The Facts About ... Starting a Small Business

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The Facts About ... Starting a Small Business

Starting and managing a business takes motivation, desire and talent. It also takes research and planning. Lack of planning is one of the leading causes of business failures. Developing a business plan will walk you through the questions that every prospective or new business owner should answer. Before you start your plan, carefully research and answer these basic questions:

* What niche will my business fill?
* What services or products will I sell?
* Is my idea practical, and will it fill a need?
* Who is my competition?
* What is my business's advantage over existing firms?
* Can I deliver a better quality service?
* Can I create a demand for my business?

Once you've determined that your idea is feasible, answer these questions:

* What skills and experience do I bring to the business?
* What will be my legal structure?
* How will my company's business records be maintained?
* What insurance coverage will I need?
* What equipment or supplies will I need?
* How will I compensate myself?
* What are my resources?
* What financing will I need?
* Where will my business be located?
* What will I name my business?

If you are starting a home-based business, you will want to answer these additional questions:

* Does my home have the space (preferably separate) for a business?
* Can I successfully run the business from my home?
* Can I deal with the isolation of working from home?

Your answers to these questions will help you create a focused, well-researched business plan that should serve as a blueprint. The plan should detail how the business will be operated, managed and capitalized.

Research Resources

Some questions you will be able to answer on your own, others will require careful research. There are many sources available to help you find the answers and make informed decisions. The SBA's business information centers, located throughout the country, offer the latest in high-technology hardware, software and telecommunications to help you in your research. BICs offer electronic bulletin boards, computer databases, on-line information exchange, periodicals and brochures, counseling, videotapes, reference materials, texts, start-up guides, application software, computer tutorials and interactive media. One-on-one counseling with seasoned business veterans is available through the SBA-affiliated Service Corps of Retired Executives, also known as SCORE.

Other sources include -

* trade association studies, journal articles and trade shows;
* regional planning organization studies on growth trends;
* banks, realtors and insurance companies; and
* customer surveys in your market area, which you can conduct on your own or may already exist.

The Business Plan

Your business plan should cover the business basics.

Executive Summary

* Describe in detail the business and its goals.
* Identify the business ownership and the legal structure.
* Discuss skills and experience you and your partners bring to the business.
* Identify advantages you and your business have over your competitors.

Operations

* Explain how the business will be managed on a day-to-day 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.

Marketing

* Describe your products/services.
* Identify the customer demand for your product/service.
* Identify your market, including its size, location and demographics.

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* Explain how your product/service will be advertised and marketed.
* Explain your pricing strategy.

Financial Management

* Explain the source and amount of initial equity capital.
* Estimate start-up costs.
* Project operating expenses.
* Develop a monthly operating budget for the first year.
* Develop an expected return on investment (ROI) and monthly cash flow for the first year.
* Provide projected income statements and balance sheets for a two-year period.
* Discuss your break-even point.
* Explain your personal balance sheet and method of compensation.
* Discuss who will maintain your accounting records and how the records will be kept.
* Provide "what if" statements that address alternative approaches to any problem that may develop.

Legal Requirements

Small businesses must comply with federal, state and local laws and regulations. You need to be informed about the legal requirements affecting your business. Be sure to check with your state department of labor and county government. You may want to consult with an attorney for additional compliance assistance.

Registration and accounting requirements: You may need a -

* work certificate or a license from the state (your business's name also may need to be registered with the state),
* sales tax number, and
* separate business bank account.

If your business has employees, you are responsible for -

* withholding income and social security taxes, and
* complying with laws covering employee health and safety and minimum-wage.

The U.S. Business Advisor, a World Wide Web site found at http://www.business.gov, can help you identify and comply with federal regulations, and links you to the Internal Revenue Service, the Social Security Administration, the Occupational Safety and Health Administration,

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and numerous other federal agencies. You can also obtain federal tax information by calling the IRS at 800-TAX-FORM.

A home-based business is subject to many of the same laws and regulations affecting other businesses and some additional ones also.

Zoning: Be aware of your city's zoning regulations. If your business operates in violation of them, you could be fined or closed down.

Restrictions on certain goods: Most states outlaw home production of fireworks, drugs, poisons, explosives, sanitary or medical products, and toys. Some states also prohibit home-based businesses from making food, drink or clothing.

Understanding Your Market

Market evaluation is critical and provides the basic data that will determine if and where you can successfully sell your product or service. This process involves defining your goals, scrutinizing your competition and your customer base, and interviewing potential suppliers. The information collected can help you, if necessary, adapt your product or service to better meet customer needs. Market research can help you -

* create primary and alternative sales approaches to a given market,
* make profit projections from a more accurate database,
* organize marketing activities,
* develop critical short/mid-term sales goals and establish the market's profit boundaries, and
* identify your differential advantage, i.e., what makes your business different from similar businesses with similar products.

Questions To Ask

Your research should answer these basic questions:

* Who are your customers?
* Where are they located?
* What are their needs and resources?
* Is the service or product essential in their operations or activities?
* Can the customer afford the service or product?
* Where can you create a demand for the service or product?
* Can you compete effectively in price, quality and delivery?
* How many competitors provide the same service or product?
* What is the general economy of your service or product area?
* What areas within your market are declining or growing?

Research on competitors is extremely important. Visit industry trade shows to find out what your competitors are selling and how they are marketing their products. Similarly, stay current on industry magazines and publications.

Do not view market research as a one-time activity. Once you establish your business, you should continually be in touch with your customers. You may have to adapt your product/service and/or marketing strategy to keep up with your customers' changing needs.

Pricing Your Products and Services

There are several pricing strategies; select the approach that will make your goods or services the most competitive and will help you reach your profit goals.

Retail Cost and Pricing

A common pricing practice among small businesses is to follow the manufacturer's suggested retail price. The suggested retail price is easy to use, but it doesn't adequately account for the element of competition.

Pricing Below Competition

This strategy reduces the profit margin per sale; it requires you to reduce your costs and -

* obtain the best prices possible for merchandise,
* locate the business in an inexpensive location or facility,
* closely control inventory,
* limit product lines to fast-moving items,
* design advertising to concentrate on price specials, and
* limit non-essential services.

One word of caution: pricing goods below the competition can be difficult to sustain because every cost component must be constantly monitored and adjusted. It also exposes you to pricing wars. A competitor can match the lower price, leaving you out in the cold.

Pricing Above Competition

This strategy is possible when price is not the customer's greatest concern. Considerations important enough for customers to justify paying higher prices include -

* service considerations, including delivery, speed of service, satisfaction in handling customer complaints, knowledge of product or service, and helpful, friendly employees;

* a convenient or exclusive location; and
* exclusive merchandise.

Price Lining

This strategy targets a precise segment of the buying public by carrying products in a specific price range only. For example, a store may wish to attract customers willing to pay over $50 for a purse. Price lining has certain advantages:

* ease of selection for customers;
* reduced inventory; and
* reduced storage costs, due to smaller inventory.

Multiple Pricing

This approach involves selling a number of units for a single price, for example, two items for $1.98. This is useful for low-cost consumer products, such as shampoo or toothpaste. Many stores find this an attractive pricing strategy for sales and year-end clearances.

Cost Factors and Pricing

Every component of a service or product has a different, specific cost. Many small firms fail to analyze each component of their commodity's total cost, and therefore fail to price profitably. Once you do this analysis, set your prices to maximize profits and eliminate any unprofitable service.

Cost components include material, labor and overhead costs. Material costs are the costs of all materials found in the final product, such as the wood, glue and other materials used in manufacturing a chair.

Labor costs are the costs of the work that goes into the manufacturing of a product. An example would be the wages of all production-line workers producing a certain commodity. The direct labor costs are derived by multiplying the cost of labor per hour by the number of personnel hours needed to complete the job. Remember to use not only the hourly wage but also the dollar value of fringe benefits. These include social security, workers' compensation, unemployment compensation, insurance, retirement benefits and so forth.

Overhead costs are any costs not readily identifiable with a particular product. These costs include indirect materials, such as supplies, heat and light, depreciation, taxes, rent, advertising, transportation and insurance. Overhead costs also cover indirect labor costs, such as clerical, legal and janitorial services. Be sure to include shipping, handling and/or storage

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as well as other cost components. Part of the overhead costs must be allocated to each service performed or product produced. The overhead rate can be expressed as a percentage or an hourly rate. It is also important to adjust your overhead costs annually. Charges must be revised to reflect inflation and higher benefit rates. It's best to project the costs semi-annally, including increased executive salaries and other projected costs.

Understanding Cash Flow

Failure to properly plan cash flow is one of the leading causes of small business failures. Understanding the basics will help you better manage your cash flow.

Your business's monetary supply can exist either as cash on hand or in a business checking account available to meet expenses. A sufficient cash flow covers your business by meeting obligations (i.e., paying bills), serving as a cushion in case of emergencies, and providing investment capital.

The Operating Cycle

The operating cycle is the system through which cash flows, from the purchase of inventory through the collection of accounts receivable. It measures the flow of assets into cash.

For example, your operating cycle may begin with both cash and inventory on hand. Typically, additional inventory is purchased on account to guarantee that you will not deplete your stock as sales are made. Your sales will consist of cash sales and accounts receivable credit sales, usually paid 30 days after the original purchase date. This applies to both the inventory you purchase and the products you sell. When you make payment for inventory, both cash and accounts payable are reduced. Thirty days after the sale of your inventory, receivables are usually collected, increasing your cash. Now your cash has completed its flow through the operating cycle, and the process is ready to begin again.

Current Assets

Cash and other balance-sheet items that convert into cash within 12 months are referred to as current assets. Typical current assets include cash, marketable securities, receivables and prepaid expenses.

Cash-Flow Analysis

Cash-flow analysis should show whether your daily operations generate

enough cash to meet your obligations, and how major outflows of cash to pay your obligations relate to major inflows of cash from sales. As a result, you can tell if inflows and outflows from your operation combine to result in a positive cash flow or in a net drain. Any significant changes over time will also appear. Understanding this will lead to better control of your cash flows and will allow adequate time to plan and prepare for the growth of your business.

It is best to have enough cash on hand each month to pay the cash obligations of the following month. A monthly cash-flow projection helps to identify and eliminate deficiencies or surpluses in cash and to compare actual figures to past months. When cash-flow deficiencies are found, business financial plans must be altered to provide more cash. When excess cash is revealed, it might indicate excessive borrowing or idle money that could be invested. The objective is to develop a plan that will provide a well-balanced cash flow.

Planning a Positive Cash Flow

Your business can increase cash reserves in a number of ways.

* Collecting receivables: Actively manage accounts receivable and quickly collect overdue accounts. You stand to lose revenues if your collection policies are not aggressive. The longer your customer's balance remains unpaid, the less likely it is that you will receive full payment.
* Tightening credit requirements: As credit and terms become more stringent, more customers must pay cash for their purchases, thereby increasing the cash on hand and reducing the bad-debt expense. While tightening credit is helpful in the short run, it may not be advantageous in the long run. Looser credit allows more customers the opportunity to purchase your products or services. You should measure, however, any consequent increase in sales against a possible increase in bad-debt expenses.
* Taking out short-term loans: Loans from various financial institutions are often necessary for covering short-term cash-flow problems. Revolving credit lines and equity loans are types of credit used in this situation.
* Increasing your sales: Increased sales would appear to increase cash flow. However, if large portions of your sales are made on credit, when sales increase, your accounts receivable increase, not your cash. Meanwhile, inventory is depleted and must be replaced. Because receivables usually will not be collected until 30 days after sales, a substantial increase in sales can quickly deplete your firm's cash reserves.

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Finding an Accountant

If you decide to hire an accountant, find someone who is knowledgeable, capable and discreet. With the ever-changing complexities of tax laws and developments in accounting methods, it is important to look for an accountant who takes advantage of educational seminars, professional publications and other continuing-education opportunities. Professional accountants are listed in telephone directories under accountants, public accountants, bookkeepers and tax preparers. Look for references or recommendations from local business associates, your banker or attorney.

Raising Money For a Small Business

One key to a successful business start-up and expansion is your ability to obtain and secure appropriate financing. Raising capital is the most basic of all business activities. There are several sources to consider when looking for financing. Explore all of your options before making a decision. These include -

* personal savings,
* friends and relatives,
* banks and credit unions, and
* venture-capital firms.

Borrowing Money

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 aware of the bank's loan policies. Lending institutions generally require fully secured loans and sufficient commitment of capital by the borrower.

Types of Business Loans

Short-Term Loans: Short-term loans are paid back in less than one year. Types of short-term loans are -

* working-capital loans,
* accounts-receivable loans and
* revolving lines of credit.

Long-Term Loans: Long-term 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. Long-term loans are used for major business expenses, such as -

* equipment,
* furniture and fixtures,

* vehicles,
* commercial mortgages and
* real estate.

Applying For a Loan

Approval of your loan request depends on how well you present yourself, your business plan and your financial needs to a lender or investor. The best way to improve your chances of obtaining a loan is to prepare a thoughtful and professional-looking proposal. The proposal is your business plan with a few important additions:

* In the Executive Summary, state the purpose of the loan and the exact amount required. Explain specifically what the loan will be used for and why it is needed.
* In the Financial Information section, include personal financial statements on yourself and other principal owners of the business if this will be a partnership. Also identify the collateral you would be willing to pledge as security for the loan.

What Lenders Look For

Many loan officers will order a copy of your credit report from a credit-reporting agency. Therefore, you should work with these agencies to help them present an accurate picture of yourself. The lender will also look at your work history and letters of recommendation. Using the credit report and the information you have provided, the lending officer will consider the following issues:

* Do you have a sound record of credit-worthiness?
* 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?

SBA Financial Assistance Programs

The SBA offers a variety of financing options for small businesses. The SBA's assistance usually is in the form of loan guaranties. The SBA guarantees loans made by banks and other private lenders to small business clients. Generally, the SBA can guarantee up to $750,000 or 75 percent of the total loan value, whichever is less. The average size of an SBA-guaranteed loan is $175,000, and the average maturity is about eight years.

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

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For More Information

Information is power. Make it your business to know what is available, where to get it and, most importantly, how to use it. Sources of information include:

U.S. Small Business Administration

* SBA District Offices
* Small Business Development Centers (SBDCs)
* Service Corps of Retired Executives (SCORE)
* SBA OnLine (electronic bulletin board)
* Business Information Centers (BICs)

The SBA has offices located throughout the United States. For the one nearest you, look under "U.S. Government" in your telephone directory, or call the SBA Answer Desk at (800) 8-ASK-SBA. To send a fax to the SBA, dial (202) 205-7064. For the hearing impaired, the TDD number is (704) 344-6640.

To access the agency's electronic public information services, you may call the following:

SBA OnLine: electronic bulletin board - modem and computer required
(800) 697-4636 (limited access)
(900) 463-4636 (full access)
(202) 401-9600 (D.C. metro area)

Internet: using uniform resource locators (URLs)
SBA Home Page: http://www.sba.gov
SBA gopher: gopher://gopher.sba.gov
File transfer protocol: ftp://ftp.sba.gov
Telnet: telnet://sbaonline.sba.gov
U.S. Business Advisor: http://www.business.gov

You also may request a free copy of The Resource Directory for Small Business Management, a listing of for-sale publications and videotapes, from your local SBA office or the SBA Answer Desk.

Other Sources

* State economic development agencies
* Chambers of commerce
* Local colleges and universities
* Libraries
* Manufacturers and suppliers of small business products and services
* Small business or industry trade associations

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FAQ's: Starting Your Business

FAQ Home

SBA Home Page

1. **Do I have what it takes to own/manage a small business?**

   You will be your own most important employee, so an objective appraisal of your strengths and weaknesses is essential. Some questions to ask yourself are:

   - Am I a self starter?
   - How well do I get along with a variety of Personalities?
   - How good am I at making decisions?
   - Do I have the physical and emotional stamina to run a business?
   - How well do I plan and organize?
   - Are my attitudes and drive strong enough to maintain motivation?
   - How will the business affect my family?

   Try the Quiz for Small Business Success

2. **What business should I choose?**

   Usually, the best business for you is the one in which you are most skilled and interested. As you review your options, you may wish to consult local experts and businesspersons about the growth potential of various businesses in your area. Matching your background with the local market will increase your chance of success.

3. **What is a business plan and why do I need one?**

   A business plan precisely defines your business, identifies your goals and serves as your firm's resume. Its basic components include a current and pro forma balance sheet, an income statement and a cash flow analysis. It helps you allocate resources properly, handle unforeseen complications, and make the right decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan package.

Additionally, it can tell your sales personnel, suppliers and others about your operations and goals.

NOTE: We have an area devoted to helping you with your business plan.

4. **Why do I need to define my business in detail?**

It may seem silly to ask yourself, "What business am I really in," but some owner-managers have gone broke because they never answered that question. One watch store owner realized that most of his time was spent repairing watches while most of his money was spent selling them. He finally decided he was in the repair business and discontinued the sales operations. His profits improved dramatically.

5. **What legal aspects do I need to consider?**

Licenses required, zoning laws and other regulations vary from business to business and from state to state. Your local Small Business Administration (SBA) office and/or chamber of commerce will provide you with general information, but you will need to consult your attorney for advice specific to your enterprise and area. You also must decide about your form of organization (corporation, partnership or sole proprietorship) or tax status (e.g., should you opt for a Subchapter S status?).

6. **What do I need to succeed in a business?**

There are four basics of success in small business:

- Sound management practices.
- Industry experience.
- Technical support.
- Planning ability.

Few people start a business with all of these bases covered. Honestly assess your own experience and skills; then look for partners or key employees to compensate for your deficiencies.

7. **Would a partner(s) make it easier to be successful?**

A business partner does not guarantee success. If you require additional management

skills or start-up capital, engaging a partner may be your best decision. Personality and character, as well as ability to give technical or financial assistance, determine the ultimate success of a partnership.

8. **How can I find qualified employees?**

Choose your employees carefully. Decide before hand what you want them to do. Be specific. You may need flexible employees who can shift from task to task as required. Interview and screen applicants with care. Remember, good questions lead to good answers-the more you learn about each applicant's experience and skills, the better prepared you are to make your decision.

9. **How do I set wage levels?**

Wage levels are calculated using position importance and skill required as criteria. Consult your trade association and accountant to learn the most current practices, cost ratios and profit margins in your business field. While there is a minimum wage set by federal law for most jobs, the actual wage paid is entirely between you and your prospective employee.

10. **What other financial responsibilities do I have for employees?**

You must withhold federal and state income taxes, contribute to unemployment and workers compensation systems, and match Social Security holdings. You may also wish to inquire about key employee life or disability insurance. Because laws on these matters vary from state to state, you probably should consult local information sources and/or SBA offices.

Visit the businesslaw.gov home page to locate state business laws.

11. **What kind of security measures must I take?**

Crimes ranging from armed robbery to embezzlement can destroy even the best businesses. You should install a good physical security system. Just as important, you must establish policies and safeguards to ensure awareness and honesty among your personnel. Because computer systems can be used to defraud as well as keep records, you should check into a computer security program. Consider taking seminars on how to

spot and deter shoplifting and how to handle cash and merchandise; it is time and money well spent. Finally, careful screening when hiring can be your best ally against crime.

12. **Should I hire family members to work for me?**

Frequently, family members of the owner "help out in the business." For some small business owners it is a rewarding experience; for others it can cause irreparable damage. Carefully consider their loyalty and respect for you as the owner-manager. Can you keep your family and business decisions separate?

13. **Do I need a computer?**

Small business today faces growing inventory requirements, increased customer expectations, rising costs and intense competition. Computers can provide information that leads to better returns on investment. At the same time, they help you cope with the many other pressures of your business. Computers are not cure alls, however, and considerable care should be given to:

1. deciding if you need one, and
2. selecting the best system (or personal computer) for your business.

14. **What about telecommunications?**

All small businesses share some common functions: sales, purchasing, financing, operations and administration. Depending on your individual business, telecommunications can support your objectives in any or all of these areas. In its basic form, the telephone (the terminal) and the network (local or long distance) make up the basic components of telecommunications. It is an effective tool that can easily change with seasonality and growth. How you use telecommunications can affect how efficiently and profitably your company grows in the future.

15. **How much money do I need to get started?**

Once you have taken care of your building and equipment needs you also must have enough money on hand to cover operating expenses for at least a year. These expenses include your salary as the owner and money to repay your loans. One of the leading

causes of business failure is insufficient start-up capital. Consequently, you should work closely with your accountant to estimate your cash flow needs.

16. **What are the alternatives in financing a business?**

Committing your own funds is often the first financing step. It is certainly the best indicator of how serious you are about your business. Risking your own money gives confidence for others to invest in your business. You may want to consider a partner for additional financing. Banks are an obvious source of funds. Other loan sources include commercial finance companies, venture capital firms, local development companies and life insurance companies. Credit from suppliers, selling stock and equipment leasing offer alternatives to borrowing. Leasing, for example, can be an advantage because it does not tie up your cash. Ask your local SBA office for information about these various sources.

17. **What do I have to do to get a loan?**

Initially, the lender will ask three questions:

- How will you use the loan?
- How much do you need to borrow?
- How will you repay the loan?

When you apply for the loan, you must provide projected financial statements and a cohesive, clear business plan which supplies the name of the firm, location, production facilities, legal structure and business goals. A clear description of your experience and management capabilities, as well as the expertise of other key personnel, will also be needed.

18. **What kind of profits can I expect?**

Not an easy question. However, there are standards of comparison called "industry ratios" which can help you estimate your profits. Return on Investment (ROI), for example, estimates the amount of profit gained on a given number of dollars invested in the business. These ratios are broken down by Standard Industrial Classification (SIC) code and size, so you can look up your type of business to see what the industry averages are. These figures are published by several groups, and can be found at your

library. Help is also available through the SBA and the trade associations that serve your industry.

19. **What should I know about accounting and bookkeeping?**

The importance of keeping adequate records cannot be stressed too much. Without records, you cannot see how well your business is doing and where it is going. At a minimum, records are needed to substantiate:

1. Your tax returns under Federal and State laws, including income tax and Social Security laws;
2. Your request for credit from vendors or a loan from a bank;
3. Your claims about the business, should you wish to sell it.

But most important, you need them to run your business successfully and to increase your profits.

20. **How do I set up the right record keeping system for my business?**

The kind of records and how many you need depend on your particular operation. The SBA's resources and an accountant can provide you with many options. When deciding what is and is not necessary, keep in mind the following questions:

1. How will this record be used?
2. How important is this information likely to be?
3. Is the information available elsewhere in an equally accessible form?

21. **What financial statements will I need?**

You should prepare and understand two basic financial statements:

1. the balance sheet, which is a record of assets, liabilities and capital; and
2. the income (profit-and-loss) statement, a summary of your earnings and expenses over a given period of time.

22. **What does marketing involve?**

Marketing is your most important organizing tool. There are four basic aspects of

marketing, often called the "four P's":

- Product: The item or service you sell.
- Price: The amount you charge for your product or service.
- Promote: The ways you inform your market as to who, what and where you are.
- Provide: The channels you use to take the product to the customer.

As you can see, marketing encompasses much more than just advertising or selling. For example, a major part of marketing involves researching your customers: What do they want? What can they afford? What do they think? Your understanding and application of the answers to such questions play a major role in the success or failure of your business.

23. **What is my market potential?**

The principles of determining market share and market potential are the same for all geographic areas. First determine a customer profile (who) and the geographic size of the market (how many). This is the general market potential. Knowing the number and strength of your competitors (and then estimating the share of business you will take from them) will give you the market potential specific to your enterprise.

24. **What about advertising?**

Your business growth will be influenced by how well you plan and execute an advertising program. Because it is one of the main creators of your business' image, it must be well planned and well-budgeted. Contact local advertising agencies or a local SBA office to assist you in devising an effective advertising strategy.

25. **How do I set price levels?**

The price of a service or item is based on three basic production costs: Direct materials, Labor and Overhead. After these costs are determined, a price is then selected that will be both profitable and competitive. Because pricing can be a complicated process, you may wish to seek help from an expert.

26. **Are some locations better than others?**

Time and effort devoted to selecting where to locate your business can mean the difference between success and failure. The kind of business you are in, the potential market, availability of employees and the number of competitive establishments all determine where you should put your business.

27. **Is it better to lease or buy the store (plant) and equipment?**

This is a good question and needs to be considered carefully. Leasing does not tie up your cash; a disadvantage is that the item then has no resale or salvage value since you do not own it. Careful weighing of alternatives and a cost analysis will help you make the best decision.

28. **Can I operate a business from my home?**

Yes. In fact, experts estimate that as many as 20 percent of new small business enterprises are operated out of the owner's home. Local SBA offices and state chambers of commerce can provide pertinent information on how to manage a home-based business.

29. **How do I find out about suppliers/manufacturers/ distributors?**

Most suppliers want new accounts. A prime source for finding suppliers is the **Thomas Register**, which lists manufacturers by categories and geographic area. Most libraries have a directory of manufacturers listed by state. If you know the product line manufacturers, a letter or phone call to the companies will get you the local distributor-wholesaler. In some lines, trade shows are good sources of getting suppliers and looking over competing products. Also check out the **Standard Rate and Data** industry or business trade publications at the local library business reference section. Find your trade publications for your industry and subscribe to them (many are free). Many of them have a yearly trade buyer's guide. You will find wholesalers, manufacturers, and all kinds of information related to your trade or industry in every issue.

30. **Where can I go for help?**

The U.S. Small Business Administration has offices in nearly every major city in the country.

SBA's operates the toll-free "Answer Desk" at 1-800-8-ASK-SBA (1- 800-827-5722), to give callers direct referral to appropriate sources of information.

Sponsored by SBA are a variety of counselling, training and information services including the Service Corps of Retired Executives (SCORE), Business Information Centers (BICs), Small Business Development Centers (SBDCs) and Women's Business Centers (WBCs).

In addition, procurement center representatives can be found at each major military installation. More than 2,700 chambers of commerce are located throughout the country to provide additional assistance.

31. **What do I do when I'm ready?**

You have done your homework: you have a complete business plan; you know where you want to operate; you know how much cash you will need; and you have specific information on employee, vendor and market possibilities. You now may want someone to look over your plans objectively. Contact the business department at a local college for another opinion. A SCORE representative at the Small Business Administration can also review your work and help with the fine tuning. Then, when you have made the final decision to go ahead, it is time to call the bank and get going. Good luck!

All of SBA's programs and services are extended to the public on a nondiscriminatory basis.

32. **What is a Small Business?**

It is important that you be able to determine if you qualify as a small business for purposes of loans and special federal procurement opportunities. You can quickly determine this by using SBA's NAICS (North American Industry Classification System) Lookup. Simply enter your business description, NAICS or SIC (if known) and locate your business type in the resulting table.

The following is extracted from "THE SBA ACT" - when in doubt go to the whole thing. The "Administrator" is mentioned a few times - for clarification, that is referring to the SBA Administrator.

"Sec. 3(a) (1) For the purposes of this Act, a small-business concern, including but not limited to enterprises that are engaged in the business of production of food and fiber, ranching and raising of livestock, aquaculture, and all other farming and agricultural

related industries, shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation: Provided, That notwithstanding any other provision of law, an agricultural enterprise shall be deemed to be a small business concern if it (including its affiliates) has annual receipts not in excess of $500,000.

(2) ESTABLISHMENT OF SIZE STANDARDS.--

(A) IN GENERAL.-- In addition to the criteria specified in paragraph (1), the Administrator may specify detailed definitions or standards by which a business concern may be determined to be a small business concern for the purposes of this Act or any other Act.

(B) ADDITIONAL CRITERIA.-- The standards described in paragraph (1) may utilize number of employees, dollar volume of business, net worth, net income, a combination thereof, or other appropriate factors.

(C) REQUIREMENTS.--Unless specifically authorized by statute, no Federal department or agency may prescribe a size standard for categorizing a business concern as a small business concern, unless such proposed size standard--

(i) is proposed after an opportunity for public notice and comment;

(ii) provides for determining--

(I) the size of a manufacturing concern as measured by the manufacturing concern's average employment based upon employment during each of the manufacturing concern's pay periods for the preceding 12 months;

(II) the size of a business concern providing services on the basis of the annual average gross receipts of the business concern over a period of not less than 3 years;

(III) the size of other business concerns on the basis of data over a period of not less than 3 years; or

(IV) other appropriate factors; and

(iii) is approved by the Administrator.

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33. **Does the SBA have business grants?**

No. The SBA does not provide grants for the purpose of business start-up or expansion. SBA does offer several loan programs which are described in this document. For grant information and resources, see SBA's Grants page.

34. **How do I know if I qualify as a small business so I can receive SBA assistance?**

Approximately 95% of all businesses are eligible for SBA assistance. Size standards vary widely depending upon the industry; however, as a general rule, your business is within SBA size limits if it is in manufacturing or wholesaling with fewer than 100 employees or in retailing or service with annual sales under $5,000.000 To find out more about size standards, call the SBA Office of Size Standards at (202) 205-6618.

35. **Are there any restrictions on the type of business that can receive an SBA loan?**

Read the information in this document about SBA loans before approaching a lender. Bring the necessary documents and be prepared to answer questions about your company. A well-planned and organized presentation will be an important factor in the review of your request.

36. **Do I have to be declined by a bank?**

No, you do not have to be turned down by a lender to qualify for a loan guaranteed by the SBA.

37. **What is the interest rate?**

Interest rates on SBA guaranty loans are negotiated between the lender and borrower. Rates are variable and may not exceed 2.75 percent over the New York prime rate. Slightly higher interest rates may be charged on loans under $50,000.

38. **What are the loan limits?**

The SBA does not let loan minimums. Many lenders may prefer to process loans for under $100,000 under SBA's LowDoc program. The maximum amount the SBA can

guaranty is generally $750,000.

39. **How much money do I need to have in order to qualify for an SBA loan?**

A borrower's capital contribution generally must be one-fifth to one-third of the total project cost.

40. **How long will it take to get my loan?**

A credit decision on a complete loan package is usually made within ten working days after it is received by the SBA, not including bank processing time. This assumes that the borrower and lender have provided all the information necessary to process the loan.

41. **Where can I get the loan application?**

SBA loan forms are available from a participating lender, who will also be able to provide information about both the bank and SBA documentation required.

The above text is taken from Small Business Resource Guides published for individual SBA District Offices in cosponsorship with RENI Publishing of Winter Haven FL 33880-3052. SBA's participation in this publication is not an endorsement of the views, opinions, products or services of the publisher or any advertiser or other participant appearing herein. All SBA programs or cosponsored programs are extended to the public on a nondiscriminatory basis. Individual District Office editions are copyrighted. SBA Auth. No. 97-7110-64.

42. **Do I qualify as a small business?**

You can quickly determine if you qualify as a "small" business by using our NAICS (North American Industry Classification Codes) or SIC (Standard Industry Classification) Code Lookup Table.

Simply enter your business description or NAICS/SIC code (if known). Then use the resulting table to locate your products/services and see the size standards for your busines type.

43. **How do I incorporate my business?**

Once the decision to incorporate your business has been made, the legal process begins

with the preparation of a certificate of incorporation. Whereas in the past this was prepared by three or more legally qualified individuals—today, only a single incorporator is needed. The incorporator may or may not be a person who will own stock.

The state is likely to have a standard form for incorporating a small business. The three typical pieces of information requested are: corporate name, purpose and corporate life span. The corporate name is usually required to be a business name dissimilar from any other firm incorporated within the state. In addition, the name must not be deceptive or misleading. The state charter office can tell you whether the name you want is available. The purpose of the business must be stated. It is a good practice to use a "specific object" clause that spells out the specific purpose for which the corporation is being formed. While most corporations are formed for an indefinite period, it is possible to set up a specific limited life. Often the reason for creating a corporation is because the life span of the business is unlimited.

Incorporation documents will require: the names and address of incorporators; location of the registered corporate office in the state; the maximum amount and type capital stock to be issued at the time of incorporation; a provision for preemptive rights; a provision for regulation of internal affairs of the corporation; names and addresses of corporate directors until the first stockholders' meeting; and the right to amend or repeal provisions within the certificate of incorporation.

The above requirements cover incorporating as either a "C Corporation" or Sub-Chapter S Corporation." However, the sub chapter S Corporation has several additional incorporation requirements such as: it must be an independent group not affiliated with any other; it may have only a single class of stock; no more than 35 stockholders and it may have only individuals or estates as stockholders; and it must be a domestic corporation. Before signing any legally binding documents, consult with your attorney for legal advice.

(Contributed by the Delaware SCORE Office.)

Also visit our area on business names, licenses and incorporations.

44. **Does SBA offer grants for small business startup?**

SBA's limited grant offers are generally designed to expand and enhance an existing small business technical assistance.

SBA's grant programs generally support non-profit organizations, intermediary lending

institutions, and state and local governments in an effort to expand and enhance small business technical and financial assistance. (Visit SBA's Grant Resources website.)

45. **How do I get certified for special SBA programs?**

Certification programs can help you market your business to both large business and government procurements. There are three core certification programs: the Small Disadvantaged Business Program (SDB), the 8(a) Business Development Program, and the HUBZone Program.

The Small Disadvantaged Business (SDB) Certification Program is designed to treat small companies equitably and empower them to pursue business in both the private and public sector contract arena. Once an SDB is certified, it will be eligible for specific procurement benefits.

The SBA's 8(a) Business Development Program is an initiative that helps small disadvantaged businesses compete in the American economy. Program participation is divided into two stages. The developmental stage is designed to help 8(a) certified firms overcome their economic disadvantage by providing personalized business assistance in expanding their business and fostering meaningful business relationships.

The transitional stage is designed to help program participants become more effective in both the large business and government sector market in dealing with complex business deals and to prepare them for post 8(a) program expansion and development.

The HUBZone Empowerment Contracting Program is designed to stimulate economic development and create jobs in urban and rural communities. The program provides contracting opportunities to small businesses located in, and hiring employees from, Historically Underutilized Business Zones.

46. **Where do I get a business license?**

Your state and local government provides business licenses. We have found several local state resources that might help.

47. **How do I buy Government property and what help does the SBA website offer?**

SBA offers *Property for Sale* through the administration of its loan programs. Property may be commercial, residential, farm, machinery, equipment, or vacant land.

48. **How do I sell my business?**

The SBA offers several publications to specifically help in this area.

Also, browse the publications in SBA's Online Library.

49. **How do I develop a business plan?**

We have an online tutorial to walk you through this process.

We also offer several outside resources for additional help.

50. **How do I select a lawyer?**

Chances are that you will need legal advice right from the inception of your business. There are many ways a lawyer can help in addition to getting your company set up and properly authorized to conduct business.

SBA's web site offers several areas that may assist you.

51. **How do I set up the right record-keeping system?**

The kind of records and how many you need depend on your particular operation. The SBA's resources and an accountant can provide you with many options. When deciding what is and is not necessary, keep in mind the following questions:

1. 1. How will this record be used?
2. 2. How important is this information likely to be?
3. 3. Is the information available elsewhere in an equally accessible form?

OTHER GOVERNMENT PUBLICATION RESOURCES ON STARTING A BUSINESS

1. **SCORE READING ROOM**
2. **SBA SMALL BUSINESS PLANNER** –
   Plan Publications
3. **Small Business Resource Guide 2006 (DVD)**. Helpful CD-ROM contains business tax forms, instructions, and publications, plus guidance on preparing a business plan, financing your business, and more.
4. **Checklist for Starting a Business**
5. **Training – How to Start a Small Business**

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SMALLBUSINESSOPPORTUNITY.COM

Business Opportunities Handbook

Small Business Opportunities Magazine

Entrepreneur Magazine

- Ø Smallbizbooks.com

Hispanic Business Magazine

Black Enterprise Magazine

Enterprising Women Magazine