



FOR THE LIFE OF YOUR BUSINESS

# Simple Steps for Starting Your Business



Dream



Believe



Create



Persevere

The **SCORE**  
FOUNDATION®

In Partnership With

**Canon**



## Dear Entrepreneur,

Every small business starts with a dream. But, it takes more than ideas to achieve your goals. You need knowledge and resources to help your dream come to fruition.

SCORE and Canon understand the vital role of vibrant small business communities. We are dedicated to helping entrepreneurs succeed and as part of that common goal, offer this practical workbook to help you pursue your business dreams and put them into action. This workbook serves as a primer, providing information and exercises that will help you decide whether starting a small business is right for you.

And you don't have to go it alone. SCORE offers a network of more than 11,000 business mentors available in person and online to answer your questions—free of charge. These mentors volunteer their time and expertise to help small business owners like you with confidential, free business mentoring. Founded in 1964, the SCORE Association has helped more than 10 million entrepreneurs start, build, expand and protect their small businesses.

Canon is an international leader in document management, imaging and printing solutions for small business. Through a partnership with the SCORE Foundation, Canon is supporting the Simple Steps for Starting Your Business workshop series on which this book is based. Attend this workshop, which includes one-on-one mentoring with an expert SCORE mentor, to build a solid foundation for pursuing your business idea.

Start on your path to success today. Use this workbook as the first step to making your startup dreams come true. You can find the SCORE office nearest you by visiting [www.score.org/chapters](http://www.score.org/chapters). An exceptional mentor is waiting to help you today.

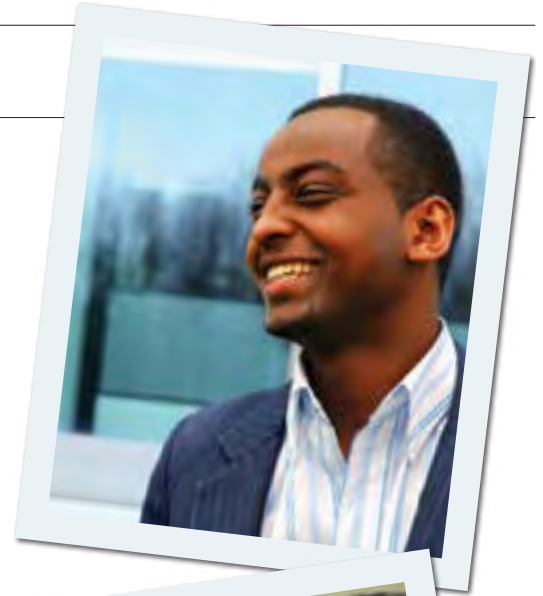
SCORE and Canon stand ready to help you live your dream—your ideas, your business, yours to make. We look forward to working with you and wish you prosperity and success.



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## DREAM BIG!

Do you dream about starting a business? You're not alone—millions of Americans share that dream. And yet, not everyone has the courage to get started. But if you're reading this, you have already taken the first steps toward turning your dream into reality.

Too many criticize dreamers like you proclaiming, "Dreamers only dream, doers do." But that's wrong. You can't become a doer without first having been a dreamer.

Dreams are the stuff entrepreneurs are made of. Think about Steve Jobs, Bill Gates, Richard Branson, Oprah Winfrey, Sam Walton, Walt Disney, Mary Kay Ash. What do they have in common? They all started with nothing but a dream, and built multimillion-dollar businesses.

Obviously, dreaming alone isn't enough. You have to do your homework, create a plan and take action. You will have good days and bad ones. But don't get discouraged. As Walt Disney said, "If you can dream it, you can do it. Always remember this whole thing was started by a dream and a mouse."

*Simple Steps for Starting Your Business* is more than just a guide to business ownership. It's really a blueprint for helping make your dreams a reality.

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Do you really know what it means to be an entrepreneur?  
Here are some common myths about business ownership.

**MYTH:** *As an entrepreneur, you won't have to work so hard or put in such long hours.*

**REALITY:** On average, entrepreneurs work far longer hours than employees do—but you'll likely enjoy it more because you're building something of your own.

**MYTH:** *My product/service is unique and there is no competition.*

**REALITY:** There is always competition. It may be in a different form or delivered in a different manner, but it exists and you need to recognize and deal with it.

**MYTH:** *Business owners can deduct everything, so you won't have to pay taxes.*

**REALITY:** Entrepreneurs do get to subtract business expenses from their gross income—but they still have to pay taxes on their net income.

**MYTH:** *As a business owner, you won't have a boss.*

**REALITY:** You don't have a boss—you have many: your clients and customers.

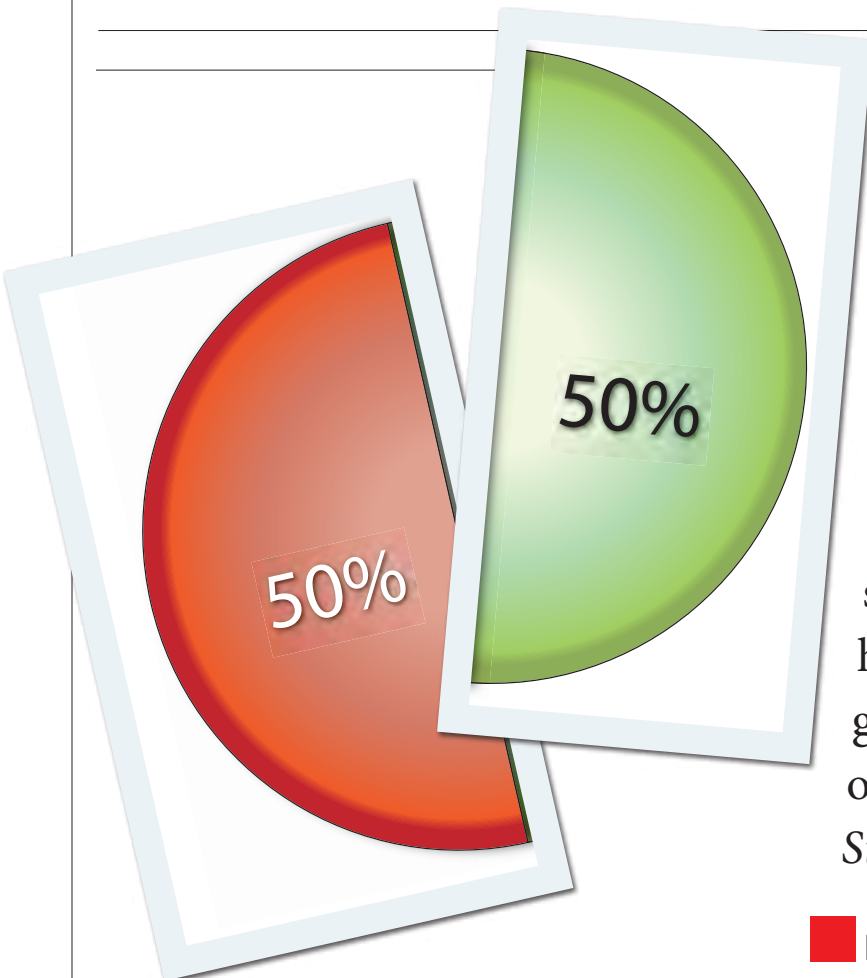
**MYTH:** *Business owners get to do what they want to do.*

**REALITY:** Sure, you'll do some of what you enjoy—but some of your time will be spent on tasks you find difficult or boring.

A good idea is a great start, but it takes hard work, research, planning and successful implementation strategies to turn your idea into a business.

#### REALITY: PROPER PLANNING IS KEY

One myth is that the majority of small businesses fail. According to the Bureau of Labor Statistics, after two years in business, the majority of startups succeed; after five years, about half fail and half succeed. Proper planning and hard work is the only way to guard against failure. You are on the right track with *Simple Steps for Starting Your Business*.



■ FAILED ■ SUCCESSFUL

Lots of people have good business ideas—but not all of them have the characteristics needed to make their businesses succeed. Successful entrepreneurs have the qualities listed below in common. Some of these factors are inborn traits, others can be learned, and still others are external and harder to control. The more of these factors you have on your side, the greater your chances of success.

Lots of people have good business ideas—but not all of them have the characteristics needed to make their businesses succeed.

- Education or work experience in your chosen industry
- Strong work ethic
- Effective time management skills
- Ability to multitask

- Management skills
- Willing to ask for help and advice from others
- Self-motivated
- Resourceful
- Responsible
- Organized
- Persistent
- Decisive
- Good health
- A supportive family

### DO YOU HAVE THE FINANCIAL RESOURCES?

Personal traits aren't the only factor in business success. Starting a business costs money. To assess how realistic startup is for you, begin by considering your personal budget. Add up:

- Your total monthly cost of living
- Areas where you can cut back
- Outstanding debt
- Amount in savings
- Amount needed to cover 6 to 18 months of expenses (the average time before a new business makes a profit).

Also add up your startup costs, including:

- Tools or equipment
- Leasehold improvements
- Licenses and permits
- Professional fees
- Initial inventory
- Working capital reserve fund

Inadequate capital is a key reason businesses fail. We'll discuss how to estimate your startup costs and ways to obtain the capital you need in more detail in Section 4.





Starting a new business from scratch is what most people think of when they consider becoming entrepreneurs. But this isn't the only way to get into business for yourself. Here's a closer look at various ways of starting a business.



## 1 | STARTING A NEW BUSINESS

### ADVANTAGES

- You're not hampered by the previous image or equipment of an existing business.
- You can choose your own location, name and logo, and build your own business relationships.
- You can explore new markets and directions.

### DISADVANTAGES

- You have no existing customer base to build on.
- You're taking a bigger risk than if you were buying an existing business.
- Because your business has no track record, it will be harder to find financing.

## 2 | BUYING AN EXISTING BUSINESS

### ADVANTAGES

- You gain an established customer base, location and supplier relationships.
- The business is a known entity with a proven formula and name recognition.
- You can review the business's records before buying to make sure it's profitable.
- Since the business has a track record, it may be easier to obtain financing.

### DISADVANTAGES

- Hidden problems with the business could come back to haunt you—such as debts, loans or misrepresentations about profitability.
- The business has a reputation, but is it always a good one?
- The business's inventory could be obsolete; its assets and/or goodwill could be inflated.
- Employees may be loyal to the former owner, causing management issues.
- There's no guarantee the business's success will continue under your ownership.



## 3 | BUYING A FRANCHISE

### ADVANTAGES

- As a franchisee you become part of a system with a well-known image and proven products or services.
- You have the marketing and sales power of the franchisor behind you.
- You get training and guidance from the franchisor.
- You're part of a network and can turn to other franchisees for help.

### DISADVANTAGES

- You don't have as much freedom as an independent business owner.
- You must pay ongoing royalties and other fees.
- You must sign a binding contract that limits your ability to exit the business.
- The franchisor's problems—whether financial, image or otherwise—are your problems, too.

## 4 | HOME-BASED BUSINESS

### ADVANTAGES

- Working from home is convenient.
- You save money on commuting, dry cleaning, lunches out and other daily expenses.
- You have a flexible schedule and can work when you want.
- You could gain tax advantages since you could deduct the portion of your home used for business.

### DISADVANTAGES

- Zoning or deed restrictions may prohibit home-based businesses.
- Working from home can be isolating and lonely.
- As a home-based business, you will have more difficulty finding financing.
- Distractions from family or neighbors may make it hard to work.
- Home-based businesses are often subject to IRS scrutiny.





### 5 | NONPROFIT ORGANIZATION

#### ADVANTAGES

- A nonprofit may qualify for government or foundation grants.
- Nonprofit status offers protection from liability for directors and employees of the business.
- You can pay salaries to employees and consulting fees to contractors.

#### DISADVANTAGES

- A nonprofit must focus on educational or charitable purposes and cannot profit those who created the organization.
- All profits remain within the organization.
- You must apply and qualify for 501(c)(3) status or sales tax exemption.

### 6 | ONLINE BUSINESS

#### ADVANTAGES

- Startup costs are lower than with a brick-and-mortar business.
- You can do business with customers all over the country—or world.
- Customers appreciate the convenience of accessing your business 24/7.
- You have the flexibility to do business from anywhere, anytime.

#### DISADVANTAGES

- Low conversion rates—on average, fewer than 5 percent of visitors to an e-commerce site make purchases.
- Low barriers to entry for an online business mean there is more competition.
- Visitors have high expectations for online businesses and less tolerance for problems.
- Being unable to touch merchandise can make customers less likely to buy.

If you are currently an employee, you're probably responsible for one area of business—say, sales or accounting. As an entrepreneur, however, you'll wear many hats and be responsible for making sure all the components of your business run smoothly.

**NOT ONLY ARE YOU THE CEO OR PRESIDENT, BUT YOU'LL ALSO BE IN CHARGE OF:**

**ADMINISTRATION** – answering phones, handling paperwork, office management and insurance issues

**ACCOUNTING** – bookkeeping, taxes, payables and receivables

**HUMAN RESOURCES** – hiring, firing and managing employees

**MARKETING** – creating and promoting your company's image via advertising, PR and more

**SALES** – prospecting for new leads, cold calling, making sales presentations and closing

**CUSTOMER SERVICE** – taking orders, handling complaints and building relationships

**PRODUCTION AND FULFILLMENT** – manufacturing your product or arranging to have it made; shipping and warehousing

**INFORMATION TECHNOLOGY** – choosing, purchasing and troubleshooting technology

**PHYSICAL PLANT** – selecting your location, negotiating leases and maintaining site

**THINK ABOUT THE AREAS ABOVE AND CONSIDER:**

- Do you have weaknesses in any of these areas?
- Can you take a course to improve your skills in the areas where you're weak?
- If there are duties that don't fit your skills, can you hire employees, take on a partner or outsource these tasks?

■ Even if you were skilled in all these roles, you wouldn't have time to handle all of them. Which are most important to your business? Which will you focus on and which will you delegate? In what order of priority?



Even if you were skilled in all these roles, you wouldn't have time to handle all of them. Which are most important to your business? Which will you focus on and which will you delegate? In what order of priority?

When it comes to the nuts and bolts of launching your new business, there are three primary considerations:

- ❶ Choosing a legal business structure
- ❷ Understanding government rules and regulations affecting your business
- ❸ Buying business insurance

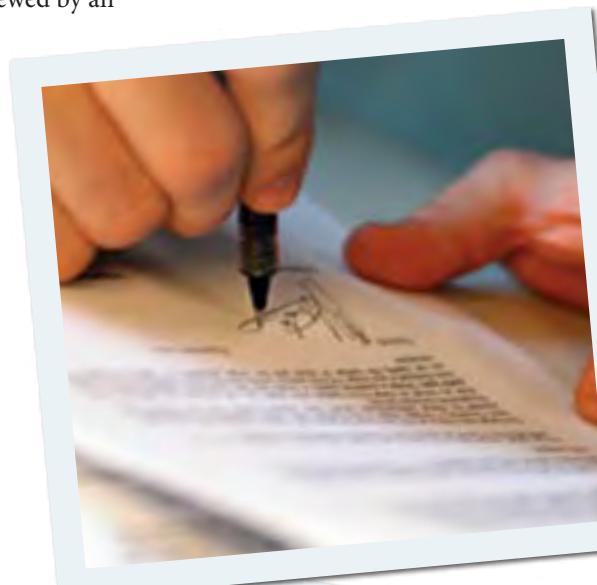
### CHOOSING A LEGAL BUSINESS STRUCTURE

You have several options for the legal structure of your business. A written agreement reviewed by an attorney is essential. Here's an overview:

● **SOLE PROPRIETORSHIP:** In this form of doing business, one person (you) owns and operates the business. On the plus side, your business earnings are taxed just once, and you alone are in charge of all business decisions. On the downside, sole proprietors are personally liable for any claims against their businesses, and often have more trouble getting financing. Many businesses start out as sole proprietorships, then switch to more complex structures.

● **PARTNERSHIP:** In a general partnership, both partners manage the business and are responsible for its debts. In a limited partnership, certain (limited) partners are investors but do not manage the business. One advantage of partnerships: The partnership doesn't pay tax; partners report profits or losses on their personal tax returns. The disadvantage: Partners are personally liable for any debts of the business.

● **"C" CORPORATION (CONVENTIONAL):** Incorporating protects you from liability for the company's debts or claims against it. A corporation can sell stock, enabling you to raise money. However, corporations are strictly regulated and are taxed twice—the corporation pays income tax, and shareholders pay taxes on any dividends.



### FOR MORE INFORMATION

Learn more about government regulations at these websites:

Department of Labor:

[www.dol.gov](http://www.dol.gov)

IRS:

[www.irs.gov](http://www.irs.gov)

SCORE:

[www.score.org](http://www.score.org)



● **“S” CORPORATION (SUBCHAPTER):**

An S corporation protects owners against liability and provides more tax benefits than a corporation. The corporation doesn't pay federal income taxes; profits and losses are reported on shareholders' individual tax returns. But complying with regulations can be costly and time-consuming, and you're limited to a set amount of shareholders, which may be restrictive if you're seeking to raise lots of capital.

● **LIMITED LIABILITY COMPANY (LLC):**

An LLC offers liability protection like a corporation, but without double taxation because earnings and losses are reported on the owners' personal taxes. There is no limit on the number of members. Owners or members in a multiple-member LLC should have a written membership agreement reviewed by an attorney.

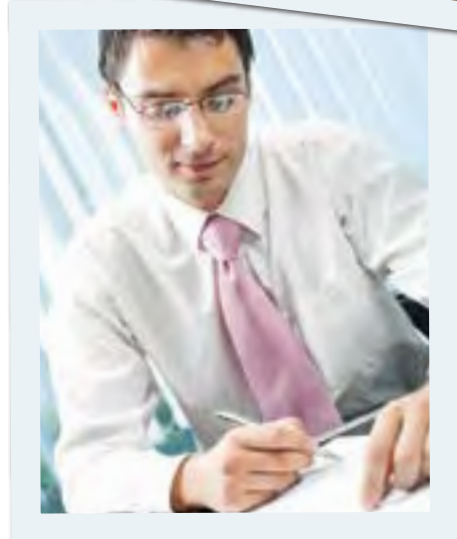
Always discuss your legal options with your attorney and accountant before making a decision. SCORE mentors are also available to help you understand your options.

**GOVERNMENT REGULATIONS AND YOUR BUSINESS**

To keep your new business on the right side of the law, understand the government regulations you must comply with.

**BUSINESS REGISTRATION, LICENSES AND**

**ZONING APPROVAL:** All businesses need to be registered either in the state where they will be doing business (LLCs and corporations) or their county of residence (sole proprietors). Wherever registered, the company needs a physical address (not a P.O. Box). Registration fees are usually under \$200; there are also annual fees, which vary. Companies can be registered in one state as a “domestic” company and in other states as a “foreign” company. Depending upon the nature of the business, some companies also need to obtain state, county and/or municipal licenses. Contact your city and county for more information, and discuss your legal options with your attorney.



**ASSEMBLE YOUR TEAM**

As a startup entrepreneur, you'll need these key players on your team:

- BANKER
- LAWYER
- ACCOUNTANT
- INSURANCE AGENT
- BUSINESS MENTOR

Find them by asking friends, relatives and colleagues for recommendations—then checking out references. Find a mentor at SCORE

([www.score.org](http://www.score.org))!

**LABOR AND IMMIGRATION LAWS:** If you hire employees, you need to comply with state and federal labor laws regulating work hours, breaks, safety and many other factors. There are also laws governing the hiring of immigrants.

**IRS AND SOCIAL SECURITY WITHHOLDING AND PAYMENTS:**

Even if the only person you pay is yourself, you are considered an “employer.” Follow Internal Revenue Service (IRS), state and local guidelines for mandatory withholdings (taxes, Social Security, etc.), and use a payroll service or set up bank accounts to deposit those funds.

## INSURING YOUR BUSINESS

It may not be the first thing you think about when starting a business, but if you don’t purchase proper insurance, all your hard work could disappear in the blink of an eye. Consult an insurance broker to determine what types of insurance you need. These may include:

**PROPERTY:** Covers fire and other loss to buildings, building contents, inventory and home-based businesses. Add-ons such as business interruption insurance can expand this coverage.

**LIABILITY:** Covers bodily injury and property damage to others caused by accidents on your property, such as if a customer slips and falls at your place of business.

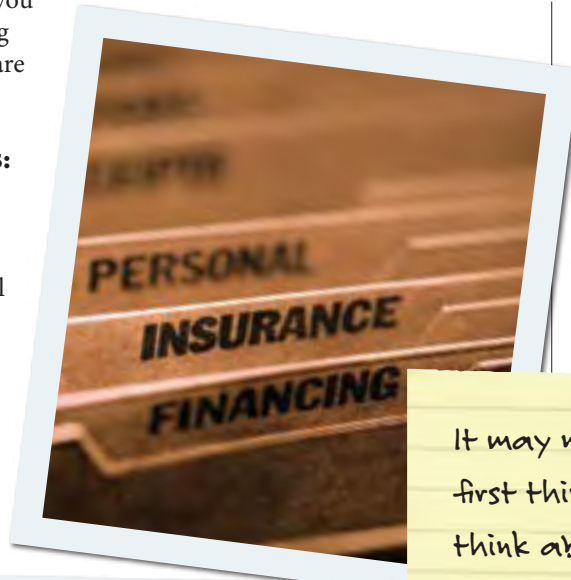
**MOTOR VEHICLE:** Covers bodily injury and property damage resulting from the business use of your motor vehicles, such as if an employee drives a company van to make deliveries.

**UMBRELLA LIABILITY:** Provides additional liability insurance above the limits in your basic automobile and general liability policies.

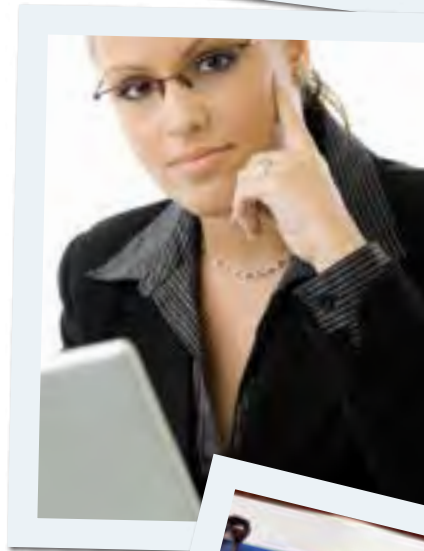
**WORKER’S COMPENSATION:** Covers injuries, death and loss of wages to workers injured on the job, including the owner, and protects you against employee lawsuits for damages.

**HEALTH:** If you rely on your current job for health insurance, you’ll need to look into private health insurance options before starting your business. Visit [www.Healthcare.gov](http://www.Healthcare.gov) to see how the Affordable Care Act affects you.

**LIFE:** Many business partners buy “key man” life insurance on the partners in the business. If one owner dies, the proceeds enable the surviving partners to buy his or her share from the heirs.



It may not be the first thing you think about when starting a business, but if you don’t purchase proper insurance, all your hard work could disappear in the blink of an eye.



Why do you need a business plan? Some entrepreneurs think a business plan is only used to get financing. In reality, there are many more uses for a business plan. A well-written business plan:

- Gives you an objective view of your business idea so you can enhance its strengths and shore up its weaknesses
- Communicates your ideas to the rest of the team
- Becomes the foundation for future planning as your business grows

**WHAT'S IN A BUSINESS PLAN?  
THE BASICS ARE SIMPLE:**

- Table of Contents
- Executive Summary
- Section One: The Business
- Section Two: Financial Forecasts
- Section Three: Supporting Data

Let's take a closer look at each section of a business plan.

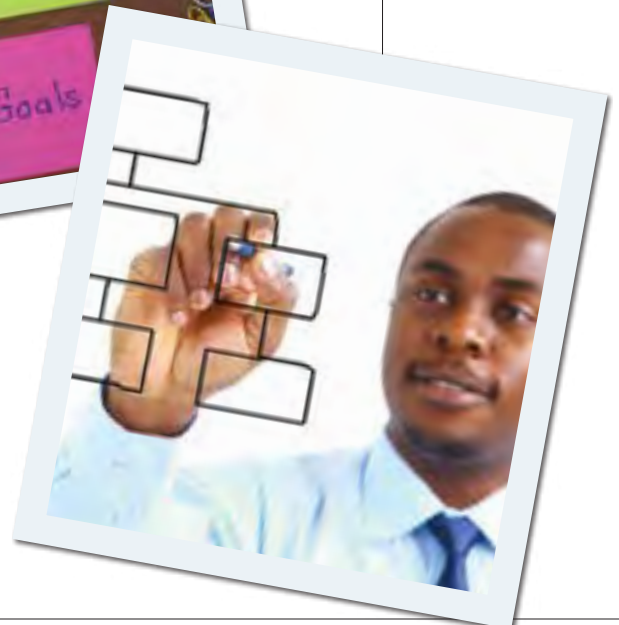
**EXECUTIVE SUMMARY:**

The executive summary is an overview of the business plan. It briefly explains the company's inception, the business idea, the management experience of the executive team and how the company plans to achieve success. It contains:

- A brief description of the business
- Whether you will seek a loan or investors
- How much money you need
- How the money will be used
- When loans will be repaid
- Revenue model and return on investment



The executive summary is an overview of the business plan. It briefly explains the company's inception, the business idea, the management experience of the executive team and how the company plans to achieve success.





Although the executive summary is the first part of the business plan—and, often, the only part potential investors read—you should write it last, after you have thought through all the other elements of your plan.

### SECTION ONE: THE BUSINESS

This part of your plan explains what your business does and how it will operate. Include:

- A description of the business
- A description of the product or service
- An assessment of the market need for what you're selling
- Your location and why you selected it
- An assessment of the competition and how you will beat them
- A description of key management and personnel, their experience and backgrounds
- How you will use new funds (if you're seeking financing)

### SECTION TWO: FINANCIAL FORECASTS

This section is a detailed plan of where the money to start your business will come from, how it will be spent and projected growth. It includes:

- A capital equipment list
- Projected income and expenses
- Assets, liabilities and equity
- Sources and uses of funds (cash flow)
- A break-even calculation



### SECTION THREE: SUPPORTING DATA

In this section, you show that you've done your due diligence by providing backup for the information you provided elsewhere. Prove what the facts are and where you got your data.

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## NEXTSTEP

Write a vision statement for your business. It should contain:

- 1 **THE OVERALL PURPOSE OF YOUR BUSINESS:** *What are you trying to achieve? Why are you in business?*
- 2 **WHAT YOUR BUSINESS DOES:** *Describe the products and services it provides.*
- 3 **WHAT'S IMPORTANT TO YOUR BUSINESS:** *What are the values your business lives by?*

Start now to think about your business plan. Turn the page to create your vision statement for your business.

THE PURPOSE OF MY BUSINESS IS:

THE BUSINESS WILL PROVIDE THE FOLLOWING PRODUCTS AND/OR SERVICES:

THE THINGS THAT ARE IMPORTANT AND THE VALUES MY BUSINESS WILL LIVE BY INCLUDE:

Get help from SCORE mentors. Visit [www.score.org](http://www.score.org) to find a mentor near you or get advice online.

You're reading this book because you have an idea for a business. Maybe you have ideas for more than one business! Or maybe you just know that you want to start a business, but don't have a concrete concept in mind. Use the steps below to develop or fine-tune your business concept.

**STEP 1:**

## Define a Market Need

A good business idea fills a need that exists in the market. You may have come up with your business idea because you, your friends or your family saw a need for a product or service you couldn't find. Maybe the product or service exists, but you think you can do it better. Here are some questions to ask:

- What need does my product or service fill? What problem does it solve?
- What are the features and benefits of my product or service? ("Features" are the components of your product. For instance, a bicycle's features might include a high-tech braking system and puncture-proof tires. The "benefits" of those features are safety and a smoother ride.)
- What is my competitive advantage? (How is your idea different from or better than the competition?)
- What is my business model? (How will you produce, deliver and market the product or service, and how will you make money?)



A good business idea fills a need that exists in the market. You may have come up with your business idea because you, your friends or your family saw a need for a product or service you couldn't find.





**STEP 2:**

## Examine Your Personal Background

If you don't yet have a firm business idea in mind, assessing your life and work experience can help you come up with one. If you do have a business idea, review your past experience to see how well it supports your concept.

**CONSIDER:****HOW DO MY SKILLS AND EXPERIENCE FIT WITH MY IDEA?**

Suppose you want to open a bakery. If you have worked in food service or retailing, those skills will help you in running your new business. If you haven't, you may need to learn more about these industries and gain experience before you move forward.

**HOW RISK-TOLERANT AM I?****HOW DOES MY EXPERIENCE AFFECT MY STARTUP RISK?**

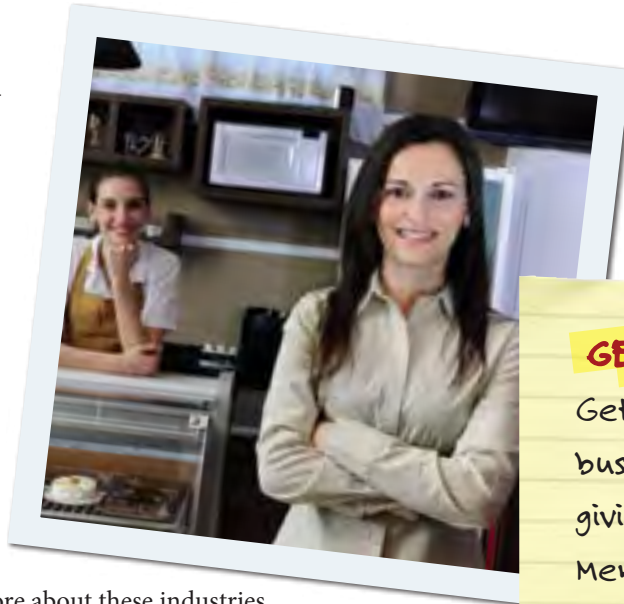
Past experience can minimize the risk of starting a business. Many people dream of opening restaurants, but this industry has a high failure rate. If you have no restaurant experience, your risk will be even greater. Taking into account your experience and the potential risk of your startup, assess how comfortable you feel with moving forward.

**HOW CAN I MODIFY MY IDEA TO FIT MY EXPERIENCE?**

If your idea seems too risky given your experience, consider an alternative. Using the example above, for instance, a person with no restaurant experience might consider a lower-risk business such as catering or a cupcake shop.

**DO I HAVE THE PASSION TO SELL THIS IDEA TO OTHERS?**

You need to be able to convince customers, investors and potential partners that your business idea is worthwhile.

**GET FEEDBACK**

Get input on your business idea by giving a SCORE Mentor, friend or family member an "elevator pitch" (two minutes or less) explaining your business concept. Have them ask you questions and offer honest feedback. Hearing what someone else thinks of your idea will help you clarify your ideas.



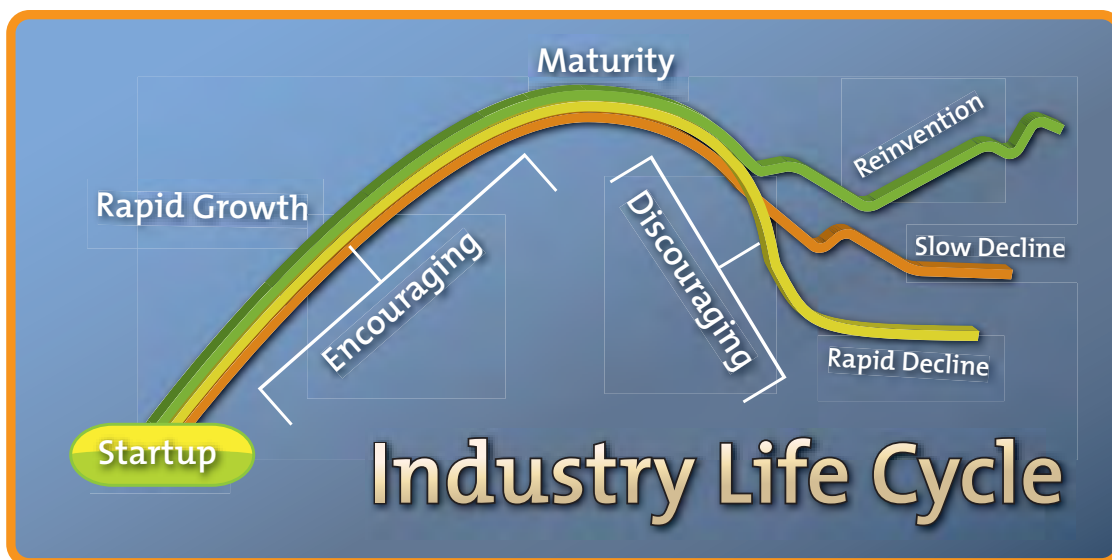
## STEP 3:

## Research Your Industry

Another way to fine-tune your business idea is by researching the industry you want to enter. You'll want to know:

- **GROWTH TRENDS:** How fast can a business in this industry expect to grow?
- **PROFITABILITY:** What kind of profit can you expect to make? What are average margins in the industry?
- **TRENDS:** What current and future trends (demographic, economic, global) are affecting the industry?
- **LIFE CYCLE:** The chart below illustrates the concept of life cycle. Ideally, you want to choose an industry that's either at an early stage in its life cycle or in the reinvention stage. Choosing an industry in the mature or declining stages makes it harder to compete.

Another way to fine-tune your business idea is by researching the industry you want to enter.



## SOURCES OF INDUSTRY DATA

## Use these tools to research your industry:

- The North American Industry Classification System (NAICS) is the standard system federal agencies use to classify businesses. Search it online or go to [www.census.gov/eos/www/naics/](http://www.census.gov/eos/www/naics/) to find your industry description.
- Trade associations also have valuable industry information. Search for associations online or consult the National Trade and Professional Associations (NTPA) Directory, available at libraries or online at [www.associationexecs.com](http://www.associationexecs.com).
- Risk Management Association (RMA) Annual Statement Studies, available at libraries or online at [www.rmahq.org](http://www.rmahq.org), provide benchmark financial ratios for businesses in over 370 industries.

**STEP 4:**

## Consider Your Target Market

Who will your business serve? You can't be all things to all people. To create a winning concept, you need to narrow your market focus. Ask yourself these questions:

■ **CHANNEL POSITION:** Where in the sales chain will your customers fall? In other words, are you selling to retailers, wholesalers, consumers or other businesses?

■ **NUMBER:** How big is your potential market?

■ **INCOME LEVEL/ABILITY TO PAY:** Are your customers upscale or bargain hunters?

■ **DEMOGRAPHICS:** What are the demographic characteristics of your market (location, company size, sex, age, marital status and education level)?

■ **LIFESTYLE:** Are your target customers urban or rural? How do they spend their work, leisure and personal time?

■ **HABITS:** What are the spending habits of your target market? Where do they shop and how do they buy?

On page 20, we'll discuss researching your target market in more detail.



Who will your business serve?  
You can't be all things to all people.  
To create a winning concept, you need to narrow your market focus.



### AND DON'T FORGET...

#### Other key factors to think about when assessing a business idea include:

- **COMPETITION:** How many competitors are there? How big are they? What product or service features and benefits do they offer?
- **SUPPLIERS:** What kinds of suppliers will you need? Are sources of supply readily available? How reliable are they?
- **BUSINESS RISK:** Is the product or service you're considering a short-lived fad or does it have long-term potential? Are there legal or environmental factors that could threaten your business, such as pending legislation that might restrict your operations?

### NEXTSTEP

Complete the Business Concept Outline Worksheet on the next page.



**BUSINESS IDEA** |

*Describe your product or service idea, including features, benefits and business model.*

**PERSONAL BACKGROUND** |

*What aspects of your skills and work experience will translate to your business?*

**INDUSTRY PROFILE** |

*Note key facts about the industry you are entering, including growth trends, profitability and life cycle.*

**TARGET MARKETS** |

*Describe who will purchase your product or service, including the market size and their demographics, lifestyle and buying habits.*

**OTHER KEY FACTORS** |

*Describe any other factors that could affect your business.*

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On the previous pages, we asked you to think about your target market's demographics, income, lifestyle and habits. Now it's time to drill deeper by doing some in-depth market research. Go beyond identifying your target audience to learn about how they buy, what matters to them and where and how they spend their time.

You might think you don't need market research because you have such a great business idea. In reality, failing to do market research can doom your business to failure.

### RESEARCH YOUR TARGET MARKETS

Once you have identified potential target markets, you need to gather data on the following:

- **CHANNEL POSITION:** Which possible sales channels will your business use? Are certain channels more profitable than others, easier to enter or simpler to work with? Are some channels growing while others are shrinking? Carefully research the costs and potential profit of each channel.
- **GEOGRAPHIC LOCATION:** If you're starting a local business such as a restaurant or retail store, you'll be targeting customers in a specific geographic area. If you're starting an e-commerce business, you may be selling to customers nationwide and even globally. Wherever your customers will be, gather information about that location. What local, regional, national and global factors will affect the target market in that location?

You might think you don't need market research because you have such a great business idea. In reality, failing to do market research can doom your business to failure.



### SOURCES OF CUSTOMER DATA

#### Where can you get data about customer groups?

- **TRADE ASSOCIATIONS:** Trade groups typically maintain data about market trends. Search for trade associations online.
- **REFERENCE LIBRARIANS:** A good business reference librarian can be immensely helpful in finding what you're looking for.
- **GOVERNMENT WEBSITES:** You'll find a wealth of information at [www.sba.gov](http://www.sba.gov), [www.bls.gov](http://www.bls.gov), [www.nber.org](http://www.nber.org), <http://factfinder2.census.gov> and [www.fedstats.gov](http://www.fedstats.gov).
- **FOCUS GROUPS:** Get a group that represents your target market—whether that's college students or moms—together for a short focus group.
- **SURVEYS:** Online tools like [www.SurveyMonkey.com](http://www.SurveyMonkey.com) and [www.SurveyGizmo.com](http://www.SurveyGizmo.com) offer free options for conducting surveys to ask potential customers questions; [www.ConstantContact.com](http://www.ConstantContact.com) is a competitively priced fee-based option.

■ **CUSTOMER DEMOGRAPHICS:** Drill down into your customer demographic by researching the following:

**SPENDING:** Income is important, but you also want to know how your target market spends that income. What percentage of their income goes to your type of product or service? How much discretionary income do they have?

**GENDER, AGE, RACE AND MARITAL STATUS:** Targeting “women” as a market is too broad because not all women behave the same way. You’ll need to research specific niches within broader categories. For example, married women behave differently than single women; moms behave differently than childless women.

**BUYING HABITS AND BEHAVIOR:** What makes your target market buy? Where do they buy? (Online? In boutiques? In superstores?) What marketing tactics work best on them? How often do they buy your product or service and how much do they spend?

■ **MARKET SIZE:** How big is your target market? Is it growing or is it in decline? Find data for the past three years plus future projections. Targeting a market that’s shrinking is generally not a good idea.

■ **REALISTIC MARKET PENETRATION:** Just as important as the market size is how much of that market you can realistically hope to capture. This is where researching your competition comes in.



## AGE IS JUST A NUMBER

Businesses once targeted consumers by age, such as TV shows for the “18-to-49-year-old” audience. Today, it’s more effective to focus on consumers’ psychographics or life stages. For instance, a 55-year-old man might be a single urbanite, a retiree with three grown children, or father of a 3-year-old. Each of these men will make very different purchasing decisions.

## TRACKING TRENDS

**What factors are shaping your customers’ behavior? The following sources will help you keep on top of trends.**

- **NEWSPAPERS:** Since trends typically start in big cities and trickle down to other areas, read the leading newspapers from urban areas, such as *The New York Times*.
- **PERIODICALS:** Read the magazines your target market reads—whether that’s *Road & Track* or *Vogue*—to keep up with what matters to them.
- **TELEVISION:** Popular shows are often good indicators of consumer trends. For example, the growth of cooking shows in the past decade has been matched by consumer spending on gourmet foods, home entertaining and tools for home cooking.
- **INTERNET:** Set up Google Alerts for topics you’re interested in, or visit Google Trends ([www.google.com/trends](http://www.google.com/trends)) to see what the most popular searches are at any given time.

**NEXTSTEP**

Fill out the Target Market Worksheet on the next page.

Example

<b>BUSINESS ▶</b>	Ann's Nursery			
<b>TARGET MARKETS</b>	Local gardeners			
<b>CHANNEL POSITION</b>	Consumer			
<b>KEY DEMOGRAPHICS</b>	High-end			
<b>BUYING HABITS</b>	Local reputation, pricing, availability			
<b>MARKET SIZE AND SHARE</b>	\$500K, 5% share			

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Just as important as understanding your target market is understanding your competition. You need to know what your competitors are up to so that you can better position your products and services.

### RESEARCHING YOUR COMPETITION

Here's what you need to find out about your competitors.

**BUSINESS MODEL:** What sales channels do your competitors use and how do they make money?

**SIZE:** How big are your competitors? Will you be competing against other small businesses, national corporations or regional chains?

**LOCATION:** Are your competitors local, regional, national or overseas? Are they brick-and-mortar locations or do they sell only online?

**PROFITABILITY:** How profitable are your competitors? What are the average margins in your industry and among your specific competitors?

**MARKET STRATEGY:** How do your competitors position themselves? Are they businesslike or informal? Low-price leaders or premium products? Do they offer hand-holding service or a do-it-yourself atmosphere?

**FEATURES/BENEFITS:** What are the features and benefits of your competitors' products or services? How do they compare to yours?

**PRICE:** What prices do your competitors charge? Do they offer discounting, bundling or subscription plans?

**EFFICIENCY:** How are your competitors staffed? How many employees do they have? Do they outsource work or work virtually? What kinds of overhead costs do they have?



How do your competitors position themselves? Are they businesslike or informal? Low-price leaders or premium products? Do they offer hand-holding service, or a do-it-yourself atmosphere?

### NEXT STEP

Make copies of the Competitor Data Collection Plan on the next page and fill out a copy for each competitor.

*Example*

<b>BUSINESS ▶</b>	Cindy's Garden Supply			
<b>PRICE</b>	High			
<b>FEATURES</b>	Upscale			
<b>SIZE/ PROFITABILITY</b>	Local, high margins			
<b>MARKET STRATEGY</b>	Premium products			

**SOURCES OF COMPETITOR DATA**

Try the following resources for useful data on competitors:

- SCORE [www.score.org](http://www.score.org)
- Trade associations
- Reference USA (available at libraries)
- Risk Management Association (RMA) Annual Statement Studies (available at libraries or at [www.rmahq.org](http://www.rmahq.org))
- Bureau of Economic Analysis [www.bea.gov](http://www.bea.gov)
- Bureau of Labor Statistics [www.bls.gov](http://www.bls.gov)
- D&B [www.dnb.com](http://www.dnb.com)
- Hoovers [www.hoovers.com](http://www.hoovers.com)
- NAICS [www.census.gov/eos/www/naics/](http://www.census.gov/eos/www/naics/)
- SEC [www.sec.gov](http://www.sec.gov)
- U.S. Census [www.census.gov](http://www.census.gov)

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## I Spy

You can't learn everything you need to know about competitors from publicly available sources. Collecting critical information also requires some sleuthing. Here's where to get the scoop:

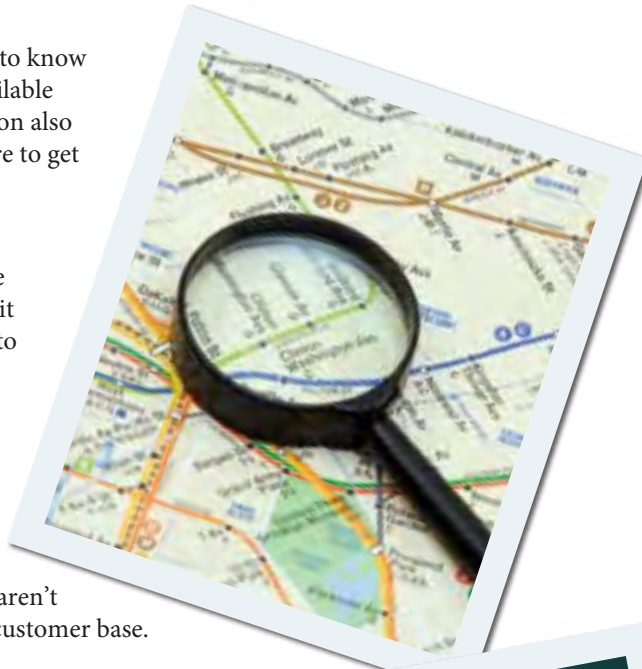
■ **THE COMPETITOR:** Sometimes you can get information directly from the competitor. Call their business or visit their website or location pretending to be a customer seeking information. Sign up for their email newsletters or follow them on Facebook or Twitter to see what marketing methods they're using. Sometimes, geographically distant competitors will be willing to give you advice and ideas if they feel you aren't going to be competing for the same customer base.

■ **SUPPLIERS:** You'll need to contact potential suppliers to research your costs and product availability. While you're at it, see if you can get information about competitors.

■ **COMPETITORS' CUSTOMERS:** Social media has made it easier to contact your competitors' customers and ask what they like (and don't like) about the competition. You can also see what the competitors' customers are saying about them online.

■ **TRADE ASSOCIATIONS:** Trade associations will not reveal information about specific companies, but they do have general information about benchmarks, trends and averages in your industry.

■ **THE INTERNET:** Set up a Google Alert on your competitors to receive news and information about them. Search online articles to learn about their growth strategies and future plans.



You can't learn everything you need to know about competitors from publicly available sources. Collecting critical information also requires some sleuthing.

### NEXTSTEP

Complete the Competitive Comparison Worksheet on the next page to see how your business concept compares with your key competitors.

NAME ►	MY BUSINESS	COMPETITOR 1	COMPETITOR 2	COMPETITOR 3
BENEFITS/ FEATURES				
PRICING				
SALES SIZE/MIX				
MARKET STRATEGY				
BUSINESS MODEL				
LOCATION				

- Rate each characteristic for your business and for your competitors.
- Use plus (+), neutral (o) or negative (-) for each characteristic based on how you think your customers would perceive them.
- Ratings estimate should compare all the businesses with “average” receiving a rating of “o.”

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Properly pricing your product or service is key to your business' success or failure. Smart pricing strategy starts with understanding the market price, which is the average price charged by all your competitors and the price at which their product or service is generally valued in the marketplace.

You can then choose to charge a premium price (if you have a superior, value-added product or service), a discount price (which is generally hard for small companies to sustain) or a price similar to the competition's (market price).

Here are some other pricing considerations:

■ **CHANNEL:** You may need to vary prices depending on your sales channel (see "Understanding Channels" on page 28). For example, if you sell directly to consumers as well as to retailers/resellers, you'll have to charge the retailers less so they can charge the same retail price you do and still make a profit. If you're selling to businesses, consider the type of business and price accordingly. Small businesses have lower budgets, while big corporations have more to spend.

■ **MARKUP ON COST:** Some companies calculate pricing based on a markup on their cost to produce the product or service. Your market research should show you average markups for your industry.

■ **BUNDLING:** "Bundling" means you charge lower prices when customers buy more than one product or service. For instance, if you offer website design, Web hosting and email marketing services, you might charge less when customers sign up for all three of your services.

■ **TARGET MARKET:** Consider your target market in setting prices. For example, if your target market is a sophisticated buyer, then you will probably need to include some costs (reflected in the price) to deal with a higher level of customer service than other customers.

You can choose to charge a premium price (if you have a superior, value-added product or service), a discount price (which is generally hard for small companies to sustain) or a price similar to the competition's (market price).



■ **PROMOTIONAL PRICING:** Many businesses offer sales or promotional prices to entice new customers or to encourage customers to buy more.

## Setting and Adjusting Prices

Pricing isn't a one-time task, but an ongoing effort. As your new business gets off the ground, you'll probably have to tinker with your prices until you find the right formula that increases both sales and profits. You'll also need to adjust prices as market conditions change and as your business grows. Here are the steps to follow at each stage of the game.

### SET YOUR INITIAL PRICE:

- Consider the costs of making your product or providing your service, plus profit.
- Know the competition's price and whether you will match it, beat it or charge more.



### DOLLAR SIGNS

Your price is the strongest signal to the customer of your product or service's perceived value and position in the market. A higher price leads customers to have higher expectations. A lower price could lessen your product or service's perceived value.

## UNDERSTANDING CHANNELS

**Channels are how products and services are distributed to the customer. Below are common channels businesses use:**

- **DIRECT SALE TO BUSINESS (B2B):** You may sell products or services directly to businesses.
- **DIRECT SALE TO CONSUMER (B2C):** You may sell products or services directly to individuals.
- **SALE TO DISTRIBUTOR WHO SELLS TO RETAILER:** If you manufacture or import a product, you may sell it to an agent or middleman, who then sells it to retail outlets.
- **INTERNET SALES:** You may sell to either businesses or consumers online (e-commerce).
- **ASSOCIATE OR AFFILIATE NETWORKS:** You may sell your product through a network of associates (offline) or affiliates (online) who keep part of the profits in return for facilitating the sale.

Understanding the various channels helps you see market segments you might have missed, identifies multiple market segments you can target, helps you set prices in such a way as to avoid channel conflicts and helps you develop your marketing communication strategy.

**ADJUST YOUR PRICE AS NEEDED:**

- Monitor customer demand. Is your product or service selling? If not, rethink your pricing.
- Compare your sales to the competition. Are your sales similar to, better than or worse than theirs?
- Ensure you're providing value commensurate with your price.
- Consider using credit terms or bundling products/services to make your offerings more attractive.
- Before increasing prices, look for ways to reduce your costs.

## Target Market Comparison and Selection

A market segment is a subset of a market that has similar needs and characteristics. For instance, if you are targeting mothers as customers, market segments to consider include pregnant women, mothers of infants and mothers of toddlers. To determine whether or not a market segment is a good target market for you, test it against the following criteria:

- Does your product or service fill unmet market/customer needs?
- How profitable is the market segment?
- What level of sales can you expect from the segment?
- What are the potential channel conflicts?
- How favorable or unfavorable is the competitive environment?
- Does this market segment really fit your business vision and skills?

**A LOSING BATTLE**

Setting your prices too low may sound like a great way to boost sales. In reality, prices that are too low disrupt the marketplace by leading to a price war. Unnaturally low prices can't be sustained—and in a price war, the new business suffers the most. This is one war you can't win, so don't even start.

### NEXTSTEP

To compare potential market segments, fill out the Target Market Comparison Worksheet on the next page.

Example

MARKET SEGMENT ►	Upscale Local Gardeners			
NEED	Unique plants, high level of service			
PROFIT	High profit potential			
SALES	Potential for high, steady sales			
CHANNEL CONFLICT	Possible conflict with online sales			
COMPETITION	Limited			
FITS ME	Yes			

- Rate each market segment that you are thinking about targeting.
- Use plus (+), neutral (o) or negative (-) for each factor.
- Use the results to determine which markets have the most promise (that is, positives) for your business.

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The first step to marketing your business is creating your brand. What is a brand? Simply put, it's the image of your business—what people think of when they hear your business's name. Your brand identity is crucial because all of your marketing activities will work to promote and enhance your brand, building brand recognition.

To create your brand, begin by thinking about what you want your business to be known for. Do you want to be the low-price leader? The premium luxury product? The company with the fastest service? The company with the friendliest employees?

Next, fill out the Product and Service Description Worksheet on the next page. List anything that makes your products or services stand out from the competition, including:

- Special benefits (How your product/service fills a need or solves a problem)
- Unique features (Physical attributes of the product/service)
- Limits and liabilities (What kinds of guarantees or return policies do you offer?)
- Production and delivery methods (One-day delivery? Hand-made products?)
- Suppliers (Are you an authorized reseller of a well-known brand?)
- Intellectual property, special permits (Is your product/service one-of-a-kind?)



Fill out the Product and Service Description Worksheet on the next page.



<b>BUSINESS NAME ►</b>	
<b>PRODUCT/SERVICE IDEA</b>	
<b>SPECIAL BENEFITS</b>	
<b>UNIQUE FEATURES</b>	
<b>LIMITS AND LIABILITIES</b>	
<b>PRODUCTION AND DELIVERY</b>	
<b>SUPPLIERS</b>	
<b>INTELLECTUAL PROPERTY/ SPECIAL PERMITS</b>	

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## YOUR MARKETING MESSAGE

Completing the Product and Service Description Worksheet will help you in crafting your marketing message. Your marketing message sums up all the elements of your brand in one paragraph.

Here is a sample marketing message for a fictional business:

“Ann’s Nursery (business) offers to discerning growers and gardeners (target markets) high-quality ornamental trees, shrubs and vines (products) backed by well-known horticulturalist Dr. Ann Murphy; a ‘guarantee to grow’; and extended plant care documentation (unique features).”

It is important to craft your marketing message well, because it will be used in almost every form of communication to potential customers.



It is important to craft your marketing message well, because it will be used in almost every form of communication to potential customers.



**NEXTSTEP**

Use the Marketing Message Worksheet on the next page to write your marketing message.

Using the marketing message for Ann's Nursery on page 33 as an example, fill in the elements below that apply to your business.

<b>BUSINESS NAME</b>	
<b>PRODUCT/SERVICE OFFERED</b>	
<b>TARGET MARKETS</b>	
<b>UNIQUE FEATURES</b>	
<b>CUSTOMER BENEFITS</b>	
<b>MESSAGE:</b> ▼	<i>Write your marketing message, incorporating the elements mentioned above.</i>

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In the same way your business plan explains your business idea, strategy and operations, your marketing plan lays out your marketing message and how you plan to communicate it.

Here's a breakdown of what your marketing plan should include.

### 1) YOUR TARGET MARKET

Using the research you compiled in Section 2 of this book, explain your target market, including size, spending habits, demographics and location.

### 2) YOUR PRODUCT OR SERVICE

How is your product or service different from and better than the competition's? What need does it fill or what problem does it solve?

### 3) WHICH MARKETING COMMUNICATION METHODS YOU WILL USE

Common marketing methods include:

- Advertising: radio, TV, newspaper, magazine, direct mail, Yellow Pages, online
- Public relations (print, radio, TV, blogs)
- Collateral (print marketing materials such as business cards, brochures, stationery, flyers)
- Internet (websites, email, search engine marketing, social media marketing, content marketing)
- Product samples, special offers
- Presentation material, signage



### MARKETING PLAN DATA SOURCES

You already gathered much of the data you need for your marketing plan during your market research phase. If you need more information, here are some sources to try:

- Internet
- Census data
- Trade associations
- Civic organizations
- Banks
- Library reference sections

#### 4) YOUR MARKETING STRATEGY

This part of your marketing plan outlines a road map for how you will market your business throughout the year. Include:

- Marketing message (which you created in the worksheet on page 34)
- Channel choice/sales approach (direct sales, Internet sales, etc.)
- Methods used and related costs. Include one-time costs (such as a booth at a trade show or the cost of designing your website), periodic expenses (website maintenance, monthly ads, annual listings), the cost of staff time spent on marketing, and any other promotional activity.

Measure the effectiveness of each marketing strategy and adjust accordingly.

#### MARKETING STRATEGY CHART

Below is an example of a marketing strategy chart created for a fictional business, Ann's Nursery.

#### MATCH YOUR MARKETING METHOD TO YOUR TARGET MARKET

The effectiveness of marketing methods will vary by target markets, sales channels and types of business. When planning your marketing mix, take into account who you are selling to and how you sell.

- Business to Business (B2B) for a product or service
- Business to Consumer (B2C) for a product or service
- Sales channel (direct sales, Internet sales, etc.)

ANN'S NURSERY: MARKETING STRATEGY CHART

	LOCAL RETAILER	DISTANT RETAILER	INTERNET CUSTOMER
ONE-TIME EXPENSES	\$1,000 for samples	\$3,000 for displays	\$2,000 for website
MONTHLY/ANNUAL EXPENSES	\$150 per month for transportation	\$2,000 per year for travel	\$100 per month for Web hosting
LABOR COSTS	0.5 staff person	0.25 staff person	0.25 staff person

#### NEXTSTEP

Create your own Marketing Strategy Chart by filling in the worksheet on the next page.

Example

TARGET MARKET BY CHANNEL ►	Local Retailer			
ONE-TIME EXPENSES	\$1,000 for samples			
MONTHLY/ ANNUAL EXPENSES	\$150 per month for transportation			
LABOR COSTS	0.5 staff person			

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In developing your marketing strategy, there are a variety of marketing methods you'll want to consider. Here are some of the most popular marketing tactics to try.

### MARKETING COLLATERAL

Almost every business will need some type of marketing collateral—print materials that promote your business, such as business cards, brochures, flyers, trade show banners or in-store signage. Based on your marketing strategy and how you plan to sell your product or service, determine which types of marketing collateral you need. Websites such as Inkzoo ([www.inkzoo.com](http://www.inkzoo.com)), Vistaprint ([www.vistaprint.com](http://www.vistaprint.com)) and 99Designs (<http://99designs.com>) can help you develop marketing collateral affordably.



### TRADITIONAL ADVERTISING

Popular traditional advertising methods include:

#### ● PRINT ADS IN NEWSPAPERS, MAGAZINES OR CIRCULARS:

Look for publications that your target market is likely to read, such as a local newspaper if you sell to residents in your community. The publication should be able to give you demographic information about readers and even create an ad for you. If you buy a print ad, you can often get ads in the online version of the publication at a discounted rate and vice versa.

● **DIRECT MAIL:** Mailing postcards, sales letters and brochures directly to prospective customers can be quite effective. You'll need a good mailing list, either one you develop yourself or one you rent from a list broker. You can also search for direct mail or coupon service providers.

● **BROADCAST (RADIO OR TELEVISION):** If you target local customers, try advertising on local radio or TV stations. As with print ads, the stations will have demographic data available to guide you in choosing the best time slots and can help you create your ad.



Almost every business will need some type of marketing collateral—print materials that promote your business, such as business cards, brochures, flyers, trade show banners or in-store signage. Based on your marketing strategy and how you plan to sell your product or service, determine which types of marketing collateral you need.



## PUBLIC RELATIONS

Let the world know about your new business by telling reporters, editors, broadcasters and influential bloggers about it through public relations (PR). Develop a list of media people who might be interested in your business, along with contact information.

You don't necessarily need to send a formal press release—a brief email with news about your business can be all you need. However, if you do want to create and distribute press releases, websites such as PRNewswire ([www.prnewswire.com](http://www.prnewswire.com)), PRWeb ([www.prweb.com](http://www.prweb.com)) and PRLog ([www.prlog.org](http://www.prlog.org)) offer tools, tips and resources.

## Online Marketing and Advertising

### YOUR BUSINESS WEBSITE

Even if you don't plan to sell anything online, you need at least a basic business website to build credibility, provide information about your business and help prospective customers discover your company when they search online for what you sell. There are many full-service website design companies that can handle everything from registering your business domain name (the URL that users type in their browsers to reach your site) and hosting your site on their servers to designing your site and helping with online marketing. Some popular options to investigate include Verisign ([www.verisign.com](http://www.verisign.com)), GoDaddy ([www.godaddy.com](http://www.godaddy.com)), Web.com ([www.web.com](http://www.web.com)), Homestead ([www.homestead.com](http://www.homestead.com)), Weebly ([www.weebly.com](http://www.weebly.com)) and Squarespace ([www.squarespace.com](http://www.squarespace.com)).

Your business website should include your company's location, hours of operation, address, phone number and an email address or email form to contact you. Include information about your product or service and use photos or graphics to make it appealing. Optimize your website for search engines by using keywords in your website copy, title tags and descriptions. Focus on keywords that prospective customers are likely to type in when searching online for what you sell. This process, called Search Engine Optimization (SEO), helps your website show up higher in users' search results.



Let the world know about your new business by telling reporters, editors, broadcasters and influential bloggers about it through public relations (PR). Develop a list of media people who might be interested in your business, along with contact information.

## LOCAL SEARCH

Online local search directories such as Google+ Local ([www.google.com/+learnmore/local](http://www.google.com/+learnmore/local)), Bing Local ([www.bing.com/local](http://www.bing.com/local)) and Local.com ([www.local.com](http://www.local.com)) help Internet users find local businesses when they search online. Visit local search directories to claim your free business listing, then fill out the required information such as address, hours of operation and phone number. Be sure to add keyword-rich descriptions and photos to enhance your listing.

## EMAIL MARKETING

Gather email addresses from your customers and use them to develop an email list. You can send customers email newsletters on a regular basis or send occasional marketing emails, such as special offers or discount codes, notices of sales or news about upcoming events at your business. Be sure to abide by CAN-SPAM laws, which you can find at <http://www.ftc.gov/spam>. Using an email marketing service provider such as Constant Contact ([www.constantcontact.com](http://www.constantcontact.com)), Campaigner ([www.campaigner.com](http://www.campaigner.com)) or Benchmark E-Mail ([www.benchmarkemail.com](http://www.benchmarkemail.com)) can simplify email marketing. Your website hosting service may also provide email marketing assistance.

## ONLINE ADVERTISING

If most of your prospective customers are Internet-savvy, consider trying online advertising. One option is pay-per-click (PPC) advertising, which targets customers using specific keywords in the ads. You don't pay unless customers click on the ad. You can place PPC ads using Google Adwords (<http://adwords.google.com>) or Bing Ads (<http://advertise.bingads.microsoft.com/en-us/home>).

You can also place banner ads on niche websites that attract your target customers; if you sell B2B products or services, consider running banner ads on websites related to your target customers' industries. It's easy to monitor the success of an online ad campaign: Just use Google Analytics ([www.google.com/analytics](http://www.google.com/analytics)) or Bing Analytics ([www.bing.com/toolbox/webmaster](http://www.bing.com/toolbox/webmaster)), free tools that show you where visitors to your website come from, what they do on your website and how many of them contact or buy from you.



Gather email addresses from your customers and use them to develop an email list. You can send customers email newsletters on a regular basis or send occasional marketing emails, such as special offers or discount codes, notices of sales or news about upcoming events at your business.

## SOCIAL MEDIA

Social media (also called social networking) has become one of the most important methods of marketing for small businesses. Because social media tools are free—with no cost but your time—they're ideally suited for small business owners and startups on a budget. You simply create a personal profile and build up a network of contacts that you can interact with online.

Here's an overview of some popular social media sites and how you can use them to market your business.



**LINKEDIN** ([www.linkedin.com](http://www.linkedin.com)) is the most popular general business networking site. Use it to connect with potential customers, partners, suppliers and even new employees; to research prospects before you approach them; or to get introduced to people you want to know. Less consumer-oriented, LinkedIn works best for business-to-business marketing. Looking to establish yourself as an industry expert? You can do so by posting and sharing relevant links, joining a LinkedIn Group related to your industry and answering other group members' questions.



**FACEBOOK** ([www.facebook.com](http://www.facebook.com)) is more informal than LinkedIn and works best for consumer-focused businesses whose products or services could develop a "fan" base. Restaurants, consumer products and retailers have benefited from Facebook. Start by creating a Facebook page for your company so users can "like" your company and check its page for news. Then post updates, photos and videos on a regular basis. Special offers like short-term discounts or promotions are popular on Facebook.



### ANALYZE THIS

Are your social media marketing efforts getting results? To find out, use the analytics tools offered by most major social media sites, including LinkedIn, Facebook, Twitter and Pinterest. They're free and give you insights about your followers' demographics, as well as which posts, pins and tweets they engage with most.





**TWITTER** ([www.twitter.com](http://www.twitter.com)) is a social network where users send out short messages (up to 140 characters, including spaces) called “tweets.” Forwarding a tweet is called “retweeting”; users “follow” each other to see what’s being said. To start on Twitter, import your email contacts and follow them. As you see who they follow, your network will build naturally. Start by listening first; when you begin tweeting, make sure you’re offering something of value—not just promoting yourself. Help others out by retweeting tweets you find valuable. Many businesses “tweet” special offers to attract more customers.



**YOUTUBE** ([www.youtube.com](http://www.youtube.com)) is the place to be if you want to create and share online videos related to your business. This online video channel lets individuals and businesses upload digital videos and share them with the world. Starting a free YouTube account lets you create your own YouTube channel to host your videos and access tools to help you promote them. Your videos can feature everything from product demonstrations and how-to instructions to behind-the-scenes tours of your business or interviews with industry experts. Make your videos fun and interesting so viewers will be more likely to share them with others.



**PINTEREST** ([www.pinterest.com](http://www.pinterest.com)) is a virtual bulletin board where users “pin” images, follow other users and repin others’ pins. If your company sells visually oriented products or services, such as clothing or landscaping, Pinterest can be a great marketing tool. Start a free account for your business, then create pinboards related to your products or services. Also add a “Pin It” button to your website so people can pin images from your site on Pinterest—this will drive traffic back to your site. Optimize your pins by using hashtags and keywords in your descriptions.



## SOCIAL ADVERTISING

In addition to posting and tweeting on Facebook, LinkedIn and Twitter, you can also buy paid advertising on the social networks.

Advertising enables you to target users very specifically, by factors such as location, interests and gender. Visit each site to learn more about the advertising options it offers.





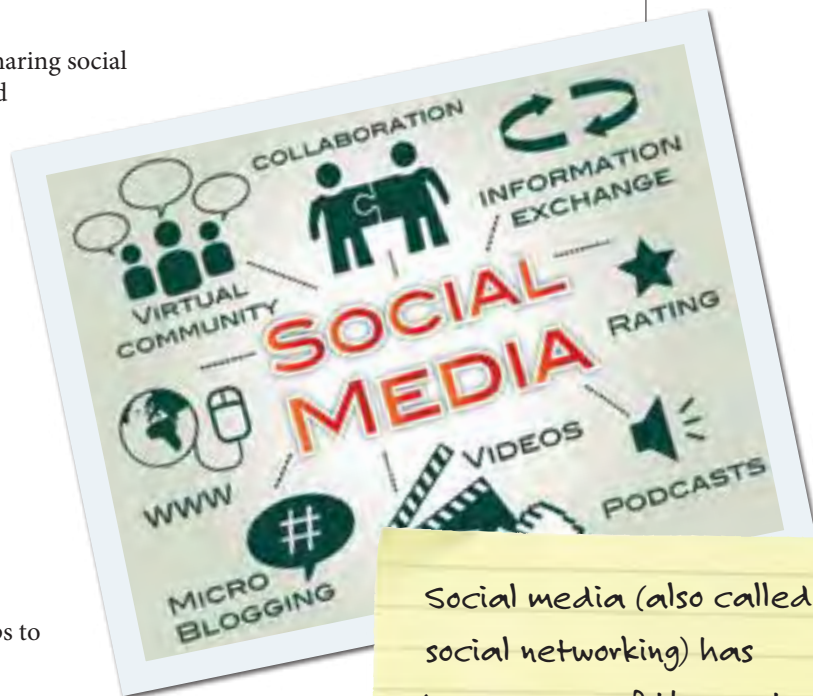


**INSTAGRAM** ([www.instagram.com](http://www.instagram.com)) is a photo-sharing social media site that is popular with younger users aged 18 to 24. Like Pinterest, it works well for visually oriented businesses such as hair salons or clothing boutiques. Just start an Instagram profile for your business, then post creative photos to tell a visual story about your company. (Instagram's photo filters make it simple to create stunning images.) Link your account with Facebook so you can attract new followers and share photos in both places. Get customers involved by asking them to post their own images, too.

### SOCIAL MADE SIMPLE

Social media can seem overwhelming at first. Whichever social media tool you try, use these tips to maximize your efforts:

- **LINK** your social media profile/s to your business's website.
- **DON'T BE TOO PROMOTIONAL.** If all you do is post or tweet about your newest projects or products, people will start to tune you out. Be helpful and share things you think are interesting.
- **BE REAL.** Social media isn't about a fake corporate image; it's a way to let the "real you" show through. As an entrepreneur, the personal touch you bring to your business is one of your core advantages—so let it shine in your social media efforts.
- **PICK ONE AND DO IT WELL.** To start, choose a social media platform where your target audience "lives" and devote time to a quality presence on that platform. Plan to develop a comprehensive strategy and expand to additional networks as time and resources allow.
- **USE TOOLS.** Do an Internet search for social media tools and you'll find lots of applications that can streamline your social media efforts and save you time.
- **KNOW YOUR GOALS.** Set measurable goals and track your results from the sites. You'll soon find out which social media tools give you the best return on investment.



Social media (also called social networking) has become one of the most important methods of marketing for small businesses. Because social media tools are free—with no cost but your time—they're ideally suited for small business owners and startups on a budget.



With your marketing plan in place, your next step is financial planning. Financial planning is essential to a startup business because it helps you:

- Figure out how much money you will need to start and run your business.
- Create a plan to guide future business decisions and monitor results.
- Communicate with stakeholders (investors, lenders, employees, etc.) about the business's finances.
- Better understand the financial risks and rewards of entrepreneurship.

A financial plan is your forecast of sales, costs, profits and assets for the first year or more after you start your business. You will use it to predict how successful your new business might be and to understand where your money will be allocated and where it will come from. As your business grows, go over your financial plan with your accountant periodically to review and update your forecast based on your past business history and your business plan.

## Components of Your Financial Plan

There are five elements that make up a financial plan:

- 1. REQUIRED STARTUP FUNDS**
- 2. SALARIES AND WAGES**
- 3. FIXED OPERATING EXPENSES**
- 4. PROJECTED SALES FORECAST**
- 5. CASH RECEIPTS AND DISBURSEMENTS**

In the following pages, we'll take a closer look at each of these elements.



Generating projections for your financial plan can be one of the most intimidating parts of starting a business. At SCORE, we've developed a comprehensive tool to help. Ask your SCORE mentor about the Financial Projections Template and Guide.



#### 1. REQUIRED STARTUP FUNDS

Here are some factors to consider as you calculate your required startup funds.

- How much money do you need to get your business up and running?
- What will it be used for?
- What are your expected sources of capital?
- How much will be financed by you/your partner/s, and how much by other sources?

Be as detailed as you can in estimating startup costs. Include equipment, inventory and business services such as insurance or legal costs. Don't forget, you'll also need enough working capital to get you through the period before your business begins making a profit (typically 6 to 18 months). Last, but not least, be sure that you add in some extra capital for contingencies. To prepare your startup for success, you need to ensure your available capital and funding exceed your startup costs.

#### 2. SALARIES AND WAGES

- Include wages for employees and the business owner/s.
- Remember to include taxes on wages.
- As a rule of thumb, mandatory and voluntary fringe benefits should total about 15 percent of wages.

#### 3. FIXED OPERATING EXPENSES

Fixed operating expenses are the administrative expenses necessary to run the business. These include costs such as insurance, rent, utilities, sales commissions, advertising, taxes and licenses.

#### GET HELP

You can find free tools and templates on SCORE's website, [www.score.org](http://www.score.org).



To get a better idea of your startup expenses, complete the Estimated Startup Costs Worksheet on the next page.

STARTUP EXPENSES	ESTIMATED AMOUNT
<b>BUILDINGS/REAL ESTATE</b>	
Purchase/Lease	
Construction	
Remodeling	
Leasehold Improvements	
Other	
<b>TOTAL BUILDINGS/REAL ESTATE</b>	<b>\$</b>
<b>CAPITAL EQUIPMENT LIST</b>	
Furniture	
Equipment	
Fixtures	
Machinery	
Technology	
Other	
<b>TOTAL CAPITAL EQUIPMENT</b>	<b>\$</b>
<b>ADMINISTRATIVE EXPENSES</b>	
Corporate Fees, Permits and Taxes	
Real Estate and Utility Deposits	
Legal and Accounting Fees	
Insurance	
Salaries and Wages	
Payroll Taxes	
Benefits	
Website Maintenance	
Office Supplies	
Other	
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$</b>
<b>OPENING INVENTORY</b>	
Category 1	
Category 2	
Category 3	
<b>TOTAL INVENTORY</b>	<b>\$</b>
<b>ADVERTISING/PROMOTIONAL EXPENSES</b>	
Advertising	
Website Development	
Signage	
Printing	
Travel, Meals and Entertainment	
Other/Additional Categories	
<b>TOTAL ADVERTISING/PROMOTIONAL EXPENSES</b>	<b>\$</b>
<b>OTHER EXPENSES</b>	
Other Expense 1	
Other Expense 2	
<b>TOTAL OTHER EXPENSES</b>	<b>\$</b>
<b>RESERVE FOR CONTINGENCIES</b>	
<b>WORKING CAPITAL</b>	

### NOTES

ESTIMATE THE COSTS TO GET YOUR BUSINESS UP AND RUNNING AND TO SUSTAIN YOU UNTIL IT REACHES PROFITABILITY (TYPICALLY 6 TO 18 MONTHS).

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## 4. PROJECTED SALES FORECAST

**A) FORECASTING SALES UNITS:** The first step in projecting your sales units is figuring out in what units your products or services will be sold. Are you selling products, services or hours? Different businesses sell their products or services in different types of units. For example:

- Retailer (products)
- Hairdresser (service)
- Computer repair (hours)

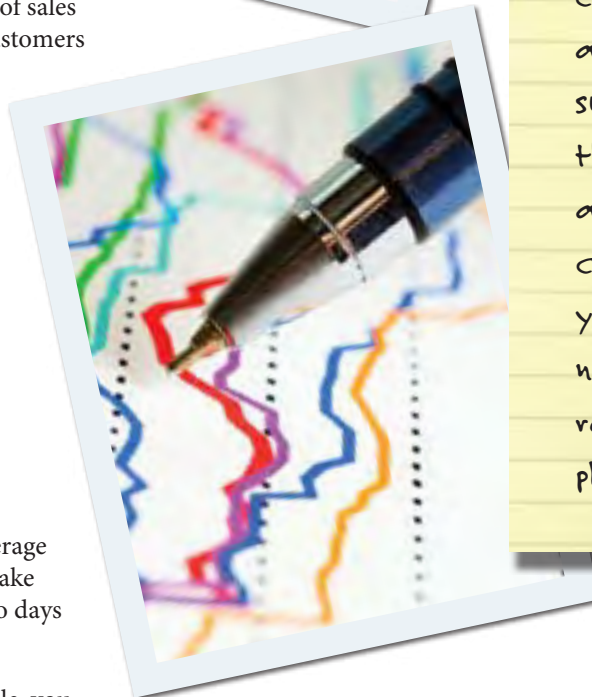
Of course, a single business may also have multiple categories. For example, you might open a store that offers computer repair (which is sold in hours) but also sell computer hardware and peripherals (which are products).

Try to figure out what average unit of sales or package of goods and services customers will buy. If you sell your product or service in different ways or have more than one type of customer, you may need to break this down into three or four different types of transactions.

Suppose you will be selling computer equipment and IT services, for example. You need to figure out what your average customer is likely to purchase. Will your average customer be an individual (perhaps buying one computer) or a business (probably buying several computers)? The average IT consulting or service job might take two hours (for an individual) or two days (for a business).

Once you have your average unit sale, you can then calculate:

- Your direct cost per unit
- Your price per unit



### SALES UNIT DATA SOURCES

As a startup, forecasting sales units means making some guesses—but they should be educated guesses. Use the data you gathered in your market research, competitive research and business plan. Be sure to write down the basis for your assumptions so you can remember how you came up with the numbers when you revisit your financial plan later.

**B) GROSS PROFIT MARGIN:** The next step in your projected sales forecast is figuring out your gross profit margin. Gross profit margin is the dollar amount of your sales, minus the direct cost of those sales. Direct costs are those that vary based on sales volume—such as shipping products—as compared to indirect costs (also called overhead) that are fixed, such as rent and wages.

Figuring your gross profit margin is important because it requires you to estimate the costs of what you're selling and helps you determine if your price is adequate.

If your gross profit margin, calculated as a percentage of sales, is higher than the industry norm, it will be hard for you to sustain your business. Know your industry norms and use them in your financial projections. (See the list of websites mentioned in Section 2 for sources of industry data.)

Once you have forecast sales units and determined your gross profit margin, you're ready to do your projected sales forecast.

## 5. CASH RECEIPTS AND DISBURSEMENTS

You don't always get paid at the time a sale is made, so in addition to projecting sales you also need to project when you will receive payment and when you will have to make payments. Payment terms vary by industry. Common payment terms include:

- 0 to 30 days
- 31 to 60 days
- 60 or more days

Know what your industry norms are and be realistic about when you can expect to get paid. Sometimes you can speed up payment by offering discounts or credit card payments, but if you are dealing with government or corporate clients, this may not be possible.



## FINANCIAL AID

Understanding financial matters can be one of the most difficult parts of starting a business, but you don't have to go it alone.

SCORE has thousands of mentors across the country who can work with you one-on-one, free of charge, to help you plan and start your business. Visit

[www.score.org/mentors](http://www.score.org/mentors) today to find a mentor.

In addition to creating a financial plan as you start your business, you will need to understand and use financial statements on a regular basis as your business grows. Even if you have an accountant, it's important that you have at least a basic knowledge of these financial statements and how to use them.

There are three primary financial statements that are used by all types of business, large or small, and are governed by GAAP (Generally Accepted Accounting Principles) rules. Taken together, these financial statements create a picture of your business's financial situation at any moment in time and also help you project into the future.

- 1. INCOME STATEMENT:** Showing how much profit or loss is generated, the income statement helps you manage overhead expenses and shows you how long it will take to reach profitability.
- 2. BALANCE SHEET:** Showing assets (what is owned), liabilities (what is owed) and your equity or net worth, the balance sheet helps you manage inventory, accounts receivable and accounts payable.
- 3. CASH FLOW STATEMENT:** Showing the funds coming into and going out of your business, the cash flow statement shows whether you have adequate funds to run and grow the business.



### BEYOND BOOKKEEPING

A good accountant does far more than just keep your books and prepare your tax returns. Look for an accountant who can be an ongoing advisor. A good working relationship with your accountant will help you build a successful business.



Here's a closer look at each.

### 1. INCOME STATEMENT

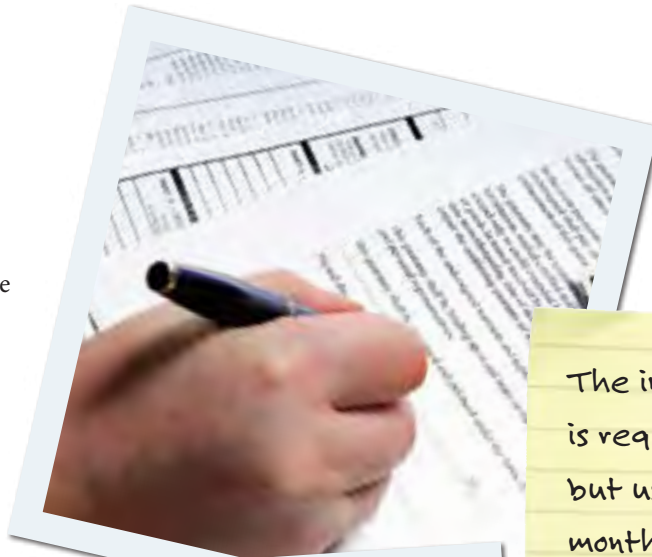
Also called the income and expense statement or profit and loss (P&L) statement, the income statement is the financial picture of business results over a period of time.

The income statement is required annually, but usually prepared monthly or quarterly, with the final report for the year being the annual summary that is filed as part of the business's tax return. Businesses are required to pay taxes in quarterly installments, based on the proportion of total annual profit earned in each quarter.

The top line on the income statement shows the incoming revenue predicted from sales to customers. From that is subtracted the cost of goods sold. Next, subtract the forecasted operating expenses, broken down by category: salaries and wages, rent, insurance, travel, office expense, etc.

What is left over is operating income. Operating income is then modified to account for any non-operational income or expenses (such as interest collected or paid).

The final result is called income before taxes or profit before taxes and is used to determine the business's taxable income.



The income statement is required annually, but usually prepared monthly or quarterly, with the final report for the year being the annual summary that is filed as part of the business's tax return. Businesses are required to pay taxes in quarterly installments, based on the proportion of total annual profit earned in each quarter.



**NEXTSTEP**

Start working on the Income Statement on the next page.



	IND	%	Jan	%	Feb	%	Mar	%	Apr	%	May	%	Jun	%	July	%	Aug	%	Sep	%	Oct	%	Nov	%	Dec	%	Yearly	%
<b>Revenue (Sales)</b>																												
Category 1																												
Category 2																												
Category 3																												
Category 4																												
Category 5																												
Category 6																												
Category 7																												
<b>Total Revenue (Sales)</b>																												
<b>Cost of Sales</b>																												
Category 1																												
Category 2																												
Category 3																												
Category 4																												
Category 5																												
Category 6																												
Category 7																												
<b>Total Cost of Sales</b>																												
<b>Gross Profit</b>																												
<b>Expenses</b>																												
Salary expenses																												
Payroll expenses																												
Outside services																												
Supplies (office and operating)																												
Repairs and maintenance																												
Advertising																												
Car, delivery and travel																												
Accounting and legal																												
Rent																												
Telephone																												
Utilities																												
Insurance																												
Taxes (real estate, etc.)																												
Interest																												
Depreciation																												
Other expenses (specify)																												
Other expenses (specify)																												
Other expenses (specify)																												
Misc. (unspecified)																												
<b>Total Expenses</b>																												
<b>Net Profit</b>																												

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## 2. BALANCE SHEET

The balance sheet is a crucial tool in your company's financial management. By looking at your balance sheet, you are able to see a snapshot of your company's finances at a single point in time. The balance sheet highlights:

- What you own (assets)
- What you owe (liabilities)
- Your net worth (assets minus liabilities)
- The simple formula is: Assets minus Liabilities equals Owner's Equity or Net Worth.

### Assets include:

● **CURRENT OR SHORT-TERM ASSETS** – These include those assets that will be used up or changed into cash within a year. In this category, you can include assets such as cash, accounts receivable, prepaid expenses and inventory.

● **FIXED ASSETS** – These include assets for long-term use. In this category, you can include assets such as buildings and equipment.

### Liabilities include:

● **DEBT** (money owed to others)

**A)** Current or short-term debt (such as lines of credit) is expected to be paid off within a year.

**B)** Long-term debt (such as mortgages or loans) will take more than one year to pay off.

● **OWNER'S EQUITY OR NET WORTH** (the proportion of asset value that represents money invested by the business owner/s).

### HELPING HANDS

Tap into your business banker's small business expertise. By forging a relationship with your banker, you'll have a partner who can work with you to help your business grow. Your banker can suggest products and services such as payroll processing, online banking, online invoicing, merchant credit card processing and more. These tools can simplify your business operations and boost your bottom line.

**NEXTSTEP**

Begin filling in the sample Balance Sheet on the next page.

	Beginning as of / /	Projected as of / /
<b>Assets</b>		
<b>Current Assets</b>		
Cash in bank	\$	\$
Accounts receivable		
Inventory		
Prepaid expenses		
Other current assets		
<b>Total Current Assets</b>	<b>\$</b>	<b>\$</b>
<b>Fixed Assets</b>		
Machinery & equipment	\$	\$
Furniture & fixtures		
Leasehold improvements		
Land & buildings		
Other fixed assets (LESS accumulated depreciation on fixed assets)		
<b>Total Fixed Assets (net of depreciation)</b>	<b>\$</b>	<b>\$</b>
<b>Other Assets</b>		
Intangibles (intellectual property, trade secrets)	\$	\$
Deposits		
Goodwill		
Other		
<b>Total Other Assets</b>	<b>\$</b>	<b>\$</b>
<b>Total Assets</b>	<b>\$</b>	<b>\$</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$	\$
Interest payable		
Taxes payable		
Notes, short-term (due within 12 months)		
Current part, long-term debt		
Other current liabilities		
<b>Total Current Liabilities</b>	<b>\$</b>	<b>\$</b>
<b>Long-term Debt</b>		
Bank loans payable	\$	\$
Notes payable to stockholders		
LESS: Short-term portion (due within 1 year)		
Other long-term debt		
<b>Total Long-term Debt</b>	<b>\$</b>	<b>\$</b>
<b>Total Liabilities</b>	<b>\$</b>	<b>\$</b>
<b>Owners' Equity</b>		
Invested capital	\$	\$
Retained earnings - beginning		
Retained earnings - current		
<b>Total Owners' Equity</b>	<b>\$</b>	<b>\$</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$</b>	<b>\$</b>

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### 3. CASH FLOW STATEMENT

Where the income statement reports billings and accrued expenses, the cash flow statement reports collections and payments—cash inflow and outflow. The cash flow statement differs from the income statement in that it does not show non-cash items like depreciation expense, but does contain cash outlays like loan principal repayment that aren't shown in the income statement.

The cash flow statement is a crucial benchmark for your business. Use it each month to determine whether your financial projections are accurate. You must monitor cash flow constantly to make sure your checking account always has a positive balance and that you're bringing in more cash than you're spending. If not, you need to revise your plans.

Think of your cash flow statement like a checkbook register. In fact, the cash flow statement format most commonly used for small businesses mimics the format of a monthly checking account statement. It shows the opening balance, anticipated cash deposits, anticipated cash withdrawals and the end balance for each month, which becomes the opening balance for the next month.

Take a look at the Cash Flow Statement on the next page. Anticipated cash deposits are broken down by category, including income from sales and accounts receivable.

Anticipated cash withdrawals are also broken down by category, including tax payments, interest payments and loan repayments.

If the business has a line of credit, "Line of Credit Drawdowns" reflects the amounts taken from the line of credit; "Line of Credit Balance" reflects the available credit remaining.



#### MAKING A STATEMENT

If you plan to seek financing, you should know the cash flow statement is the most important document in your loan package. Lenders will assess it carefully to see if your anticipated collections and payments seem accurate and realistic.

#### NEXTSTEP

Start filling in the Cash Flow Statement on the next page.



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTALS
<b>BEGINNING CASH BALANCE</b>													
<b>CASH INFLOWS</b>													
Income From Sales													
Accounts Receivable													
<b>TOTAL CASH INFLOWS</b>													
<b>CASH OUTFLOWS</b>													
Investing Activities													
New Fixed Assets Purchases													
Inventory Addition to Bal. Sheet													
Cost of Sales													
<b>OPERATING ACTIVITIES</b>													
Salaries and Wages													
Fixed Business Expenses													
Taxes													
<b>FINANCING ACTIVITIES</b>													
Loan Payments													
Line of Credit Interest													
Line of Credit Repayments													
Dividends Paid													
<b>TOTAL CASH OUTFLOWS</b>													
<b>CASH FLOW</b>													
<b>OPERATING CASH BALANCE</b>													
<b>LINE OF CREDIT DRAWDOWNS</b>													
<b>ENDING CASH BALANCE</b>													
<b>LINE OF CREDIT BALANCE</b>													

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## Other Important Financial Tools

In addition to financial statements, two other key financial tools can help you assess how well your business is doing financially.

### 1. BREAK-EVEN ANALYSIS

The breakeven point is the point at which your gross margin (sales minus cost of sales) equals your fixed operating expenses. You can calculate your breakeven by dividing Total Operating Expense by Gross Margin (as a percentage of sales). Here is the formula:

$$\text{Breakeven Sales} = \frac{\text{Total Operating Expense}}{\text{Gross Margin Percent}}$$

Think of this as an algebra problem and solve for X (breakeven sales). If actual sales are less than the breakeven amount, you may need to recalculate how you plan to run the business. Most startups expect to reach the breakeven point in the first 6 to 18 months of operation.

### 2. BENCHMARKING AND FINANCIAL RATIOS

Benchmarking means comparing your company's financial information to the same information from similar companies or to industry norms or ratios. Benchmarking is a great way to test the feasibility of your financial plan.

Sources of financial ratios include:

- BizStats ([www.BizStats.com](http://www.BizStats.com))
- D&B ([www.dnb.com](http://www.dnb.com))
- Risk Management Association (RMA) Annual Statement Studies (available at libraries or online at [www.rmahq.org](http://www.rmahq.org))

Your reference librarian, banker or SCORE mentor can also help you find the appropriate financial ratios, benchmarks and statistics. If you're seeking financing, know that lenders and investors will compare certain items on your income statement and balance sheet with your industry ratios.



#### NEED HELP?

Financial planning can be intimidating. A SCORE mentor can guide you through the process.

GET ADVICE ONLINE:

[www.score.org/mentors](http://www.score.org/mentors)

FIND A SCORE OFFICE  
NEAR YOU:

[www.score.org/chapters](http://www.score.org/chapters)

E-MAIL SCORE:

[contact@score.org](mailto:contact@score.org)

SEARCH THE  
SCORE WEBSITE:

[www.score.org](http://www.score.org)



Keeping accurate financial records and understanding your financial statements are essential steps in obtaining financing for your business.

### FINANCIAL ANALYSIS

Before you approach lenders and investors, you should be performing regular analysis of your financial statements.

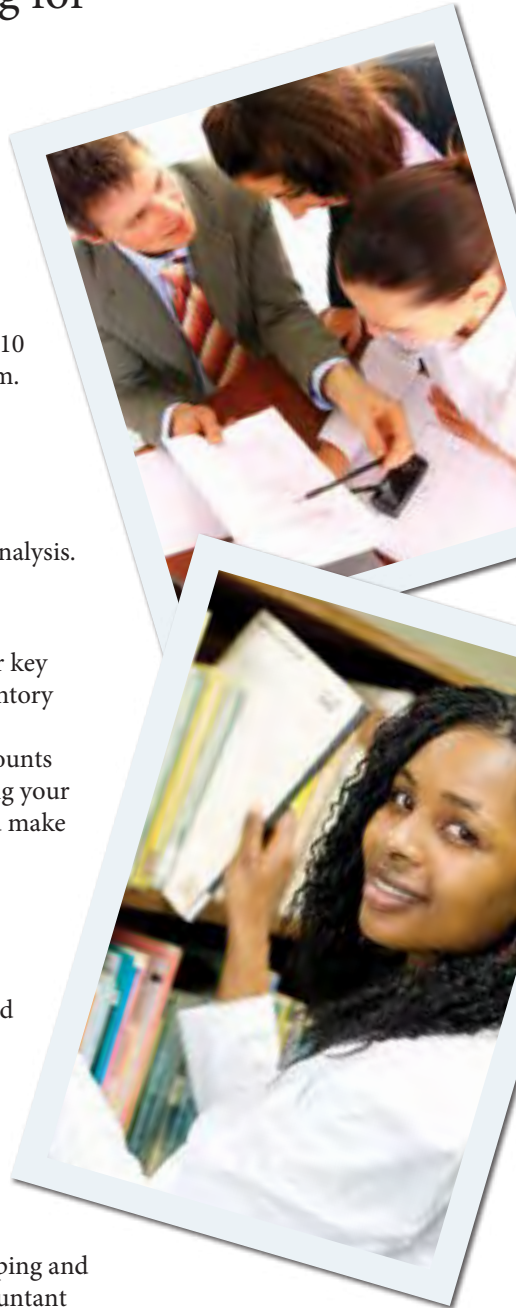
- Prepare monthly financial statements (within 10 days after the end of the month) and review them.
- Perform a monthly ratio analysis.
- Perform a monthly accounts receivable and accounts payable analysis.
- Perform a monthly comparative benchmark analysis.
- Perform a monthly analysis of profit and loss.

Depending on your industry, there may be other key measurements you'll want to track, such as inventory turnover, the average days accounts payable are outstanding (A/P DPO) or the average days accounts receivable are outstanding (A/R DSO). Analyzing your finances monthly enables you to spot trends and make necessary changes.

### FINANCIAL RECORDKEEPING

Whether you are seeking financing now or plan to do so in the future, your financial records need to be in order. Lenders and investors want facts, research and accurate projections—monthly for the first year of your business plan and annually for the remainder. Start keeping track of all your expenses now.

There are many software programs available to simplify small business recordkeeping, bookkeeping and accounting. It's a good idea to choose your accountant first, then use the bookkeeping system he or she recommends. Also have your accountant help you set up the system and the chart of accounts.



### LEARN THE LINGO

If you're not comfortable interpreting your business's financial statements, consider taking a class. Even with an accountant and bookkeeper on your team, you need to understand the basics of your business's finances.

Today's accounting software is simple to use, but if you don't have the time or patience to handle bookkeeping yourself, a part-time bookkeeper can be a smart option.

## Bank Loans: What You Need to Know

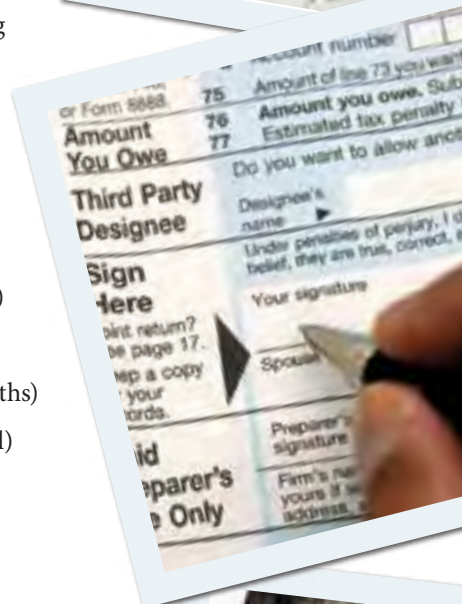
When reviewing your loan application, lenders look for good credit, a feasible business plan, adequate owner equity and sufficient collateral. Perhaps most important, they look for management expertise and commitment. What real-world experience do you and your key partners or employees have in managing this type of business?

Here is what you'll need for a bank loan application:

- Cover letter of introduction
- Summary of financial needs
- Business financial statements (3 years)
- Business tax returns (3 years)
- Projected cash flow statement (12 months)
- Collateral (both business and personal)
- Personal tax returns (3 years)
- Personal financial statements
- Résumé

The lender will also ask:

- Are there any legal claims, liens or judgments against you or your business?
- Are any assets pledged?
- Are your tax returns and payments up to date?
- Do you have any life insurance? If so, what is the face value or the cash value?
- What are your monthly household income and expenses?



### GIVE YOURSELF CREDIT

Your credit score is crucial to your startup's financial success. Since your new business does not yet have a track record, banks will consider your personal credit score in making lending decisions or opening business accounts. Vendors, suppliers and potential partners will also assess your personal credit score before extending credit or doing business with you. A FICO score of 700 or greater is desirable. You can get a free personal credit report from

[www.annualcreditreport.com](http://www.annualcreditreport.com).



## THE SIX C'S OF CREDIT

Once they have your loan application in hand, bankers look for “the six C’s of credit.”

### 1. CHARACTER

- Trustworthiness
- Personal and business credit history
- Integrity
- Quality of references
- Experience in the business
- Impression you make on the lender or investors

### 2. CAPACITY

- Ability to repay the amount borrowed
- How soon you can generate positive cash flow
- When you will show a profit
- How large the profit will be
- Whether the profit can be sustained

### 3. CAPITAL

- The money you have personally invested
- Your ability to save money and accumulate growth in owner’s equity

### 4. COLLATERAL

- Secondary source of repayment
- Third-party guarantee
- Tangible assets
- Property
- Equipment
- Accounts receivable
- Inventory

### 5. CONDITIONS

- Terms of the loan, including:
  - Intended purpose
  - Amount requested
  - Length of loan
- Local economic climate of industry
- Local economic climate of business

### 6. CASH FLOW

- Where the money to repay the debt will come from
- How the loan proceeds will be used



### SKIN IN THE GAME

How much money will lenders expect you to put into your business? A good rule of thumb is that owners should contribute a minimum of 25 to 30 percent of the required capital. Banks won’t finance 100 percent of your business; they seek a risk cushion and want to know that you, too, have skin in the game.

## Sources of Capital

Although bank loans are typically the first form of financing most new business owners think of, they are not the only way to fund your startup. Here's an overview of your options.

TYPES OF FINANCING	
EQUITY	DEBT
Signifies ownership and includes:	Does not signify ownership; it is borrowed money that must be paid back and includes:
Personal savings	Loans from banks and credit unions (typically guaranteed by the SBA)
Investments from family and friends	Community Express Micro Loans
Partners' contributions	Credit cards (not recommended)
Profits retained in the business	

Let's take a closer look at different ways to fund your business using those two types of financing.

### TRADITIONAL FORMS OF FINANCING

- **OWNER'S EQUITY INVESTMENT:** As a rule of thumb, 25 to 30 percent of the business's capital needs should be funded by its owner/s. This can come from savings, cashing in investments or the cash surrender value of an insurance policy.
- **PARTNERS:** If you don't have adequate capital yourself, consider taking on a business partner who can put money into your startup.
- **FRIENDS AND FAMILY:** This can be in the form of debt (a loan) or equity (giving the friend or family member ownership in the business in return for their investment).
- **LOANS:** These could be from banks or credit unions and could include home equity loans.
- **CREDIT CARDS:** If you pay off the balance in full every month, credit cards can work, but if you don't, this can become expensive very quickly.



### GO WITH THE FLOW

As a rule of thumb, banks want to see annual "free cash flow" equal to 1.3 times annual debt service requirements. (Debt service means principal plus interest payments.) Because cash flow forecasts are uncertain, banks prefer a cushion of one-third more than projected debt service requirements.

● **SALE OF CAPITAL STOCK:** Depending on the legal form of your business, you may be able to raise capital by selling stock. Be aware this means giving up some ownership.

● **GRANTS:** For most for-profit businesses, grants are not available. If you are starting a nonprofit organization, however, grants may be an option.

### OTHER FORMS OF FINANCING

● **SBA GUARANTEED LOANS:** These loans are made by banks, but a percentage of the loan is guaranteed by the Small Business Administration, making banks more willing to take a risk on your business.

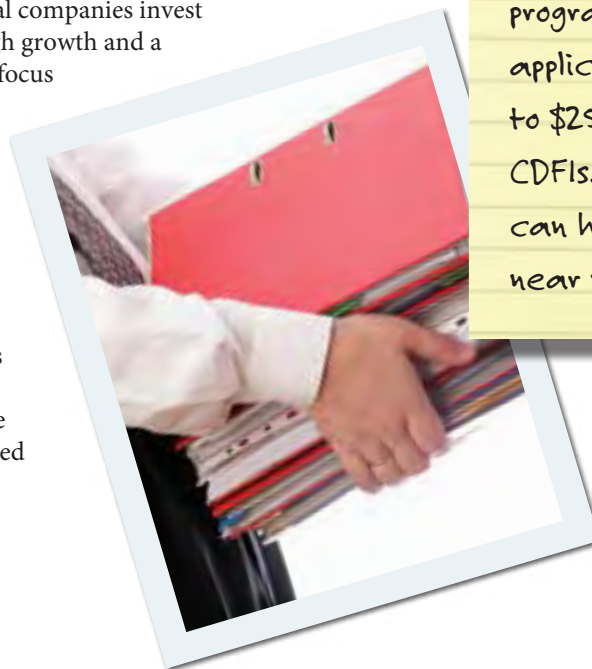
● **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT:** Local economic development programs may offer financing assistance.

● **DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT SERVICE:** If you are located in a rural area or starting an agricultural-related business, there may be special loan programs available to help you. The SBA also has loans targeting rural entrepreneurs.

● **ANGEL INVESTORS:** Angels are individual investors, often former entrepreneurs, who invest in promising companies. They may form angel groups and invest together.

● **VENTURE CAPITALISTS:** Venture capital companies invest in companies that have potential for high growth and a rapid return on investment. They often focus on tech companies and seek large investment opportunities with multiple rounds of funding.

● **CROWDFUNDING:** Also known as crowd financing and crowdsourced capital, crowdfunding is an alternative method for raising financing for a business idea that gives business owners access to a broad swath of potentially interested investors via the Internet. The main types of crowdfunding are described on the next page.



### PART OF THE COMMUNITY

Community Development Financial Institutions (CDFIs) can be an option for small business financing. CDFIs are private-sector financial intermediaries that promote economic development in areas underserved by traditional financial institutions.

The Small Business Administration's Community Advantage Loan pilot program offers streamlined applications for loans up to \$250,000 made through CDFIs. Your SCORE Mentor can help you find a CDFI near you.



## ● DONATION, CHARITY, SOCIAL OR REWARDS-BASED CROWDFUNDING

allows individuals to donate money to a business startup idea in return for rewards such as early access to products or services, limited-edition products or premiums. In the case of nonprofits, funds are used to support a cause. Websites such as Kiva ([www.kiva.org](http://www.kiva.org)), Kickstarter ([www.kickstarter.com](http://www.kickstarter.com)) and IndieGoGo ([www.indiegogo.com](http://www.indiegogo.com)) are portals for these kinds of campaigns.

● **CREDIT-BASED CROWDFUNDING**, also known as peer-to-peer lending, offers opportunities for a “crowd” of supporters to connect and lend working capital. Benefits can include lower interest rates and creative repayment terms. Websites such as Prosper.com ([www.prosper.com](http://www.prosper.com)) or Lending Club ([www.lendingclub.com](http://www.lendingclub.com)) facilitate this kind of crowdfunding.

● **EQUITY-BASED OR INVESTING CROWDFUNDING** allows entrepreneurs to source seed capital from a number of investors, including non-accredited investors, without a public offering. This form of crowdfunding allows new business owners to access a larger number of investors. This form of crowdfunding is undergoing the most scrutiny and is evolving most rapidly. Consult the proper advisors if considering this option.

## FINANCING FROM THE BALANCE SHEET

Sometimes you can get financing based on the value of assets in your business or the value of items you are using the loan to buy. These include:

### ● ACCOUNTS RECEIVABLE FINANCING:

Also called factoring, this is a means of obtaining financing based on the value of your accounts receivable.

● **BANK LINE OF CREDIT:** This is a pre-established amount of credit that you can use as needed. A line of credit can offer more flexibility than a loan and is simpler to obtain. It is typically based on 75 percent of your current accounts receivable or 50 percent of the value of your inventory.

● **EQUIPMENT LEASING:** Instead of buying business equipment, consider leasing to conserve cash. Many leasing companies offer financing.

● **CHattel MORTGAGES:** In a chattel mortgage, you obtain a loan to buy an item and use the item itself as collateral for the loan.

● **PLANT IMPROVEMENT LOANS:** You may get a loan to improve your building or facility by putting up the property itself as collateral. The loan will typically be limited to 75 to 80 percent of the property’s market value.

● **CONDITIONAL SALES CONTRACT:** This allows you to finance the purchase of an item; the vendor still owns the item until you have paid the full amount.



## KEEP IN MIND

Crowdfunding is increasingly popular and laws and regulations are constantly evolving. Consult an expert, a lawyer and/or an accountant to ensure you are up-to-date on changing regulations for all crowdfunding options.

## FOR MORE INFORMATION

Visit these websites for more information about loans and other types of financing:

**FEDERAL GOVERNMENT**

GRANTS: [www.grants.gov](http://www.grants.gov)

**SBA GUARANTEED LOANS:**

[www.sba.gov](http://www.sba.gov)

**SCORE:**

[www.score.org](http://www.score.org)



You've found a business idea you're excited about, researched its feasibility and run some numbers to assess the financial realities of startup. Now it's time to make the big decision:

### GO OR NO-GO?

- Do you move on to the next step of launching your business?
- Do you need to do additional research first?
- Do you need to fine-tune your business idea some more?
- Do you go back to the drawing board and come up with a different business concept?

### NO MATTER WHAT STAGE OF YOUR DECISION YOU ARE IN, SCORE CAN HELP YOU:

- Further research your idea
- Complete your feasibility plan
- Finalize your financial forecast
- Develop your business plan
- Prepare your loan package
- Launch your business

And remember, once your business is up and running, keep turning to SCORE for help growing your business!



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[www.score.org](http://www.score.org)



**NEXTSTEP**

Complete the Business Concept Feasibility Worksheet on the next page to help you make your "Go or No-Go" decision.

### BUSINESS CONCEPT FEASIBILITY ASSESSMENT

Now that you have completed the *Simple Steps for Starting Your Business* workbook, you are ready to evaluate whether you'd like to move forward with your business idea or take some additional time to research your plan.

Please read the following statements and assign 0-5 points based on your level of agreement with each statement. The more you agree with a statement, the more points you assign to it. If you do not agree with a statement, then you can give it 0 points. Calculate the total and see your results.

TOPIC	STATEMENT	POINTS
IDEA FEASIBILITY	I know that my idea is serving an unmet need and solving an unserved need.	
	I know that my product/service could be expanded to gain additional customer groups.	
MARKET IDENTIFICATION	I know who my potential buyers are.	
	I have a clear value proposition for my potential buyers.	
IMPLEMENTATION	I know what it will take to start my business.	
	I know what it will take to run my business.	
FUNDING	I understand what it will take to obtain funding.	
	I have a plan to fund my business startup.	
PERSONAL READINESS	I am ready to work hard to achieve my business goals.	
	I understand the challenges lying ahead and have a plan to tackle them.	
TOTAL SCORE		
TOTAL SCORE	RECOMMENDATION	
40-50	Congratulations! It seems that you feel ready to move forward. You know your product/service can sell, you understand what it will take to start and you feel ready to tackle the challenge. SCORE can help you turn your entrepreneurial dream into reality. So make sure to schedule your next meeting to start with the right advice.	
20-39	You are in luck! It seems that you are very close to making a decision. SCORE can help you fill the gaps.	
0-19	Think about the topics you have the lowest points in. Make sure to discuss your results with a SCORE mentor so you can get some additional advice.	

### NOTES

Get help from SCORE mentors. Visit [www.score.org](http://www.score.org) to find a mentor near you or get advice online.

# Starting a Business? The First Step is a Simple Step.



SCORE'S Simple Steps for Starting Your Business program is a 5-part series of 3-hour workshops designed to give you the tools, information and advice you need to succeed. Join a workshop at a chapter near you to:

- Evaluate Your Idea
- Discover the Elements of Success
- Get Expert Advice and Assistance
- Network and Learn

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