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How to *Really* Start Your Own Business



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Dear New Business Owner,

The Company Corporation® is dedicated to the success of small businesses throughout America. Small businesses provide the foundation for our country's economic growth and opportunity. We stand united with SCORE "Counselors to America's Small Business" to bring educational materials and assistance to the small-business owners who create our future.

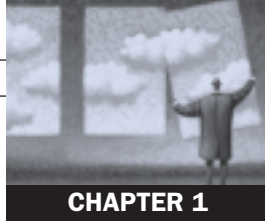
The Company Corporation® and SCORE have partnered to bring you this workbook written by the editors of *Inc.* magazine. This workbook is designed to help you with a range of disciplines for starting your own business—from your inspiration or idea to creating a plan, building a team and investing in technology. As a quick primer, it focuses on cash control, financial management, selecting a business structure and capitalizing on the Web.

SCORE counselors volunteer their time and expertise to help small businesses with confidential, free business counseling. The SCORE organization has helped more than 6.5 million small-business clients since 1964. The Company Corporation® is honored to provide this educational tool for use by SCORE counselors and their clients.

The Company Corporation® and its family of companies have been providing small business and incorporation services for more than 100 years. In addition to helping small businesses form corporations and limited liability companies in all 50 states, The Company Corporation® provides a range of assistance, including registered agent services, corporate kits, publications, and certificates of good standing. We also make life easier after incorporating, with our Compliance Watch® tool, which takes the worry out of staying in corporate compliance. Together with SCORE, The Company Corporation® wishes America's small-business community continued success.

Regards,

Brett Davis
Vice President and General Manager
The Company Corporation®



Summarize Your Idea

Remember the following about any idea for a new business:

- Always be on the lookout for ideas. They can come from anywhere: your work experience, a hobby, or even your experiences as a consumer when an existing product or service doesn't meet your needs.
- Identify a niche. Usually the niche, or opportunity, will be an innovation or proven idea in a new market or a unique idea in an existing market.
- Learn everything you can about the business you want to start and the marketplace you'll be operating in. This means getting work experience and collecting information so you'll know the arena inside and out.
- Make sure your idea is focused so that you can express it clearly in 50 words or less.

Summarize your business idea in 50 words or less:

Begin testing your idea by asking probing questions. Put answers in writing. Do this for each idea you have:

1. Where did your idea originate (from a specific experience, industry observation, a sudden inspiration)?

2. If your idea is for a new product or service, describe how you expect to get it accepted in the market.

3. If your idea is for an improvement or variation of an existing product or service, describe why consumers will use it instead of what is already available.

4. Describe your market niche in 50 words or less.

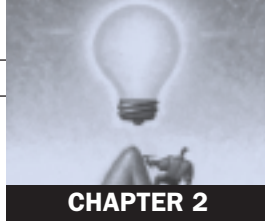
5. List at least three qualifications that you have that will allow you to pursue a business in this market niche (work experience, education, research, reputation, etc.).

6. What are your two most important personal goals for the next five years (independence, visibility, income, personal satisfaction, etc.)?

7. How will this business help you achieve those personal goals?

8. List and describe briefly the two most significant barriers to expect while launching and operating your business.

9. Explain how you expect to overcome these challenges.



CHAPTER 2

Test Your Idea

As you evaluate your idea, keep in mind the following:

- Market research doesn't have to be complicated or expensive, but you must do it.
- Conduct research to determine whether there is an adequate number of potential customers to support your product or service. Use the following sources for statistical and demographic information:
 - **Libraries and published directories (e.g., Gale Research directories)**
 - **Computerized databases (available at many libraries)**
 - **Web sites and search engines (posted by business resources and public agencies)**
 - **U.S. Small Business Administration (1-800-U-ASK-SBA; www.sba.gov)**
 - **U.S. Bureau of Census (www.census.gov), U.S. Dept. of Commerce (www.doc.gov)**
 - **Trade associations for your industry**
 - **Local chambers of commerce**
- Test your idea with potential customers and others who can offer constructive feedback (e.g., friends, relatives, bankers, suppliers, executives). Keep a written record of the responses.
- Be prepared to make changes based on the responses.
- Study and evaluate the competition.
- How will your product or service be an improvement over the competition?
- Price your product competitively—higher if your product or service improves on an existing one, and lower if it will be equal to what is on the market. Be sure you can make a profit.

For each of the following categories, list two potential sources (with location and phone number) who can comment candidly about your business idea:

Bankers (check your local Yellow Pages under, "Banks")

Trade Associations (search the Internet or check the *Encyclopedia of Associations*, available in most libraries)

Government or University-affiliated Organizations (call your SBA district office, SCORE "Counselors to America's Small Business," or nearest Small Business Development Center)

Successful Entrepreneurs (from magazine or newspaper articles and local references)

Suppliers (check local Yellow Pages, classified advertisements, and publications such as the *American Wholesalers and Distributors Directory*, available at major libraries)

Answer the following questions about your market:

1. Identify your three most important groups of potential customers, defining them by the criteria (e.g., age, demographics, industry, etc.) that you believe are most relevant to your product or service.

- a. _____
- b. _____
- c. _____

2. Name your primary competitor for each of the three groups.

- a. _____
- b. _____
- c. _____

3. Describe how each group feels about this competitor.

- a. _____
- b. _____
- c. _____

4. Describe the factors that are most likely to make each group leave a competitor and switch to your product or service.

- a. _____
- b. _____
- c. _____

5. Where did the answers to questions 3 and 4 come from (printed pieces, market study, questions to prospective customers)?

- a. _____
- b. _____
- c. _____

6. Describe what accounts for the success of each of your competitors.

- a. _____
- b. _____
- c. _____

7. Describe what makes each competitor vulnerable to loss of customers.

- a. _____
- b. _____
- c. _____

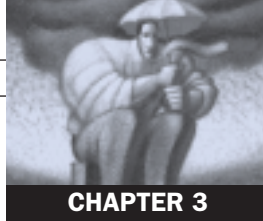
Answer the following questions about your pricing policies:

1. Provide details and/or a calculation of how you arrived at the price for your product or service.

2. List the price(s) that your most significant competitors charge for their corresponding product or service.

3. If your prices are higher, why? How will you justify them to your customers?

4. If your prices are lower, why? How will they help you attract customers?



Protect Your Idea

Start-up entrepreneurs tend to worry about having their business ideas stolen but it is important to keep this issue in perspective:

- Don't worry about protection so much that it interferes with your test marketing and test development.
- Be discrete about revealing details of your business idea, particularly with competitors.
- If you think your idea qualifies for legal protection, speak with a lawyer. The protection options are:

Patent (to protect an original device or process)

Copyright (for printed material, such as consulting manuals, books and maps, or computer software)

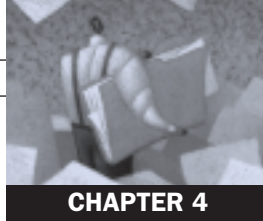
Trademark (to guard a product name, logo, symbol, or figure)

Service mark (to guard a brand or service name, logo, symbol, or figure)

Here are eight basic steps to ensure that you have sufficient legal protection:

1. For the best protection against having your business idea stolen, be sure you know the character of every person you discuss the idea with.
2. If you share copies of your business plan, be sure to number each one and record the name of the individual who receives it.
3. Ask those who will review your business plan to sign a nondisclosure agreement that prohibits them from using or discussing the information.
4. Be sure any employment agreements limit the ability of someone who leaves your company to use proprietary materials, designs, and formulas, or for taking customer names with them.
5. File for a patent to prevent others from copying your invention.
6. File for a copyright to prevent others from copying your material, including print, software, music, films, art, and recordings.
7. Register your trademark to prevent others from using a special name or logo you plan to use.
8. To protect your ownership rights, obtain the services of a qualified attorney who is experienced in matters involving intellectual property protection.

To obtain U.S. copyright forms or for more information about copyright protection, contact the Copyright Office, Library of Congress, Washington, D.C. 20559. For more information about patents and trademarks, log on to the U.S. Patent and Trademark Office, at www.uspto.gov.



CHAPTER 4

Create a Business Plan

A well-written business plan will play a key role in the success of your business. In addition to being required to obtain certain loans, a carefully considered plan helps business owners focus on the strategic objectives and communicate those objectives to the staff. For those inexperienced in creating a business plan, free assistance is available from a variety of nonprofit sources, including SCORE “Counselors to America’s Small Business” (www.score.org) and local Small Business Development Centers. Local banks can tell you what they look for in a business plan, and an accountant can help you prepare necessary financial statements. You may also use the cash flow worksheets found on www.score.org.

The planning process will not be intimidating if you keep these points in mind:

- Planning ahead for your new business can mean the difference between success and failure.
- Use an informal plan consisting of three to six pages to convince relatives and friends to back your venture. Be sure to cover the first eight points cited below.
- To approach bankers, individual investors, and venture capitalists, prepare a more formal written business plan. It shouldn’t be longer than 40 pages and should be organized as follows:
 - 1. Executive Summary.** A two-page, succinct explanation of your business and its activities, with an overview of your key objectives and business goals.
 - 2. Business Description.** Describes your perception of the company. How will your business grow and profit?
 - 3. The Market and Competition.** Largest section. Honestly acknowledges competition and describes how your company will differ from other providers.
 - 4. The Product or Service.** Describe the core of your business.
 - 5. Selling.** Explains how you will access the marketplace. Will you advertise, attend trade shows, establish a Web site?
 - 6. Management and Personnel.** Explains how you will staff and manage your business. It includes one-paragraph profiles—or biographies—of yourself, partners, and any other key team members.
 - 7. Financial Data.** Contains the balance sheet, profit-and-loss statement, break-even chart, and cash flow analysis.
 - 8. Investment.** Based on cash flow, it includes what the investor will receive as a return.
 - 9. Appendices.** Includes testimonials from potential customers, research clips, miscellaneous charts and graphs relevant to your business.

To create a successful business plan, consider these three questions:

1. Which type of business plan (informal, less than 10 pages; or more formal, up to 40 pages) is most appropriate for your business? Why?
2. Outline the sections of your plan (see list above). How long should each section be?
3. Identify areas that require more work on your part, as well as areas that you are ready to put into writing.

Need Help With Your Business Plan? Contact SCORE

SCORE “Counselors to America’s Small Business” is a nonprofit organization dedicated to helping entrepreneurs succeed as small-business owners. More than 10,500 SCORE business counselors are available to provide you with advice, mentoring, and small business planning assistance. SCORE business counseling is free and confidential. You can rely on SCORE as a trusted resource to help you plan for success.

SCORE has assisted more than 6.5 million Americans with their small-business counseling alone. SCORE also offers small-business workshops throughout its 389 SCORE offices nationwide. For more information about starting or managing your business, call **800-634-0245** for the SCORE office nearest you, or visit SCORE on the Web at www.score.org.



CHAPTER 5

Choose a Structure

For legal and financial purposes, you must have a formal structure for your business. Your four basic choices:

- 1. Sole proprietorship.** The owner and the business are the same (often a service business, with the owner providing the service). Business and personal tax returns are filed together.
 - **Advantages:** Simple and inexpensive (start-up costs are low); maximum control.
 - **Disadvantages:** Unlimited personal legal and financial liability; limited ability to raise capital; not an enduring structure.
- 2. Partnership.** A business with more than one owner; divides profits and losses among participants. It may be popular for lawyers, doctors, and other professional service providers, but not for most new businesses.
- 3. Incorporation.** A safer choice for businesses with employees or bank financing. A corporation is a state-chartered organization owned by shareholders. The shareholders can elect or appoint a board of directors who are ultimately responsible for management of the business.
 - **Advantages:** Personal assets are protected from the debts and risks of the business. This is especially important if the business fails or is sued.
 - **Disadvantages:** Corporations must hold meetings and file annual reports resulting in paperwork.

There are two major types of tax status that corporations can choose:

C Status. So called because it is taxed under regular corporate income tax rules.

- **Advantages:** Limited liability; access to capital (can raise money through sale of stock); perpetual life (unlike sole proprietorship); ownership can be transferred.
- **Disadvantages:** Profits are subject to double taxation (corporate income is taxed, and then dividends paid to stockholders are taxed as part of the individual's income); regulation and paperwork; some limited start-up costs including state filing fees.

S status. So called because it is under subchapter S of the Internal Revenue Code; known as a "Sub Chapter S."

- **Advantages:** Appropriate for start-ups; limits personal liability; S corp dividends are not subject to self-employment taxes; eliminates double taxation.
 - **Disadvantages:** Taxes on many fringe benefits; restricts number of stockholders to 35.
- 4. Limited Liability (LLC).** State-chartered organization that allows for the reduced personal liability of a corporation, but with the tax advantages of a partnership or sub chapter S.
 - **Advantages:** Liability protection; no ownership restrictions; no double taxation; easier access to capital (compared with partnership); like a S status corporation with less paperwork; less formal; less paperwork than a corporation.
 - **Disadvantages:** Stock not available.

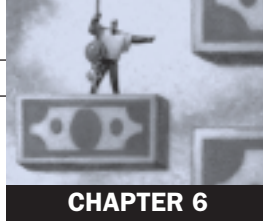
Select the Structure that Best Suits Your New Company’s Needs. If you answer yes to any of these questions, incorporating your business may be the right step for you.

1. Would you like to protect your personal assets against liabilities that your company may incur, either in the form of debt or lawsuits?
2. Would you like the option to raise capital through the sale of stock?
3. Do you have—or plan to have—employees?
4. Do you have co-owners or investors?
5. Do you want your business to continue to operate after your death or a partner’s death?
6. Would including “Inc.,” “Corp.” or “LLC” as part of your business name enhance your credibility with investors, suppliers, and customers?

Ways to Organize Your Business

Type of Organization	Main Advantages	Main Disadvantages
Sole Proprietorship	<ul style="list-style-type: none"> • Simple and inexpensive to create and operate. • Owner reports profit or loss on personal tax return. 	<ul style="list-style-type: none"> • Owner personally liable for business debts. • Not a separate legal entity.
C Corporation	<ul style="list-style-type: none"> • Clients have less risk from government audits. • Owners have limited personal liability for business debts. • Owners can deduct fringe benefits as business expense. • Owners can split corporate profit among owners and corporation, paying lower overall tax rate. 	<ul style="list-style-type: none"> • More expensive to create and operate than sole proprietorship or partnership. • Double taxation threat because the corporation is a separate taxable entity. • No beneficial employment tax treatment.
S Corporation	<ul style="list-style-type: none"> • Clients have less risk from government audits. • Owners have limited personal liability for business debts. • Owners can use corporate losses to offset income from other status. • Owners can save on employment taxes by taking distributions instead of salary. 	<ul style="list-style-type: none"> • More expensive to create and operate than sole proprietorship. • Fringe benefits for shareholders are limited.
Partnership	<ul style="list-style-type: none"> • Simple and inexpensive to create and operate. • Owners report profit or loss on personal tax returns. 	<ul style="list-style-type: none"> • Owners personally liable for business debts. • Two or more owners required. • No beneficial employment tax treatment.
Limited Liability Company	<ul style="list-style-type: none"> • Owners have limited liability for business debts if they participate in management. • Profit and loss can be allocated differently than ownership interests. 	<ul style="list-style-type: none"> • No beneficial employment tax treatment.

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Focus on Funding

At some point, no matter how carefully you monitor your cash flow, you will have to borrow money from a financial institution. There are two main reasons to borrow: to cover a temporary cash flow gap and to provide working capital for the growth of your business.

Plan ahead. A written financial plan—whether for a bank or internal use—is a major step in the right direction. A financing plan helps you avoid the causes of cash flow problems, anticipate financing needs (for growth or for survival), and helps keep your total borrowing under control.

A financing plan spells out responses to such questions as: What are the business's needs? Why can't they be met from retained earnings? Are operating profits going to be available to meet long-term debt? How much is needed, when, and under what terms? Most important, the plan should provide an answer to the banker's biggest question: How will this loan be repaid?

You must be able to show that you can afford to service the loan. One classic way small businesses trip themselves up is to use this year's financing to pay off last year's debt. This "pyramiding" is doubly defeating. It creates a larger debt load than is wise, and it is very discouraging to be always struggling with debt even while profitability is increasing. Be wary of using financing to conceal operating losses.

How do you put together a financial plan?

Start by identifying your business's different needs for funds. Most of these will be covered by operating profits. Those that cannot be (or cannot without making the liquidity vanish) should be carefully analyzed to see whether more debt should be sought. It's important to remember that if debt financing is needed to cover a cash flow gap ordinarily caused by insufficient operating profits, the underlying cause of the short-fall must be identified and dealt with before financing will do any good. Borrowing to "paper over" an operating problem always leads to a worsened situation, tempting though it may be at the time.

Suppose, for example, that your sales have fallen off and costs have risen, making it clear that soon you'll have a severe liquidity or working capital problem. If the lag in sales can be cured without borrowing, fine. (You can almost always take costs down a few notches.) If you still have cash flow problems, then make sure that the borrowing won't make it worse. If the sales problem can't be resolved, sooner or later you'll be back to the bank to borrow more, thus driving costs even higher.

Make sure you know your needs before going to the bank—both in dollar terms and in what benefits that cash inflow will have. Any banker you'd want to work with will ask what you need the money for and whether you could raise it from operations. To admit that you haven't looked for operating economies and profits as a way to generate money is a sure way to lose credibility. Enter the bank well prepared.

Legitimate financing needs fall into five related categories. At any one time your needs may overlap several of these categories. A start-up, for example, may face radical expansion, perhaps requiring an acquisition or the launch of a new division.

1. Start-ups.

A new business needs a combination of investment capital and long-term debt. One error that cripples a lot of small businesses is the use of short-term debt to finance long-term needs. The basic rule in financing is to match the term of the loan to both the term of the need and to the source of repayment. Using a 90-day note for permanent financing needs is very risky. Not only is there the ever-present danger that the loan will not be renewed, but there is the added disadvantage of never being able to plan more than 90 days ahead.

2. Working capital shortages.

After initial capitalization, working capital should be generated from operating profits over a long period. If you suffer from chronic working capital shortages due to undercapitalization but are making some operating profits, then the answer may be a term loan if you can demonstrate that the loan will more than repay itself in additional operating profits. Sometimes a modest working capital loan will put a business over the hump, affording enough breathing room to make much higher operating profits.

But remember, a working capital loan, which is paid back monthly over a period of up to three to seven years, for example, adds to any existing financial strain. If your business won't generate sufficient

operating profits to cover the payments comfortably, then added equity is needed, not more debt.

3. Equipment and other fixed assets.

Equipment and other fixed-asset loans are about the clearest examples of matching a loan to the need and payment base. Since these loans are ordinarily secured by the equipment, the anticipated useful life of the equipment becomes a major factor in the credit decision. A rough guideline is that you can finance equipment with a projected useful life of 10 years for up to 70% of its life and up to 90% of its value.

Don't buy fixed assets on 90-day notes. The timing is wrong. If you're trying to make your business work on sweat equity, you may want to go ahead and pay off a piece of equipment more rapidly than we'd recommend. That's an option, but a hard one to live with.

While equipment loans rarely go beyond 7 years, commercial real estate may be financed over 10 or more years, depending on the situation. Since you are building equity in equipment and real estate from profits over a number of years, you should finance it the same way.

4. Inventory, seasonal progress.

These loans are short-term and usually are tied to a clearly defined source of repayment, such as one inventory turn, fulfillment of a contract, or sale of a specific asset.

Short-term notes are repaid from short-term sources, clearly identified before the credit is granted. Medium- and long-term debts are repaid from more indirect sources. A banker looks to proven management ability (usually evidenced by a profitable history and clearly understood plans) for repayment. Since there is no single, fast source of repayment, the risk is greater and the decision more difficult. This is a crucial distinction. A poorly run company may be a good short-term credit risk, but for long-term credit, a business must show the ability to consistently generate profits.

Remember, term loans come due every month, adding to the drain on resources and, in turn, increasing the risk and need for more careful financial management.

5. Sustained growth.

The final major need for financing is growth, which can outstrip working capital. As sales go up, liquidity often goes down. A combination of investment, lines of credit to receivables and inventory, and long-term working capital loans is the common answer.

Notice what this implies. If you plan to grow, you must plan to generate profits consistently, while at the same time keeping your business liquid to meet current obligations. To make sure that you maintain liquidity, you have to be certain of your financing strategy. The answer? A solid financing plan. (For help in creating a sound financial plan, contact your nearest SCORE office. See page 10.)

Work with your banker. If you aren't comfortable preparing a financing proposal, complete with financial statements, or if you feel that your banking relationships could be improved, get your banker involved in your long-term planning efforts.

Like all business professionals, bankers like to use their skills. Since most businesses suffer from a lack of financial management skills, and since most bankers have these skills, it is to your advantage to make the first move. Invite your banker to help you. Level with him or her. If you can't keep communications open, then you won't get help—and it's quite possible that you won't get the financing you need. By being open, you'll enhance your credibility. And better yet, you'll more likely find that you can turn the banker's skills into a positive resource rather than a roadblock.

Using Credit Wisely

Managing cash and securing capital are the two biggest challenges small-business owners face — particularly in the start-up phase. To keep personal expenses separate from business expenses, use business credit cards as money management tools. Here are three ways they will help you:

- *Business credit card:* Use it to make and manage purchases, as well as cover travel and entertainment expenses. Like a reserve of credit, a business card gives you the flexibility to pay bills in full or revolve your balance.
- *Business check card:* An ideal replacement for cash and checks—with the convenience of a debit card—check cards allow you to draw on funds from a business checking account. They are excellent for start-ups, since they allow your company to establish a business relationship with your bank.
- *Business credit line:* Providing an unsecured line of credit up to \$50,000, the credit line gives businesses a source of working capital for emergencies or growth opportunities.

Caution: if you are a sole proprietor or partnership, you are personally responsible for your business debt. Forming a corporation or LLC separates your business debt from you personally.



Get a Fix on Financing

To obtain the funds to launch your business, here are six avenues of attack:

1. Stick close to home. There may be more options than you think, including:
 - Personal savings
 - Second mortgage on your home
 - Business credit card
 - Profit-sharing funds from your previous job
 - Business credit line
 - Friends and relatives
 - Business check card
2. If you need more than these sources can provide, consider:
 - Bank Loans
 - Limited partnership
 - Private offering
3. Plug into a local network, including the following:
 - U.S. Small Business Administration: 800-827-5722
 - Nearest office of SCORE “Counselors to America’s Small Business”: 800-634-0245
 - Nearest Small Business Development Center (SBDC) or your state economic development department
 - Local business associations, such as the chamber of commerce
 - State and locally sponsored small-business conferences
4. Seek venture capital only if your business has the potential to achieve multimillion-dollar sales within five years. (For more information, contact the National Venture Capital Association at 703-524-2549; or the National Association of Small Business Investment Companies at 202-628-5055.)
5. Don’t get bogged down hunting for funds; if you encounter problems raising money, try to start your business on a smaller scale.
6. Be sure you know your current credit rating history—for both you (personal credit rating) and your business. Try to find out which credit reporting service your prospective lender uses and request a report from that company. The three major credit reporting companies are: Dun & Bradstreet (800-234-3867), Equifax (800-997-2493), and Experian/TRW (888-397-3742).

ABC’s of Borrowing: Five Types of Business Loans, Terms, and Purposes

Loan Type	Credit Card	Credit Line	Short-Term loan	Equipment/ Vehicle Loan	Commercial Real Estate Loan
Term	Evergreen	12 months of evergreen	90 day note	Up to 7 years	10 years +
Purpose	<ul style="list-style-type: none"> • Cover travel, entertainment, and office supplies 	<ul style="list-style-type: none"> • Cover short-term cash-flow needs • Carry accounts receivable • Unexpected events 	<ul style="list-style-type: none"> • Short-term items like inventory 	<ul style="list-style-type: none"> • Purchase or refinance business equipment and/or vehicles 	<ul style="list-style-type: none"> • Purchase or refinance commercial real estate

Use the five questions below to provide a framework for focusing on funding your business:

1. List the banks in your area where you will apply for a loan and individuals who might provide you with introductions to bankers.

2. Identify individuals at the bank whom you should approach with your request.

a) _____ c) _____
b) _____ d) _____

3. What are the key questions you will ask your banker? (Find out how much experience the bank has in lending to your type of business, then ask about the lending/borrowing details—e.g., loan limits, collateral requirements, interest rates, and other terms.)

4. How will you answer each of these five questions that the banker will inevitably ask you?

a) How much money do you need? d) When and how will you repay it?
b) How long do you need it for? e) What will you do if you don't get the loan?
c) What are you going to do with it?

5. Should you seek venture capital rather than a bank loan? Begin answering this question by comparing the key factors bankers and venture capitalists focus on:

Banker

Collateral
Covenants in loan agreement
Ration analysis
Ability to repay
Financial statements

Venture Capitalist

Market demand on your market or service
Equity position and value of stock
Compound annual rate of return (typically 35% to 50%)
Exit within 5 to 7 years
management's background

Both, of course, will expect you to present a sound business plan.

Check the sources you plan to approach for funding:

Personal Resources

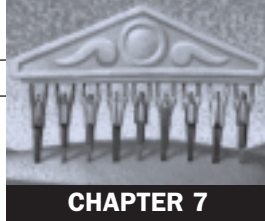
- Savings
- Second mortgage
- Insurance
- Profit sharing

Close-to-Home

- Friends
- Family

Outside Sources

- Bank loan
- SBA loan
- Business credit card
- Business credit line
- Venture capital
- Limited partnership
- Private offering



Build a Team

For your new business to have a chance to grow, it must have good people. With this in mind, be sure to do the following:

1. Always outsource first! With employees comes payroll tax, HR issues and recordkeeping.
2. When it is time to hire, look for those who: a) share your values and goals for the business and b) have winning attitudes and track records.
3. Approach investor relationships with caution. Describe everyone's responsibilities in writing and work together with a lawyer on a buy-sell agreement that covers who owns what and how the partners can sell their shares to end the partnership.
4. Use outside advisers such as an accountant, a lawyer, a mentor, and a board of advisers consisting of two to five professionals whose judgment you respect, including SCORE consultants.

Personal assessment. List your business-related strengths and weaknesses and likes and dislikes. Include personal traits, skills, and behavior. For example, if you like numbers but dislike making presentations to groups of people, write that down. If you don't enjoy working with raw data or performing in-depth analysis, but would rather spend your time in people-oriented situations, then put that down. This exercise will enable you to determine the personal contributions that you will bring to your own company, as well as define the gaps that can be filled by hiring qualified key employees.

Strengths (e.g., finance, people skills) _____

Weaknesses (e.g., marketing) _____

Likes (e.g., data analysis) _____

Dislikes (e.g., selling) _____

This should give you some specific ideas about the qualities you'd most like to see in your employees. Next, think about the skills, traits, and backgrounds you would like them to bring to the business. List and prioritize them from the most to the least important:

Based on the qualities above, write a job title and description for each of the key people you plan to hire:

- a) _____
- b) _____
- c) _____
- d) _____

Compensation

1. How much would you expect to pay to outsource this role, such as bookkeeping, packing/shipping, etc?

2. What is the market value for each job title or individual described at the bottom of page 17?

Title (a): _____ Salary: \$ _____

Title (b): _____ Salary: \$ _____

Title (c): _____ Salary: \$ _____

Title (d): _____ Salary: \$ _____

3. How much salary might he or she expect to receive from one of your competitors?

a) Starting salary: \$ _____ c) Starting salary: \$ _____

b) Starting salary: \$ _____ d) Starting salary: \$ _____

4. What salary are you prepared to offer?

a) Starting salary: \$ _____ c) Starting salary: \$ _____

b) Starting salary: \$ _____ d) Starting salary: \$ _____

5. What other forms of compensation or benefits might you provide in lieu of higher salary?

6. When do you need to bring these people on board (Create a schedule for when you plan to have each person working for your company)?

a) _____ c) _____

b) _____ d) _____

Outside Advisers

Name the outsiders who can contribute to your operation by providing valuable advice and services (e.g. Bookkeeper):

_____	_____
_____	_____
_____	_____
_____	_____



Invest in Technology

Computers and other technology can be powerful partners in your business enabling you to maximize your time and effectiveness. To get the most out of your investment, it's important to become familiar with the terms, systems, and applications that will help your business grow. For openers, here are basic technology terms with which every employee should be familiar.

Term	Definition
Gigabyte (GB)	Unit of measure for how much information your computer's hard drive can store (1GB equals about 1 billion bytes; 20GB is now common)
Hard Drive	Long-term storage—the place where information and applications are kept
Megahertz (MHz)	"Clock speed" at which a processor is rated to run (1000MHz is now common)
Modem	Hardware that allows your computer to send information over telephone or cable lines for accessing the Internet, sending e-mail, etc. (typical modem rating: 56K, or 56,000 bits per second)
Monitor	The "television screen" portion of your computer system
Multimedia	A combination of text, graphics, audio, and video
Peripheral	Equipment such as a printer, fax, modem, speakers, or scanner that is plugged into your computer
Port	A socket on the back of a computer used to connect modem, printer, or other equipment
Processor	The "brains" of your computer
Random Access Memory (RAM)	Temporary storage—what the computer uses to run software and to store your work until you save it; measured in megabytes (MB)—Typical RAM: 128MB
Scanner	A device that allows you to enter a printed image or page of text into the computer
Software	Computer programs

Before you buy a computer, be clear about what you want the system to do for you. Check off the tasks that you would like to use a computer for, and take this list with you when shopping for one:

- Write correspondence
- Keep a customer list
- Generate mailing labels
- Design a brochure
- Create a catalog
- Lay out a newsletter
- Send/receive e-mail
- Accounting/bookkeeping/spreadsheets
- Check writing
- Track inventory/order entry
- Do "what if" financial calculations
- Presentations
- Contract management
- Send/receive faxes
- Maintain an appointment calendar
- Design your office
- Conduct research for a proposal
- Surf the Internet
- Set up a "storefront" on the Internet
- Network internally (printer, multiples offices)
- Financial planning
- Work/network with associates' computers

Look at buying a computer and other office equipment as an investment, not a cost. Your choice of systems should be based on more than the price of the basic unit. When conducting your preliminary research, ask these questions:

- How easy is it to use?
- Will I need to hire someone to set it up?
- How difficult are the software programs to learn?
- Will I need to pay for training (for self, managers, or other staff)?
- How easy is it to add peripherals, such as scanners, hard drives, or backup devices?
- Can I exchange information easily with other computers?
- As my business grows, how easily can I connect/network with other computers?
- How soon is my business likely to outgrow the unit?
- Will I need a server (data storage) for my business?
- Will I be protected against computer viruses and other online security risks?
- Is there a toll-free number to call for help?
- What are the warranty and repair policies?
- How satisfied have other users been with this system?

To help you choose the computer that's right for your business, use this checklist of features to consider when talking to a salesperson:

- | | | |
|------------------------------|--------------------|---------------------------|
| n Processor (type and speed) | n Keyboard | n Networking capabilities |
| n RAM (MB) | n Mouse | n Expansion capabilities |
| n Hard drive size (GB) | n Fax/modem | n Upgrade capabilities |
| n CD-ROM/DVD Burner | n Multimedia-ready | n Bundled software |
| n Monitor | n Internet-ready | n Warranty |

Fax Machines

After a computer, the most common piece of small-business technology is a fax machine. Some computer modems have fax capabilities built in, but your computer must be running to receive incoming faxes. Computer fax/modems also don't allow you to easily send freestanding material, since you must first get the material into the computer. For these reasons, most businesses invest in a fax machine, or a multifunction unit that combines fax, printer, scanner, and copier capabilities.

When selecting a fax machine, keep these features in mind:

Features

- | | | |
|---------------------------|--|-----------------------------|
| n Memory | n Resolution | n Broadcast capabilities |
| n Send/receive speed | n Cost of cartridges | n Technical support options |
| n Speed-dial capabilities | n Type/cost of paper | n Repair options |
| n Telephone line sharing | n Multifunction capabilities
(printer/scanner/copier) | n Warranty |
| n Telephone handset | | |

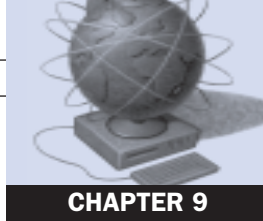
Telephone Equipment: How many lines do you need?

Many small businesses rely on a two-line phone—one line for incoming calls and one for outgoing, fax, and modem (i.e., Internet) calls. Determining how many lines you need depends on what type of business you're in and the number of people requiring phone access. While there is no universal rule regarding lines to people ratios, many businesses find that a 1:3 ratio (one line for every three stations) is adequate.

If your business will rely heavily on telephones and data lines (i.e., for Internet access, fax machines, credit-card authorization terminals, and answering machines), you will need multiple lines. You might also want to consider high-speed access to the Internet via cable modem or DSL. Contact your local phone company and ask the business representative for a busy-line study. This is a statistical printout of the number and frequency of incoming calls that receive busy signals, and it will help you determine how many lines you should have.

To understand more about telephone capabilities, here are 10 pointers you may also want to discuss with your phone company rep:

- 1.** If you are setting up a home business, installing distinctive ringing will allow you to piggyback a different telephone number on your existing line, making it ring in a different tone and pattern.
- 2.** If you want a separate telephone line in your home-based business, you can save money by installing a residential line. To obtain a business listing in the Yellow Pages, however, you need to install a business line.
- 3.** If you don't mind being interrupted during a call, call waiting can notify you when another call is coming in. Customers often find this option annoying, however, and business telephone etiquette experts suggest investing in voice mail, which allows customers to avoid a busy signal and leave a detailed recorded message.
- 4.** If you want to be able to speak to several individuals in different places at the same time, you can arrange for conference calling.
- 5.** When you frequently call the same numbers, speed dialing can save you time by allowing you to preprogram a one-or two-digit code into your telephone.
- 6.** You can save money on calls of short duration if your telephone provider offers billing in six-second increments instead of full minutes.
- 7.** Caller ID allows you to identify who is calling before you pick up your telephone.
- 8.** When you sign up for additional telephone lines or services, inquire about installment billing, which allows you to spread out the payments over several months, often without finance charges.
- 9.** If you're often away from your office and want your calls to follow you to another number, invest in call-forwarding options.
- 10.** To encourage customers to contact you for information and orders, establish a toll-free number.



CHAPTER 9

Use the Internet

The Internet is a cost-effective communications medium that small businesses can use to complement their existing research, sales and marketing and customer service efforts. For example, you can use the Internet to:

- Get information and updates to your customers.
- Solicit feedback and ideas from customers.
- Communicate and collaborate with agencies, vendors, and suppliers.
- Exchange information and questions with peers and consultants, no matter where they're located.
- Search for information about products, technologies, statistics, and your competition.
- Sell products or services 24 hours a day, 7 days a week, to a global audience (see Chapter 10).
- Assist and service your existing customers and prospects with current orders, product/service information and other customer service functions.

Making Your Connection

To connect your computer to the Internet, you'll need to subscribe to an online commercial service (such as America Online, Earthlink or MSN), or sign up with an Internet Service Provider (ISP) in your area. When choosing an ISP, start by asking these questions:

- How long has the firm been in business, and how stable is the company?
- What kind of access speed does my business need? DSL? Cable Modem? How many customers does it have in relation to the number of modems? (If the ISP doesn't have enough modems, you'll be frustrated by busy signals when you want to connect.)
- Are its rates timed or flat-fee? (If you're a heavy Internet user, a monthly flat-rate arrangement may be most economical.)
- What are its technical support services? Are they free or for a fee?
- Does it offer any other services, such as design or hosting of Web sites?

Web Sites

Many companies and government agencies have set up Web sites with valuable information for small businesses. Once you've connected to the Internet, take time to visit the following sites:

<u>Site</u>	<u>URL/address</u>
The Company Corporation® One-stop incorporation service company; includes writing and filing articles of incorporation, name registration, registered agent, and compliance tools.	www.incorporate.com
Ebay A popular site for purchasing new or used office equipment, furniture, hardware/software and other office-related products for small business.	www.ebay.com
EMarketer Leading provider of Internet statistics and reports.	www.emarketer.com
EntreWorld Public service provided by The Ewing Marion Kauffman Foundation; includes Entrepreneur's Search Engine offering more than 1,000 Web resources for small businesses.	www.entreworld.com
Expo Guide Details on upcoming expos worldwide, by date, name/industry, and location.	www.expoguide.com
Inc. magazine Information, products, services, and online tools for small-business owners from the publisher of <i>Inc.</i> magazine.	www.inc.com

International Trade Administration www.ita.doc.gov

Broad range of export-related information, statistics, and country reports.

IRS (Tax Forms and Publications) www.irs.gov

Downloadable forms and tax information, as well as an electronic filing interface.

National Retail Federation www.nrf.com

Advice and upcoming events from the world's largest retail trade association.

SCORE www.score.org

Log on for email counseling; read small-business articles from SCORE "Counselors to America's Small Business." Click "Find SCORE for a local office."

U.S. Census Bureau www.census.gov

Population counts, maps, and demographic information; links to every region of the United States.

U.S. Federal Government www.business.gov

One-stop resource for federal government information; links to 1000,000+ databases.

U.S. Patent and Trademark Office www.uspto.gov

Search databases, print forms, and find statistics concerning registering trademarks and patents.

U.S. Small Business Administration www.sba.gov

Information on starting and running a small business from the U.S. Government.

Wall Street Journal Interactive www.wsj.com

The *Wall Street Journal* online, as well as breaking business news.

Working Solo www.workingsolo.com

Information and services for and about home-based business owners, independent consultants, and freelance contractors.

If you want to search the Internet for specific information, it is best to use a search engine. After typing in key words or phrases, your results will be displayed on the screen. Here are some popular search engines:

Search Engine	URL/address
Yahoo!	www.yahoo.com
Google	www.google.com
MSN	www.msn.com
Findwhat	www.findwhat.com
Looksmart	www.looksmart.com

One of the best ways to learn about the Internet is to browse on your own. Bookmark those sites that you find are worth frequent visits.

E-mail Addresses and Domain Names

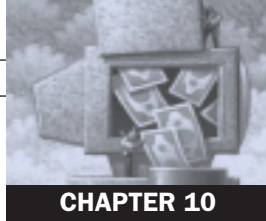
When it comes time to choose your e-mail address, be prepared to submit several name options in case your first choice is already taken. For example, Terry Johnson, president of XYZ Inc, might become one of the following:

- terryjohnson@provider.com
- tjohnson@provider.com
- terryj@provider.com
- xyzprez@provider.com

Later, xyz might set up its own domain name, and Terry's e-mail address might become:

- terryjohnson@xyz.com
- tjohnson@xyz.com
- terryj@xyz.com
- prez@xyz.com

To register a domain name for your business, you may contact a number of different domain registration service companies now available. They include www.register.com, and www.networksolutions.com among a host of others. Rates vary but expect to pay no more than \$10 - \$50 for a one or two year registration.



Put the Web to Work for Your Business

As the World Wide Web became the marketing buzzword of the late 1990's, businesses and consumers alike began using statistics on the Internet, Web, and online services interchangeably. It's easy to get confused, so it pays to keep in mind what the Web is and what it's not.

First, the World Wide Web is just a small part of the Internet, with fewer users than the Internet as a whole. Although the Net is made up of more than 10 million computers routing mail and storing information, the Web is made up of less than 100,000 computers that store Web sites. How many of the Internet's 90 million users browse the Web? Figure at least two-thirds, or more than 60 million. No accurate measuring system exists. But even though the surveys disagree on the exact number of people connected to the web, experts agree that the Web is used far more than the commercial online services.

The number of Web sites doubles every three to five months. As they become easier to use and more graphics-rich, they attract more and more people.

With commercial users now logging in at record rates, the Web has quickly become the place to be for businesses. Three out of four Internet users will purchase products and services online in 2003, according to the eConsumer Shopping Report. As a result, online sales will exceed \$120 billion in 2003. Consumers and businesses alike visit the Web for information, entertainment and to buy products and services. Small businesses, able to react faster than large corporations, are learning to serve these needs very well. The *New Yorker* once ran a cartoon of two dogs sitting in front of a computer. One is typing while he tells the other, "On the Internet, nobody knows you're a dog." On the Web, nobody knows you're a small business.

The difference between a bad Web site and a good one isn't money, it's creativity. Setting up a good Web site isn't expensive, so small-business sites can look just as good, or better, than large-business sites. And smaller companies can move quickly because they're able to make changes without calling endless meetings or securing department approval.

On the Web, taking chances and moving quickly pays off. Creative, flexible sites tend to attract the most visitors, which becomes "viral" in nature (URLs are passed from business to business and from colleague to colleague). The Web is a marketplace where being "small" is considered an *asset*.

Once users locate or find a Web site—through a search engine like Google.com, by reading a URL listed in print, or by being linked to that site from another site—there are certain things viewers will expect to see. Ignoring these important elements will mark any site as amateurish and not worth revisiting. Here are six essentials for any Web site:

Marketing Resources on the Web

Here's a sampling of five sites that can help you fine-tune your marketing plan.

1. Direct Marketing Association
www.the-dma.org
Guidelines and news from the leading association of direct marketers
2. E-mail address directory
www.google.com
Google can facilitate searches for e-mail addresses
3. International Trade Administration
www.ita.doc.gov
Broad range of export-related information, statistics, and country reports
4. Sales leads and mailing lists
www.zapdata.com
Data services include company profiles, industry reports, customer-base analysis, and prospects lists
5. Trade shows and conferences
www.tsnn.com
Data on more than 15,000 shows and conferences; includes e-commerce opportunities and industry-specific information

1. It delivers what it promises.

Say a Web user types “car repair” into a search engine, and Auto Mile Car Dealership turns up among the sites that list “car repair” in their keyword sections. That site had better have more than just a line reading, “Our repair shop is open 12 hours a day,” to justify listing “repair” in the keyword section. Otherwise, that user will have wasted time visiting the site, only to learn there’s no information on car repair there. Make sure that a keyword leads a user to a sizable amount of information on your site.

2. It can be downloaded quickly.

The classic mistake that many companies make is to include a large photo or sound or video clip on the Web site. Often it is of the CEO, who is saying something useless like, “Welcome to our Web site; we hope you like it.” Graphics and sound take a long time to download compared to text. For a Web user, waiting several minutes for something that is irrelevant to the site, makes users click elsewhere—literally. Many interesting visual effects can be created on Web sites that don’t take long to download. For example, skinny horizontal graphics that stretch across the screen take a shorter time to download than large ones that use lots of vertical space. Black-and-white graphics load faster than color graphics.

3. Company information is easy to find.

On the Web, it doesn’t matter if a company is in Maine or Montana. With a click of a mouse, it’s just as easy for Web users to reach one as it is the other. But nobody is living completely in cyberspace yet. Users want to know where the companies are in the real world. Perhaps the customer lives near the company and would like to visit, or maybe they’d just find it interesting to know that a cactus greenhouse is located in Wisconsin.

4. Always list a physical company location.

Even more essential is to include an address, as well as phone and fax numbers. Some Web users want to call a company or mail in an order rather than e-mail it. Usually, this information provides reassurance that the site belongs to a real company and not a con artist. Sometimes the Web user just wants the information because he or she is more comfortable with traditional contact methods.

5. It’s updated frequently.

Most Web site administrators update their sites at least once a week. This time-intensive task requires lots of labor, especially when the One-Hour Browse Rule is factored into the equation: For every change made to the site, the person making the change should browse the Web for at least one hour to get ideas, to keep current, and to compare what other businesses are doing online. Keeping the site updated and refreshed is key for companies that expect visitors to return. There is so much action on the Web that it’s tempting for visitors to jump somewhere more exciting if your site bores them.

6. There’s user interaction.

One of the big advantages of this medium is that it allows users to interact immediately. They can send e-mail, fill out a form, enter a contest, or request information the instant they have the urge. And they expect to be asked—it’s part of the fun and entertainment of browsing the Web. A site with no “user feedback” e-mail addresses, no games to play, or no forms to fill out is a site that will soon sit untapped. A clever site will attract visitors who will return regularly to see what’s new.

Boost Your Revenues Online

You can save lots of money for your small business by purchasing products and services online using your business credit card. You can also generate revenues by conducting e-commerce on your Web site (selling your products or services). A Web site can boost your profits by increasing your sales without proportionately increasing your marketing expenses.

The answer to the question many people ask these days, “Is it really safe to divulge credit-card numbers online?”, is an emphatic, “Yes, it is safe!” The chances of someone stealing credit card numbers online are actually very remote—it’s far less likely, for example, than the chance of someone removing a copy of a customer’s credit card slip from the trash.

To put customer’s minds at ease about doing business online, offer protected transactions, either in the form of encryption software or by utilizing a transaction service. Such services process credit-card sales by encrypting them for each customer. Growing consumer confidence in the integrity of these services has sent online sales soaring. In 2003, it is estimated that the number of online shoppers is expected to exceed 150 million buyers, according to *eConsumer Shopping Report*.



Control Cash and Credit

What levels of debt can your business safely support? Can you control the amount, timing, and availability of credit? That is, can you ensure the timely inflow of cash from new debt?

Assume that you have done all you can realistically to control your cash flow, but you still face occasional periods of cash shortfalls. To tide you over these periods, you have to borrow from an outside source—e.g., a commercial bank or credit-card company line of credit. How do you go about preparing a financing proposal? Begin by focusing on receivables and inventory. Chances are they might be your largest current assets against which you can borrow.

Ideally, receivables and inventory turn into cash as soon as you wish. However, unless you manage them carefully, cash flow and carrying costs become a problem. To manage your working capital properly, you must know:

1. The age of your receivables and inventory.
2. The turn of your receivables and inventory.
3. The concentration of your receivables (how many customers comprise the majority of your receivables, what amount of receivables they represent, what products the receivables cover) and inventory by product lines.

You must also know what your credit and collection policies are doing to your working capital. All too often small-business owners mistake sales for profits. They extend more and more credit, pursue lax collection policies, and end up financing their customers to increase sales. Most businesses cannot afford to provide interest-free loans to customers just because they expect it. Slow-paying customers must be subject to profitability analysis, which takes into account their carrying costs. Sales increases should translate into profits on the bottom line, but it's difficult to increase profits when you're carrying customers who habitually stretch their payments.

Receivables management.

To control receivables, begin by examining their age. Break receivables out weekly to spot the slow-pay accounts as soon as possible. Then you can try to collect before the accounts costs you your profits. Aging receivables is simple: Separate invoices into Current, 30 days, 60 days, 90 days, and more than 90 days. Then calculate your collection period; Divide annual credit sales by 365 to find the average daily credit sale. Next, divide your current outstanding receivables total by the average daily credit sale. This yields your collection period.

Here's a good rule of thumb for a quick test of your receivables management: If your collection period is more than one third greater than your credit terms (for example, 40 days if your terms are net 30), you have a looming problem.

Managing your inventory.

Inventory management, like receivables management, is often overlooked as a source of operating profits. Careful attention to how you manage these two areas can often free up cash and improve operating profits without resorting to bank borrowing. If you are managing both of these areas well, congratulate yourself—you are in a distinct minority.

Carrying costs of inventory can run as high as 30% of average inventory, a substantial drain on working capital. Consider the costs of storage, spoilage, pilferage, inventory loans, and insurance. They add up fast.

Determining the right level of inventory to carry is difficult. On the one hand you want to avoid unnecessary expenses, while on the other you want to avoid as many stock-outs as possible. Trying to manage inventory on a day-to-day basis invites trouble; accordingly, most businesses use some kind of inventory policy. The three most important factors in creating an inventory policy are inventory turnover (how many times per year, and how that

Five Steps for Managing Receivables

1. Age your receivables.
2. Calculate your collection period and apply the "40-day/30-day" rule of thumb to see if you have a problem.
3. Identify slow-paying customers.
4. Pursue delinquent accounts vigorously.
5. Identify fast-pay accounts and try to increase their number.

compares with other businesses in the same line), reorder time (planning on a 10-day reorder time is vastly different from a 20-day reorder time), and who your suppliers are.

Inventory control is a balancing act. If your inventory gets too high, you run out of cash. If it's too low, chances are you're buying in uneconomical quantities (a danger sign to bankers), you're too undercapitalized to ever become profitable (another danger sign), or you're bleeding the business.

Bankers are increasingly interested in the quality of inventory as well as the more standard indicators of good management (liquidity, profitability, and track record). If you have a cogent inventory policy and follow it, you will upgrade both inventory quality and profitability.

Establish a contingency plan.

A contingency plan is a plan you hope never to use. It outlines what you would do if all of your optimistic plans go wrong. It doesn't have to be lengthy. In some cases, it can be as short as a single page and still be more than adequate, although for most businesses such a plan should provide answers to these questions:

1. What suppliers would give you extended terms or carry you in case of a crunch? Why would they carry you? How long, and how much?
2. What new investment could you make? Would you refinance personal assets to provide a cash cushion for your business? Could you? What other assets could you bring to support a cash crunch?
3. What assets does your business have to either sell or turn into cash some other way if necessary (perhaps a sale/leaseback, for example)?
4. How will you keep your banker and major trade creditors on your side?
5. Have you examined all possible sources of additional working capital in your business? Where might you have some leverage?
6. What customers would be willing to prepay or speed up orders if it would help you?

The purpose of a contingency plan is to make sure before a crisis is at hand that you won't panic. As evidence of thoughtful business management, it's hard to beat and is being sought by more and more creditors.

Tighten and maintain cash controls.

Cash flow control begins with the cash flow budget. If you don't have a cash flow budget, you will have cash flow problems. You also need a sales budget or its equivalent to keep the sales level where it should be. Small sales lags can add up to big problems if not spotted early—ranging from a sluggish salesperson to a less than honest clerk.

Collections	
Follow-Up Form	
Name: _____	
Telephone: _____	
Spoke to: _____	
Title: _____	
Subject: _____	
Date: _____	
Time: _____	
Initials: _____	
<input type="checkbox"/> No answer	<input type="checkbox"/> Not available
<input type="checkbox"/> Requested info	<input type="checkbox"/> Requested proof of delivery
<input type="checkbox"/> Order never received	<input type="checkbox"/> Payment previously sent
<input type="checkbox"/> Will send check	<input type="checkbox"/> Merchandise returned
<input type="checkbox"/> Duplicate billing	<input type="checkbox"/> Payment being held
Comments: _____	
Returned call: _____	
Follow-up: _____	

Your cash flow budget is a good tool for keeping overhead costs down. You have a degree of control over costs that you don't have over sales; while you can almost always cut costs, you can't generate sales (especially cash sales) whenever you need to. If you could, you'd never have a cash flow problem.

Every budget has some fat in it. Tightening control means always asking whether this or that purchase or expenditure will have a positive effect on your business. If there is no clear answer, examine the expenditure closely. This effort must be consistent to work. All the controls in the book mean nothing unless they're applied—whether the control is a separation of purchasing from paying, making sure that bills and reorders go out when they should, or even keeping a physical count of the inventory.

Credit and collection.

The cost of extending credit is one of those hidden costs that eats up working capital. Very few smaller businesses have explicit credit policies. If they did, they could dramatically increase both profits and the quality of their current assets.

Investigate accepting credit cards and encouraging customers to use them. They cost little in return for the headaches they save you. Consider the cost, in direct comparison to bad debt losses, and in time, effort, and attention that slow-pay accounts cost you. The added costs of capital tied up in receivables, for example, is frequently greater than any fee charged by the financial institution supporting the transaction.

Use a follow-up form (see page 27 for sample) each time you call a lagging account. The completed slip will provide back-up information and should be filed for reference on further calls. Remember to ask for specific payments on specific dates. If payment is not received, call back and ask again.

Three Credit Policy Steps

1. Divide your customer list into three groups: Prime, Good, Other. *Prime* customers always pay within term; *Good* usually do; *Others* seldom, if ever, do.
2. Look for similarities within the groups: What kinds of customers are Prime or Good? How do they differ from Other?
3. Look for ways to upgrade as many customers as possible to Prime and Good. Remember: You don't have a sale until you're paid.

Speaking About Financial Management

Accounts payable	Liabilities resulting from purchases of goods or services on an open-account basis.
Accounts receivable	Amounts owed by customers as a result of delivering goods or services and extending credit in the ordinary course of business.
Balance sheet	A financial statement that shows a company's assets and liabilities.
Budget	A forecast of revenues and expenditures for a specific period of business activity.
Cash flow	Usually refers to net cash provided by operating activities; there is also cash flow from financing and investing.
Cash flow statement	A report on cash receipts and cash payments for a particular period.
General ledger	A record containing the group of accounts that supports the amounts shown in the financial statements.
Gross profit	The difference between sales revenue and cost of goods sold.
Income statement	A report of all revenues and expenses pertaining to a specific period.
Inventory turnover	The number of times during an accounting period that a business sells the value of its inventory. Turnover is calculated by dividing the cost of goods sold by the average inventory during the period. (Average inventory is figured by adding beginning and ending inventory, then dividing by two).
Line of credit (LOC)	An agreement by which a financial institution (usually a bank) holds funds available for a business's use. A secured LOC is ordinarily renewed annually; an unsecured line may have to be paid down once a year.



Project Your Cash Flow

Cash Flow is the movement of cash in and out of your business within a given period, usually a week or a month. It is not the same as profit. A business can show a profit on the day it goes bankrupt—simply because it has insufficient cash to meet its obligations.

Cash Flow Protection is looking ahead to determine what your cash flow is likely to be—is critical to keeping a business running.

Cash in and **Cash Out** are the dynamic sections of your cash-flow projection, representing the flow of money in and out of a business. Electronic cash flow worksheets are available at www.score.org.

Elements of Cash Flow

1. Starting Cash (or starting balance). Each monthly projection begins with the amount of cash you have on hand at the start of the month. Your Starting Cash is the same number as the previous month's Ending Cash.

2. Cash In. This section of the statement is also called “sources of cash.” It includes all cash received during the month. There are several possible sources:

a. Sales are a primary source of cash, but remember to include only cash sales. Sales that have been invoiced do not represent money you can spend this month, so list only the cash sales you expect to have.

b. Paid Receivables are those sales that were previously invoiced and have been paid this month. It is important to project accurately when you expect to be paid—30 days, 60 days, etc. If a sale made in January is actually going to be collected in March, you want your projections to be realistic and reflect that lag time.

c. Interest. When your business is fortunate enough to have money in the bank, it will be earning interest.

d. Other. Additional sources of cash might be a bank loan, sale of stock, or the sale of an asset such as a company car.

3. Cash out. This section is also referred to as “uses of cash.” Cash leaves the business in two basic ways: fixed expenses and variable expenses.

a. Fixed Expenses are incurred regularly and are not easily eliminated. Generally, they do not fluctuate with sales volume; they are “fixed” from month to month: rent and payroll, payroll taxes, estimated taxes, utilities, interest on loans, and insurance payments.

b. Variable Expenses can change from month to month and often vary with sales volume or production volume. They can be more easily changed than fixed expenses. Some examples: supplies, commissions, advertising, raw materials, consulting services, and promotion.

	Month 1
STARTING CASH	\$2,500
CASH IN	
Cash Sales	\$1,000
Paid Receivables	0
Other	0
TOTAL CASH IN	\$1,000
CASH OUT	
Rent	\$700
Payroll	\$1,000
Other	\$300
TOTAL CASH OUT	\$2,000
ENDING BALANCE	\$1,500
CHANGE	
(Cash Flow)	(\$1,000)

4. **Ending Cash** (or Ending Balance) is how much cash is left at the end of the month. It is the result of the numbers in Cash In and Cash Out. Simply add the Starting Cash to Total Cash In and then subtract Total Cash Out. The cash you end the month with is the cash you have to start the next month—so, you get the number for Starting Cash by copying it from the previous month's Ending Cash.
5. **Cash Flow** is the amount that has flowed through the business (see box on page 29). It is a measure of what has happened that month. If nothing has happened—say you began with \$1,000 and didn't take any cash in or pay out a nickel—you would end up with \$1,000, but your Cash Flow would be \$0. To calculate Cash Flow, subtract the Ending Cash from the Starting Cash. The secret to success is positive cash flow.

Quarterly Cash Flow Worksheet (by Month)

MONTH:			
STARTING CASH			
CASH IN			
Cash Sales			
Paid Receivables			

TOTAL CASH IN			
CASH OUT			
Rent			
Payroll			

TOTAL CASH OUT			
ENDING CASH			
CHANGE			
(Cash Flow)			



Chart Your Business Progress

Once you're open for business, how should you monitor your company's health and progress? Besides sales and profits, what other indicators will help you measure performance? And how often should you track those measurements?

As your company grows, it will be in a constant state of flux, with hundreds of variables at play each day. Each of them will have a pull on you and your employees, dictating behavior and priorities. But at the end of the day, which variables will really count? One of the most significant management tools for growing a company is the development of a clear set of performance indicators that represent the criteria from which the business is managed and monitored. These critical numbers are most often associated with financial performance—sales, margins, and accounts receivables. But other important aspects of your business also impact overall performance, such as customer-service ratings, inventory, number of complaints, quality statistics, employee morale and satisfaction ratings, sales figures, and collections.

To ensure your success as a new business owner, make a list of the factors that are most important to your company's performance and then select a group of key indicators to track on a regular basis. Choose those factors that are critical to sustaining your company's competitive advantage as well as maintaining its general health (see "Why Are You in Business?").

The tracking reports to which you refer most often should be kept short and, therefore, user-friendly. For instance, you probably should only track three of four key indicators—at most—on a daily basis. They should be the ones that can have the most significant impact on your business. A more detailed report may be more appropriate for weekly or monthly review.

Areas to consider for performance measures include:

- Sales growth (number of calls, close ratios, etc.)
- Cash management (accounts receivable/payable, cash balances, inventory levels, future projections)
- Profit measures (key drivers of profitability)
- Customer feedback scores (e.g., service ratings)
- Employee feedback scores (periodic surveys measuring morale, commitment, communication, etc.)

The development of performance measurements is one of the most important keys to long-term growth. It will facilitate management control and communication throughout your company, and it will support your efforts to perform at the highest level. Once successfully launched and in business, re-evaluate your need to incorporate or form a LLC to protect yourself and your family.

Why Are You in Business?

You and your employees should be able to articulate the true mission of your company and hence, its critical-success factors. Here are eight questions that will help you define your company's core purpose:

1. What makes us different from our competitors?
2. Why do customers buy from us rather than from our competitors?
3. What are our best talents and strengths?
4. What are we most proud of?
5. What does our company do that others would want to benchmark?
6. How do we make life better for our customers?
7. How do we create competitive advantages for our customers?
8. What do we want our reputation to be?

How to Take Your Company's Pulse

Which numbers should you keep an eye on to monitor your business's financial health—and how often should you check them? Here are 10 critical checkpoints:

Weekly Updates

1. Current cash position (how much cash was received, when and from whom)
2. Cash disbursements (e.g., payroll, materials, and purchasing)
3. New sales
4. Accounts receivable (beginning balances, outstanding credit, and cash receivables)
5. Accounts-payable payments
6. Order backlog
7. Number of employees (with a productivity metric; e.g., sales per employee)

Monthly Updates

8. Inventory (with accounting or physical tests of accuracy)
9. Accounts-receivable average days outstanding
10. Accounts-payable obligations (with aging breakdown)

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