



West Central Indiana SBDC

Information Packet

2006



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SBDC

Under the umbrella of the United States Small Business Administration, the Small Business Development Center (SBDC) strives to maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interests of small businesses. The SBDC provides business advisement and services free of charge to the general public.

The information found in this packet serves as a general overview of requirements, certifications, funding options, and processes for pre-venture and existing businesses.

Upon an initial counseling session with an SBDC business advisor, interactive electronic materials such as financial spreadsheets, business plan, and other specific data will be supplied to clients.

To obtain more particular, in-depth, and detailed business information, please contact an SBDC Business Advisor or visit:

The United States Small Business Administration
www.sba.gov
409 Third Street, SW
Washington, DC 20416
1-800-U-ASK-SBA
West Central Indiana SBDC
www.indstate.edu/sbdc/

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A Message on Grants:

You may have heard that there is free money out there to be given away to small business owners. This is not necessarily true-most small business owners obtain financing through loans and their own personal funds.

The difference between a grant and a loan:

A grant is essentially “free money” that does not have to be paid back. A loan is “borrowed” money that will need to be repaid, often with interest. The government’s grant program is very limited and described more below. The government’s loan program is through the Small Business Administration (SBA). SBA loans are guarantee loans made through local lenders. For more information on SBA loans, see other information in this packet.

While grants provide money that does not have to be repaid, they often require the recipient to provide matching funds. For example, you may need to come up with \$10,000 before the grantor will be given an additional \$10,000.

Are there any grants out there for your business?

Grants all have different requirements for eligibility. However, the majority of grants are given by foundations to groups of people who are looking for money to support a good cause. Examples may be:

- Scientific or medical research
- Community programs
- Educational programs
- Environmental programs

The Small Business Innovative Research Program is the government’s grant program. It focuses on research and development for the commercial sector. For more information, contact the Industrial Research Liaison Program through Indiana University at 812-855-6294, or look over the following website:

<http://www.sba.gov/SBIR/>

Most grants do not fund the usual retail, service, or manufacturing business idea. This is not to say that there is not something out there that will fit your needs. However, it is the responsibility of the business owner to do the research.

The Business Plan:

For any grant or loan, you will need to write a business plan or proposal. Any lender or grantor will want to know the reasons why they should give or lend you money. The Small Business Development Center has free counseling services to give guidance in writing and understanding a business plan.



Pre Business Plan Questionnaire:

1. List your reasons for wanting to go into business. Some of the most common reasons for starting a business are:
 - Self-management
 - Financial independence
 - Creative freedom
 - Full use of personal skills and knowledge

2. Next determine what business is right for you. Ask yourself these questions:
 - What do I like to do with my time?
 - What technical skills have I learned or developed?
 - What do others say I am good at?
 - Will I have the support of my family?
 - How much time do I have to run a successful business?
 - Do I have any hobbies or interests that are marketable?

3. Identify your business niche. Research and answer these questions:
 - What business am I interested in starting?
 - What services or products will I sell?
 - Is my idea practical, and will it fill a need?
 - What is my competition?
 - What is my business's advantage over existing firms?
 - Can I deliver a better quality service?
 - Can I create a demand for my business?

4. The final step before developing your plan is the pre-business checklist. You should answer these questions:
 - What skills and experience do I bring to the business?
 - What legal structure will I use?
 - How will my company's business records be maintained?
 - What insurance coverage will be needed?
 - What equipment or supplies will I need?
 - How will I compensate myself?
 - What are my resources?
 - What financing will I need?
 - Where will my business be located?
 - What will I name my business?



Business Startup Checklist:

This is a guideline. The time period may vary from business to business. But these activities are generally undertaken in start-up. Not all firms may undertake all activities.

This should serve as a reminder and framework for budgeting time to lay a solid foundation for a new business.

9-12 MONTHS PRIOR TO START

- Determine time required to obtain business permits
- Contact and join chamber of commerce
- Visit with others in your network: attorneys, bankers, CPA's, consultants, competition check out community amenities (real estate, schools, etc.)
- Subscribe to local papers
- Decide on business location
- Obtain licenses (city, county)
- Prepare preliminary business plan and budget
- Interview bankers
- Determine when phone book is printed.

4-6 MONTHS PRIOR TO START-UP

- Decide on form of business organization (sole proprietor, corporation, LLC, etc.).
- Prepare advertisements.
- Prepare final budget and review with banker.
- Order business systems: receivables check disbursements, payroll system.
- Order sign for office
- 0-4 MONTHS PRIOR TO START-UP
- Make sure business filings and license applications are complete
- Arrange for insurance
- Arrange for telephone service installation.
- Open checking accounts.
- Sign up for credit card systems at local bank.
- Arrange for business announcement ads in local papers.
- Order office opening announcements.
- Arrange to give talks to community groups.
- Consider membership in civic and church organizations.
- Arrange for movers.
- Contact State Department of Workforce Development.
- Prepare job descriptions for employees.
- Write policy manual for office employees.
- Check local resources for personnel.
- Begin screening process for new personnel.
- Contact IRS for booklets and apply for Federal Employment ID number.



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- Apply for state ID number.
- Contact state for tax forms and employer's requirements.
- Obtain payroll withholding booklets from tax authorities.
- Review tax requirements with your accountant.
- Arrange for janitorial service, waste removal, laundry service, grass mowing.
- Order supplies: appointment cards, business cards, stationery, deposit stamp for checks, telephone message pads.
- Interview and select collection agency.
- Determine business hours.
- Determine pricing schedule.
- Order publications.
- Purchase office equipment and furniture.
- Start setting up office.
- Schedule utilities to be turned on.
- Hire and train office personnel.
- Establish petty cash fund.
- Prepare press release and begin advertisement.
- Mail announcement.
- Plan an open house

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Applying for a Loan:

When applying for a loan, you must prepare a written loan proposal. Make your best presentation in the initial loan proposal and application; you may not get a second opportunity.

Always begin your proposal with a cover letter or executive summary. Clearly and briefly explain who you are, your business background, the nature of your business, the amount and purpose of your loan request, your requested terms of repayment, how the funds will benefit your business, and how you will repay the loan. Keep this cover page simple and direct.

Many different loan proposal formats are possible. You may want to contact your commercial lender to determine which format is best for you. When writing your proposal, don't assume the reader is familiar with your industry or your individual business. Always include industry-specific details so your reader can understand how your particular business is run and what industry trends affect it.

Description of Business

Provide a written description of your business, including the following information:

- Type of organization
- Date of information
- Location
- Product or service
- Brief history
- Proposed Future Operation
- Competition
- Customers
- Suppliers

Management Experience: Resumes of each owner and key management members.

Personal Financial Statements: SBA requires financial statements for all principal owners (20% or more) and guarantors. Financial statements should not be older than 90 days. Make certain that you attach a copy of last year's federal income tax return to the financial statement.

Loan Repayment: Provide a brief written statement indicating how the loan will be repaid, including repayment sources and time requirements. Cash-flow schedules, budgets, and other appropriate information should support this statement.

Existing Business: Provide financial statements for at least the last three years, plus a current dated statement (no older than 90 days) including balance sheets, profit & loss statements, and a reconciliation of net worth. Aging of accounts payable and accounts receivables should be included, as well as a schedule of term debt. Other balance sheet items of significant value contained in the most recent statement should be explained.



Proposed Business: Provide a pro-forma balance sheet reflecting sources and uses of both equity and borrowed funds.

Projections: Provide a projection of future operations for at least one year or until positive cash flow can be shown. Include earnings, expenses, and reasoning for these estimates. The projections should be in profit & loss format. Explain assumptions used if different from trend or industry standards and support your projected figures with clear, document able explanations.

Other Items As They Apply:

- Lease (copies of proposal)
- Franchise Agreement
- Purchase Agreement
- Articles of Incorporation
- Plans, Specifications
- Copies of Licenses
- Letters of Reference
- Letters of Intent
- Contracts
- Partnership Agreement

Collateral: List real property and other assets to be held as collateral. Few financial institutions will provide non-collateral based loans. All loans should have at least two identifiable sources of repayment. The first source is ordinarily cash flow generated from profitable operations of the business. The second source is usually collateral pledged to secure the loan.

The 5 C's of Credit

Your bank is in business to make money. Consequently, when a bank lends money it wants to ensure that it will be paid back. The bank must consider the 5 "C's" of Credit each time it makes a loan.

Capacity to repay is the most critical of the five factors. The prospective lender will want to know exactly how you intend to repay the loan. The lender will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships - personal and commercial - is considered an indicator of future payment performance. Prospective lenders also will want to know about your contingent sources of repayment.

Capital is the money you personally have invested in the business and is an indication of how much you will lose should the business fail. Prospective lenders and investors will expect you to contribute your own assets and to undertake personal financial risk to establish the business before asking them to commit any funding. If you have a significant personal investment in the business you are more likely to do everything in your power to make the business successful.



Collateral or guarantees are additional forms of security you can provide the lender. If the business cannot repay its loan, the bank wants to know there is a second source of repayment. Assets such as equipment, buildings, accounts receivable, and in some cases, inventory, are considered possible sources of repayment if they are sold by the bank for cash. Both business and personal assets can be sources of collateral for a loan. A guarantee, on the other hand, is just that - someone else signs a guarantee document promising to repay the loan if you can't. Some lenders may require such a guarantee in addition to collateral as security for a loan.

Conditions focus on the intended purpose of the loan. Will the money be used for working capital, additional equipment, or inventory? The lender will also consider the local economic climate and conditions both within your industry and in other industries that could affect your business.

Character is the personal impression you make on the potential lender or investor. The lender decides subjectively whether or not you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background and experience in business and in your industry will be reviewed. The quality of your references and the background and experience of your employees will also be considered.

Preparing and Presenting a Loan Proposal

Once you have a written business plan, you are now ready to approach the money markets to try to finance your business.

Developing your loan proposal

Your loan proposal must answer the following questions:

- Who are you?
- How much do you need?
- How are you going to pay it back?
- What happens if you can't pay it back?

Elements of your loan proposal

Generally, the loan proposal is comprised of the following elements:

1. Summary: Comes first; written last.

This should be clear, concise, accurate and inviting. You want to summarize how the proposed loan will be used, how it will be repaid and how it will benefit your business. Remember, that you are competing with many others, so you'll also want to point out some of the distinguishing features of your business.

2. Top management profiles:



The key issue here is who are you? Be prepared to come under close scrutiny. You will need resumes as well as a summary of experience, qualifications and credentials for all owners and key members of your management team.

3. Business description:

You don't need to repeat all of the information contained in your business plan, but you do need to present a solid description of your business. Include a brief overview of the history of your business, plus a summary of current activities. Make sure you clearly demonstrate that you understand your markets and industry (current trends and risks). Include literature showing your products or services. It is also helpful to include letters from suppliers, customers and other business references.

4. Projections:

Include projected income statements and cash flow statements for two to three years. Your assumptions should be clearly stated and realistic. Generally, you don't need to show "best case" and "worst case" unless the banker asks you to do so. But do be prepared to answer questions (in quantifiable terms) about what happens if some of your assumptions don't come true. For example, if you anticipate obtaining a major new contract or customer as a result of newly expanded capacity, can you estimate the impact on your income statement if that customer decides to take her business elsewhere?

5. Financial Statements:

The loan package must include both business and personal financial statements. Make sure that you fully understand the "story" that your financial statements tell. Be assured that your banker will fully analyze your historical financial statements and calculate all the ratios. So, prepare in advance and point out any significant trends in an introductory paragraph.

6. Purpose of the loan:

Present a detailed statement of how you will use the loan proceeds.. Don't forget to include the proceeds of the loan in your cash flow projections (and the interest in your projected income statement).

7. Amount:

Remember, that you are offering the bank a deal that will make them money -- you are not asking for an "allowance". The attitude you should take is to ask, "how much money do you need, and how much will they lend?" and not, "will they lend it?"

8. Repayment plans:

You will have to make some assumptions about the terms of the loan in your proposal. (Obviously, this is necessary to prepare the initial financial projections.) In the first package, you will propose the terms that you want, but ultimately this will be a point that will be negotiated with the bank. The bank will consider a number of factors as they assess the overall risk of the loan and this will impact the repayment terms they are willing to give you.



Selecting the bank

You may already have a relationship with a bank, and this is generally the logical first choice for borrowing money. But whether this is your first loan, or you are borrowing additional money, you should consider several points before selecting the bank.

Although you may need money, you should be in the driver's seat when it comes to choosing the bankers or partners you want to deal with. Make sure the bank is sincerely interested in your business and will provide you with the services you need. You should also look for a banker with whom you feel you can develop a good ongoing relationship and that has experience with similar businesses. Keep in mind the value of your business to the community and what its future deposits could mean for the bank.

Key questions to ask bankers include the following:

- Do they have an industry specialty related to yours?
- What is the average size of their borrowers?
- What are their professional backgrounds, especially in terms of whether they are commercial or consumer lenders?
- How long have they been in these positions?
- Do they have the level of lending authority you need?

Whether you patronize a large commercial bank or a small community bank will depend on your needs. Major banks tend to offer a wider range of services and locations, which may be important if you have the need for a variety of financial products and services. Community banks, on the other hand, are smaller, meaning that the banker you deal with daily might be able to make your financing decision personally or get it through the bank hierarchy quicker.

Presenting your loan proposal

Okay, now your loan package is prepared and it's time to get ready to present your proposal. Before you go to the bank it is a good idea to role play with someone you trust. This is not the sort of presentation that you make every day, and this can help ensure that you are comfortable discussing all the material in your loan package, and have considered all the questions your banker might ask in the initial interview. If you have a question about how to present your loan, now might be a good time to visit the Info Exchange - discussion forum on lending and seek the advice of an expert or another business owner that has been through this before.

Before you approach a bank you should:

- Have comprehensive written documentation ready.
- Know your numbers inside and out.
- Know what collateral you can offer.
- Be prepared to sell yourself.

Handle the meetings professionally -- make an appointment, show up on time and have a business



demeanor throughout the meeting. You should tell a prospective banker what benefit your business brings to the bank in terms of average balances in checking accounts, savings accounts, and present and future financial needs. You should also ask them questions to see if you think they are the right people to handle your account. After you present your loan proposal, ask the banker what can be expected in terms of a response time, or when they will request additional information.

Obviously, the request won't be approved in the initial meeting. But if you've done your homework, you will already have a good idea of whether or not your loan is likely to be approved.

If your loan is approved: (besides celebrate) make sure that you:

- Thoroughly review all loan documents and understand before signing.
- Consult with your lawyer or accountant if you have any questions.
- Get documents in on time -- frequently there are a number of documents that cannot be finalized until after the loan is approved and closed. Keep up that good impression the bank has of you by promptly responding to requests for additional information, documents, signatures, etc.
- Maintain close contact with your loan officer. It is a good idea to give her progress reports -- the bank now has a vested interest in your success and will want to be kept current.
- Communicate problems. Bankers, don't like surprises, particularly if the news is bad.

So, make sure they are one of the first contacted if you encounter any problems. Once your banker makes a loan to you, he or she has a vested interest in your business success. If you prosper, the bank prospers. If you fail, the loan they approved is not going to be paid.

If your loan is not approved:

- Don't despair.
- A "no" today doesn't necessarily mean no forever.
- Don't take it personally.
- Be gracious.
- Ask the banker to explain "why" your loan was not approved.
- Don't get defensive, seek information so that your next proposal addresses and corrects any deficiencies in the current application.

Where to turn for help:

There are a number of resources available to help you prepare your loan proposal, including SBA-affiliated Women's Business Development Centers, Small Business Development Corporations, and Service Corps of Retired Executives (SCORE).

What to do when no one will lend you money:

There may be times when knowing the money markets, as well as preparation, presentation; pluck and persistence just don't seem to work. The key to overcoming this financial obstacle is not to get bitter: get resourceful. Remember there is more than one way to skin a cat.

If you have a viable business idea you should be able to find funding... as long as you have done your



homework and developed a written business plan. Other owners have raised money from friends by making attractive interest rate offers to friends and acquaintances for loans. The secret is to prepare yourself -- before you implement that growth strategy. Your business plan will provide you with a way to look, before you leap.



Business Tax Formations:

Sole Proprietorship:

A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest form of business organization to start and maintain. The business has no existence apart from you, the owner. Its liabilities are your personal liabilities. You undertake the risks of the business for all assets owned, whether used in the business or personally owned. You include the income and expenses of the business on your own tax return.

The Partnership:

A partnership is the relationship existing between two or more persons who join to carry on a trade or business. Each person contributes money, property, labor, or skill, and expects to share in the profits and losses of the business.

A partnership must file an annual information return to report the income, deductions, gains, losses etc., from its operations, but it does not pay income tax. Instead, it "passes through" any profits or losses to its partners. Each partner includes his or her share of the partnership's income or loss on his or her tax return.

Partners are not employees and should not be issued a Form W-2. The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners by the date Form 1065 is required to be filed, including extensions.

The Corporation: (S-CORP, C-CORP)

A corporation is defined as a legal entity or structure created under the authority of the laws of a state consisting of a person or group of persons who become shareholders. The entity's existence is considered separate and distinct from that of its members. Like a real person, a corporation can enter into contracts; sue and be sued; pay taxes separately from its owners; and do the other things necessary to conduct business. Since a corporation is an entity in its own right, it is liable for its own debts and obligations. As a result, providing that corporate formalities are followed, the corporation's owners (the shareholders) typically enjoy limited liability and are legally shielded from the corporation's liabilities and debts. The existence of a corporation is not dependent upon who the owners or investors are at any one time. Once formed, a corporation continues to exist as a separate entity even when shareholders die or sell their shares. A corporation continues to exist until the shareholders decide to dissolve it or merge it with another business.

Corporations are subject to the laws of the state of incorporation and to the laws of any other state in which the corporation conducts business. Corporations may thus be subject to the laws of more than one state. All states have corporation statutes that set forth the ground rules as to how corporations are formed and maintained.



Limited Liability Company: (LLC)

A LIMITED LIABILITY CORPORATION is actually the incorrect term for a LIMITED LIABILITY COMPANY (LLC). While some may use the terms interchangeably, there is no legal term LIMITED LIABILITY CORPORATION.

A limited liability company (LLC) is a business entity created by statute. It has some characteristics of a partnership and some characteristics of a corporation particularly an S corporation. Forming a limited liability company is more complex than forming a partnership, but fewer complexes than forming and operating a corporation.

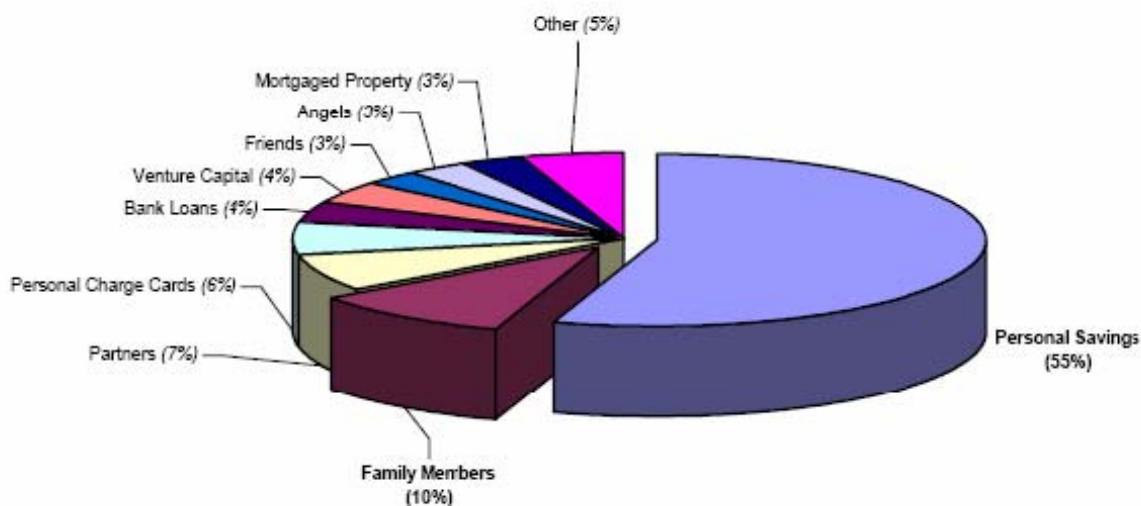
In a limited liability company, a member's legal liability is limited to his or her investment in the business. Generally, a member's personal assets are not at risk, but a member's personal assets may be at risk if any of the following occurs:

- A member personally guarantees a business debt.
- The form of business is found to be a sham (not properly formed or maintained).
- A member becomes personally liable as a result of his or her own acts or conduct.

SmallBizU

Cheat Sheet: Finding Money to Start a Business

Where Does Start-Up Money Come From?



Finding the right type of money.

- While finding the required funding is obviously important, securing the right type of capital can be just as important.
- As a business moves through its lifecycle, the type of money it requires changes.
- Having the wrong type of money at the wrong stage of the business can prove to be a fatal management mistake.

The right type of money your business needs depends on these questions.

- How much money you need?
- What will the money will be used for?
- At what stage is your business in?
- What is your capacity to repay the money?

How much money do you need?

- The amount of money needed will determine who is interested in the deal.
- While a bank may look at a deal of \$100,000 or less, most venture capital firm would consider this to be too small as even a seed capital deal.



What will the money be used for?

- Banks like deals where there are a lot of hard assets to secure as collateral and tend to shy away from pure cash-only deals.
- Investors are the usual option when the money will be used to pay for the day-to-day operating expenses of the business or in the case of more risky activities such as new product launches.

At what stage is your business?

- Earlier stage businesses including start-ups have to rely upon more personal funds and monies obtained through private investors since they involve more risk than most banks want to assume.
- Later stage businesses that are in the growth phase are more bankable depending on what the money will be used for?

What is your capacity to repay?

- For larger deals where the time to repayment is longer and more drawn out, investors can offer more flexible repayment terms than banks.
- But it comes at a steep cost as they also tend to require very high rates of return and ownership in the company.
- Also, the more debt the business has can hinder its ability to raise additional capital.

Fact: Most money comes from the owner's own piggy bank.

- As we've seen, more than half of all start-up funds raised to start a business comes right out of the owner's own pocket.
- A close second source of start-up funds is friends and family.
- The most common misconception is that there are grants available to start a business. Let's address this issue.
- A grant is money that does not have to be repaid. Most grants however require matching funds. Grants are usually available through public or private community foundations. These foundations primarily grant monies to not-for-profit agencies and rarely, if ever, grant money to for-profit businesses.
- A not-for-profit is an organization who has applied for special tax status with the Internal Revenue Service (IRS). See IRS Publication 557 for more details. There are usually classified as.
 - A charitable social service agency
 - An educational institution
 - A religious organization
 - A scientific organization

While it's nice to believe that free money exists. it just doesn't. Just like everything in life there are no



easy short-cuts to finding money. Raising money for the start-up of a business will be one of the most challenging tasks you will encounter. The more you accept this, the more mentally prepared you will be to finding the money you need.

How Much Money Do You Need?

The first question you need to answer.

- How much money do you require and what will it be used for?
- The answer to this question will determine:
- What sources of capital will be interested in funding your business,
- What types of funding you may be eligible for, and
- What will be the best strategies for you to pursue in raising the required funds.

Let's complete this worksheet.

The following worksheet will be used throughout the rest of this course so it is important that you complete it to the best of your ability. View and print the worksheet: [Required Start-Up Funds](#)

The Required Funds Worksheet helps you to account for all of your start-up costs. It breaks these costs down into Fixed Assets and Working Capital.

- Fixed assets are property that usually has some sort of long-term value.
- Working capital is money that will be used to finance the short-term operations of the business.

Next, we'll look at the owner's cash contribution into the business.

- Whether you are seeking a debt-based lender or an equity-based investor, all providers of start-up capital are going to expect you or other owners to place some amount of cash into the business.
- For some assets such as buildings and real estate for instance, banks usually will not lend more than 80% of the required funds which means you have to come up with at 20% of the amount.
- Let's now complete Worksheet 2: [Owner's Cash Contribution](#). This worksheet will help you to determine how much outside financing you require.

The amount of money you need.

- When you have completed Worksheet 2, Line 7 tells you exactly how much money you need to raise.
- If you were surprised by the real estate requirement of putting 20% into this asset you may need to go back and reconsider leasing a building to begin with instead of buying from the initial onset.



The Different Types of Money

The different types of money.

- In general, there are two basic types of money:
 - • debt and
 - • equity.
- Both of these types of capital operate in completely different ways and each can have an entirely different effect on a business.
- Even the business plan you write needs to be tailored to the appropriate type of capital you are seeking since each is a unique audience.

What is debt capital?

- Debt is a liability or obligation owed to another person or institution and legally required to be paid by a specific date.
- Examples of debt capital include bank loans, government guaranteed loans, lines of credit, credit cards, mortgages, notes payable, bonds, accounts payable, trade credit, home equity, leasing contracts, etc.

Who provides debt capital?

- Banks and other financial lending institutions are the chief providers of debt capital.
- Also, owners or other outside persons may lend money to a business in the form of debt.

The advantages of debt capital.

- Debt can be less costly than equity capital since most interest rates are less than what an investor would require as a rate of return.
- Also, with debt capital, you don't have to give up any ownership in your business.

The disadvantages of debt capital.

- Debt capital can be rough on the cash flow of your business since you are usually required to make constant and periodic principal and interest payments similar to a home mortgage.
- If your business is cyclical or seasonal or experiences a sudden downturn in sales, the inflexibility of debt repayment can cause a sudden cash crunch.

When should debt be used?

- Debt capital is best when the money you require will be used mainly for fixed assets. Banks and other debt-based lenders require enough collateral to secure the amount of principal being borrowed so they like loans that involve equipment, real estate, buildings, etc.



- If you own a house, a home equity loan is a great source of capital. Home equity loans can be tax-deductible and the interest rates charged are usually much lower than traditional commercial loans.
- Also consider debt capital when your business needs a line of credit. A line of credit is similar to a credit card in that it's a short-term money solution. The main advantage of a line of credit is that you only pay interest on the balance of money that you have drawn down. Say, for instance, that you have drawn down \$10,000 of a \$30,000 line of credit. You only owe interest on the \$10,000 not the total amount of credit available. Most lines of credit have a limit of available capital and their interest rates are about the same as most commercial loans.

Now let's look at equity capital.

- Equity is money raised from the owners of a business.
- Examples of equity capital include common stock, partnership interests, and other ownership-based interests.

Who provides equity capital?

- Equity is generally provided by the owners of the business who may include partners, private investors, customers, suppliers, angels, investment bankers, and venture capitalists provide equity capital.

The advantages of equity.

- Equity capital can be much more flexible than debt. There are no collateral requirements for equity capital and repayment terms and conditions can be tailored to the needs of the business.
- Usually, payments to investors can be put off until the business exceeds breakeven or reaches a certain level of profitability. Needless to say, this can really help the cash flow of an emerging business.
- Also, equity capital can be a great way of raising large amounts of money for your business.

The disadvantages of equity.

- Equity can come at a very steep price. While a debt-based bank loan might run you say 10%, an investor or venture capitalist seeks much higher rates of return say around 20% to 40%.
- Also, equity investors generally want a share of the business so you will have to give up some ownership.
- While these investors don't want to run the day-to-day operations of your business, they usually want a seat on the board of directors where they can influence the decisions of the management team.



When should equity be used?

- Equity capital is well suited for start-up businesses that require large amounts of working capital or involve a new product launch.
- Banks are not fond of lending cash and working capital to a business, especially if they are in the start-up phase. Once a dollar is spent on payroll or advertising, it is gone forever and cannot be liquidated by the bank should the borrower default on the loan. This is the domain of the equity investor. The investor is willing to take on more risk for more reward. They fund high-risk start-ups, new product launches, new marketing initiatives, and major growth and expansion phases of a business.

Let's now look back at Worksheet 1.

- If you remember, Worksheet 1 helped you to calculate your required start-up funds.
- At the top of this worksheet you find any fixed assets that you require.
- At the bottom, you find the amount of cash that you need to cover your short-term expenses also known as working capital.
- As you might imagine from what you have learned, bankers and other debt-based lenders like to finance fixed assets or the items that you listed on Lines 1 through 5 of Worksheet 1. This is true because each of the items involve property or other assets that can be forfeited by you as a borrower and liquidated back into cash by the lender. This fact helps the debt-based lender reduce their relative risk when making a loan of this type.
- As you might suspect, any items that you require for the start-up of your business found on the bottom half of Worksheet 1 on Lines 6 through 15 are better suited for equity-based investors. Since there is no property or assets to be used as security against the needed money, there is a higher degree of risk present to the borrower. This then becomes the realm where you need to use your own money or seek other investors for help before you approach a lender such as a bank.

How To Get Money From A Lender

What is a lender?

- A lender is someone who provides debt capital or loans to your business.
- A lender is someone who looking for highly secured loans involving large amount of collateral or assets as security for the loan.
- Because their risk is not as great as an investor, they offer money just a little bit above the current prime rate.

So just what is collateral?

- Collateral is property or goods used as security against a loan and forfeited to the lender if the borrower defaults.
- Some examples of collateral include:



- Something you can kick. Something tangible like inventory or fixtures.
- Homes, buildings, and real estate
- Equipment of other fixed assets
- Securities and financial instruments that are transferable.

What a lender is not.

- A lender is not a venture capitalist or risk-based investor.
- They are basically lending out other people's life savings and therefore must be conservative with the risks they take.
- In fact, there are numerous government restrictions detailing how banks and other financial institutions can lend money.

Fact is.

- Most banks just don't make loans to start-ups.
- It's a game of probabilities: A bank operates on very thin margins.
- As a rule, banks can tolerate defaults on up to 5% of their loan portfolios. The failure rate of business start-ups is much higher than that.
- Collateral helps, but by itself is usually not enough because banks don't want to be in the liquidation business.

Ideally, to get money from a lender.

- You should be willing and able to put money into the business first (even if it is someone else's). This is known as the owner's equity injection.
- You should have collateral available to offer against any unsecured money that you are borrowing.
- You should have a well-constructed business plan complete with financial projections.
- You should have a good credit history.

Putting some skin into the game.

- Before a lender will provide money, they like to see some sort of financial commitment on behalf of the owner(s).
- While there is no formal requirement, most lenders like to see anywhere from 10%-20% of the total project financed by the owner.
- If you take 20% (.2 times) of the total funds you require found on Worksheet 1 this will give you some idea of what a lender would like to see.

A lender will also pull a credit report.

- A credit report documents your entire history of relationships with creditors.
- These reports are prepared by a few large agencies and pull together many different types of



criteria to produce your overall .credit score.

- If your credit score is not high-enough, this attribute alone can be reason for the rejection of a bank loan.

Just be prepared.

- Almost without exception, if a lender sees that you own a house they ask that you pledge it as security or collateral against the loan.
- You need to mentally prepare yourself for this situation and be prepared to make such an offer if you truly desire the start-up monies.
- If things go well and you establish a good payment history with the bank you can always refinance the loan and pull the collateral out at that time.

You must have a business plan.

- A business plan is a document describing the current activities of a business, setting out its aims and objectives and how they are going to be achieved over a set period of time.
- The sections of a business plan usually include a market section, a management and operations section, and a financial section.

Creating a business plan.

- There are no required formats for a business plan.
- At the very least, your plan should explain who you are, what you make, how you make it, and how you sell it.
- It should also contain a financial projection of revenue and expenses.
- Needless to say, creating a business plan is a course by itself, one worth studying if you are going to be successful in business.

How should you write the business plan to attract a lender?

- Lenders are conservative. They need to see collateral to secure the loan and the financial projections you provide need to be very conservative.
- Also, make sure you break down your loan request into its essential elements. In other words, you should list out how much you need for equipment, inventory, supplies, signage, prepaid expenses, working capital, etc.
- The most important thing the banker is looking for (after collateral) is the cash flow of the business. They want to see that your business has enough capacity to repay the loan amount.
- Your business plan should include these assumptions into the financial projections showing very clearly both the principal and interest payments being made back to the lender.



How to Get Money from an Investor

What is an investor?

- An investor is someone who places equity or money into a business usually receiving an ownership or partnership stake in the business.
- They are looking for high-growth industries and markets and experienced management teams.
- They undertake a great deal of risk since most of the money they provide is unsecured, therefore they seek very aggressive rates of return on their capital.

What an investor is not.

- An investor does not want to control the day-to-day operations of your business, although they may request a seat on your board of directors.
- An investor is not someone who is interested in staying with the business over the long-term. They normally want in early-on when the business experiences its greatest levels of growth and then they want out.

What you need to know about an investor.

- Equity investors are usually seeking large ownership deals in a venture. While an angel investor may seek small ownership positions, many large venture capital firms will want 30% to 70% of the venture just for getting in on the early stages of the business.

Things to consider about an investor.

- Any sale of stock or ownership in a business must comply with federal and state securities laws.
- Such laws were created to assure that buyers are fully informed of a company's situation.
- Entrepreneurs and their teams must be forthcoming with information that investors need to properly assess the business.

Securities and exchange issues.

- Many of the legal guidelines for making such investments fall under the Securities and Exchange Commission's (SEC) Regulation D, Rules 504-506.
- These rules place limitations on how much money you can raise in a given time period before having to comply with SEC Registration Requirements.

Different kinds of investors.

- Besides the actual owners of the business, outside investors fall into two broad groups:



- Angel Investors and
- Venture Capitalists
- These two groups differ with respect to the type of deal they are looking for, the size of the deal they want to do, and their specific motivations behind the investment.

Who are angel investors?

- Angels are high net worth individuals or small group investors and account for more capital invested in small companies than all of the venture capital funds combined.
- Much of an Angel's value of their involvement is their business experience and willingness to assist growing the business.
- Make no mistake though; they are looking for a return on their investment as well.

What angels look for.

- Angels are seeking companies with high growth potential, proven management and sufficient information about the company, its management team, and its market to be able to assess a company's value.
- On average, Angels expect 10 to 15 percent above of the S&P 500 return on equity.
- Typically, Angels invest in companies seeking between \$20,000 and \$1,000,000.
- Angels generally prefer to finance manufacturing or product-oriented ventures, especially in the high-tech fields.

Who are venture capitalists?

- With debt financing, you would acquire debt but still have complete ownership of your company if you pay back your loans on schedule. However, venture capital is equity funding for high-risk and high-growth companies.
- A high-growth company would be one that could provide a return for the venture capitalist in a three to seven year period either through the sale of the business or a public offering (stock offering).

What venture capitalists look for.

- Usually, venture capitalists want to invest a minimum of \$1 million; although you could ask for an amount as low as \$200,000 and still find investors if you provide a strong business plan that demonstrates fast growth at a high return for the investor in the neighborhood of 30 to 50 percent.
- Keep in mind that a venture capitalist may require a large portion of your company's equity and will want a position on your board of directors. The venture capitalist will want a return on their investment and may exercise any of the following to that end: call back the funds, selling of the company, renegotiating the deal, etc.



How should you write the business plan to attract an investor?

- If you are trying to secure equity, you cannot spend enough time on the executive summary of your business plan. This is the first thing, if not the only thing, that gets read by an equity investor. The executive summary is your business plan in miniature. It should contain the scope of the opportunity and the essence of the plan in less than a page.
- After reading the executive summary and making the decision to read on, equity investors look to one section of the plan more than the rest: the management team. Savvy investors know that an experienced and well-rounded management team can make all the difference when it comes to success of the business. Your management team section should be very comprehensive citing the background, education, experience, skill-sets, and responsibilities for every member of the team. Also, you should include all of the outside professionals that you will utilize such as your attorney, accountant, management consultants, etc.
- If an investor likes what they see in the management team section, they will usually proceed to the financial projections. Obviously, one of the most important things an investor wants to see is what potential return there might be. For this they turn to the projected profits of the business. While your business plan need not discuss the amount of ownership you are willing to give up (that will be negotiated later) it should give the investor some idea of what returns they might receive from their investment in your business.
- Finally, your business plan should indicate some exit strategy for the investor. An exit strategy is how the investor will get their original capital back and convert their ownership back to the business. An exit strategy might include converting equity to debt by getting a bank loan to pay off the investor. It can also include selling the business, buying out the investor, bringing in other investors to take their place, or even taking the business public.

Do your homework.

- Most angels and venture firms target certain industries. You obviously stand a much better chance of making a match if your business fits into their category of interest.
- Also, talk to some of their portfolio companies to see how much control the firm wanted and how supportive they were when the business experienced any problems.

Things to remember about an investor.

- An investor is undertaking a lot of risk therefore they may want a substantial share of ownership in the company. But they don't want in forever. Usually after 3 to 5 years they want to exit the business.
- If you have a problem with giving up ownership in your business then you are going to have a very big problem in securing outside investment. Period. If you really want to start the businesses bad enough it's better to have 40% percent of something than 100% of nothing.
- In order to grow a business you require leverage and investors provide the much needed leverage you may require.



The Available Sources of Capital

First, dip into your own piggy bank.

- It should come as no surprise that more than 80% of all money used to start a business comes from the owner's personal funds. This is true for many reasons.
- First, if you are not willing to take a risk on your own business then who should? Most banks require the owner(s) to place a good amount of the required funding into the business and private investors look for the same type of commitment.
- Second, business start-ups involve a great deal of risk and, by their design, banks and other financial lending institutions are not risk-based lenders.

Shake down Aunt Sally.

- The other major source of funding comes from friends and family. Some 39% of all seed funding comes from this source.
- While this technique provides an excellent source of money, be careful; don't get sloppy with the formalities. Make sure you document everything especially for when your business grows and its capital structure is heavily scrutinized.
- Don't forget to talk to your accountant and attorney before accepting these monies. Just because they may be family doesn't mean you shouldn't go through the proper advisors.

Consider a partner.

- In many instances, the amount of capital needed far exceeds the assets of the owner. In these cases, the owner may need to bring on additional partners to raise the money.
- Partners can bring not only money to the venture but they can also bring complimentary skill sets and areas of expertise where you may be lacking. While this may dilute your ownership in the business, having 50% of something is always better than 100% of nothing.

Sell some personal assets.

- Consider selling some of your assets off to raise the needed capital.
- The idea here is fairly simple. Sell off some of your assets to someone you know and trust. Your friend then leases the equipment or assets back to you at a very good rate.
- You get a onetime capital infusion and your friend gets a tax deduction and a regular income stream. This is a very clean way to raise capital especially among friends and family.

Consider scaling the project down.

- By their very nature, entrepreneurs are overly ambitious. If you find your personal assets a bit scarce relative to your vision, consider scaling the project down into smaller phases.
- By taking this approach, you can allow cash flow from the business itself to finance



subsequent phases. Sometimes in order to see the path ahead, you need to get moving.

Leverage home equity.

- If you have it, you should consider leveraging the equity you have in your home.
- Home equity is one of the most widely used sources of capital for starting or growing a business.
- The interest rates are generally lower than commercial bank loans and yet all of the interest is tax-deductible.
- Also, the principal repayments go right back into your home. For its overall cost and accessibility, this is a great source of capital that should be considered.

Tap into personal credit.

- Credit cards now offer an extremely attractive and widely used source of credit for starting and growing a business.
- The credit card is best used in small, start-up scenarios such as service-based businesses that don't require a large amount of capital.
- Credit card rates can be competitive to bank loans and offer flexibility on repayment. But be careful here. Having too many credit cards or even applying for multiple credit cards can harm your personal credit rating.

Consider a contractual sale.

- If you are seeking to buy an existing business, inquire with the owner if the business is available on contract.
- A contractual sale involves the owner providing some portion of the financing. Though the owner will still require a down payment, this sort of financing is good for several reasons.
- First, it shows the seller is confident about the long-term future of the business. After all, if the business isn't around, they know they might not get paid.
- Also, the owner may be more flexible than a conventional bank loan on rates and repayment terms if the business comes into hard times.

Evaluate leasing.

- If you find yourself requiring large amounts of equipment or fixed assets consider leasing.
- With leasing there are no large, up-front cash outlays and the periodic payments are tax-deductible.
- In many cases, equipment suppliers also provide their own financing through banks. Be sure to inquire about such programs and financing options.

Leverage customers as your credit source.

- If you have a good relationship with your customers, consider leveraging them as your credit



source.

- Ask them to provide a good portion of the job upfront; at least enough to cover your immediate expenses if you can. In some cases, customers may invest in your business especially if they believe that you offer an attractive source of supply for their own business.

Consider bartering.

- Many industries including media and advertising still trade services and products back and forth as a means of acquiring what they need.
- Think about those firms who have what you need and need what you sell.

Establish trade credit.

- Trade credit is when a vendor allows you to buy products and pay for them at a later date.
- Vendors offer this service to help make their products more attractive and to induce you to buy from them rather than elsewhere. Offering easy credit terms encourages sales.
- Keep in mind that the vendor is in business to make money. There may be a hidden cost for flexible credit terms in the form of slightly higher prices.

Look for Microloans.

- Microloans are small, regional based loan pools. These revolving loan pools lend amounts of money as little as a few thousand dollars and can usually go up to amounts around \$30,000.
- While their availability is very limited, you can begin to research these funds by calling a local Small Business Development Center or contacting your state's Department of Commerce for a listing of programs.

Explore commercial loans.

- While banks don't normally fund start-up businesses, they will consider deals where the borrower has good credit and where the loan involves mainly hard assets such as buildings, real estate, or equipment.
- Also, banks make sense if you have a good amount personal collateral to secure the loan.
- Although bank loans are tough on the cash flow of your business with their regular principal and interest payments, their rates of interest are much lower than what a venture capitalist or other investor might request and with a bank loan you still retain full ownership of the business.

Consider a government guarantee.

- When you are short on collateral for a bank loan, you might consider a government loan guarantee.
- The US Small Business Administration's basic loan guarantee program is generally used to fund the varied long-term needs of small businesses.
- The money still comes from a financial lending institution but the government guarantees the



loan to the lender in the case that the borrower defaults.

Research state-based economic development programs.

- Many states have financing programs designed to stimulate economic development. These programs provide money or tax credits for specific activities such as employee training or investments in technology.
- Instead of providing full funding, however, these programs usually match funds provided from your business. Either way, these special use programs can help you to leverage your money more effectively.

Look into factoring.

- Accounts receivables are those monies owed to you by your customers when you extend credit to them. While offering your customers credit can induce them to do business with you, it can also be a problem if they are slow to pay.
- Factoring and accounts receivable financing is basically borrowing against the money owed to you. A factoring company will normally evaluate the condition of your receivables and buy them from you. Usually, this type of financing comes at a very steep fee and should only be considered as a last case option over more immediate short-term money sources.

Search for private placements.

- High net worth individuals or small group investors, commonly called "Angels," account for more capital invested in small companies than all of the venture capital funds combined.
- Many states have such private investor clubs or groups. Check with your local Small Business Development Center for information about such clubs. Research venture capital.
- Venture capital is equity funding for high-risk and high-growth companies. Usually, venture capitalists want to invest a minimum of \$1 million.
- Keep in mind that a venture capitalist may require a large portion of your company's equity and will want a position on your board of directors.
- The venture capitalist will want a return on their investment and may exercise any of the following to that end: call back the funds, selling of the company, renegotiating the deal, etc.

Taking your business public.

- Taking your business public means making your stock available for trade on a stock exchange. This is a great way to raise large amounts of capital very quickly.
- Preparing your company for such an activity can be a very complex process and involves the assistance of a wide array of bankers, accountants, attorneys, and other consultants.
- Taking a company public, through what is known as an initial public offering (IPO) is ideally suited for established businesses that are ready to make that next big growth leap that requires extensive amounts of capital.



A Little Help from the Government

Getting help from the government.

- There's one thing you need to know right up front about getting money from the government.
- They don't have a single dime to directly lend to you for the start-up of a small business.
- You may believe this statement to be untrue because of the way the term "government loan" is thrown around and used. You hear about government loans all the time.
- But the bottom line is there is no direct money. But there is some help available.
- The federal government (as well as many states) does provide indirect financial assistance for obtaining money for starting or growing a business.
- Even though there are a number of programs, they essentially all work in the same fundamental way.
- Basically, all government loans are .guarantees. to a third party lender on your behalf.

Help at the federal level.

- Almost all loan guarantees originate at the federal government level from the US Small Business Administration (SBA).
- The U.S. Small Business Administration (SBA) offers many different loan programs. The most common is authorized by Section 7(a) of the Small Business Act.
- You need to understand that you are not the primary customer to the SBA, a bank is.

How it works.

- The SBA guarantees 75 percent or more of a lender's loan against potential losses.
- The lender thus gains a reduced risk so it can more readily make loans.
- In return for this guarantee, the lender offers borrowers a much longer term, accepts a cap on the interest rate it may charge and does not charge an application fee or points or impose a prepayment penalty.

The benefits to you.

- Essentially, this program benefits business owners by enabling them to obtain a loan they might not otherwise get or to obtain advantageous loan terms that wouldn't otherwise be available.
- The SBA loan terms minimize cash outlay at the start and greatly reduce monthly debt service, keeping vital cash in the owner's pocket to grow the business.

The most popular SBA programs.

- The LowDoc Loan Guarantee: For amounts up to \$150,000. These loans are based heavily



upon your personal credit history and score.

- The 7(a) Program: For amounts up to \$750,000 and covers working capital and refinancing.
- The 504 Program: For hard asset purchases up to \$1 million. Uses a bank and a third party known as a certified development company.
- To learn more about SBA loans and find preferred lenders, guidelines, and applications visit <http://www.sba.gov>

Check with the USDA.

- The US Department of Agriculture also provides loan guarantees similar to those of the SBA.
- These loans can be a little more flexible than the SBA's and targeted toward rural based businesses.
- To find out more about these loans visit <http://www.rurdev.usda.gov/rbs/busp/bprogs.htm>

Also check with your state.

- Many states have guaranteed loan programs that work very similar to the ones provided by the SBA.
- These programs usually sit within your state's Department of Commerce (DOC) under a finance authority.
- Search the internet for your state's DOC site for available programs.

How to Finance Different Kinds of Things

Financing inventory.

- Since inventory is tangible merchandise, it does have some collateral value to a bank or asset-based lender.
- But such a lender will only value the inventory at cents on the dollar meaning you should still be prepared to provide collateral of your own.
- Also, try to establish trade credit with any suppliers as quickly as possible allowing you to take possession of inventory now but pay later.
- Consider the Dell Computer business model of sell computer then build computer.
- Such a business model lets Dell have only several days of inventory on hand by working very closely with its suppliers.
- With this model you are essentially letting your customers finance your inventory for you. It's a great cash-flow-based strategy.

Buying a business.

- Since existing businesses usually have an established track record, banks are able to determine the capacity to repay a loan better when compared to a normal start-up.
- A majority of all small businesses sold involve some sort of seller financing, usually through a



contractual sale.

- When buying a business on contract it is still customary for the seller to ask for some percentage of the deal in the form of a down payment.
- In many instances, the terms provided by a seller may be more flexible than the terms normally set forth by other types of financing sources.

Financing equipment.

- The collateral value of equipment can vary greatly to a bank or other type of lender depending on the depreciation rate of what you are financing.
- In instances where the equipment has a very short lifespan investigate leasing or other types of financing through the equipment vendor themselves.
- Just be careful about effective interest rates and minimum contract periods.

Financing real estate.

- The thing to remember about commercial real estate is that most banks will only lend up to 80% of the market value of the property and will only allow for a loan term of 18 to 20 years.
- For instance, if you are trying to buy land and a building for \$120,000, the bank will only loan approximately \$96,000. (80% of \$120,000)
- Therefore you will still need to bring to the table the difference of \$24,000.
- There is one program through the US Small Business Administration known as the 504 Program.
- This mainly hard-asset lending program allows you to put down just 10% (15% if the business is a start-up) on real estate. At least 50% of the funding is put in by an unguaranteed bank loan, and the remainder by an SBA-guaranteed debenture.
- As you might imagine, banks like the program and it is a way to save on how much pure cash you need to put into the project.

Financing a service-based business.

- Since there are very few assets, if any, to use as security for a loan, a service business has to find other means of financing.
- Try charging your customers a portion of the project up front to cover your initial costs.
- Most entrepreneurs simply use personal credit and credit cards as the primary financing method since the initial start-up costs are that large.
- At some point, if not from the beginning, most service businesses require a line of credit in order to grow.
- The line of credit is a great way to finance short-term expenses that are incurred in doing work for a customer and that will be paid at completion of the work.
- With a credit line you are only paying interest on what you have drawn down not on the total amount credit available.



Financing new products.

- There were 35,000 new products introduced in the US last year alone. Most of these products will fail and banks know this.
- Most product development financing therefore comes from private placements of angel or venture capital, those investors who are willing to take more risk.
- If you have a new invention you might consider licensing the rights to the product to a partner who has an established manufacturing capability, sales force, and/or marketing channel.
- Also, you should meet with a patent attorney to see if getting a patent is possible. If it is you may consider selling the patent outright to another business who can take it to market.

Financing new technology.

- If you are trying to develop a new technology and it is something that the federal government may have an interest in, you may consider the Small Business Innovation Research (SBIR) Program.
- SBIR is a highly competitive program that encourages small business to explore their technological potential and provides the incentive to profit from its commercialization.
- By reserving a specific percentage of federal R&D funds for small business, SBIR protects the small business and enables it to compete on the same level as larger businesses.
- SBIR funds the critical startup and development stages and it encourages the commercialization of the technology, product, or service, which, in turn, stimulates the U.S. economy.
- Following submission of proposals, agencies make SBIR awards based on small business qualification, degree of innovation, technical merit, and future market potential.
- Small businesses that receive awards or grants then begin a three-phase program.
- Phase 1 can provide up to \$100,000, while Phase 2 can provide up to \$750,000.
- Also consider working closely with universities.
- Many universities have technical assistance and technology transfer programs that pair students and professors with businesses in the development of specialized technology.
- This scenario is a way to get research and development completed without having to directly fund it with cash.

Working capital and operating expenses.

- There is nothing more difficult to finance than working capital and operating expenses.
- Since there is no collateral involved with such monies most banks and debt-based lenders won't even touch working capital only deals unless they are completely secured with the owner's personal assets.
- If you lack the required collateral, then you have little choice but to find an investor or co-signer.
- If your deal involves any fixed assets at all, make sure that you let any lenders or investors finance those assets.
- You need to put any cash you have to invest in the business toward the pure operating



expenses since it is so undesirable to these outside financing sources.

Overcoming Your Weaknesses

Expand your management team.

- Lenders and investors know that one person cannot know it all; knowledge is just too distributed nowadays.
- Take the time to get the right people on board, then worry about refining your vision and strategy, always think .first who, then what.
- This is especially true if you are trying to raise equity capital from an angel or venture capital firm. The first thing they look for is the quality of your management team.

Find a great partner.

- To overcome your weaknesses remember these little words: partner, partner, partner.
- A partner can bring complimentary skill sets, credibility, experience, visibility, and maybe even cash to the table.
- Think in broad terms about who a partner might be including just not individuals but also other businesses and even direct competitors.

Create a good business plan.

- While a business plan is not necessary for every start-up business, it is probably required in the case when you require outside money.
- Take the time to write a good plan. (and it does take a while)
- There is free help available for writing business plans from a local Small Business Development Center. Visit <http://www.asbdc-us.org>

Look for a co-signer.

- Instead of seeking cash from an investor have them co-sign a bank note for you.
- This is the best option you have if you have poor personal credit.
- Be prepared to give the co-signer a stake in the company just as you would if they put cash directly into the business.

Create an advisory board.

- Lenders and investors like to see a broad range of experience behind any start-up.
- Put together an advisory board consisting of professionals with a broad array of expertise.
- List these members in your business plan under your management section and promote them heavily to lenders or investors.



Don't apply to every lender at once.

- Every time you make formal application with a lender they pull your credit report.
- A large number of inquiries will lower your overall credit score.
- Instead, apply to one (or no more than two lenders) at a time then take what you learn from any rejection letters and adjust your business plan with what you have learned.
- If you need the money faster than that then you should have planned your capital strategy better.

Study your credit report.

- Get a copy of your credit report and check it for accuracy.
- Mistakes on credit reports are very common.
- Make good on any unsettled claims and fix and repair what you can.
- Visit <http://www.myfico.com> for a copy of your report or visit a consumer counseling agency at <http://www.consumercredit.com>

Find a good CPA.

- Hire a good Certified Public Accountant who can put your story into numbers.
- Numbers are the language of business and what lenders and investors understand.
- A good set of financial projections make a potential partner focus on your future rather than the past and can make a powerful case.

Don't borrow your salary.

- You should be prepared to cover any living expenses you personally incur during the start-up phase of your business.
- Don't expect to borrow or get a loan to pay yourself, this is not what debt capital is used to leverage.
- Not only is this very expensive and impractical, but it is highly risky putting you in a potential bankrupt scenario.

Do it in phases.

- All great things start small.
- Effective innovations start-small, they are not grandiose. By contrast, grandiose ideas for things that will revolutionize an industry. seldom work.
- Break your vision down into smaller pieces and only focus on one segment at a time.
- Simply getting past the .proof of concept. stage is what most lenders and investors want to see before they invest.



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Never give up.

- As stated right from the beginning, raising money for the start-up of a business will be one of the most demanding tasks you ever undertake.
- Most people fail to sustain the needed passion or persistence that it takes over time.
- But this works to your advantage if you can stick it out.
- Remember, Howard Schultz of Starbucks approached 242 people for money and 217 of them said .NO. But those 25 who said, .Yes. were very happy people indeed.



Business Plan Outline:

Title Page

Name of company, date, contact information, etc.

Table of Contents

Executive Summary (Complete this section last)

1. Business concept
2. Company
3. Market Potential
4. Management team
5. Distinct Competencies
6. Required Funding and its Use
7. Exit Strategy

Business Concept

1. Company Description

- Mission Statement
- Summary of Activity to date
- Current Stage of development
- Competencies
- Product or Service
 - Description
 - Benefits to Customer
 - Differences from current offerings
- Objectives
- Keys to Success
- Location and Facilities

Industry Analysis

- Entry Barriers
- Supply and Distribution
- Technological Factors
- Seasonality
- Economic Influences
- Regulatory Issues



The Business Organization

2. Management and Organization

- Management Team
- Open Positions
- Board of Directors
- Key Personnel
- Organizational Chart

The Marketing Plan

3. Market Analysis

- Definition of the Overall Market
- Market Size and Growth
- Market Trends
- Market Segments
- Targeted Segments
- Customer Characteristics
- Customer Needs
- Purchasing Decision Process
- Production Positioning

4. Competition

- Profiles of Primary Competitors
- Competitors' Products/Services & Market Share
- Competitive Evaluation of Product
 - Distinct Competitive Advantage
 - Competitive Weakness
- Future Competitors

5. Marketing and Sales

- Products Offered
- Pricing
- Distribution
- Promotion
 - Advertising and Publicity
 - Trade Shows
 - Partnerships
 - Discounts and Incentives
- Sales Force
- Sales Forecasts



6. Operations

- Product Development
 - Development Team
 - Development Costs
 - Development Risks
- Manufacturing (if applicable)
 - Production Processes
 - Production Equipment
 - Quality Assurance
 - Administration
- Key Suppliers
- Product/Service Delivery
- Customer Service and Support
- Human Resources Plan
- Facilities

The Financial Plan

7. Capitalization and Structure

- Legal Structure of Company
- Present Equity Positions
- Deal Structure
- Exit Strategy

8. Development and Milestones

- Time may be specific on a relative scale rather than specific calendar dates.

Milestones may include some or all of the following:

- Financing Committees
- Product Development Milestones
 - Prototype
 - Testing
 - Launch
- Signing of Significant Contracts
- Achievement of Break Even Performance
- Expansion
- Additional Funding
- Any other significant Milestones

9. Risks and Contingencies

- Increased Competition



- Loss of a Key Employee
- Suppliers' Failure to Meet Deadlines
- Regulatory Changes
- Change in Business conditions

10. Financial Projections

- Assumptions (Start date, commissions, tax rates, average inventory, sales forecasts, etc.)
- Financial Statements (Balance Sheet, Income Statement, Cash Flow Statement)
- Break Even Analysis
- Key ratio Projections (quick ratio, current ratio, D/E, D/A, ROE, ROA, working capital)
- Financial Resources
- Financial Strategy

Conclusion/Attachments

11. Summary and Conclusions

Appendices

- Management Resumes
- Competitive Analysis
- Sales Projections
- Any other supporting documents



Criteria for Small Business Classification:

A small business is one that:

1. is organized for profit;
2. has a place of business in the United States;
3. makes a significant contribution to the U.S. economy by paying taxes or using American products, materials or labor; and,
4. Does not exceed the numerical size standard for its industry.

The business may be a sole proprietorship, partnership, corporation, or any other legal form.

Central Contractor Registration has aligned its classification standard with the official classification from Small Business Administrations guidelines. SBA has a Size Standard for all private sector industries in the U.S. economy. SBA uses the North American Industry Classification System (NAICS) to identify the industries.

Size Standards (usually stated in number of employees or average annual receipts) represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA's programs and for Federal contracting programs.

SBA has several general Size Standards. A business in one of the following industry groups is small if its size is not greater than:

Industry Group	Size Standard
Manufacturing	500 employees
Wholesale Trade	100 employees
Agriculture	\$750,000
Retail Trade	\$6 million
General & Heavy Construction (Except Dredging)	\$28.5 million
Dredging	\$17.0 million
Special Trade Contractors	\$12.0 million
Travel Agencies	\$3 million (Commissions and other income)



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Business and Personal Services	\$6.0 million
Except:	
Architectural, Engineering, Surveying, and Mapping Services	\$4.0 million
Dry-cleaning and Carpet Cleaning Services	\$4.0 million

If the size of a business exceeds the size standard for its overall industry group, it may still be a small business for the specific NAICS industry in that group. Some industries have higher size standards than the general one for the industry group. A Table of Size Standards by NAICS industry is on SBA's Size Standards Web Page at:

www.sba.gov/size

Don't know the NAICS code? SBA's Size Standards web page contains a key word search routine to assist you, or you may search for NAICS industries on the U.S. Bureau of the Census' web site at:

www.census.gov/naics

For Federal contracting, a small business must meet the size standard stated in the solicitation. The contracting officer designates the size standard of the procurement by selecting the size standard established for the NAICS industry that best describes the principle purpose of the procurement.

Need more information on size standards? Please read the Small Business Size Regulations (13 CFR Part 121), or our Guide to SBA's Size Standards. These are available at:

www.sba.gov/size

Or

you may contact the Office of Size Standards at **(202) 205-6618** or at:

sizestandard@sba.gov

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6 Key Steps to Purchasing a Franchise:

You have decided to purchase a franchise but are not sure where to start. The process can be overwhelming, but fortunately there are numerous resources to walk you through the steps, including associations, books, consultants, existing franchisees, informational Web sites and message boards. The following are key steps in purchasing a franchise:

1. Know where you stand. Before selecting a franchise concept you need to fully understand not only your interests, background and business ability but your financial position. What is your net worth? Do you have any liquid assets? How about your credit score? How much money are you willing to lose? Have you ever managed employees? Do you like people? Knowing your budget and interest and skill levels will enable you to select a franchise business at which you will be most successful.

2. Research franchise opportunities. Unless you have a specific company in mind or are using a franchise broker or consultant this could be a lengthy process. There are dozens of franchise Web sites and hundreds of franchise opportunities. When researching concepts you will need to consider your market and the demand for a specific product or service within that market. If the target area is oversaturated with a concept or the idea is too progressive or different to be accepted in that community, you will have to keep on searching until you find the right franchise. Review all franchisors' financial documents and talk with existing franchisees before making your decision.

3. Get financing. Once you have made your selection, you will probably need financing. There are numerous options, including conventional bank loans, SBA guaranteed loans and home equity loans. Some franchisors offer their own in-house financing. For less expensive franchises like home-based business franchises you may not need to borrow money. Some franchisees charge the franchise fee on a credit card.

4. Build franchise/outfit store. If your franchise is a store, you may have to build it from the ground up or simply outfit an existing location with the necessary equipment, furniture, signage and décor. Find out how long this process takes on average so that you can adequately plan your grand opening.



5. Get training. In order to run the business you will need training and an operating manual. Your franchisor should provide some form of training.

6. Hire staff. Depending on your franchise concept you may need to hire a staff. Before your business opens you will want to post signs and run an ad advertising openings. Make sure you have done reference checks before hiring an employee.

By allbusiness.com

Top 5 Reasons Why Franchises Fail:

The Small Business Administration (SBA) reported that 30 percent of independent, non franchise companies fail during their first year. Conversely, the U.S. Dept. of Consumer Affairs reported that less than 5 percent of franchises fail. Yet, some do fail. The reason(s) for failure could be a number of factors, most of which could have been prevented by due diligence during the early phase.

1. The idea. Whether you are franchising your own company or buying into a franchise system, how the concept is received by the community is critical. While hamburgers seem to have universal appeal not all food chains meet with majority approval. Also, if your business model is complicated you are in for a struggle. You want to create an operational standard that can be taught to and replicated by any businessperson. A company may be successful when run by the entrepreneur who dreamed up the concept, however, if the business model or prototype is not easily duplicated the chances for success are not so optimistic.

2. Bad location. Ask seasoned franchisees to name one of the most important keys to a successful franchise and undoubtedly they will say, "Location, location, location." Even with a well-branded name, if you are off the beaten path, inconveniently located or in an isolated area the opportunity to be as lucrative as possible diminishes.

3. Poor marketing/advertising. Many well-established and reputable franchisors have marketing and advertising funds into which franchisees contribute monetarily. Chains like McDonald's and Subway have national campaigns, while other types of franchises may advertise on a local level. Some franchise concepts require a lot of legwork on behalf of the franchisee. Depending on the business you chose, you may have to solicit your own clients, as in technical and computer support franchises. If you are considering a concept that requires outside sales skills and you lack them, you may want to rethink your choice.

4. Competition. There are approximately 160,000 franchises in operation in the US. That means a lot of competition. If your market already is saturated with a concept you may want to consider something that still is popular but not yet tapped out. Medical spas and restaurants offering healthy choices are gaining ground among the public but there is abundant room on the business owner side.



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5. Unrealistic expectations. New franchisees are notorious for having very high expectations for their businesses. It may take 2-3 years before you see a profit and if you don't plan for that you may sink before you have a chance to swim.

A word to the wise: If you don't like people you should not buy a franchise. If you want to make it you have to put in long hours and work with all kinds of personalities. It's an undeniable fact that some people are more difficult to interact with than others. As a business owner you need to be able to interact well with people from all walks of life. The ability to manage employees also is essential to the success of your business.

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10 Questions to Ask Before Buying a Franchise:

- 1. What type of franchise is it?** Most franchises are "package franchises" – businesses such as fast-food restaurants, muffler shops or motels that come complete with a business model laid out by the parent company. That model covers everything from financial controls to hiring guidelines. "Product franchises" include businesses such as car dealerships and gas stations that exist mainly to distribute the parent company's goods. Owners of product franchises have more control over the way they run their businesses.
- 2. Does the business lend itself to the franchise model?** Fast-food businesses, for example, greatly benefit from their association with the brand name and products of the franchiser. That might not hold true, however, for a car wash.
- 3. What does the offering circular say?** The Federal Trade Commission requires franchisers to provide prospective franchisees with an offering circular that contains basic facts about the company. Read this document; it will contain information about the firm's business experience, legal history, and -- perhaps most useful -- it's other franchises.
- 4. How many franchises does the organization have?** A large number of franchises indicate a successful, established business. Be careful, though, if a firm's other franchises are located near yours, you could wind up competing with a nearly identical business.
- 5. How much is the franchise fee?** A 1996 study by the International Franchise Association showed that 95 percent of franchise fees were less than \$40,000. But you might pay much more for a franchise affiliated with a blue-chip national chain.
- 6. How much will you have to pay in royalties?** Franchisers generally charge royalties equal to 3 percent to 6 percent of each franchise's revenues. Some firms charge significantly more, though, and others charge flat fees on an ongoing basis.



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7. How much money will your business really make? The parent company's projections probably are optimistic. Run them by other franchisees; the offering circular will tell you how to contact them.

8. Can you work with these people? When you buy a franchise, you're in for the long, expensive haul, so you'd better be able to work with your new bosses. Make sure to visit the company's home office, even if it's in a different state. And ask other franchisees about their experiences with the parent company.

9. How will the franchiser help you? A franchiser may help you select a site for your business, negotiate a lease, advertise for and interview prospective employees, get business licenses, finance the franchise fee or equipment costs or provide other services. Ask what the franchiser will do for you -- and get it in writing.

10. Is the franchise company legitimate? Some franchisers try to bilk new entrepreneurs. Check with other franchisees, the federal Trade Commission and the Better Business Bureau to determine the legitimacy of the franchise.

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8 Collateral Items Every Company Needs:

Over time, you'll want to provide information about your company to lots of different people, including employees, investors, existing and potential clients and the media. Your company's success may depend in part upon how well you communicate that information -- which in turn may depend upon how well you prepare collateral items ranging from company and product fact sheets to biographies of key employees. Every business should always have the following eight items on hand, ready to distribute. Get them printed today.

1. Company fact sheet. Potential investors or employees, analysts and media people should be able to learn important facts about your business with a quick look at your fact sheet. A company fact sheet should include the following information:

- Date the company was founded
- Where it is headquartered and has affiliate offices
- Names and brief backgrounds of founders and upper-level management
- Contact information
- Brief mission statement

2. Product fact sheets. Keep a fact sheet on file for each of your products or services. A product fact sheet should include the following:

- The product's function
- Distinctive features
- Comparison to similar products on the market
- Quality level
- Reliability
- Cost

3. Bios on founders and senior management. Make sure you have a bio on hand for each founding member of the company, every senior manager and each member of the board of directors. Bios should include the person's education, relevant experience, awards or honors, and publications that featured the team member or the team member's work.

4. Mission statement. A mission statement can motivate and direct employees and give new hires an idea of how your company works. You can also show the statement to potential investors, lenders or members of the media.



5. Company background. Whereas the company fact sheet essentially is just that -- a list of facts -- this document is written in paragraph form and should include more detail.

6. Current list of clients/partners. This information may be interesting to investors or potential clients.

7. Press kit. When you open your business or launch a new product, consider sending out a press kit. Press kits also can come in handy if you decide to pitch your business at a trade show. Your kit should include the following elements:

- Folder with your company's logo
- Personalized letter pitching your company, product or service
- Company fact sheet
- Product fact sheet
- Press release
- Articles written about your company
- Business card
- Company background

While you may want to keep a few press kits on hand, don't keep a giant stack of them around. Otherwise, you risk distributing out-of-date materials. Instead, keep each element of the press kit in a computer file, and update as needed when you're distributing a new round of kits.

8. Clip file. Make someone in your office responsible for collecting and maintaining any articles written about your company. Note: If you are thinking about mounting a PR blitz, consider hiring a PR firm to track where press kits were sent, make sure they are received and then monitor the press for mentions of your firm.



Government Financing Programs for Small Business:

The Small Business Administration offers numerous loan programs to assist small businesses. It is primarily a guarantor, not a lender, of loans made by private and other institutions. Federal appropriations allow the SBA to provide guarantees on loans under specific programs. With an SBA loan guaranty, independent lenders (banks, community development organizations and micro lending institutions, etc.) lend you money and, in turn, receive the full faith and credit backing of the federal government on a portion of the loan they make to small businesses. The loan guaranty that the SBA provides transfers the risk of borrower non-payment, up to the amount of the guaranty, from the lender to the SBA.

The SBA administers three separate loan programs: Basic 7(a) Loan Guaranty, 504 Loan Program and 7(m) Loan Program (Micro loan).

The Basic 7(a) Loan Guaranty Program is the SBA's primary business loan program, which helps qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. Financing under this program can be guaranteed for a variety of general business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements, and debt refinancing (under special conditions). Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets.

The Certified Development Company (CDC), 504 Loan Program provides long-term, fixed-rate financing to small businesses to acquire real estate or machinery or equipment for expansion or modernization. 504 funding typically includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100 percent SBA-guaranteed debenture, which is an unsecured bond backed only by the credit standing of the issuer) with a junior lien covering up to 40 percent of the total cost and a contribution of at least 10 percent equity from the borrower. The maximum SBA debenture generally is \$1 million (and up to \$1.3 million in some cases).

The Micro loan, 7(m) Loan Program provides short-term loans of up to \$35,000 to small businesses and not-for-profit child-care centers for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. Proceeds cannot be used to pay existing debts or to purchase real estate. The SBA makes or guarantees a loan to an intermediary, who, in turn, makes the micro loan to the applicant. The loans are not guaranteed by the SBA. The micro loan program is available in selected locations in most states.



Small Business Certification:

Certification is a process of getting your company information into an agency database for leveraging your unique ownership into contracts.

First there are **eight types of certifications** and all companies fall into one or more of these certifications.

- Small Business Enterprise (SBE)
- Minority Business Enterprise (MBE)
- Women-owned Business Enterprise (WBE)
- Disadvantaged Business Enterprise (DBE)
- Small Disadvantaged Business (SDB)
- Disabled Veteran Business Enterprise (DVBE)
- SBA Business Development Certification [8(a)]
- HUBZone Historically Underutilized Business Zone

Benefits:

As an example, last year the federal government **set-aside** over \$45 billion dollars in federal contracts for certified businesses. State, County, and Large City agencies **set-aside** over \$500,000 for certified businesses. You may not want to bid on these large government contracts. However, the large companies that do win large contracts must pass on a percentage of each contract to certified businesses.

What does it take to become certified?

You must be the business owner (s) of the company with over 51% ownership.

You must meet the requirements of one of eight business enterprise classifications.

You must have whatever licenses and qualifications required for running your type of business.

You must have put your own money into your company.

Certifying agencies would like you to be in business at least 2 years and be profitable.

Certification is all about getting into the agency database and if you are not in their database how are they going to find you?



Types of Certification:

Below are the major types of certification available today:

Federal Certifications SBA

The federal government under the Small Business Administration currently has three business building programs:

- **8(a) Certifications Program**
- **Small Disadvantage Business (SDB)**
- **Historically Underutilized Businesses Zone (HUBZone)**

8(a) Certification Program

The 8(a) program is a set-aside for small disadvantaged businesses. Entrance to this program is through an intensive application format. Once certified as an 8(a) firm, you are given an opportunity to bid on federal government contracts. This is the most difficult certification to obtain. The major hurdle is writing the economic and/or social narrative. This narrative is 95% of determination of your qualifications for 8(a) certification.

Small Disadvantage Business (SDB)

The SDB program is for companies that want to work with Prime contractors like Boeing, Jet Propulsion Laboratory (JPL), General Service Administration (GSA) and other Prime contractors who have contracts with the Federal government. Entrance to this program is also through an intensive application format. Boeing and other Prime contractors are required to subcontract a percentage of their total contract dollars to certified SDB firms.

Historically Underutilized Businesses (HUB Zone)

The HUBZone Program stimulates economic development and creates jobs in urban and rural communities by providing Federal-contracting preferences to small businesses in the zone. These preferences go to small businesses that obtain HUBZone certification in part by hiring staff that live in a HUBZone. The company must also maintain a "principal office" in one of these specially designated areas.

Federal Certifications DOT

The federal government under the Department of Transportation currently has one business building program:

State Directed Disadvantage Business Enterprise (DBE) Program

Each state has a DBE program for dispersing funds given to the state from federal grants. These funds come with some strings and one of those strings is that the project funded by the Federal Government must have a DBE goal. In many cases this goal can be as high as 27% certified DBE participation.



Local Certifications

Within each state, several major certifying agencies certify small businesses. Many of these agencies require different types of certifications depending on who is funding the project.

- Local and City Authority
- Local Transit Authority
- County Authority or Affirmative Action Program
- State Affirmative Action Program
- State Transit Authority
- Public Utilities Certifying Agency
- Major Corporation & Regional Purchasing (3 or more)

Programs to Assist Business

The SBA administers two particular business assistance programs for small disadvantaged businesses (SDBs). These programs are the 8(a) Business Development Program and the Small Disadvantaged Business Certification Program. While the 8(a) Program offers a broad scope of assistance to socially and economically disadvantaged firms, SDB certification strictly pertains to benefits in Federal procurement. Companies which are 8(a) firms automatically qualify for SDB certification.

Today's 8(a) Business Development Program is strengthened and improved to be a truly effective business development vehicle. New regulations permit 8(a) companies to form beneficial teaming partnerships and allow Federal agencies to streamline the contracting process. New rules make it easier for non-minority firms to participate by proving their social disadvantage. We also have implemented the new Mentor-Protégé Program to allow starting 8(a) companies to learn the ropes from experienced businesses. Our task is to teach 8(a) and other small companies how to compete in the Federal contracting arena and how to take advantage of greater subcontracting opportunities available from large firms as the result of public-private partnerships.

The new and improved 8(a) Program has become an essential instrument for helping socially and economically disadvantaged entrepreneurs gain access to the economic mainstream of American society. SBA has helped thousands of aspiring entrepreneurs over the years to gain a foothold in government contracting. Participation is divided into two phases over nine years: a four-year developmental stage and a five-year transition stage. In fiscal year 1998, more than 6,100 firms participated in the 8(a) Program and were awarded \$6.4 billion in Federal contract awards.

Benefits of the Program

Participants can receive sole-source contracts, up to a ceiling of \$3 million for goods and services and \$5 million for manufacturing. While SBA helps 8(a) firms build their competitive and institutional



know how, the agency also encourages them to participate in competitive acquisitions.

Federal acquisition policies encourage Federal agencies to award a certain percentage of their contracts to SDBs. To speed up the award process, the SBA has signed Memorandums of Understanding (MOUs) with 25 Federal agencies allowing them to contract directly with certified 8(a) firms.

Recent changes permit 8(a) firms to form joint ventures and teams to bid on contracts. This enhances the ability of 8(a) firms to perform larger prime contracts and overcome the effects of contract bundling, the combining of two or more contracts together into one large contract.

Program goals require 8(a) firms to maintain a balance between their commercial and government business. There is also a limit on the total dollar value of sole-source contracts that an individual participant can receive while in the program: \$100 million or five times the value of its primary SIC code. The overall program goal is to graduate firms that will go on to thrive in a competitive business environment.

To achieve this end, SBA district offices monitor and measure the progress of participants through annual reviews, business planning, and systematic evaluations. 8(a) participants may take advantage of specialized business training, counseling, marketing assistance, and high-level executive development provided by the SBA and its resource partners. They may also be eligible for assistance in obtaining access to surplus government property and supplies, SBA-guaranteed loans, and bonding assistance.

Eligibility Requirements

To qualify for the program, a small business must be owned and controlled by a socially and economically disadvantaged individual. Under the Small Business Act, certain presumed groups include African Americans, Hispanic Americans, Asian Pacific Americans, Native Americans, and Subcontinent Asian Americans. Other individuals can be admitted to the program if they show through a "preponderance of the evidence" that they are disadvantaged because of race, ethnicity, gender, physical handicap, or residence in an environment isolated from the mainstream of American society. In order to meet the economic disadvantage test, all individuals must have a net worth of less than \$250,000, excluding the value of the business and personnel residence.

Successful applicants must also meet applicable size standards for small business concerns; be in business for at least two years; display reasonable success potential; and display good character. Although the two-year requirement may be waived, firms must continue to comply with various requirements while in the program.

Applying to the 8(a) Program

You can apply to the 8(a) Program by contacting any SBA district office. For more information or questions, call the Division of Program Certification & Eligibility at (202) 205-6417.



Tips on Marketing to the Federal Government

Once certified by the SBA you will need to market your firm. Marketing to the government requires essentially the same skills and techniques that are necessary for effective marketing to the private sector. Some of the questions you will need to answer in developing your marketing strategy, include the following:

- Does the government use the product or service that I provide?
- If so, where is this product or service needed?
- Will my product or service provide a unique resource that the government would use if it became aware of what I can offer?
- How do I find the opportunities?
- How can I effectively compete with other businesses?

A wide range of resources are available to assist you answer these questions. To take advantage of the annual \$200 billion government market for private sector goods and services, small businesses need to understand basic government programs that can benefit them—and know where to look for these opportunities.

The Commerce Business Daily and CBDNet. Proposed procurement actions expected to exceed the sole-source 8(a) award requirements threshold or designated as SDB-eligible are published in the U.S. Department of Commerce's Commerce Business Daily (CBD). The CBD may be obtained from the Government Printing Office (GPO), SBA Small Business Development Centers (SBDC), or the CBD website. Agency Websites. Many agencies publish their requirements on their own home pages. Agency websites can be useful to small businesses that supply regionally and locally. Annual Procurement Forecasts. The Small Business Act requires that agencies annually publish a list of their requirements for upcoming fiscal year. These listings may be accessed through individual agency websites or the SBA website.

Finding Potential Customers

Contact the Office of Small Disadvantaged Business Utilization (OSDBU) of the agency you wish to do business with. The staff can provide you with a directory of agency buying locations and advise you on the types of goods and services that the agency regularly purchases. Many agencies promote outreach programs and offer "how to" publications that provide assistance in understanding their procurement programs.

Register in PRO-Net, an SBA database of small business contractors and their areas of business. Agency contracting officers and prime contractors search the database to find small business sources and subcontractors. Firms can easily register from the SBA website.

Register in the US Department of Defense's Central Contractor Register (CCR) through the Internet.



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Agency purchasing offices maintain source lists for the goods and services that they buy. Firms can be included on the agency's Solicitation Mailing List Application simply by completing a Standard Form 129 with the agency.

Wherever possible, arrange marketing visits to agency project and program personnel.

Provide catalogues and brochures to key personnel within the agencies.

Participate in agency market research by attending pre-solicitation conferences.

Many Federal agencies hold small business fairs that emphasize how to do business with the government and provide information regarding their program activities. Some have the added feature of making on-the-spot purchases from small business attendees.

Financing Your Business

At some point in your business career with SBA you may need a loan or other form of financing to help grow your business. SBA has been successfully providing small businesses with access to capital. We offer a wide variety of products aimed at meeting the needs of small businesses to increase exports, access to short-term and cyclical working capital, and specialized loans for small businesses engaged in energy conservation or pollution control. SBA loan guarantees can be used to cover loans starting from \$25,000 – up to \$750,000, or more.

Be Ready When the Call Comes

Understanding the buying techniques that your customer uses can provide you with a competitive advantage. If your market is in the simplified acquisition area, be ready to accept orders issued through the government-wide purchase card. If you provide commercial products or services, familiarize yourself with the expedited buying techniques for selling commercial products. Don't wait until the solicitation arrives to begin your research. Finally-strive to provide excellent quality products and customer service. The concept of best value, including a contractor's record of past performance, is the common standard government agencies use to make purchasing decisions.



What can The Abilities Fund do for me?

We at the Abilities Fund believe in the power of individuals with disabilities to take control of their lives through self employment. With its unmatched flexibility, ability to overcome obstacles and discrimination, self entrepreneurship is for many, the most direct route to social and economic empowerment.

Our goal is to support you through the process of testing your business idea, developing your business plan and assisting you in obtaining the money you need to get things going. The Abilities Fund is your link to resources and assistance.

Whenever possible, we will work to align you with the services of a local micro enterprise development program. These organizations can provide you with direct business development services and many have their own micro lending programs with flexible terms and the ability to overcome some past credit challenges.

If we are not able to make a referral to a local agency The Abilities Fund staff will work by distance through phone, mail, and email correspondence to assist you.

Please Note: The Abilities Fund is involved in Micro enterprise Development, generally defined as capital needs of \$35,000 or less. If you are searching for a significantly larger sum of money to start a business, your best option is possibly your local Small Business Development Center or a local bank or credit union.

If you would like the assistance of The Abilities Fund, please complete the Informed Choices inventory by clicking here: [\(link to IC\)](#)

One note about the business planning process:

Patience is part of the process, it takes time to test your idea and write a plan. While many people are excited and ready to start yesterday, The Abilities Fund advocates that you plan well for success.



Current Grant Opportunities

While everyone would like a grant for the capitalization of their business, the reality is there are very few sources of "free money" for entrepreneurs. This page denotes the programs that are currently available to assist individuals with disabilities by providing grant funds.

The Abilities Fund is proud to be a partner agency with the Trickle Up Program (<http://www.trickleup.org>) to offer funding to very low income entrepreneurs with disabilities.

Trickle Up Program Grants: These Initial Grants of \$500 with a \$200 follow up award after 3 months are made possible by the generous support of the Trickle Up Program. This grant is intended for very small Businesses where \$500 is a significant contribution. (<http://www.trickleup.org>) Individuals who meet the following criteria are eligible to request application materials from the Abilities Fund:

1. Entrepreneur must be a person with a disability who is receiving technical assistance from an AEO member micro enterprise organization or agrees to receive assistance from an AEO member organization, including The Abilities Fund.
2. Applicant must demonstrate significant financial need. (See income chart below)
3. The business to be started must be a for profit entity owned primarily by the individual with a disability. Applications from non profits, multi level marketing businesses or requests for funding to plan a large business will not be accepted.
4. Total start up / expansion costs of the business have to be less than \$1,200.
5. A Business Plan has to be completed or the business has to be in operation
6. Cash flow projections should demonstrate marked profit within the first 3 months following the receipt of grant funds.
7. Applicant agrees to submit all requested information and provide a 3 month progress report (enabling them to obtain the additional \$200 grant)



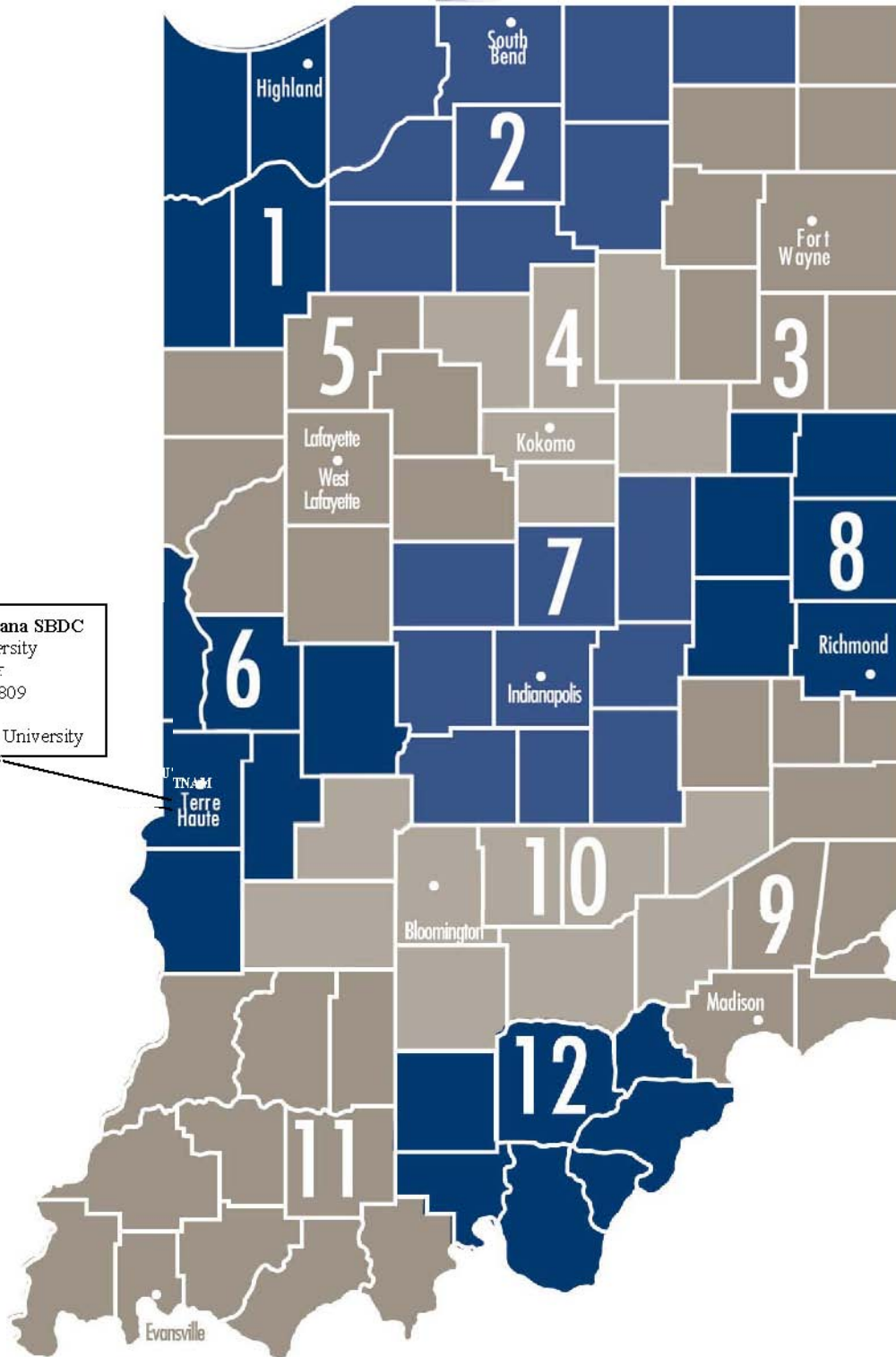
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www.indstate.edu/sbdc

Income Guidelines 2005-2006

Size of Family Unit (include self)	US Federal Poverty Guidelines (175% FPL)	Level Trickle Up
1	\$ 9,570	\$ 16,748
2	\$ 12,830	\$ 22,453
3	\$ 16,090	\$ 28,158
4	\$ 19,350	\$ 33,863
5	\$ 22,610	\$ 39,568
6	\$ 25,870	\$ 45,273

**For each additional family member add \$5,705. **For each additional family member add \$5,495. ** Note: Income must include earnings from all sources including odd jobs, family contributions, pensions, unemployment benefits, child support, etc. Income from all breadwinners must be included I think I qualify for a Trickle Up Program Grant, How do I apply? First Complete the Application for Services. Then email: Ben Bingle benbingle@abilitiesfund.org to request application materials.

Funded in part through a cooperative agreement with the U.S. Small Business Administration, the State of Indiana, and our many local partners. All opinions, conclusions or recommendations expressed are those of the author(s) and do not necessarily reflect the views of the SBA. Reasonable accommodations for persons with disabilities will be made if requested at least two weeks in advance by calling your local SBDC.



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SBDC Directions:

Pick up Hwy 41 south at your convenience. Take Hwy 41 south all the way into downtown Terre Haute. Note that within the city limits, 41 is referred to as Third Street. As you approach downtown the dome of the Vigo County Courthouse will become visible.

You will be turning left or east at the southeast corner of the courthouse square onto Ohio Street which is one-way east.

Drift to the left lane of Ohio. You will turn left or north on 9th Street. See campus map <http://www.indstate.edu/top/campusmap/campusmap.pdf>

Stay in the left lane. You will go through the stoplight at Wabash and again at Chestnut. There is a large parking lot on the northwest corner of 9th and Chestnut. You should park in that lot (#15 on the campus map).

The West Central Indiana Small Business Development Center is located in the School of Business Bldg (#5 on the map). We are on the 5th floor, room 510.

The office number is 812 237-7676.