistance. The SBIC Program provides funding to all types of manufacturing and service industries. Some investment companies specialize in certain fields, while others seek out small businesses with new products or services because of the

strong growth potential. Most, however, consider a wide variety of investment opportunities.

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Community Adjustment & Investment Program

The Community Adjustment & Investment Program (CAIP) was created to help communities that suffered job losses due to changing trade patterns following the North American Free Trade Agreement (NAFTA). The North American Development Bank has partnered with the SBA and the U.S. Department of Agriculture to make credit available to businesses in eligible communities to create or retain jobs. Business applicants must be able to demonstrate that the loan or loan guaranty will be used to create or preserve at least one job for every \$35,000 in loans over a 24-month period.

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SBA Pre-Qualification (Pre-Qual) Pilot Loan Program

SBA Pre-Qualification Pilot Loan (Pre-Qual) Program was developed to provide substantive support and assistance in the small business loan application process to those segments of the small business community that traditionally may have been underserved by the lending community.

The Pre-Qual concept was originally introduced as the Women's Pre- Qualification Pilot Loan Program in June 1994. A Minority Pre- Qualification Pilot Loan Program followed in April 1995. In July 1998, these programs were combined under an umbrella Pre-Qual program to more aggressively market the SBA's loan programs to a wider variety of underserved markets.

The new combined Pre-Qualification Pilot Loan Program was developed primarily to address the following markets, identified by SBA as underserved, via traditional lending programs: women, veterans and minority-owned businesses, as well as exporters, rural markets and certain designated geographical areas and industries.

The Pre-Qual concept revolves around intermediaries who help market the SBA's loan programs and assist prospective borrowers in assembling a viable loan application package.

To be eligible, a prospective business must be 51 percent or more owned by veterans, women and/or minorities. Export-eligible loans are those made with the intention of significantly expanding existing export markets or developing new export markets. With respect to rural markets, and other specially designated geographical areas or industries, contact your local SBA office for specific requirements.

The maximum loan amount under this program is \$250,000. If a borrower currently has an SBA loan and the combined loans required as a result of this program are more than \$250,000, the request is to be processed through the regular guaranty program.

The Pre-Qualification Loan Program is a 7(a) loan program. Therefore all other terms, conditions and requirements of the 7(a) program apply as prescribed by SBA's policies and regulations

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Government Contracting Assistance

The federal government is the largest buyer in the world and small businesses are often at a disadvantage when trying to win federal contracts, but the U.S. Small Business Administration (SBA) can help overcome the barriers. Working closely with federal agencies and the nation's leading large contractors, the SBA works to ensure that small businesses obtain a fair share of government contracts and subcontracts. The SBA has a number of programs to help small firms do business with the federal government:

Through the **Prime Contracts Program** the SBA helps to increase the small business share of government contracts. It also advocates for the breakout of items purchased through full and open competition. SBA procurement center representatives (PCRs) work to expand contracting opportunities for small businesses. PCRs review contracting actions at major federal procurement centers, review the subcontracting plans, recommend contracting sources and provide counseling.

There are two types of PCRs: traditional and breakout. Traditional PCRs work to increase the number of procurements set aside for small businesses. Breakout PCRs work to remove components or spare parts from solesource procurements to procurements through open competition, which generates savings for the federal government.

The **Subcontracting Assistance Program** promotes the full utilization of small businesses by the nation's major prime contractors. The Agency's Commercial Marketing Representatives (CMRs) concentrate on large businesses that have one or more federal contracts in excess of \$500,000.

The CMR will review these large companies' subcontracting plans in order to identify small business sources to satisfy specific needs of the prime contractor.

The **Certificate of Competency Program** (COC) helps small businesses secure Federal contacts by providing an appeal process to lowbidder firms denied government contracts for a perceived lack of ability or financial resources to perform the work. A small firm may apply to the SBA for a Certificate of Competency (CoC) when they are low bidder on such a contract but are considered by the contracting agency to be unable to complete the work. The CoC is a document indicating that the firm with the low bid has the plant or financial capacity to complete the contract. A plant survey and financial analysis of the firm is performed by SBA personnel. Within 15 workdays of receipt of the referral, the firm and contracting officer are notified of SBA's decision regarding the CoC. Issuance of the CoC to the successful low bidder usually results in savings to the government over the next low bid.

[The Size Determination Program](#) ensures that only small firms receive contracts and other benefits set aside exclusively for small business. When a firm's claim that it is small is challenged, the SBA size specialists determine if the firm does, in fact, meet established SBA size standards. Size determinations may also be made when requested in connection with other federal contracting programs.

[Learn more..](#)

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[The Surety Bond Guarantee Program](#)

The Surety Bond Guarantee (SBG) Program provides small and minority contractors with contracting opportunities for which they could not otherwise compete. By law, prime contractors to the federal government must post surety binds on federal construction projects valued at \$100,000 or more. Many state, county, municipal and private sector contracts also require bonding, but small and minority businesses may not be able to obtain bonds through regular commercial channels. Through this program, the U.S. Small Business Administration (SBA) can guarantee bid, performance and payment bonds for contracts up to \$1.25 million for eligible small contractors.

A surety bond is a threeway agreement between the surety company, the contractor and the project. It binds the contractor to comply with the terms of a contract. If the contractor is unable to do so, the surety assumes the responsibility and ensures that the project is completed. The SBA guarantees surety companies against a percentage of losses sustained as a result of a contractor's default on a guaranteed bid, payment or performance bond.

There are four major types of surety bonds:

- **Bid** guarantees the bidder will enter into a contract and furnish the required payment and performance bonds.

- **Payment** guarantees payment from the contractor to parties who furnish labor, materials, equipment and supplies.
- **Performance** guarantees the contractor will fulfill the contract in accordance with its terms.
- **Ancillary** bonds which are incidental and essential to the performance of the contract.

The SBG Program consists of the Prior Approval Program and the Preferred Surety Bond Program. Under the Prior Approval Program, the guarantee may range from 80 to 90 percent of the losses sustained under a guaranteed bond, and the surety must obtain SBA approval for each bond. Under the Preferred Surety Bond Program, selected sureties receive a 70 percent bond guarantee and are authorized to issue, service and monitor bonds without the SBA's approval.

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Eligibility

Contractors In addition to meeting the surety's bonding qualifications, a contractor must meet the SBA's size eligibility standards for a small business. Businesses in the construction and service industries can qualify if their average annual receipts for the last three years, including those of any affiliates, do not exceed \$5 million. Your SBA district office can answer any questions regarding eligibility.

Bonds The SBA can guarantee bonds for contracts up to \$1.25 million. A contract bond (bid, performance or payment) is generally eligible for an SBA guarantee if the bond is:

- listed in the Contract Bonds section of the Surety Association of America's "Manual of Rules, Procedures and Classifications";
- required by the contract or invitation to bid and;
- executed by a surety company that is acceptable to the U.S. Treasury (Circular 57) and qualified by the SBA.

Ancillary bonds may also be eligible. For more information, contact [your SBA district office](#).

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Submitting an Application

The contractor chooses a participating surety company and applies for a specific bond through a bonding agent who represents that surety. The application provides the background, credit and financial information required by the surety company and the SBA. Contact your SBA district office for a list of local surety agents who can provide the forms required by the SBA.

Once the surety company receives its completed forms and sufficient underwriting information from the applicant, it processes and underwrites the application and decides whether to:

- execute the bond without the SBA's guarantee,
- execute it only with the SBA's guarantee, or
- decline the bond even with the SBA's guarantee.

If surety in the Prior Approval Program determines that the SBA must guarantee the bond, it submits an underwriting review, guarantee agreement, supporting documents, and the contractor's application forms to the SBA. If the application is for a final bond, the contractor's guarantee fee check is also attached.

A surety in the Preferred Surety Bond Program may issue the bond without the SBA's approval. The surety must then report the bond to the SBA and forward the contractor's fee payment within the

required time.

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Application Review

In the Prior Approval Program, the SBA reviews the information, documentation and underwriting rationale of the surety company to determine if the application is eligible for the program. If it is, and the information submitted by the surety company appears favorable, the SBA guarantees the bond (the SBA may also request additional information).

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Fees

The SBA charges fees to both the contractor and the surety company; rates are published periodically in the *Federal Register*. The SBA does not charge the contractor a fee for an application or a bidbond guarantee.

When the bond is issued, the contractor pays the surety company's bond premium. This charge cannot exceed the level approved by the state in which the bond is issued.

For more information on the Surety Bond Guarantee Program, contact your [local SBA office](#).

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The Small Business Innovation Research Program (SBIR)

The mission of the Office of Technology is to strengthen and expand the competitiveness of U.S. small high technology research and development businesses in the federal marketplace. The SBIR also provides assistance in achieving commercialization of the results of both the federal research and development programs mandated by the Small Business Innovation Development Act of 1982 and the Small Business Research and Development Enhancement Act of 1992.

The mission of the Office is carried out through legislated programs including:

- The Small Business Innovation Research Program
- The Small Business Technology Transfer Pilot Program
- The R, R & D Goaling Program
- Advocacy of Federal technology assistance

The Office of Technology, formerly the Office of Innovation, Research and Technology, is organized into two components: the Research Acquisition Policy Division and the Innovation and Technology Division.

The Office of Technology promotes federal small business hightechnology programs to improve the competitive capabilities of small research and development businesses with particular emphasis on emerging and underserved small firms. It encourages state-ofthemarket technology training, technology information exchange and outreach on federal technology programs. It also encourages private and public resource support for the commercialization of federal R & D efforts. It promotes outreach activities to introduce women and minorityowned small business concerns to the advantages of competing for federal R & D projects. For more information contact your [local SBA office](#).

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[Disaster Assistance](#)

The SBA's Disaster Assistance Loan Program is the primary federally funded, disaster assistance loan program for funding longrange recovery for private sector, nonagricultural disaster victims. Assistance is available to businesses of all sizes and to individuals. Eligibility is based on an individual's financial criteria. Interest rates fluctuate according to statutory formulas. A low interest rate (not to exceed four percent) is available to applicants without credit available elsewhere. A higher rate (not to exceed eight percent) is available for those with credit available elsewhere. The program provides disaster loans when a declaration is made by the President or the SBA Administrator. There are three disaster loan programs:

Physical Disaster Business Loans - Loans are available to qualified applicant businesses of any size for uninsured losses up to \$1.5 million to repair or replace business property to predisaster conditions. Loans may be used to replace or repair real estate, equipment, fixtures and inventory and leasehold improvements.

Economic Injury Disaster Loans (EIDLs) Loans of up to \$1.5 million are available for small businesses that sustain economic injury as a direct result of a disaster. These working capital loans are made to businesses, without credit available elsewhere, to help pay ordinary and necessary operating expenses that would have been payable barring the disaster.

Note: The maximum loan amount is \$1.5 million for EIDL and physical disaster business loans combined, unless the business meets the federal criteria for a major source of employment. The \$1.5 million limit can be waived for businesses employing 250 or more people in an affected area.

Loans for Homes and Personal Property Real Property: This is the major longterm recovery program for individual disaster losses. Loans are available to qualified homeowners for uninsured losses up to \$200,000 to repair or restore a primary residence to predisaster condition.

Personal Property: Loans are available to qualified homeowner and renter applicants for uninsured losses up to \$40,000 to repair or replace personal property, such as clothing, furniture, cars and so forth. Loans are not intended to replace extraordinarily expensive or irreplaceable items, such as antiques, pleasure crafts, recreational vehicles or fur coats.

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Building Management Skills With Information

Throughout its 45-year history, SBA has complemented its financial assistance programs with publications aimed at helping small business owners gain the skills required to start, manage and grow a small enterprise.

[Review SBA's comprehensive electronic library](#)

Also visit SBA's [electronic campus](#) for a large menu of online courses

LOCAL SOURCES OF ASSISTANCE

SCORE

SCORE, formerly the Service Corps of Retired Executives, is a 11,000 member volunteer association sponsored by the U.S. Small Business Administration. Since 1964, the association has matched volunteer business management counselors with clients in need of expert advice. SCORE has experts in virtually every area of business management and maintains a national skills roster to help identify the best counselor for a particular client. Volunteer counselors share their management and technical expertise with both present and prospective small business owners.

SCORE volunteers are members of 385 locally organized chapters offering assistance in almost 800 locations throughout the United States, Puerto Rico, the U.S. Virgin Islands and Guam.

Every effort is made to match a client's needs with a counselor who is experienced in a comparable line of business. All individual and team SCORE counseling is free; there may be a nominal fee for training workshops and seminars.

Through indepth counseling and training, SCORE volunteers help prospective and established small business owners and managers identify problems, determine the causes and find solutions.

SCORE chapters offer lowcost prebusiness workshops that address topics like assessing entrepreneurial potential, developing a startup checklist, selecting a legal entity, creating a business plan and securing funding. SCORE counselors also help successful firms review their distribution channels, survey expansion, modify products and meet other business challenges. Other workshops offer experienced business owners information on a myriad of subjects, including starting a homebased business, purchasing a franchise, defining a marketing and advertising strategy, implementing a waste-reduction plan, setting merchandise prices and beginning an exporting venture.

Any small business can obtain help from SCORE. The approach is confidential and personal. You don't need to be applying for or to have an SBA loan to participate in the program. In fact, an idea is all that is necessary for consultation and counseling.

Contact your [local SBA office](#) for information on your local SCORE chapter.

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Small Business Development Centers (SBDCs)

The SBDC network is recognized as one of the finest business outreach programs of its kind in the nation.

The SBA provides 50 percent or less of the operating funds for each state SBDC. General business education, such a management development, technical information and marketing assistance form the bulk of SBDC services. These business education services are offered via oneonone counseling as well as regularly scheduled training seminars.

The mission of the SBDC network is made up of the following elements:

- To support entrepreneurship and business expansion through educational opportunities that cover human resources, management, technology, capital formation and infrastructure needs of the business community.
- To address regional economic development needs for information by providing applied economic development research to communities and regions.
- To assist in the expansion of international trade primarily by educating new exporters who need

- assistance in all elements of exporting.
- To deliver inhouse managerial and employee training targeted especially to businesses which have difficulty obtaining affordable training.
 - To facilitate the creation of economic development leadership groups that focus on the creation, retention and expansion of business.
 - To provide special attention to the needs of minority entrepreneurs by identifying procurement opportunities, locating sources of capital and supporting outreach efforts of historically black colleges and universities.
 - To assist existing businesses in taking advantage of state and local incentives for job creation, employee training and other expansion efforts.

THE FINANCIAL SIX C'S

CHARACTER	The degree to which a borrower feels a moral obligation to pay his/her debts, measured by the credit and payment history.
CAPACITY TO PAY	A subjective determination made by a lender based upon an analysis of the borrower's financial statements and other information.
CAPITAL	The amount of capital in a business is equal to the total of capital from debt and equity. Lenders prefer low debt-to-asset and debt-to-worth ratios and high current ratios. These indicate financial stability.
COLLATERAL	An asset owned by the borrower, but promised to a lender against non-payment of the loan. The amount of collateral varies from lender to lender. The closer the collateral value is to the loan amount, the more comfortable the lender will be that the loan will be repaid.
CONDITIONS	General economic, geographic and industry,
CONFIDENCE	A successful borrower instills confidence in the lender by addressing all the lender's concerns on the other Five C's. Their loan application sends the message that the company is professional, with an honest reputation, a good credit history, reasonable financial statements, good capitalization and adequate collateral.

STARTING A BUSINESS

1. [The Beginning: Developing a Successful Business Plan](#)
2. [How to Start a Business](#)
3. [Starting Your Small Business*](#)
4. [Business Plan Workshops](#)
5. [Identify Your Target Market](#)
6. [Hot Shot Business Simulation - for Young Entrepreneurs](#)

BUSINESS MANAGEMENT

1. [Managing the Digital Enterprise](#)
2. [Analyze Profitability](#)
3. [Developing a Successful Business Plan](#)
4. [Business Plan Workshops](#)
5. [Growth Strategies](#)
6. [Valuing a Business](#)
7. [Maintaining an Agile Company *](#)
South-West Texas SBDC

FINANCING

1. [How to Find Start-up Funding *](#)
Trump University
2. [Assessing Financial Needs *](#)
South-West Texas SBDC
3. [Cash Flow](#)
4. [Accounting 101: The Fundamentals *](#)
PA SBDC - Kutztown University

MARKETING & ADVERTISING

1. [Building Your Brand](#)
2. [Identify Your Target Market](#)
3. [Advertising Your Business](#)
4. [Promoting Your Business](#)
5. [E-Mail Marketing](#)
6. [Marketing 101: The Fundamentals *](#)
PA SBDC - Kutztown University
7. [Conduct a Marketing Analysis *](#)
PA SBDC – Kutztown University

WEBINARS

1. [Introduction to Environmental Statistics -- EPA](#)

BUSINESS PLANNING TOOLS

1. [How to Write a Business Plan *](#)
Trump University
2. [Business Plan Workshops](#)
3. [Creating a Strategic Plan](#)
4. [Business Plan Templates](#)
5. [Strategic Planning & Execution *](#)
PA SBDC - Kutztown University

GOVERNMENT CONTRACTING

1. [Steps to Accessing Contracts & Subcontracts](#)
2. [Guide to Government Contracts](#)

RISK MANAGEMENT & CYBER SECURITY

1. [E-Learning Center from the SBA and The Hartford! \(En Español\)](#)
2. [Computer Security](#)
3. [Surviving Beyond Disaster Webinar](#)

E-COMMERCE

1. [Building Your Website *](#)
South-West Texas SBDC
2. [Managing the Digital Enterprise](#)

FEDERAL TAX TRAINING

1. [Introduction to Federal Taxes for Small Businesses](#)
2. [Understanding Taxes](#)
3. [Tax & Accounting Basics](#)
4. [Small Business Tax Workshop](#)
5. [Small Business Tax Center](#)
6. [Small Business Tax Workshop \(Para Espanol\)](#)

SMALL BUSINESS RETIREMENT

1. [Retirement Planning](#)

INTERNATIONAL TRADE

1. [Assess your International Risk](#)
2. [Trade Mission Online](#)
3. [A Primer on Exporting](#)
4. [International Business Opportunities](#)

GLOSSARY OF TERMS<

ACCOUNTS PAYABLE	Trade accounts of businesses representing obligations to pay for goods and services received.
ACCOUNTS RECEIVABLE	Trade accounts of businesses representing moneys due for goods sold or services rendered evidenced by notes, statements, invoices or other written evidence of a present obligation.
ACCOUNTING	The recording, classifying, summarizing and interpreting in a significant manner and in terms of money, transactions and events of a financial character.
ASSUMPTIONS	The act of assuming/undertaking another's debts or obligations.
AUCTION	A public sale of goods to the highest bidder.
AUTOMATIC DATA PROCESSING	<ol style="list-style-type: none">1. Data processing largely performed by automatic means.2. The discipline which deals with methods and techniques of automatic data processing.3. Pertaining to data processing equipment such as electrical accounting machines and electronic data processing equipment.
BANKRUPTCY	A condition in which a business cannot meet its debt obligations and petitions a federal district court for either reorganization of its debts or liquidation of its assets. In the action the property of a debtor is taken over by a receiver or trustee in bankruptcy for the benefit of the creditors. This action is conducted as prescribed by the National Bankruptcy Act, and may be voluntary or involuntary.
BREAK-EVEN POINT	The break-even point in any business is that point at which the volume of sales or revenues exactly equals total expenses -- the point at which there is neither a profit nor loss -- under varying levels of activity. The break-even point tells the manager what level of output or activity is required before the firm can make a profit; reflects the relationship between costs, volume and profits.
BUSINESS BIRTH	Formation of a new establishment or enterprise.
BUSINESS DEATH	Voluntary or involuntary closure of a firm or establishment.
BUSINESS DISSOLUTION	For enumeration purposes, the absence from any current record of a business that was present in a prior time period.
BUSINESS FAILURE	The closure of a business causing a loss to at least one creditor.
BUSINESS PLAN	A comprehensive planning document which clearly describes the business developmental objective of an existing or proposed business applying for assistance in SBA's 8(a) or lending Programs. The plan outlines what and how and from where the resources needed to accomplish the objective will be obtained and utilized.
BUSINESS START	For enumeration purposes, a business with a name or similar designation that did not exist in a prior time period.
CANCELED LOAN	The annulment or rescission of an approved loan prior to disbursement.
CAPITAL	<ol style="list-style-type: none">1. Assets less liabilities, representing the ownership interest in a business;

2. a stock of accumulated goods, especially at a specified time and in contrast to income received during a specified time period;
3. accumulated goods devoted to the production of goods; (4) accumulated possessions calculated to bring income.

CAPITAL EXPENDITURES

Business spending on additional plant equipment and inventory.

CAPITALIZED PROPERTY

Personal property of the agency which has an average dollar value of \$300.00 or more and a life expectancy of one year or more. Capitalized property shall be depreciated annually over the expected useful life to the agency.

CASH DISCOUNT

An incentive offered by the seller to encourage the buyer to pay within a stipulated time. For example, if the terms are 2/10/N 30, the buyer may deduct 2 percent from the amount of the invoice (if paid within 10 days) otherwise, the full amount is due in 30 days.

CASH FLOW

An accounting presentation showing how much of the cash generated by the business remains after both expenses (including interest) and principal repayment on financing are paid. A projected cash flow statement indicates whether the business will have cash to pay its expenses, loans, and make a profit. Cash flows can be calculated for any given period of time, normally done on a monthly basis.

CHARACTER

A letter, digit, or other symbol, that is a part of the organization, control, or representation of data used in computer systems.

CHARGE-OFF

An accounting transaction removing an uncollectible balance from the active receivable accounts.

CHARGED OFF LOAN

An uncollectible loan for which the principal and accrued interest were removed from the receivable accounts.

CLOSING

Actions and procedures required to effect the documentation and disbursement of loan funds after the application has been approved, and the execution of all required documentation and its filing and recordation where required.

CLOSED LOAN

Any loan for which funds have been disbursed, and all required documentation has been executed, received and reviewed. For statistical purposes, first or total disbursement is counted as a closed loan.

COLLATERAL

Something of value -- securities, evidence of deposit or other property -- pledged to support the repayment of an obligation.

COLLATERAL DOCUMENT

A legal document covering the item(s) pledged as collateral on a loan, i.e., note, mortgages, assignment, etc.

CONSORTIUM

A coalition of organizations, such as banks and corporations, set up to fund ventures requiring large capital resources.

CORPORATION

A group of persons granted a state charter legally recognizing them as a separate entity having its own rights, privileges, and liabilities distinct from those of its members. The process of incorporating should be completed with the state's secretary of state or state corporate counsel and usually requires the services of an attorney.

COMPROMISE

The settlement of a claim resulting from a defaulted loan for less than the full amount due. Compromise settlement is a procedure available for use only in

instances where the government cannot collect the full amount due within a reasonable time, by enforced collection proceedings or where the cost of such proceedings would not justify such effort.

CONTINGENT LIABILITY	A potential obligation that may be incurred dependent upon the occurrence of a future event. Two examples are: (1) the liability of an endorser or guarantor of a note if the primary borrower fails to pay as agreed and (2) the liability that would be incurred if a pending lawsuit is resolved in the other party's favor.
COSTS	Money obligated for goods and services received during a given period of time, regardless of when ordered or whether paid for.
CREDIT RATING	A grade assigned to a business concern to denote the net worth and credit standing to which the concern is entitled in the opinion of the rating agency as a result of its investigation.
DATA ELEMENT	The basic unit of identifiable and definable information. A data element occupies the space provided by fields in a record or blocks on a form. It has an identifying name and value or values for expressing a specific fact. For example, a data element named "Color of Eyes" could have recorded values of "Blue (a name)," "Bl (an abbreviation)," "06 (a code)." Similarly, a data element named "Age of Employee" could have a recorded value of "28" (a numeric value).
DEBENTURE	Debt instrument evidencing the holder's right to receive interest and principal installments from the named obligor. Applies to all forms of unsecured, long-term debt evidenced by a certificate of debt.
DEBT CAPITAL	Business financing that normally requires periodic interest payments and repayment of the principal within a specified time.
DEBT FINANCING	The provision of long term loans to small business concerns in exchange for debt securities or a note.
DEED OF TRUST	A document under seal which, when delivered, transfers a present interest in property. May be held as collateral.
DEFAULTS	The nonpayment of principal and/or interest on the due date as provided by the terms and conditions of the note.
DEFERRED LOAN	Loans whose principal and or interest installments are postponed for a specified period of time.
DISBURSEMENT	The actual payout to borrower of loan funds, in whole or part. It may be concurrent with the closing, or follow it.
DISBURSING OFFICER	An employee authorized to pay out cash or issue checks in settlement of vouchers approved by a certifying officer.
DIVESTITURE	Change of ownership and/or control of a business from a majority (non-disadvantaged) to disadvantaged persons.
EARNING POWER	The demonstrated ability of a business to earn a profit, over time, while following good accounting practices. When a business shows a reasonable profit on invested capital after fully maintaining the business property, appropriately compensating its owner and employees, servicing its obligations, and fully recognizing its costs, the business may be said to have demonstrated earning power. Demonstrated earning power is the foremost test of the business risk in pressing upon an application for a loan.
EASEMENT	A right or privilege that a person may have on another's land, as the right of a

way or ingress or egress.

EMPLOYEE ASSISTANCE PROGRAM (EAP) COORDINATOR	Coordinates the activities of Central Office or regional counselors, maintains a community resource list, of available professional assistance to troubled employees and a current roster of EAP counselors for the area of his/her jurisdiction.
EAP COUNSELOR	Conducts confidential consultations with troubled employees who so request or who are referred for objective analysis of a personal problem and for identification of the best available assistance and/or professional services needed to resolve the employee's problem.
ENTERPRISE	Aggregation of all establishments owned by a parent company. An enterprise can consist of a single, independent establishment or it can include subsidiaries or other branch establishments under the same ownership and control.
ENTREPRENEUR	One who assumes the financial risk of the initiation, operation and management of a given business or undertaking.
EQUITY	An ownership interest in a business.
EQUITY FINANCING	The provision of funds for capital or operating expenses in exchange for capital stock, stock purchase warrants and options in the business financed, without any guaranteed return, but with the opportunity to share in the company's profits. Equity financing includes long-term subordinated securities containing stock options and/or warrants. Utilized in SBIC financing activities.
EQUITY PARTNERSHIP	A limited partnership arrangement for providing start-up and seed capital to businesses.
ESCROW ACCOUNTS	Funds placed in trust with a third party, by a borrower for a specific purpose and to be delivered to the borrower only upon the fulfillment of certain conditions.
ESTABLISHMENT	A single-location business unit, which may be independent -- called a single-establishment enterprise-- or owned by a parent enterprise.
FINANCIAL REPORTS	Reports commonly required from applicants request for financial assistance, e.g.: <ol style="list-style-type: none">1. Balance Sheet - A report of the status of a firm's assets, liabilities and owner's equity at a given time.2. Income Statement - A report of revenue and expense which shows the results of business operations or net income for a specified period of time.3. Cash Flow - A report which analyzes the actual or projected source and disposition of cash during a past or future accounting period.
FINANCING	New funds provided to a business, by either loans or purchase of debt securities or capital stock.
FLOW CHART	A graphical representation for the definition, analysis, or solution of a problem, in which symbols are used to represent operations, data, flow, equipment, etc.
FORECLOSURE	The act by the mortgagee or trustee upon default, in the payment of interest or principal of a mortgage of enforcing payment of the debt by selling the underlying security.

FRANCHISING	A continuing relationship in which the franchisor provides a licensed privilege to the franchisee to do business, and offers assistance in organizing, training, merchandising, marketing and managing in return for a consideration. Franchising is a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees). The product, method or service being marketed is usually identified by the franchisor's brand name, and the holder of the privilege (franchisee) is often given exclusive access to a defined geographical area.
GROSS DOMESTIC PRODUCT (GDP)	The most comprehensive single measure of aggregate economic output. Represents the market value of the total output of the goods and services produced by a nation's economy.
GROSS NATIONAL PRODUCT (GNP)	A measure of a nation's aggregate economic output. Since 1991 GDP, a slightly different calculation, has replaced GNP as a measure of U.S. economic output.
GUARANTEED LOAN	A loan made and serviced by a lending institution under agreement that a governmental agency will purchase the guaranteed portion if the borrower defaults.
HARDWARE	A term used to describe the mechanical, electrical and electronic elements of a data processing system.
HAZARD INSURANCE	Insurance required showing lender as loss payee covering certain risks on real and personal property used for securing loans.
INCUBATOR	A facility designed to encourage entrepreneurship and minimize obstacles to new business formation and growth, particularly for high technology firms, by housing a number of fledgling enterprises that share an array of services. These shared services may include meeting areas, secretarial services, accounting services, research libraries, on-site financial and management counseling and word processing facilities.
INDEPENDENT AND QUALIFIED PUBLIC ACCOUNTANTS	Public accountants are independent when neither they nor any of their family have a material, direct or indirect financial interest in the borrower other than as an accountant. They are qualified, unless there is contrary evidence, when they are either (1) certified, licensed, or otherwise registered if so required by the state in which they work, or (2) have worked as a public accountant for at least five years and are accepted by SBA.
INDUSTRIAL REVENUE BOND (IRB)	A tax-exempt bond issued by a state or local government agency to finance industrial or commercial projects that serve a public good. The bond usually is not backed by the full faith and credit of the government that issues it, but is repaid solely from the revenues of the project and requires a private sector commitment for repayment.
INNOVATION	Introduction of a new idea into the marketplace in the form of a new product or service, or an improvement in organization or process.
INSOLVENCY	The inability of a borrower to meet financial obligations as they mature, or having insufficient assets to pay legal debts.
INTEREST	An amount paid a lender for the use of funds.
INVERSE ORDER OF MATURITY	When payments are received from borrowers that are larger than the authorized repayment schedules the overpayment is credited to the final installments of the principal which reduces the maturity of the loan and does not affect the original repayment schedule.
INVESTMENT BANKING	Businesses specializing in the formation of capital. This is done by outright purchase and sale of securities offered by the issuer, standby underwriting or

	"best efforts selling."
INVITATION FOR BIDS	Formal solicitations for offerings, to perform procurements by competitive bids when the specifications describe the requirements of the government clearly, accurately, and completely; but avoiding unnecessarily restrictive specifications or requirements which might unduly limit the number of bidders.
JOB DESCRIPTION	A written statement listing the elements of a particular job or occupation, e.g., purpose, duties, equipment used, qualifications, training, physical and mental demands, working conditions, etc.
JUDGMENT	Judicial determination of the existence of an indebtedness, or other legal liability.
JUDGMENT BY CONFESSION	The act of debtors permitting judgment to be entered against them for a given sum with a statement to that effect, without the institution of legal proceedings.
JUNK BOND	A high-yield corporate bond issue with a below-investment rating that became a growing source of corporate funding in the 1980s.
LEASE	A contract between the owner (lessor) and the tenant (lessee) stating the conditions under which the tenant may occupy or use the property.
LEGAL RATE OF INTEREST	The maximum rate of interest fixed by the laws of the various states, which a lender may charge a borrower for the use of money.
LENDING INSTITUTION	Any institution, including a commercial bank, savings and loan association, commercial finance company, or other lender qualified to participate with SBA in the making of loans.
LEVERAGED BUY-OUT	The purchase of a business, with financing provided largely by borrowed money, often in the form of junk bonds.
LIEN	A charge upon or security interest in real or personal property maintained to ensure the satisfaction of a debt or duty ordinarily arising by operation of law.
LIQUIDATION	The disposal, at maximum prices, of the collateral securing a loan, and the voluntary and enforced collection of the remaining loan balance from the obligators and/or guarantors.
LIQUIDATION VALUE	The net value realizable in the sale (ordinarily a forced sale) of a business or a particular asset.
LITIGATION	Refers to a loan in "liquidation status" which has been referred attorneys for legal action. Also: The practice of taking legal action through the judicial process.
LOAN AGREEMENT	Agreement to be executed by borrower, containing pertinent terms, conditions, covenants and restrictions.
LOAN PAYOFF AMOUNT	The total amount of money needed to meet a borrower's obligation on a loan. It is arrived at by accruing gross interest for one day and multiplying this figure by the number of days that exist between the date of the last repayment and the date on which the loan is to be completely paid off. This amount, known as accrued interest, is combined with the latest principal and escrow balances that are applicable to what is now referred to as the loan payoff amount. In the case where prepaid interest exceeds the accrued interest the latter is subtracted from the former and the difference is used to

	reduce the total amount owed.
LOSS RATE	A rate developed by comparing the ratio of total loans charged off to the total loans disbursed from inception of the program to the present date.
LOSS RESERVE ADJUSTMENT RATE	A reserve rate based upon the ratio of the aggregate net chargeoffs (chargeoffs less recoveries) for the most recent five years to the total average loans outstanding for the comparable 5-year period.
MARKUP	Markup is the difference between invoice cost and selling price. It may be expressed either as a percentage of the selling price or the cost price and is supposed to cover all the costs of doing business plus a profit. Whether markup is based on the selling price or the cost price, the base is always equal to 100 percent.
MATURITY	As applied to securities and commercial paper, the period end date when payment of principal is due.
MATURITY EXTENSIONS	Extensions of payment beyond the original period established for repayment of a loan.
MERGER	A combination of two or more corporations wherein the dominant unit absorbs the passive ones, the former continuing operation usually under the same name. In a consolidation two units combine and are succeeded by a new corporation, usually with a new title.
MORTGAGE	An instrument giving legal title to secure the repayment of a loan made by the mortgagee (lender). In legal contemplation there are two types: (1) title theory - operates as a transfer of the legal title of the property to the mortgagee, and (2) lien theory - creates a lien upon the property in favor of the mortgagee.
NEGOTIATION	The "face to face" process used by local unions and the employer to exchange their views on those matters involving personnel policies and practices, or other matters affecting the working conditions of employees in the unit and reduced to a written binding agreement. Used also by contracting officers to reach agreement with potential contractors.
NEGOTIATION DISPUTE	That point in negotiations where labor and management cannot come to an agreement on some or all of the issues on the bargaining table and the services of the FMCS have not been utilized.
NEGOTIATED GRIEVANCE PROCEDURE	The sole and exclusive procedure available to all employees in a bargaining unit and the employer for processing grievances and disputes.
NET WORTH	Property owned (assets), minus debts and obligations owed (liabilities), is the owner's equity (net worth).
NOTES AND ACCOUNTS RECEIVABLE	A secured or unsecured receivable evidenced by a note or open account arising from activities involving liquidation and disposal of loan collateral.
OBLIGATIONS	Technically defined as "amount of orders placed, contracts awarded, services received, and similar transactions during a given period which will require payments during the same or a future period."
ORDINARY INTEREST	Simple interest based on a year of 360 days, contrasting with exact interest having a base year of 365 days.
OUTLAYS	Net disbursements (cash payments in excess of cash receipts) for administrative expenses and for loans and related costs and expenses (e.g.,

	gross disbursements for loans and expenses minus loan repayments, interest and fee income collected, and reimbursements received for services performed for other agencies).
PARTNERSHIP	A legal relationship existing between two or more persons contractually associated as joint principals in a business.
PATENT	A patent secures to an inventor the exclusive right to make, use and sell an invention for 17 years. Inventors should contact the U.S. Department of Commerce Patent Office.
PRIME RATE	Interest rate which is charged business borrowers having the highest credit ratings, for short term borrowing.
PRO-Net	An Internet-based database of information of small, disadvantaged, 8(a) and women-owned businesses seeking procurement contracts.
PRODUCT LIABILITY	Type of tort or civil liability that applies to product manufacturers and sellers.
PROFESSIONAL AND TRADE ASSOCIATIONS	Non-profit, cooperative and voluntary organizations that are designed to help their members in dealing with problems of mutual interest. In many instances professional and trade associations enter into an agreement with SBA to provide volunteer counseling to the small business community.
PROPRIETORSHIP	The most common legal form of business ownership; about 85 percent of all small businesses are proprietorships. The liability of the owner is unlimited in this form of ownership.
PROTEST	A statement in writing by any bidder or offeror on a particular procurement alleging that another bidder or offeror on such procurement is not a small business concern.
RATIO	Denotes relationships of items within and between financial statements, e.g., current ratio, quick ratio, inventory turnover ratio and debt/net worth ratios.
REQUEST FOR PROPOSALS	Solicitations for offerings for competitive negotiated procurements when it is impossible to draft an invitation for bids containing adequate detailed description of the required property and services. There are 15 circumstances in the Federal Acquisition Regulations (FAR) which permit negotiated procurements.
RETURN ON INVESTMENT	The amount of profit (return) based on the amount of resources (funds) used to produce it. Also, the ability of a given investment to earn a return for its use.
SECONDARY MARKET	Those who purchase an interest in a loan from an original lender, such as banks, institutional investors, insurance companies, credit unions and pension funds.
SCORE, formerly Service Corps of Retired Executives	Retired, and working, successful business persons who volunteer to render assistance in counseling, training and guiding small business clients.
SMALL BUSINESS DEVELOPMENT CENTERS (SBDC)	The SBDC is a university-based center for the delivery of joint government, academic, and private sector services for the benefit of small business and the national welfare. It is committed to the development and productivity of business and the economy in specific geographical regions.
TURNOVER (Business)	Turnover is the number of times that an average inventory of goods is sold during a fiscal year or some designated period. Care must be taken to ensure that the average inventory and net sales are both reduced to the same denominator; that is, divide inventory at cost into sales at cost or divide

inventory at selling price into sales at selling price. Do not mix cost price with selling price. The turnover when accurately computed, is one measure of the efficiency of a business.

**UNDELIVERED
ORDERS**

The amount of orders for goods and services outstanding for which, the liability has not yet accrued. For practical purposes represents obligations incurred for which goods have not been delivered or services not performed.

**UNFAIR LABOR
PRACTICE**

Action by either the employer or union which violates the provisions of EO 11491 as amended.

**UNIFORM
COMMERCIAL CODE**

Codification of uniform laws concerning commercial transactions. In SBA parlance generally refers to a uniform method of recording and enforcing a security interest or charge upon existing or to be acquired personal property.

USURY

Interest which exceeds the legal rate charged to a borrower for the use of money.

VENTURE CAPITAL

Money used to support new or unusual commercial undertakings; equity, risk or speculative capital. This funding is provided to new or existing firms that exhibit above-average growth rates, a significant potential for market expansion and the need for additional financing for business maintenance or expansion.

WORD PROCESSING

Is the efficient and effective production of written communications at the lowest possible cost through the combined use of systems management procedures, automated technology, and accomplished personnel. The equipment used in word processing applications includes but is not limited to the following: Dictation and transcription equipment, automatic repetitive typewriters, visual display text editing typewriters, keyboard terminals, etc.

**WORKERS'
COMPENSATION**

A state-mandated form of insurance covering workers injured in job-related accidents. In some states the state is the insurer; in other states insurance must be acquired from commercial insurance firms. Insurance rates are based on a number of factors including salaries, firm history and risk of occupation.