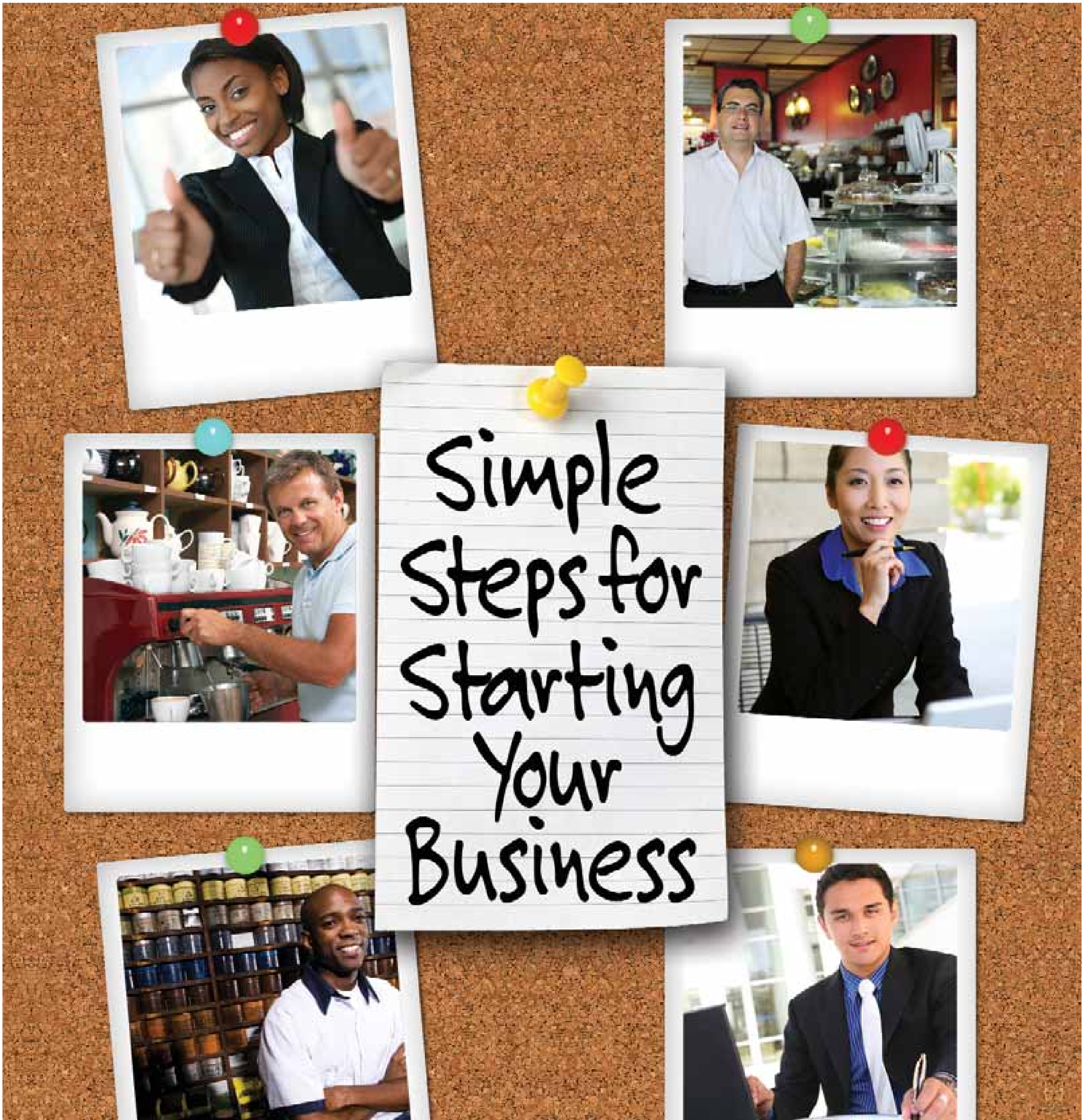

Simple Steps for Starting Your Business

SCORE

FOR THE LIFE OF YOUR BUSINESS

In partnership with:

Bank of America

Dear Entrepreneur,

As mentors for America's small businesses, SCORE, in partnership with Bank of America, is proud to bring you this practical workbook to help you pursue your business dreams, ideas and goals and put them into action.

SCORE and Bank of America are dedicated to helping entrepreneurs succeed. As part of that common goal, we offer this educational resource to help you plan for that success. This workbook serves as a primer, offering practical information and exercises that will help you know whether starting a small business is right for you.

But you don't have to go it alone. SCORE provides other great resources like mentoring and workshops, including the Simple Steps for Starting Your Business workshop series on which this workbook is based. Attending this workshop, which includes one-on-one mentoring with a SCORE expert, will provide you with a solid foundation for pursuing your business idea. It's all about helping you live your dream.

Every day, SCORE's 13,000 mentors volunteer their time and expertise to help small business owners like you with confidential, free business mentoring. Founded in1964, the SCORE Association has helped more than 9 million entrepreneurs start, build, expand and protect their small businesses.

Use this workbook as the first step to making your startup dreams come true. Then, take the next step and contact your local SCORE office to be matched with a SCORE mentor who can help you every step of the way. You can find the SCORE office nearest you by going to www.score.org/chapters.

We wish you prosperity and success.

Regards,

W. Kenneth Yancey, Jr.
Chief Executive Officer
SCORE Association

Dear Entrepreneur,

We are pleased to partner with SCORE to bring you a useful and informative guide to starting your own business. At Bank of America we understand the vital role small businesses have in the U.S. economy and in our communities. Our hope is that the information provided in this booklet will be a resource you will use often as you develop your idea into a successful small business.

Bank of America shares SCORE's goal to foster the success of small businesses and supports SCORE's mission to provide valuable information and guidance to new entrepreneurs and established business owners. Through our relationship with nearly 4 million small businesses, we work with our customers every day to offer guidance and the financial tools to help small business owners achieve their goals.

I applaud your entrepreneurial spirit and wish you success in starting your business.

Robert Hilson
Bank of America
Small Business Executive

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 come true.

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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: BUSINESS SUCCESS

One big myth is that the majority of startup businesses fail. In fact, according to data from the SBA, 67 percent of new businesses are successful after four years; only 33 percent fail.

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.

- Entrepreneurial qualities
- 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

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

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, liens 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 501c3 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, only 2 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, 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, 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

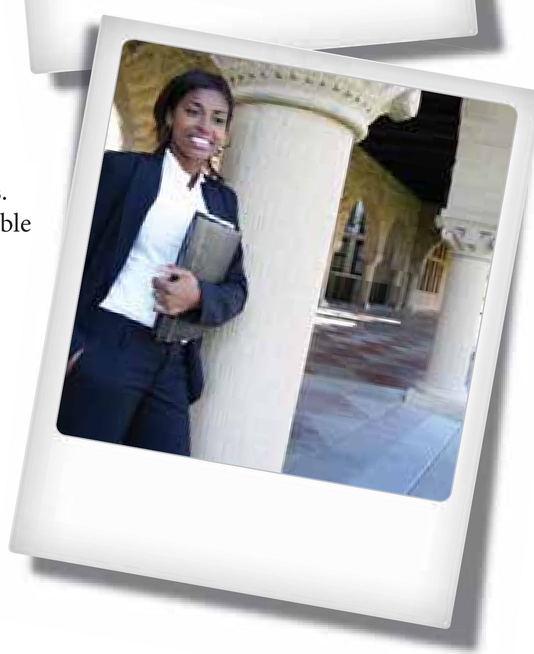
CHOOSING A LEGAL BUSINESS STRUCTURE

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

IRS:
WWW.IRS.GOV

SCORE:
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)!

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.” You must follow Internal Revenue Service (IRS), state and local guidelines for mandatory withholdings (taxes, Social Security, etc.), and either 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.

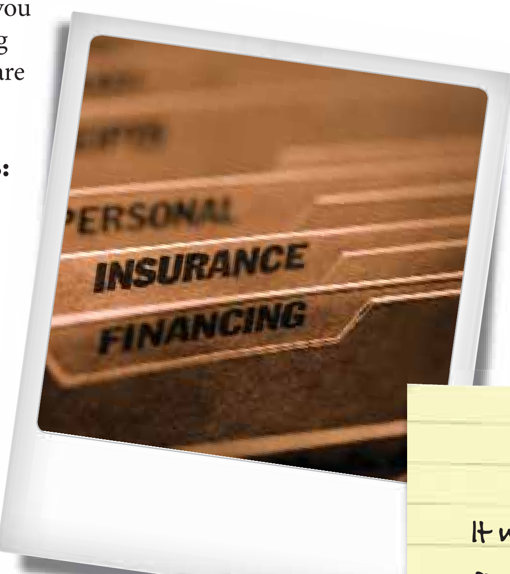
MOTOR VEHICLE: Covers bodily injury and property damage resulting from the business use of your motor vehicles, such as if an employee drives a company van to make deliveries.

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 to receive health insurance, you’ll need to look into private health insurance options before starting your business.

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.



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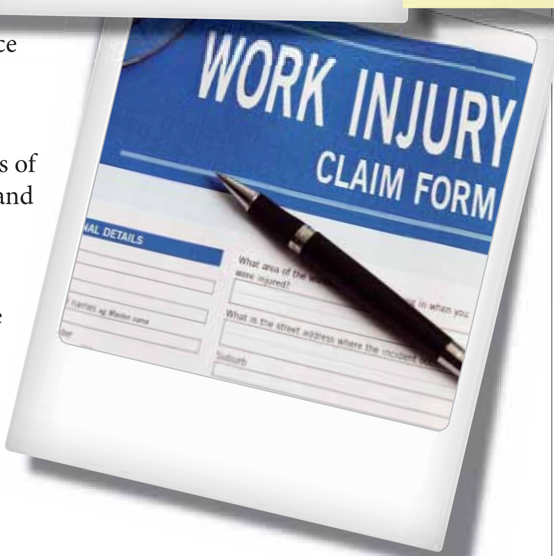


Why do you need a business plan? Some entrepreneurs think a business plan is only used to get financing. In reality, there are many more uses for a business plan. A well-written business plan:

- 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

> 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.

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

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.

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.

NEXTSTEP

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

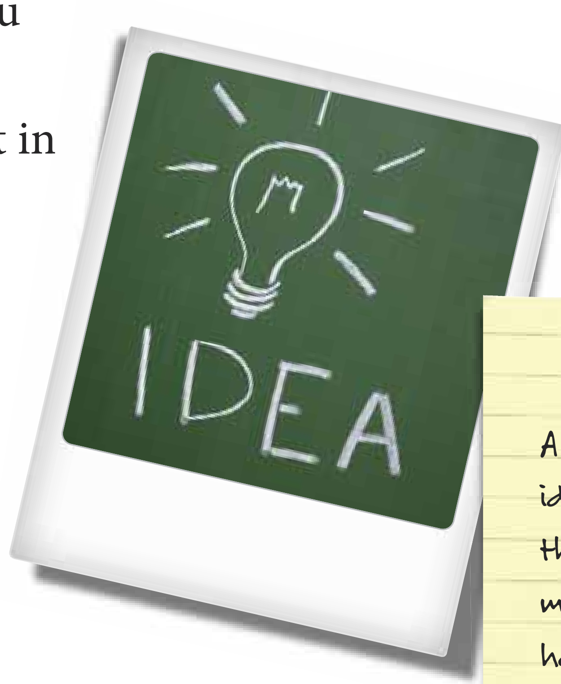
1. **THE OVERALL PURPOSE OF YOUR BUSINESS:** *What are you trying to achieve? Why are you in business?*
2. **WHAT YOUR BUSINESS DOES:** *Describe the products and services it provides.*
3. **WHAT'S IMPORTANT TO YOUR BUSINESS:** *What are the values your business lives by?*

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 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.

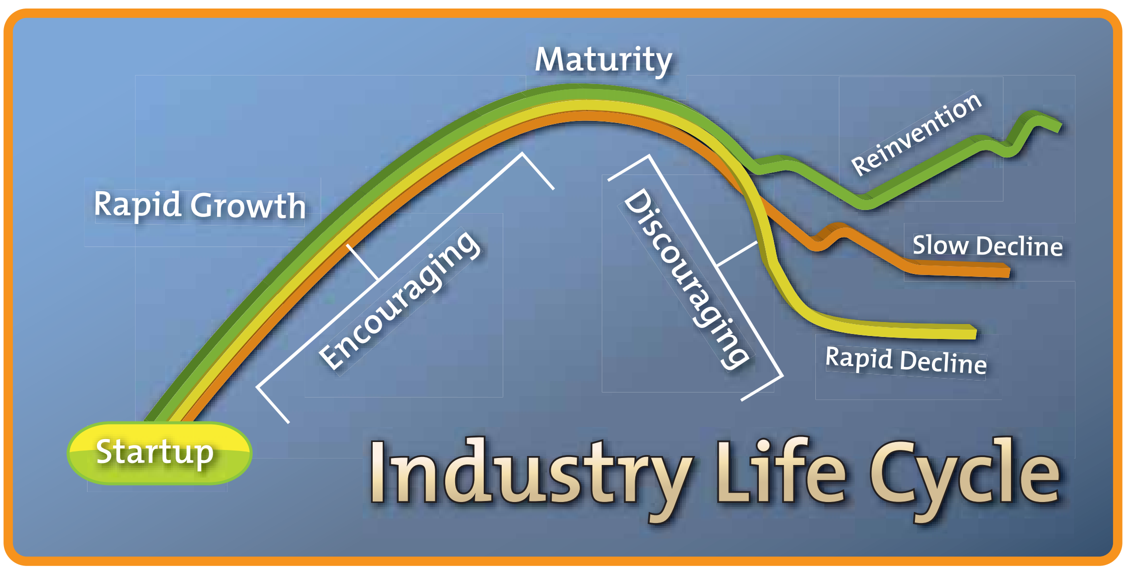
STEP 3:

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/ 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.
- Risk Management Association (RMA) Annual Statement Studies, available at libraries or online at www.rmahq.org, provide benchmark financial ratios for businesses in over 370 industries.

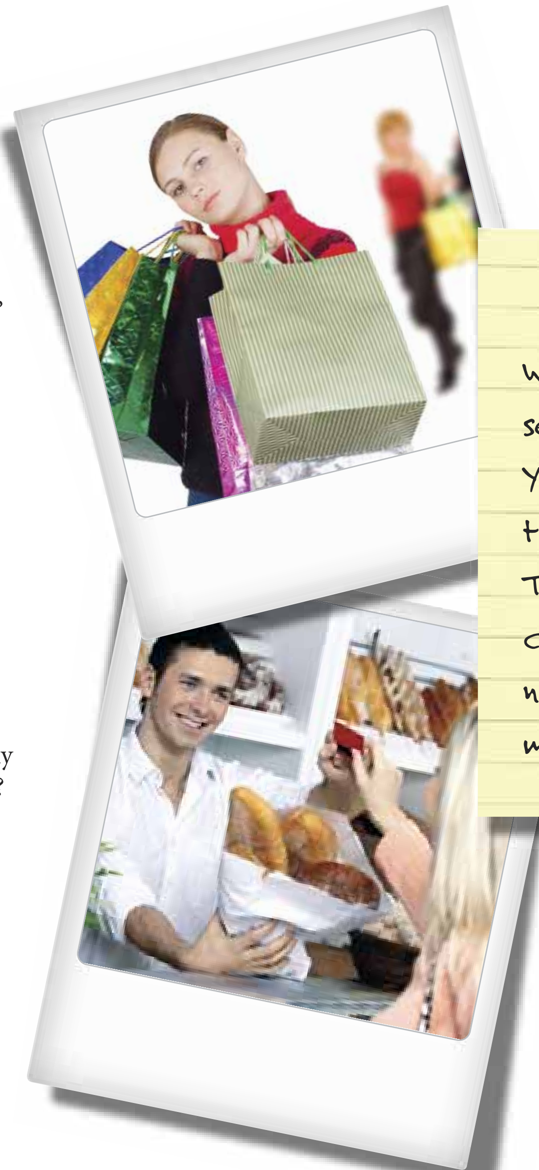
STEP 4:

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 Concept Outline: Worksheet

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 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.

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?

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 LIBRARY:** 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, www.bls.gov, www.nber.org, http://factfinder2.census.gov and 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.
- **SURVEY:** Online tools like www.SurveyMonkey.com and www.Zoomerang.com offer free options for conducting surveys to ask potential customers questions.

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

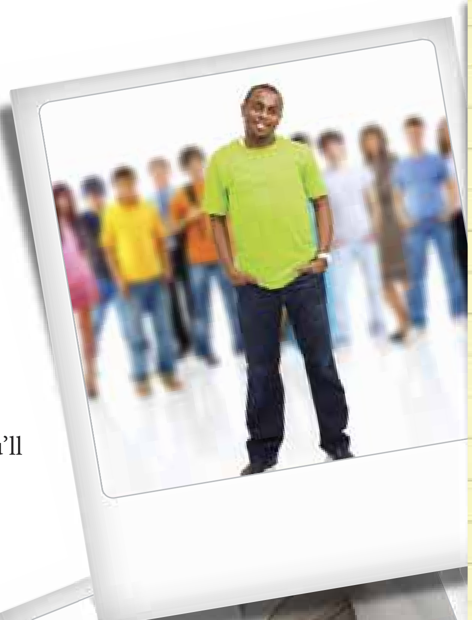
SPENDING: Income is important, but you also want to know how your target market spends that income. What percentage of their income goes to your type of product or service? How much discretionary income do they have?

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 *Tiger Beat*—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) to see what the most popular searches are at any given time.

NEXTSTEP

Fill out the Target Market Worksheet on the next page.

Example

BUSINESS ►	Ann's Nursery			
TARGET MARKETS	Local gardeners			
CHANNEL POSITION	Consumer			
KEY DEMOGRAPHICS	High-end			
BUYING HABITS	Local reputation, pricing, availability			
MARKET SIZE AND SHARE	$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?

NEXTSTEP

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

Example

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

SOURCES OF COMPETITOR DATA

Try the following resources for useful data on competitors:

- SCORE 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)
- Bureau of Economic Analysis www.bea.gov
- Bureau of Labor Statistics www.bls.gov
- D&B www.dnb.com
- Hoovers www.hoovers.com
- NAICS www.census.gov/eos/www/naics/
- SEC www.sec.gov
- U.S. Census 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:

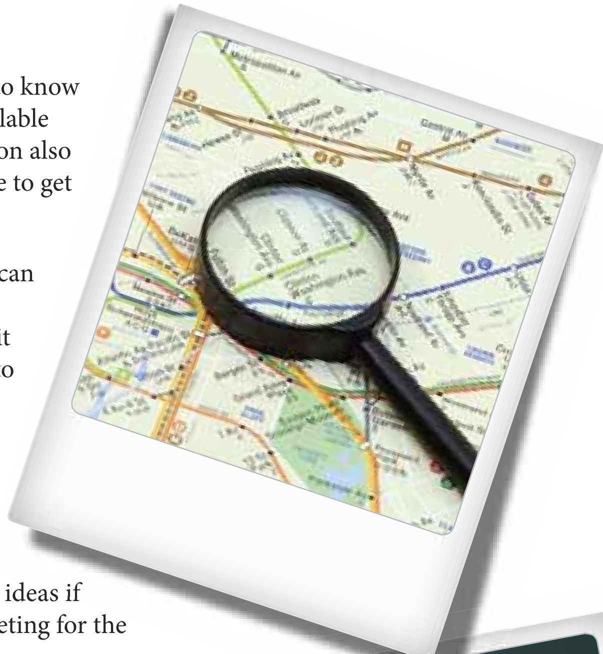
- **THE COMPETITOR:** Sometimes you can get information directly from the competitor. Call their business or visit their website or location pretending to be a customer seeking information. Sign up for their e-mail newsletters, or follow them on Facebook or Twitter to see what marketing methods they're 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.

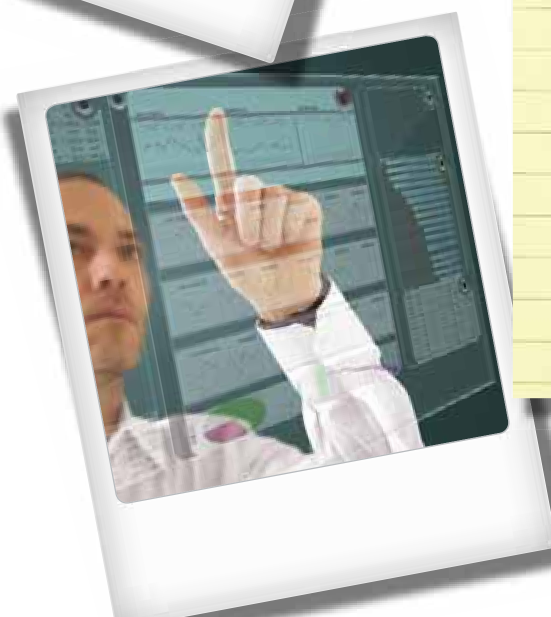
- **SUPPLIERS:** You'll need to contact potential suppliers to research your costs and product availability. While you're at it, see if you can get information about competitors.

- **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).

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).

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 charge lower prices when customers buy more than one product or service. For instance, if you offer website design, Web hosting and e-mail 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.

■ **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.

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?)

NEXTSTEP

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

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

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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.

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

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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, e-mail, social networks, blogs, newsletters)
- 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:

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

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 cost. 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), how much staff time will be spent on marketing and how much that will cost, and any other promotional activity.

Measure the effectiveness of each marketing strategy and adjust accordingly.

MATCH YOUR MARKETING METHOD TO YOUR TARGET MARKET

Different marketing methods work best for different target markets and types of businesses. When planning your marketing mix, take into account who you are selling to and how you sell.

- Business to Business (B2B) for a product
- Business to Business (B2B) for a service
- Business to Consumer (B2C) for a product
- Business to Consumer (B2C) for a service
- Internet sales

MARKETING STRATEGY CHART

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

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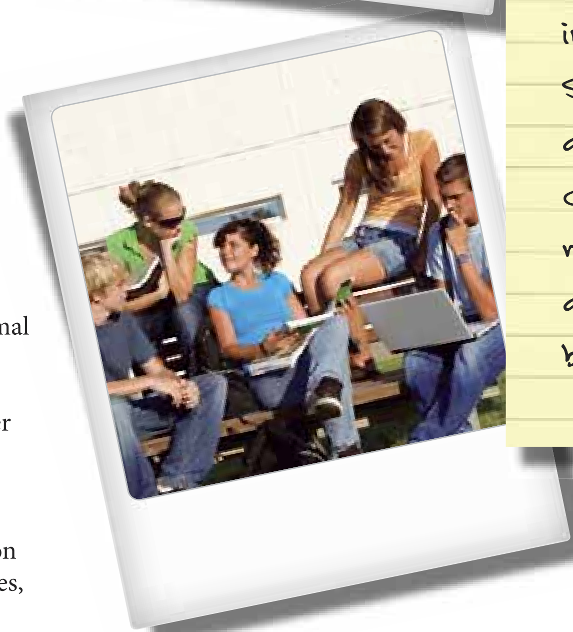
Social media (also called social networking) has become one of the most important methods of marketing for small businesses. Because social media tools are free—with no cost but your time—they're ideally suited for small business owners and startups on a budget.

Whether it's LinkedIn, Twitter or Facebook, social networking sites work the same way: You create a personal profile and build up a network of contacts that you can interact with online. Here's an overview of the three most popular social networking sites and how you can use them to market your business.

LINKEDIN (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? Use LinkedIn Answers to answer users' questions related to your field, and join or start an industry-related group.

FACEBOOK (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. The more you post on Facebook, the better, so fill your page with updates, photos and videos. Special offers like short-term discounts or promotions are popular on Facebook.



BEYOND THE "BIG THREE"

In addition to Facebook, LinkedIn and Twitter, there are many smaller social networking sites for specific industries. Search online or ask your industry contacts for recommendations about the best sites.

TWITTER (www.twitter.com) is a microblogging service 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 e-mail 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 or discounts to draw in more customers.

SOCIAL MADE SIMPLE

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

- **LINK** your social networking profile/s to your business's website.

- **DON'T BE TOO PROMOTIONAL.** If all you do is post or tweet about your newest projects, people will start to tune you out. Be helpful and share things you think are interesting.

- **BE REAL.** Social networking 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 networking efforts.

- **TRY THEM ALL.** Give each of the big social networking sites a chance. Set up profiles, then spend half an hour a day on each.

- **USE TOOLS.** Do an Internet search for Facebook, Twitter or LinkedIn tools and you'll find lots of applications that can streamline your social networking and save you time.

- **KNOW YOUR GOALS.** Set measurable goals and track your results from the sites. You'll soon find out which social networking tools give you the best return on investment.

GOING MOBILE

The latest trend in social networking: "LOCATION-BASED" mobile applications that users can access on their smartphones. Businesses use these tools to send users special offers, coupons and alerts tied to where the user happens to be at the moment. Facebook Places, Foursquare and Gowalla are three location-based tools to check out.

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.

A financial plan is your forecast of sales, costs, profits and assets for the first year or more after you start your business.

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?

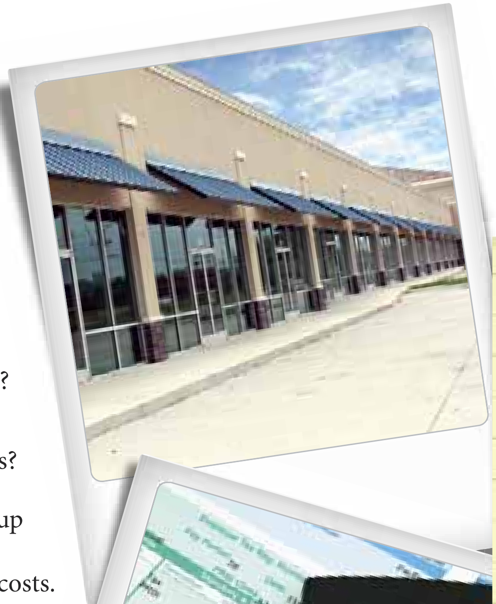
Be as detailed as you can in estimating startup costs. Include equipment, inventory and business services such as insurance or legal costs. Don't forget, you'll also need enough working capital to get you through the period before your business begins making a profit (typically 6 to 18 months). Last, 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.

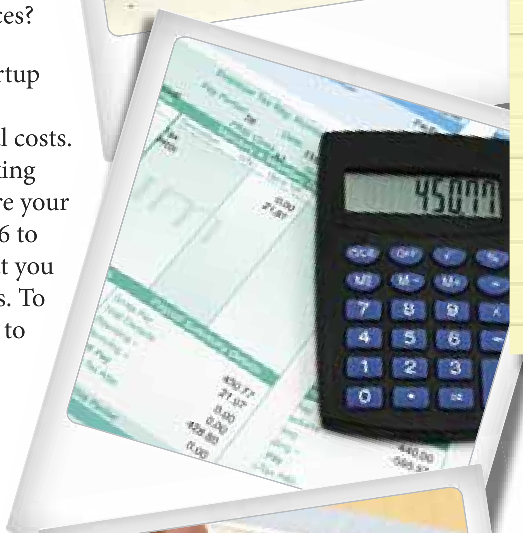
2. SALARIES AND WAGES

- 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, downloadable tools and templates on SCORE's website, www.score.org

NEXTSTEP

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

STARTUP EXPENSES	ESTIMATED AMOUNT
BUILDINGS/REAL ESTATE	
Purchase / Lease	
Construction	
Remodeling	
Leasehold Improvements	
Other	
TOTAL BUILDINGS/REAL ESTATE	$
CAPITAL EQUIPMENT LIST	
Furniture	
Equipment	
Fixtures	
Machinery	
Technology	
Other	
TOTAL CAPITAL EQUIPMENT	$
ADMINISTRATIVE EXPENSES	
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	
TOTAL ADMINISTRATIVE EXPENSES	$
OPENING INVENTORY	
Category 1	
Category 2	
Category 3	
TOTAL INVENTORY	$
ADVERTISING/PROMOTIONAL EXPENSES	
Advertising	
Website Development	
Signage	
Printing	
Travel, Meals and Entertainment	
Other/Additional Categories	
TOTAL ADVERTISING/PROMOTIONAL EXPENSES	$
OTHER EXPENSES	
Other Expense 1	
Other Expense 2	
TOTAL OTHER EXPENSES	$
RESERVE FOR CONTINGENCIES	
WORKING CAPITAL	

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)

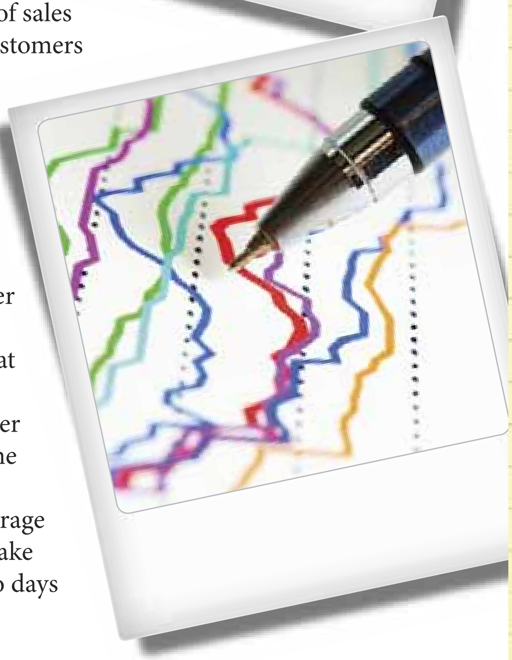
Of course, a single business may also have multiple categories. For example, you might open a store that offers computer repair (which is sold in hours) but also sell computer hardware and peripherals (which are products).

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

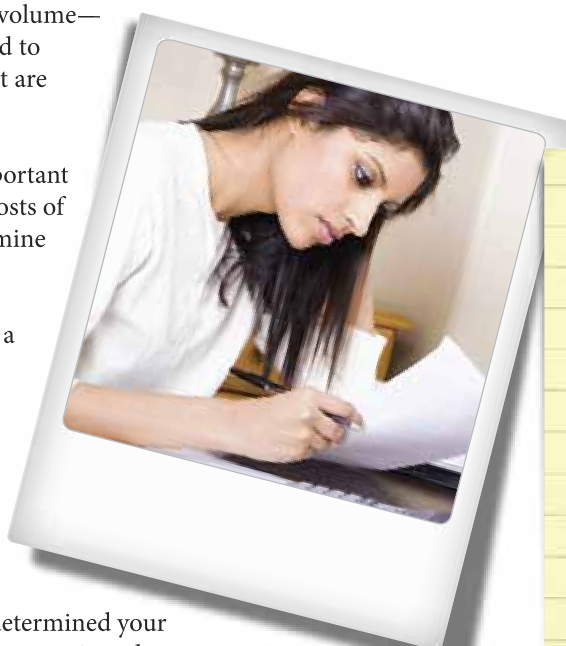
As a startup, forecasting sales units means making some guesses—but they should be educated guesses. Use the data you gathered in your market research, competitive research and business plan. Be sure to write down the basis for your assumptions so you can remember how you came up with the numbers when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

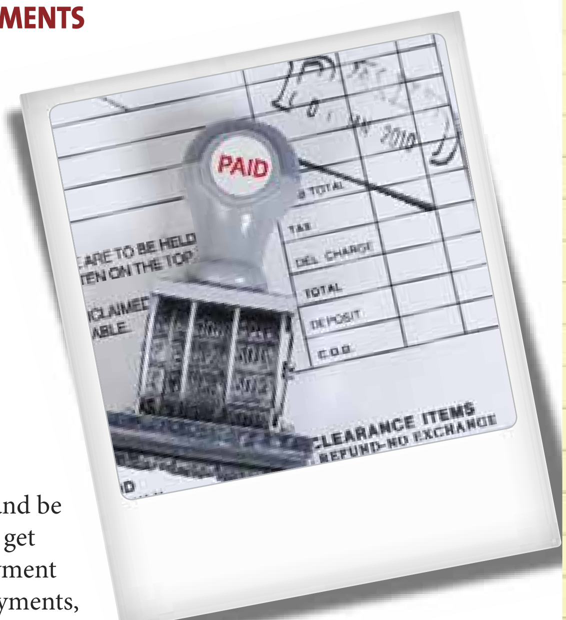


5. CASH RECEIPTS AND DISBURSEMENTS

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 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

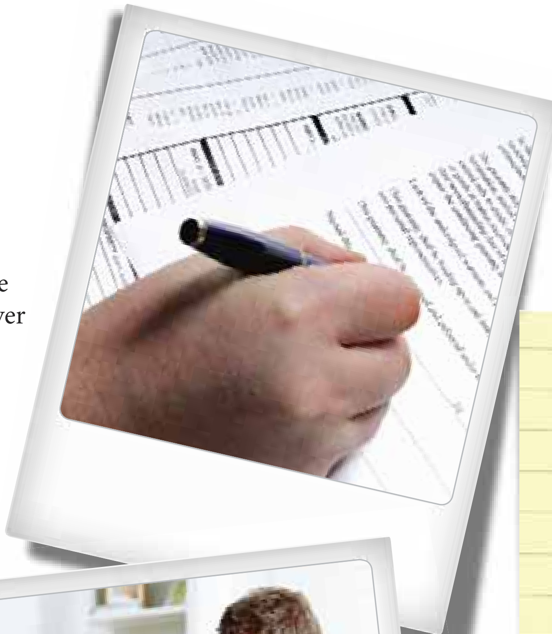
Also called the income and expense statement or profit and loss (P&L) statement, the income statement is the financial picture of business results over a period of time.

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.



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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	%
Revenue (Sales)																											
Category 1																											
Category 2																											
Category 3																											
Category 4																											
Category 5																											
Category 6																											
Category 7																											
Total Revenue (Sales)																											
Cost of Sales																											
Category 1																											
Category 2																											
Category 3																											
Category 4																											
Category 5																											
Category 6																											
Category 7																											
Total Cost of Sales																											
Gross Profit																											
Expenses																											
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)																											
Total Expenses																											
Net Profit																											

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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.

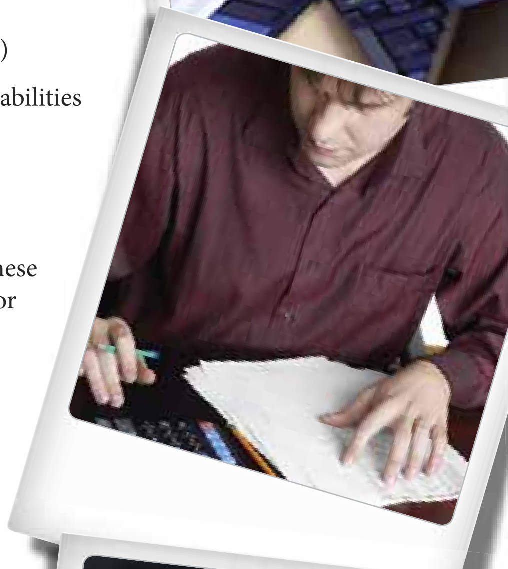
Liabilities include:

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

Get help from SCORE mentors. Visit www.score.org to find a mentor near you or get advice online.

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.

Cash Flow Statement: Worksheet

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

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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. BREAKEVEN 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:

Breakeven Sales = Total Operating Expense / 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)
- D&B (www.dnb.com)
- Risk Management Association (RMA) Annual Statement Studies (available at libraries or online at 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

FIND A SCORE OFFICE NEAR YOU:
www.score.org/chapters

E-MAIL SCORE:
contact@score.org

SEARCH THE SCORE WEBSITE:
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.

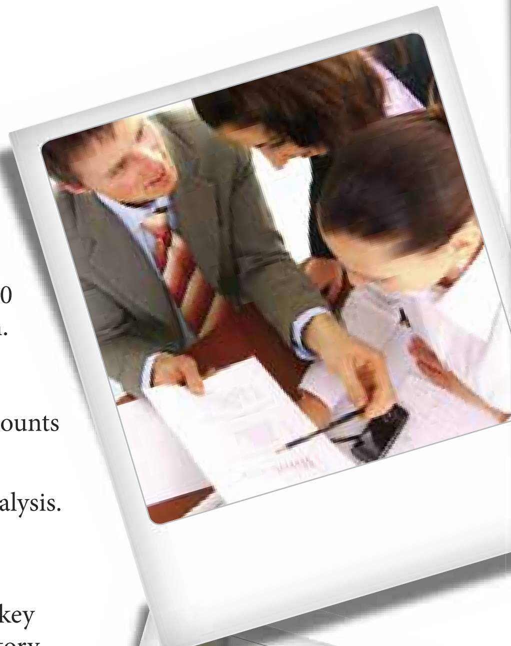
- Prepare monthly financial statements (within 10 days after the end of the month) and review them.
- Perform a monthly ratio analysis.
- Perform a monthly accounts receivable and accounts payable analysis.
- Perform a monthly comparative benchmark analysis.
- Perform a monthly analysis of profit and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

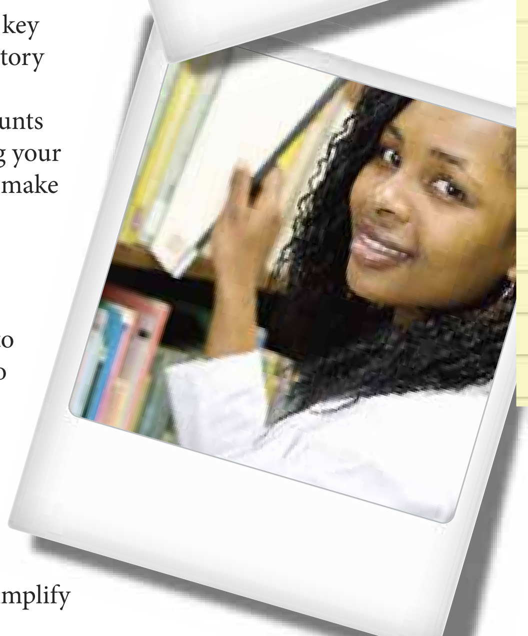
Depending on your industry, there may be other key measurements you'll want to track, such as inventory turnover, the average days accounts payable are outstanding (A/P DPO) or the average days accounts receivable are outstanding (A/R DSO). Analyzing your finances monthly enables you to spot trends and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

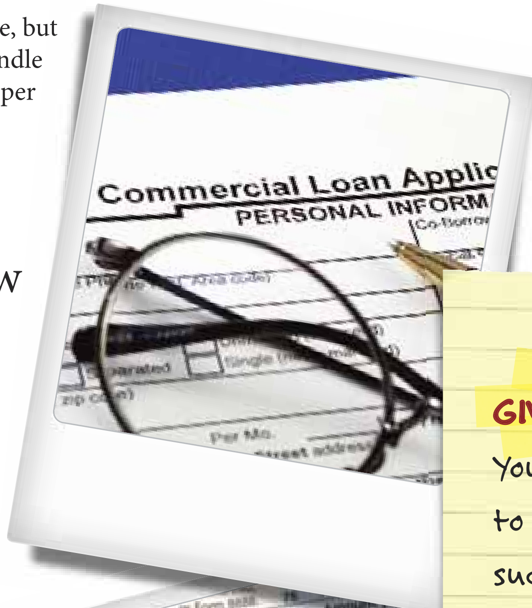
When reviewing your loan application, lenders look for good credit, a feasible business plan, adequate owner equity and sufficient collateral. Perhaps most important, they look for management expertise and commitment. What real-world experience do you and your key partners or employees have in managing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

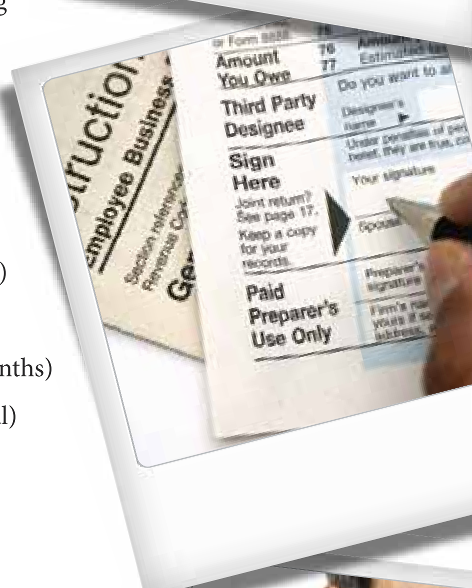
Here is what you'll need for a bank loan application:

- 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.

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).

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.

- **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 method of financing can become expensive very quickly.

- **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

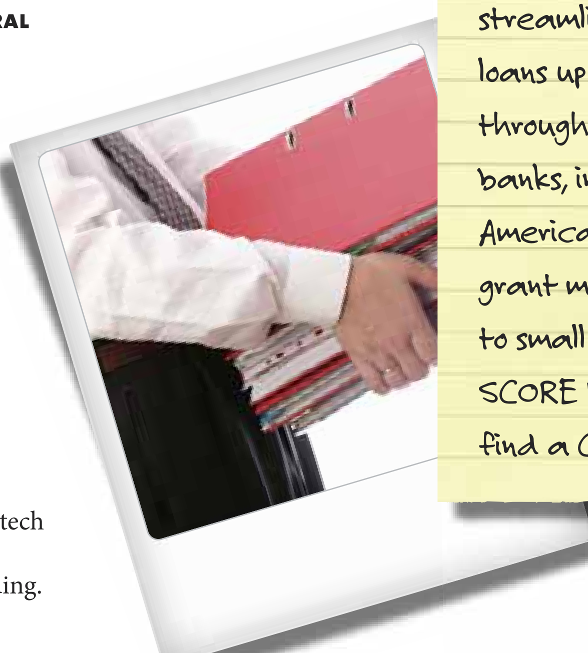
- **SBA GUARANTEED LOANS:** These loans are made by banks, but a percentage of the loan is guaranteed by the Small Business Administration, making banks more willing to take a risk on your business.

- **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.



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. Several major banks, including Bank of America, have committed grant money to CDFIs to lend to small businesses. Your SCORE Mentor can help you find a CDFI near you.

● **PEER-TO-PEER LOANS:** At sites such as Prosper.com (www.prosper.com) or Lending Club (www.lendingclub.com), individuals can connect to ask for and lend each other money.

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.

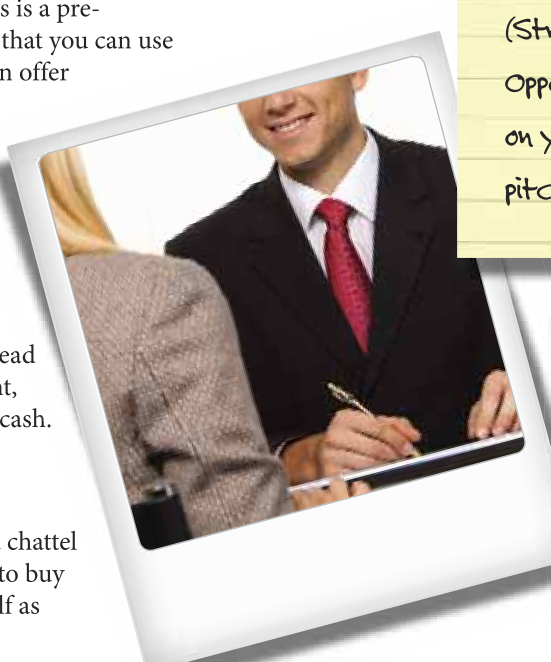
● **BANK LINE OF CREDIT:** This is a pre-established amount of credit that you can use as needed. A line of credit can offer more flexibility than a loan and is simpler to obtain. It is typically based on 75 percent of your current accounts receivable or 50 percent of the value of your inventory.

● **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.



FACE TIME

No matter how impressive your business looks on paper, your face-to-face meeting with a lender or investor can make or break the deal. Be prepared to impress! Know your financial SWOT (Strengths, Weaknesses, Opportunities and Threats). Focus on your strengths in your "elevator pitch" and your presentation.

FOR MORE INFORMATION

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

FEDERAL GOVERNMENT GRANTS:
www.grants.gov

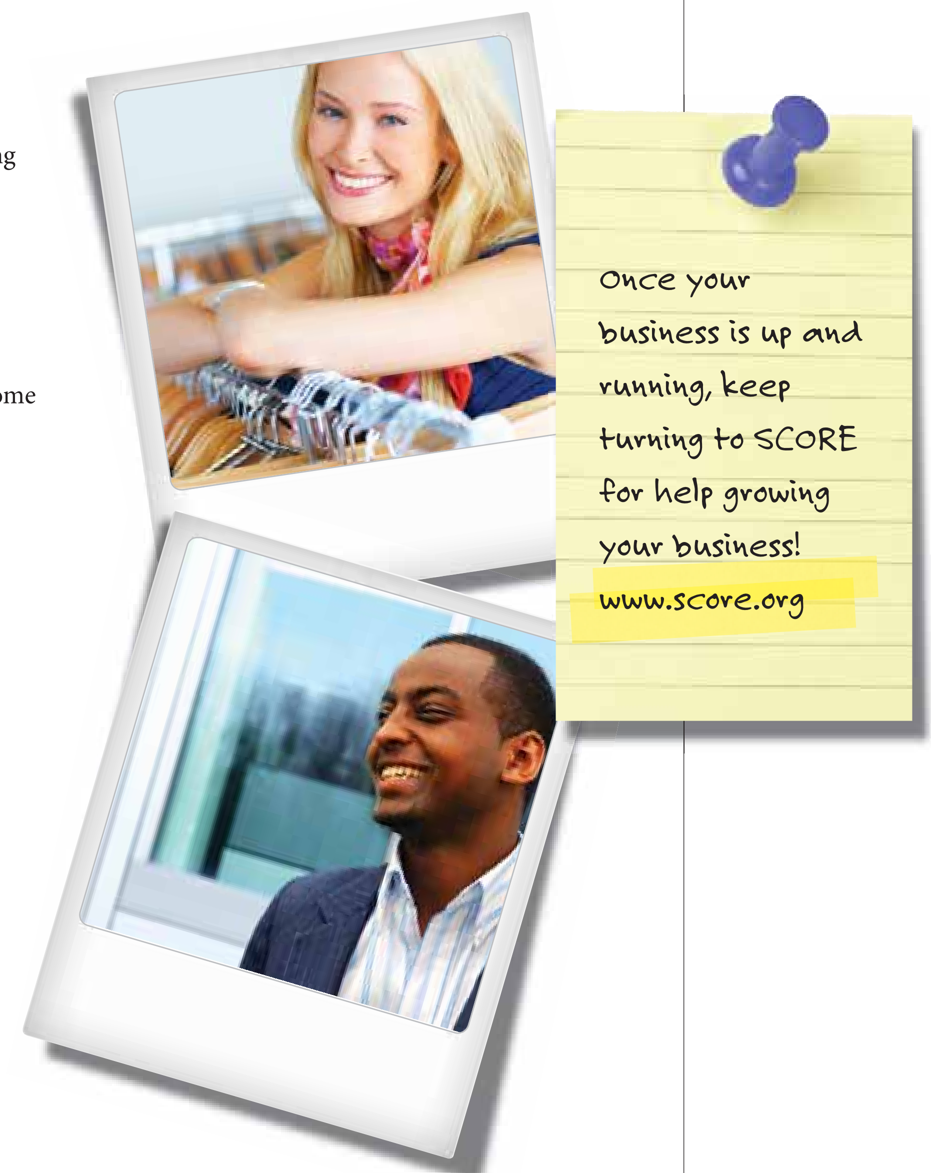
SBA GUARANTEED LOANS:
www.sba.gov

SCORE:
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!

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	POINT
IDEA FEASIBILITY	I know that my idea is serving an unmet need and solving an unserviced 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, and 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 to find a mentor near you or get advice online.



Want to start a business?
Get the help you need. Join us...

Simple Steps for Starting Your Business Workshops

Simple Steps for Starting Your Business is a 5-part series of 3-hour workshops designed to give you the tools, information and advice you need to succeed. You'll learn the essentials of business startup, get action steps, and receive one-on-one mentoring.

Will Your Idea Work?
Test the feasibility of your business idea and increase your chances for success with SCORE's tools & templates.

The Elements of Success
Starting with solid plans, genuine market knowledge, a financial plan and realistic expectations are key to launching a successful business.

Expert Advice & Assistance
Business experts help you navigate the expected—and unexpected—challenges most small business owners face.

Network and Learn
Take advantage of this great opportunity to be mentored (one-on-one) by a business expert, and meet other aspiring business owners.

Every Business Starts with a Dream.

Success Starts with SCORE.

Don't miss these 5 sessions:
- Start-up Basics
- Business Concept
- Marketing Plan
- Financial Projections
- Funding Sources and Next Steps

Get Started Today!

Find your local chapter at
www.score.org