

SIMPLE STEPS FOR STARTING YOUR BUSINESS

DREAM
CREATE
BELIEVE
PERSEVERE



FOR THE LIFE OF YOUR BUSINESS

Welcome



Dear Startup Entrepreneur,

Welcome to Simple Steps for Starting Your Business.

We at SCORE created this practical, actionable workbook to give entrepreneurs like you the knowledge, resources, and information you need when deciding to start your own business.

SCORE understands the vital role small businesses play in building and sustaining vibrant communities. That's one reason we are so dedicated to helping aspiring entrepreneurs succeed. As part of that mission, we created Simple Steps for Starting Your Business to share our insights, experiences, and perspectives so you can make a more informed decision about whether starting a small business now is right for you.

No matter if you decide to take the entrepreneurial plunge today or wait a while, you will never have to go it alone. SCORE's network of more than 10,000 business mentors is here to help free of charge—in person or online. These volunteers share their time and expertise mentoring startup entrepreneurs like you offering confidential, free business guidance.

Founded in 1964, SCORE has helped over 11 million entrepreneurs start, build, expand, and protect their small businesses. In 2019 alone, SCORE mentors put in nearly 5 million hours, helping their clients launch almost 30,000 businesses and create close to 100,000 jobs.

Research shows small businesses that received three or more hours of help from SCORE boast higher revenues and increased business growth.

This workbook is based on the Simple Steps for Starting Your Business workshop series. The workshop, which includes one-on-one mentoring with an expert SCORE mentor, will help you build a solid foundation so you can confidently pursue your business idea.

Start on the path to success today. Reading, doing the exercises in this workbook, and talking to a SCORE mentor is your first step. You can find the SCORE office nearest you by visiting <https://www.score.org/find-mentor>. An exceptional mentor is waiting to help you today.

We look forward to working with you and wish you prosperity and success.

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DREAM BIG!

Do you dream about starting a business? You're not alone—millions of Americans share that dream. And yet, not everyone dares to get started. If you're reading this, though, you have already taken the first steps toward making your dream come true.

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

Dreams are the stuff entrepreneurs are made of. Think about Steve Jobs (Apple), Bill Gates (Microsoft), Sarah Blakley (Spanx), Shonda Rhimes (Shondaland), Walt Disney, or Larry Page and Sergey Brin (Google).

What do they have in common? They were once dreamers—and then they built multimillion-dollar businesses.

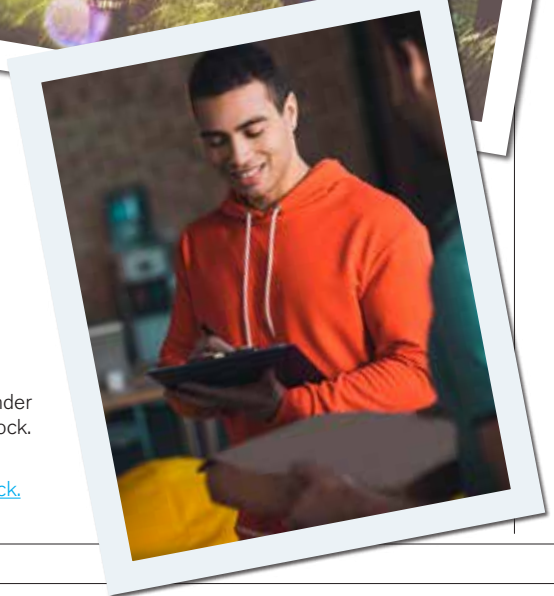
As Walt Disney said, "If you can dream it, you can do it. Always remember this whole thing was started with a dream and a mouse."

But, it takes more than a dream to turn your ideas into reality. You have to work hard, do your homework, create a plan, and take action. Of course, you will have good days and bad ones. But don't get discouraged—SCORE is here to help.

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

SCORE stands ready to help you live your dream—let's get started.

SCOREmentors



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

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

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

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

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

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

REALITY: Entrepreneurs do get to subtract business

expenses from their gross income—but they still have to pay taxes on their net income.

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

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

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

REALITY: To be successful, you need to work hard, focus, and do whatever it takes. This includes a lot of mundane work you might not “enjoy,” but which will be crucial to your success.

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

REALITY: PROPER PLANNING IS KEY

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

■ FAILED ■ SUCCESSFUL

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

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

- Management skills
- Willingness to ask for help and advice from others
- Self-motivated
- Resourceful
- Responsible
- Organized
- Persistent
- Decisive
- Good health
- A solid support system

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

DO YOU HAVE THE FINANCIAL RESOURCES?

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

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

Also, add up your startup costs, including:

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

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



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



1 | STARTING A NEW BUSINESS

ADVANTAGES

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

DISADVANTAGES

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

2 | BUYING AN EXISTING BUSINESS

ADVANTAGES

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

DISADVANTAGES

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



3 | BUYING A FRANCHISE

ADVANTAGES

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

DISADVANTAGES

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

4 | HOME-BASED/REMOTE BUSINESS

ADVANTAGES

- Working from home is convenient and more common today than ever before.
- Operating a remote business saves on commuting costs, overhead expenses and other daily expenses (paying for breakfast and lunches, etc.)
- Since you're not commuting, your schedule is more flexible; you can work whenever you want, and can actually devote more time to your startup.
- There are tax advantages since you can likely deduct the portion of your home used for business.
- When you're ready to hire, you can find employees anywhere in the country or around the world.
- In times of global pandemics, it's safer to work at home.

DISADVANTAGES

- Zoning or deed restrictions may prohibit home-based businesses.
- Working from home can be isolating and lonely.
- As a home-based business, you might have more difficulty finding financing.
- Distractions from family may make it hard to work. Do you have space in your home to work productively?



5 | NONPROFIT ORGANIZATION

ADVANTAGES

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

DISADVANTAGES

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

6 | ONLINE BUSINESS

ADVANTAGES

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

DISADVANTAGES

- Low barriers to entry for an online business mean there is more competition.
- Visitors have high expectations for online businesses and less tolerance for problems.
- Change to: Being unable to try on merchandise can make customers less likely to buy.

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

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

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

ACCOUNTING – bookkeeping, taxes, payables and receivables

HUMAN RESOURCES – hiring, firing and managing employees

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

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

CUSTOMER SERVICE – taking orders, handling complaints and building relationships

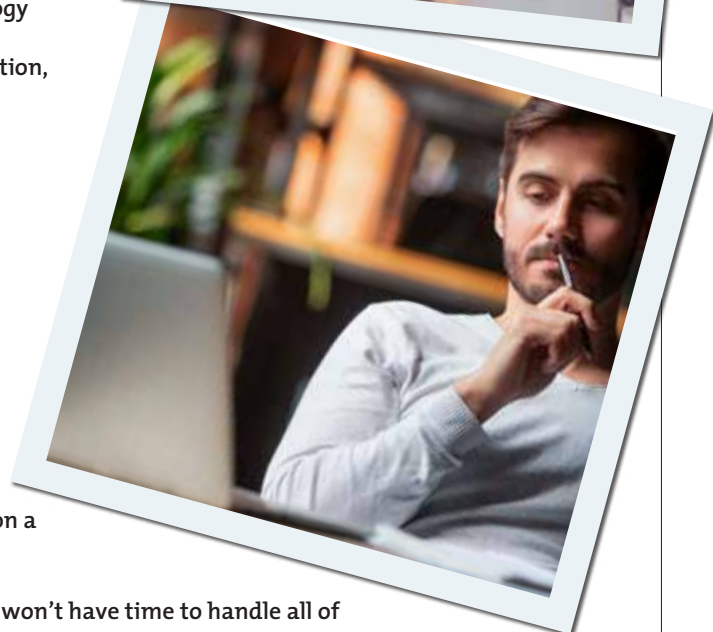
PRODUCTION AND FULFILLMENT – manufacturing your product or arranging to have it made; shipping and warehousing

INFORMATION TECHNOLOGY – choosing, purchasing and troubleshooting technology

PHYSICAL LOCATION – selecting your location, negotiating leases and maintaining site

THINK ABOUT THE AREAS ABOVE AND CONSIDER:

- Are you weak in any of these areas?
- Can you take a course to improve your skills?
- If there are duties that don't fit your skills, can you hire employees, take on a partner or outsource these tasks?
- Even if you were skilled in all these roles, you won't have time to handle all of them. Which are most important to your business? Which will you focus on and which will you delegate? In what order of priority?



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

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

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

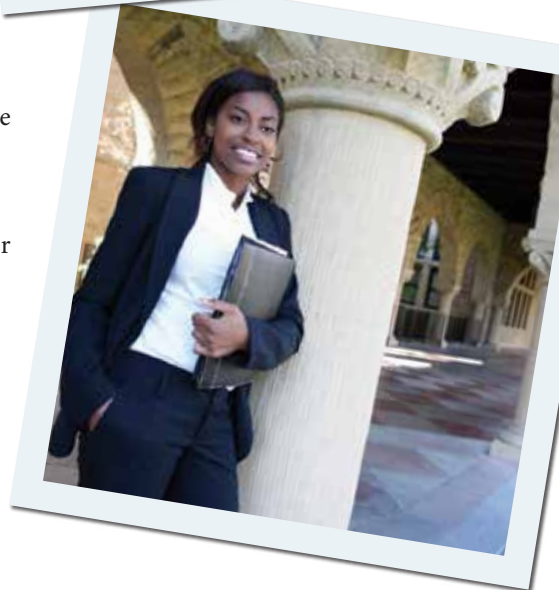
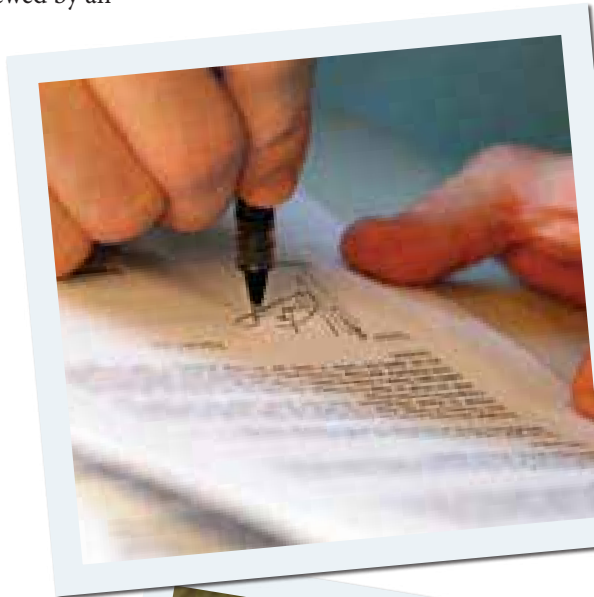
CHOOSING A LEGAL BUSINESS STRUCTURE

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

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

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

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



FOR MORE INFORMATION

Learn more about government regulations at these websites:

Department of Labor:

www.dol.gov

IRS:

www.irs.gov

SCORE:

www.score.org

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

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

● **"S" CORPORATION ELECTION:**

When you incorporate (as an LLC or C Corp) you have the option of electing to be taxed as an S Corp. As an S Corp you retain the liability protection of the LLC or C Corp, however, the business is not a separate taxable entity. Profits and losses are "passed-through" to the owners and reported on personal income tax returns, avoiding the double taxation of the C Corp.

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

GOVERNMENT REGULATIONS AND YOUR BUSINESS

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

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



ASSEMBLE YOUR TEAM

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

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

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

(www.score.org)!

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

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

INSURING YOUR BUSINESS

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

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

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

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

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

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

HEALTH: If you rely on your current job for health insurance, you’ll need to look into private health insurance options before starting your business. Visit www.Healthcare.gov to see what healthcare options you have.

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



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

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

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

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

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

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

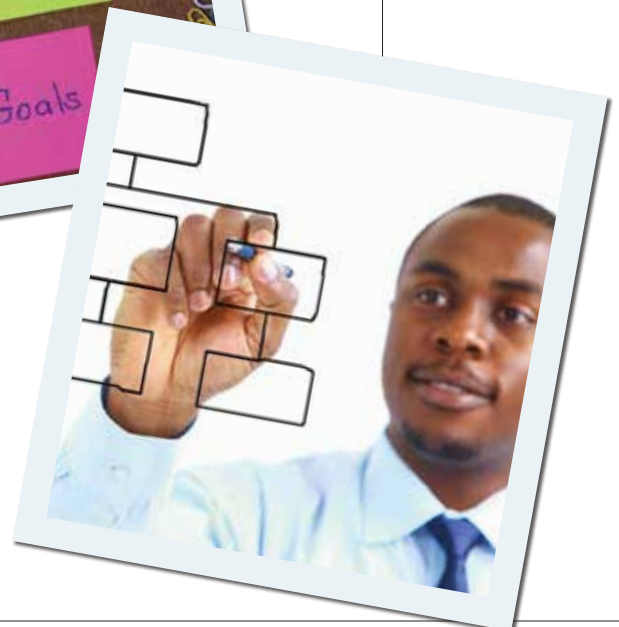
EXECUTIVE SUMMARY:

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

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



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

SECTION ONE: THE BUSINESS

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

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

SECTION TWO: FINANCIAL FORECASTS

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

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



SECTION THREE: SUPPORTING DATA

In this section, you show you've done your due diligence by providing backup for the information you provided elsewhere.

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

NEXT STEP

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

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

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

THE PURPOSE OF MY BUSINESS IS: |

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

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

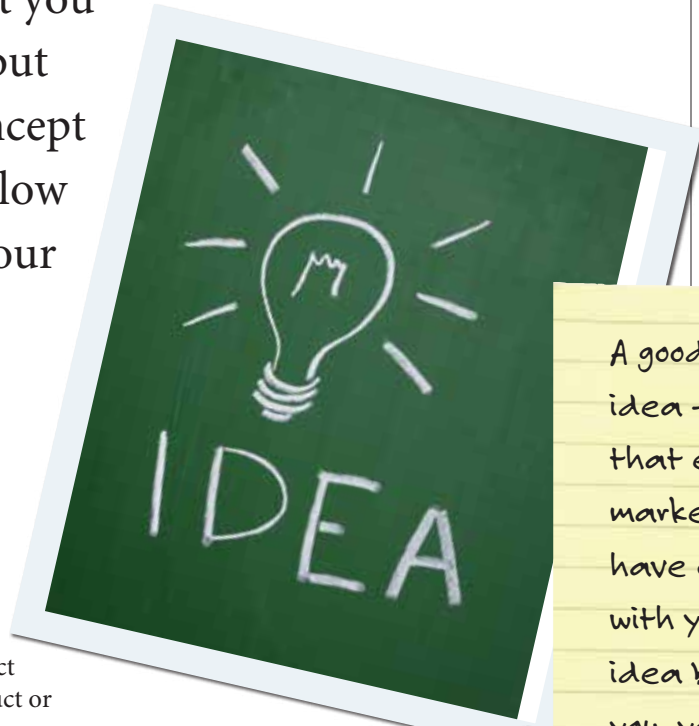
Get help from SCORE mentors. Visit www.score.org to find a mentor near you or get advice online.

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

STEP 1:**Define a Market Need**

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

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



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



STEP 2:

Examine Your Personal Background

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

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

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

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

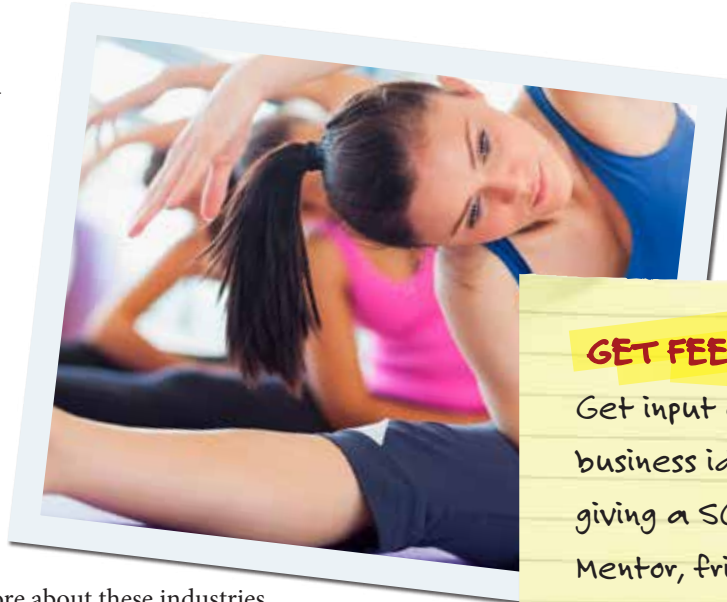
Past experience can minimize the risk of starting a business. Many people dream of opening a food business, but this industry has a high failure rate. If you have no food industry experience, your risk will be even greater. Taking into account your experience and the potential risk of your startup, assess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

HOW CAN I MODIFY MY IDEA TO FIT MY EXPERIENCE?

If your idea seems too risky given your experience, consider an alternative. Using the example above, for instance, a person with no food business experience might consider a lower-risk business such as an online gourmet food reseller.

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

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

**GET FEEDBACK**

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

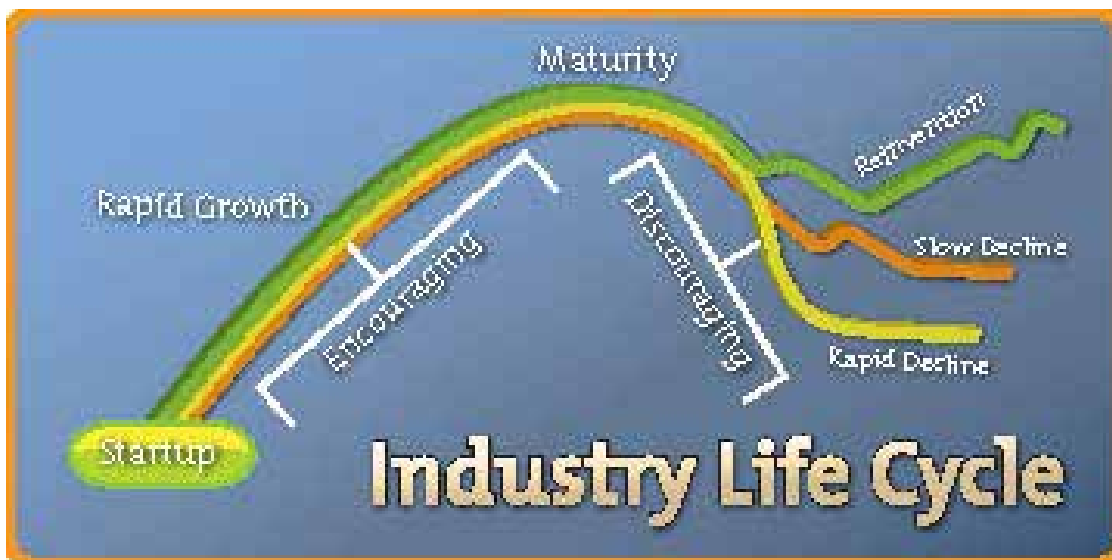
STEP 3:

Research Your Industry

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

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

Search the internet for ideas in the industry you're interested in.

**SOURCES OF INDUSTRY DATA****Use these tools to research your industry:**

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

STEP 4:

Consider Your Target Market

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

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

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

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

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

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

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

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



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

AND DON'T FORGET...**Other key factors to think about when assessing a business idea include:**

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



Complete the Business Concept Outline Worksheet on the next page.

BUSINESS IDEA |

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

PERSONAL BACKGROUND |

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

INDUSTRY PROFILE |

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

TARGET MARKETS |

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

OTHER KEY FACTORS |

Describe any other factors that could affect your business.

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

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

RESEARCH YOUR TARGET MARKETS

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

- **CHANNEL POSITION:** Which possible sales channels will your business use? Today’s buzzwords are “multichannel, which refers to treating each channel as a separate selling opportunity and “omnichannel,” which creates a single customer experience across all channels. More on channels in Section 3.
- **GEOGRAPHIC LOCATION:** If you’re starting a local business such as a restaurant or retail store, you’ll be targeting customers in a specific geographic area. If you’re starting an e-commerce business, you may be selling to customers nationwide and even globally. Wherever your customers will be, gather information about that location. What local, regional, national and global factors will affect the target market in that location?



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

SOURCES OF CUSTOMER DATA

Where can you get data about customer groups?

- **TRADE ASSOCIATIONS:** Trade groups typically maintain data about market trends. Search for trade associations online.
- **BUSINESS DEVELOPMENT OFFICES:** Your city government should have tons of information about local business trends and statistics.
- **GOVERNMENT WEBSITES:** You’ll find a wealth of information at www.sba.gov, www.bls.gov, www.nber.org, <https://www.usa.gov/statistics> and <https://data.census.gov/cedsci/>.
- **SURVEYS:** Online tools like www.SurveyMonkey.com and www.SurveyGizmo.com offer free options for conducting surveys to ask potential customers questions; www.ConstantContact.com is a competitively priced fee-based option.

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

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

GENDER, AGE, RACE, AND MARITAL STATUS: Targeting “women” as a market is too broad because not all women behave the same way. You’ll need to research specific niches within broader categories. For example, married women behave differently than single women; moms behave differently than women without children at home.

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

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

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



AGE IS JUST A NUMBER

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

TRACKING TRENDS

What factors shape consumer behavior? Here’s how to keep up with the latest trends.

- **READ:** There are a lot of places in print and online to get the latest scoop. Check out newspapers from the nation’s trends hotspots, like Los Angeles and NYC. Read the magazines and websites your industry and target market reads—like *Vogue*, *Pet Business* or *Nation’s Restaurant News*.
- **WATCH:** Popular TV shows often indicate consumer trends. For example, the popularity of cooking shows matches increased consumer spending on gourmet foods, home entertainment, and kitchen tools.
- **LISTEN:** There are podcasts on every topic imaginable. Find the ones relevant to you.
- **TRENDS:** Set up Google Alerts for relevant topics, visit Google Trends (<https://trends.google.com/trends/>), check out reports from eMarketer, NPD Group, Mintel, Pinterest, Wunderman Thompson Intelligence and more.



Fill out the Target Market Worksheet on the next page.

Example

BUSINESS ▶	We Are Planet Earth			
TARGET MARKETS	Socially conscious consumers looking for recycled products			
CHANNEL POSITION	Consumer			
KEY DEMOGRAPHICS	High-end			
BUYING HABITS	Reputation, pricing, availability			
MARKET SIZE AND SHARE	\$500k, 5% share			

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

RESEARCHING YOUR COMPETITION

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

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

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

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

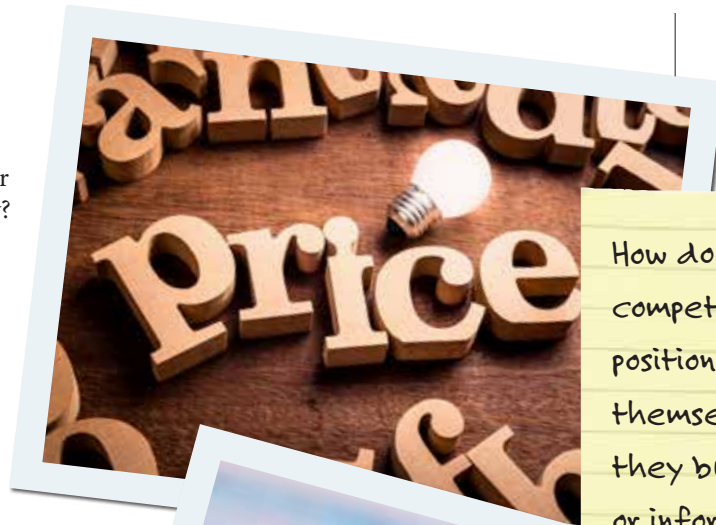
PROFITABILITY: How profitable are your competitors? What are the average margins in your industry and among your specific competitors?

MARKET STRATEGY: How do your competitors position themselves? Are they businesslike or informal? Do they sell low-price leaders or premium products? Do they offer personal service or a do-it-yourself atmosphere?

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

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

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



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



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

Example

BUSINESS ▶	Recycled Products Website			
PRICE	High			
FEATURES	Upscale			
SIZE/ PROFITABILITY	Local, high margins			
MARKET STRATEGY	Premium products			

SOURCES OF COMPETITOR DATA

Try the following resources for useful data on competitors:

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

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I Spy

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

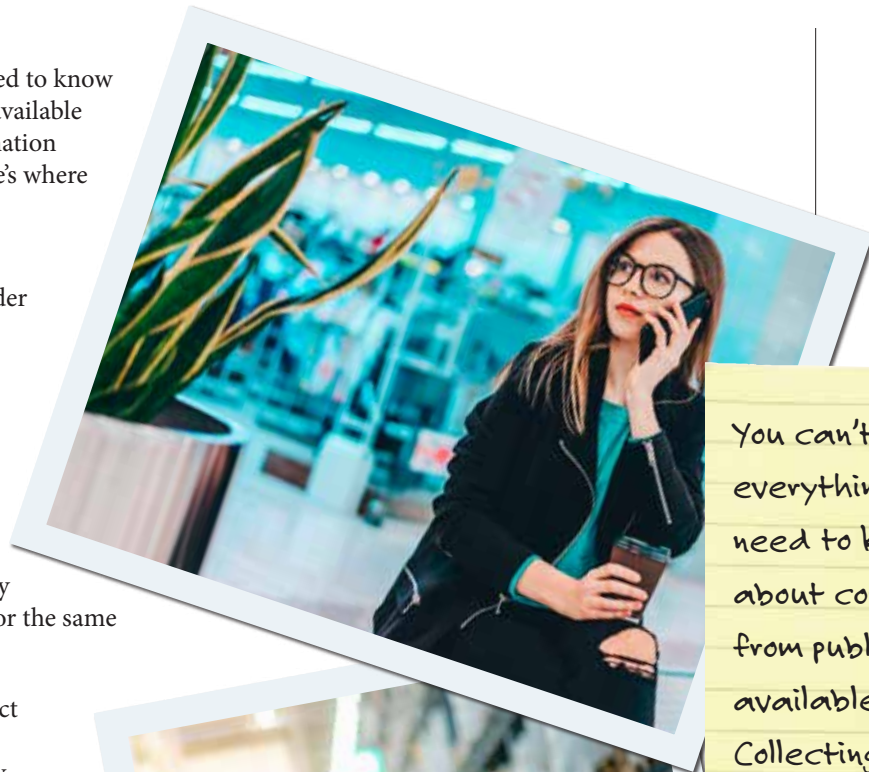
■ **THE COMPETITOR:** Shop your competition. Go to their store; order from their website. Sign up for their email newsletters and follow them on social media to see what marketing methods they're using. Are they posting guest blogs or being featured on podcasts? Sometimes, geographically distant competitors are willing to give you advice and ideas if they believe you won't be competing for the same customer base.

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

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

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

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



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

NEXT STEP

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

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

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

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

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

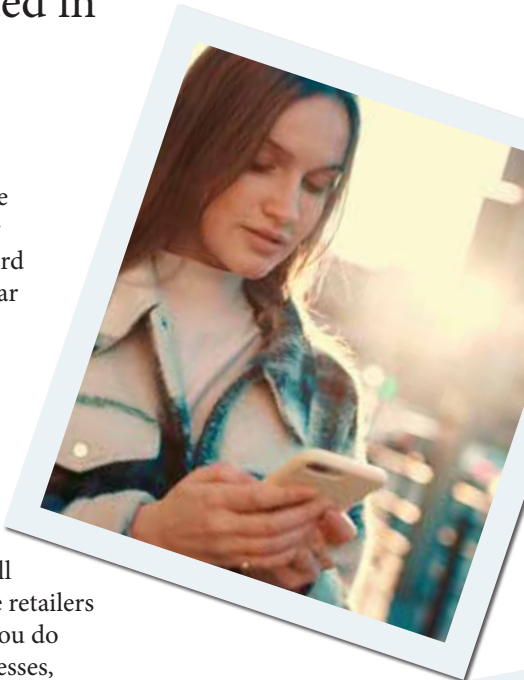
Here are some other pricing considerations:

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

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

■ **BUNDLING:** "Bundling" means you charge lower prices when customers buy more than one product or service, than if they only bought one. For instance, if you offer website design, web hosting and email marketing services, create a cheaper bundle price to entice customers to sign up for all three services.

■ **TARGET MARKET:** Consider your target market when setting prices. For example, if your target market is a sophisticated buyer or requires more personal attention, build the additional costs into your prices.



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



■ **PROMOTIONAL PRICING:** Many businesses offer sales or promotional prices to entice new customers or to encourage customers to buy more. New companies often offer introductory pricing, to persuade consumers to take a chance on doing business with them.

Setting and Adjusting Prices

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

SET YOUR INITIAL PRICE:

- Consider the COGS (cost of goods sold), which is the direct costs of producing the products. Add to that total to create a profit margin. When pricing a service, consider standard industry practices, plus market prices.
- Know the competition's price and whether you will match it, beat it or charge more. Unless you are offering a truly unique product/service, it is difficult for a new business to charge top prices.



DOLLAR SIGNS

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

UNDERSTANDING CHANNELS

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

- **B2B:** Selling products or services directly to other businesses.
- **B2C:** Selling products or services directly to individual consumers.
- **SALE TO DISTRIBUTOR WHO SELLS TO RETAILER:** If you manufacture or import a product, you may sell it to an agent or middleman, who then sells it to retail outlets.
- **ASSOCIATE OR AFFILIATE NETWORKS:** You may sell your product through a network of associates (offline) or affiliates (online) who keep part of the profits in return for facilitating the sale.
- **INTERNET SALES:** All the channels mentioned can also be sold via the internet (e-commerce).

Understanding the various channels helps you see market segments you may have missed, identifies multiple market segments you can target, helps you set prices so you can avoid channel conflicts, and helps you develop your marketing communication strategy.

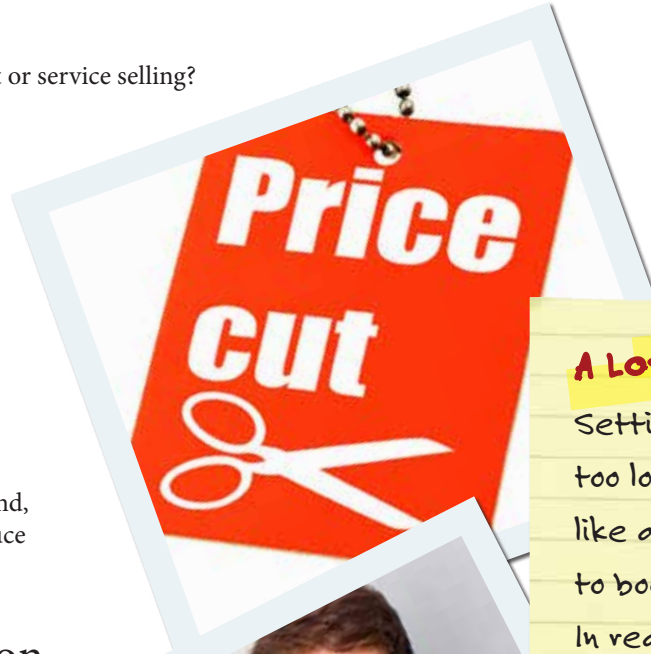
ADJUST YOUR PRICE AS NEEDED:

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

Target Market Comparison and Selection

A market segment is a subset of a market that share similar needs and characteristics. For instance, if your target market is mothers, market segments to consider include pregnant women, mothers of infants, mothers of teens, etc. To determine whether a market segment is a good target market for you, test it against the following criteria:

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

**A LOSING BATTLE**

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

The logo for 'NEXTSTEP' in a stylized, bold font with a blue and orange gradient.

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

Example

MARKET SEGMENT ▶	Socially conscious consumers			
NEED	Products that reflect their commitment to the environment			
PROFIT	High profit potential			
SALES	Potential for high, steady sales			
CHANNEL CONFLICT	Possible conflict with online sales			
COMPETITION	Limited			
FITS ME	Yes			

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

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

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

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

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



To create your brand, begin by thinking about what you want your business to be known for.

NEXTSTEP

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

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

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YOUR MARKETING MESSAGE

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

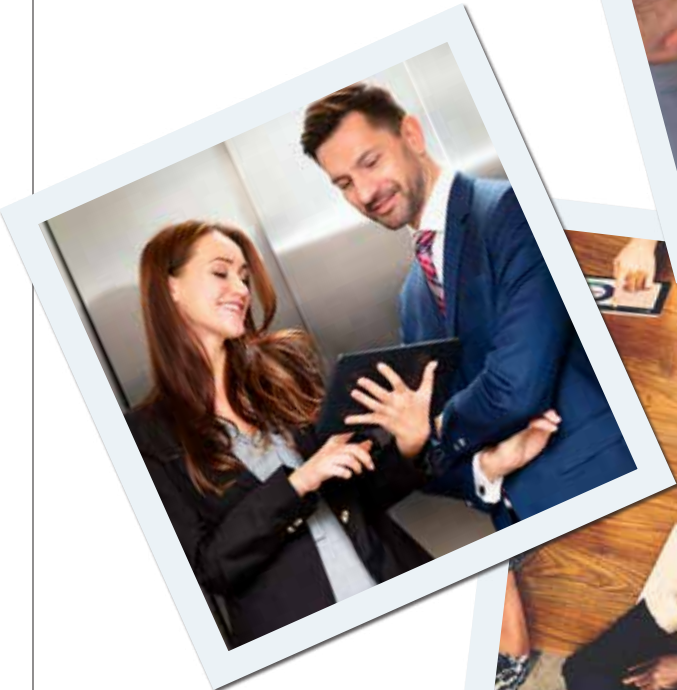
Here is a sample marketing message for a fictional business:

“We Are Planet Earth searches the world for recycled, reused, and salvaged goods to offer our customers the best products resurrected from what would otherwise end up in a landfill.”

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



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



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

Using the marketing message for We Are Planet Earth on page 33 as an example, fill in the elements below that apply to your business.

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

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

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

1) YOUR TARGET MARKET

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

2) YOUR PRODUCT OR SERVICE

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

3) TOP MARKETING COMMUNICATION METHODS

Today's top marketing methods include:

- Advertising: online directories, sponsored social media, banner ads, mobile ads
- Public relations: print, radio, blogs, podcasts
- Collateral: print marketing materials such as business cards, brochures, letterhead, signage, promotional giveaways
- Digital marketing: Search Engine Optimization (SEO), Pay-Per-Click (PPC), affiliate, email, content marketing, social media
- Product samples, special offers



MARKETING PLAN DATA SOURCES

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

- Internet
- Census data
- Trade associations
- Civic organizations
- Business/Entrepreneurial organizations

4) YOUR MARKETING STRATEGY

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

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

Measure the effectiveness of each marketing strategy and adjust accordingly.

CHANNEL STRATEGY CHART

Below is an example of a channel strategy chart created for a fictional business, We Are Planet Earth.

MATCH YOUR MARKETING METHOD TO YOUR TARGET MARKET

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

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

WE ARE PLANET EARTH: CHANNEL STRATEGY CHART			
	STAND-ALONE E-COMMERCE WEBSITE	AMAZON SELLER	SHOPIFY STORE
STARTUP COSTS	\$1,200 - \$3,700	\$600+	\$3,600
ADVERTISING	\$1,200/year	\$1,200/year	\$1,200/year
EXTRAS	Social media marketing, Google ads	Amazon weekly, Fulfillment, Inventory, premium account services	Social media marketing, Google Ads, Fulfillment

Remember, when you set up sales on an online marketplace, such as Shopify and Amazon, you pay more for additional features such as inventory storage and marketing tools. Many small business owners start out on Amazon (or eBay), selling a few products and then launch their own site



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

TARGET MARKET BY CHANNEL ▶				
SET UP COSTS				
ADVERTISING COSTS				
EXTRAS				

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

MARKETING COLLATERAL

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

TRADITIONAL ADVERTISING

Although digital marketing is the optimal approach to get results today, there are still some traditional advertising methods that work for small business owners.

● **PRINT ADS:** Major metro newspapers are not only expensive; they probably won't get you the results you're looking for. On the other hand, local city papers are more affordable and often offer promotional deals to attract local businesses. Your town (or one nearby) may also have a local magazine with advertising opportunities. Ask about any special issues that highlight specific occasions (graduation, weddings, etc.) or industries.

● **DIRECT MAIL:** Depending on your target market, mailing postcards, sales letters and brochures can be effective, but may be cost-prohibitive during your startup stage. Check with local companies, such as Valpak, that offer direct mail solutions, allowing you to insert an ad, coupon, or flyer. Contact your local post office to learn what programs they offer for direct mail campaigns, such as Every Door Direct Mail.

● **BROADCAST:** Although radio and television advertising may not be feasible for small companies, cable ads are often surprisingly affordable. Also, check out podcast advertising opportunities. There are podcasts on everything from food to fashion to murder. Podcast ad prices are almost always negotiable and based on the number of listeners.



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

PUBLIC RELATIONS

Let the world know about your new business by telling the media about it through public relations (PR). Develop a list of media people who might be interested in your business, along with their contact information. You don't necessarily need to send a formal press release—a brief email with news about your business will suffice. However, if you do want to create and distribute press releases, websites such as CISION PR Newswire (www.prnewswire.com), CISION PRweb (www.prweb.com) and PRLog (www.prlog.org) offer tools, tips and resources.

Online Marketing and Advertising

YOUR BUSINESS WEBSITE

Even if you don't plan to sell anything online, you need a business website to build credibility, provide information about your business and help prospective customers discover your company when they're searching for businesses like yours. There are many full-service website design companies that can handle everything, including registering your business domain name (the URL that users type in their browsers to reach your site), hosting your site on their servers, designing your site, and helping with online marketing. Some popular options to investigate include GoDaddy (<https://www.godaddy.com/>), Web.com (<https://www.web.com/>), BlueHost (<https://www.bluehost.com/>), Hostgator (<https://www.hostgator.com/>), and DreamHost (<https://www.dreamhost.com/>).

Your business website should include your company's location, hours of operation, address, phone number and an email address or email form to contact you. Include social share icons linking to your social media sites and detailed information about your products/services and use attractive photos and graphics. Optimize your website for search engines by using keywords in your website copy. Unless you're an expert in Search Engine Optimization (SEO), you need to outsource or hire someone who knows how to get your website ranked on search engines. The algorithms are constantly changing, so you need someone with SEO experience.



Your business website is too important to try and do it yourself (unless you're a web designer, of course). Outsource the design, development and SEO to an expert to make sure your site is professional and operational.

LOCAL SEARCH

Online local search directories such as Google My Business (<https://www.google.com/business/>), Bing Places (<https://www.bingplaces.com/>), Yahoo (<https://smallbusiness.yahoo.com/local>), and Yelp (<https://biz.yelp.com/>) help internet users find local businesses when they search online. Visit local search directories to claim your free business listing, then fill out the required information such as address, hours of operation and phone number. Be sure to add keyword-rich descriptions and photos to enhance your listing.

EMAIL MARKETING

Gather email addresses from prospective customers and use them to develop an email list. Once you have a list, you can send customers email newsletters on a regular basis or occasional marketing emails, featuring special offers or discount codes, notices of sales or news about upcoming events at your business. Be sure to abide by CAN-SPAM laws, which you can find at <https://www.ftc.gov/tips-advice/business-center/guidance/can-spam-act-compliance-guide-business>. Use an email marketing service provider such as Constant Contact (www.constantcontact.com), Campaigner (www.campaigner.com), AWeber (<https://www.aweber.com/>), or Mailchimp (<https://mailchimp.com/>) can simplify email marketing. Your website hosting service may also provide email marketing assistance.

ONLINE ADVERTISING

Today online advertising is a must, no matter what your business. One option is pay-per-click (PPC) advertising, which targets customers using specific keywords in the ads. You don't pay unless customers click on the ad. You can place PPC ads using Google Adwords (<https://ads.google.com/home/#/>) or Microsoft Ads (<https://about.ads.microsoft.com/en-us>).

You can also place banner ads on niche websites that attract your target customers; if you sell B2B products or services, consider running banner ads on websites related to your target customers' industries. It's easy to monitor the success of an online ad campaign: Just use Google Analytics (<https://marketingplatform.google.com/about/analytics/>) or a Google alternative such as Heap (<https://heap.io/>) or Kissmetrics (<https://www.kissmetrics.io/>). Your web host might also have tools to show you where visitors to your website come from, what they do on your website and how many of them contact or buy from you.



SOCIAL MEDIA

Social media is a crucial marketing method for small businesses. Because social media platforms are free—with no cost but your time—they're ideally suited for small business owners and startups on a budget. Here's an overview of the top social media sites and how you can use them to market your business.

facebook

FACEBOOK (www.facebook.com) is more informal than LinkedIn and works best for consumer-focused businesses whose products or services could develop a “fan” base. Restaurants, consumer products and retailers have benefited from Facebook. You must have a personal Facebook page before you can create a business page. Post updates, photos and videos about your business on a regular basis. Special offers like short-term discounts or promotions are popular on Facebook.

Instagram

INSTAGRAM (www.instagram.com) is a fast-growing, photo-sharing platform (owned by Facebook) that's particularly popular with millennials and Generation Z. As a marketing medium, it works well for visually-oriented businesses and retailers/e-tailers. Post creative photos to tell a visual story about your company. Link your account with Facebook so you can attract new followers and share photos on both platforms.

LinkedIn

LINKEDIN (www.linkedin.com) is the most popular general business networking site. Use it to connect with potential customers, partners, suppliers, and even new employees; to research prospects before you approach them; or to get introduced to people you want to know. LinkedIn works best for B2B marketing. Establish yourself as an industry expert by posting and sharing articles and relevant links, joining a LinkedIn Group related to your industry and answering other group members' questions.

Pinterest

PINTEREST (www.pinterest.com) is a virtual bulletin board where users “pin” images, follow other users and repin others' pins. Visually-oriented products or services work well on Pinterest. It can function as a virtual mall, and it's a must for retailers/e-tailers,



ANALYZE THIS

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

wholesalers and those who run visually-driven businesses like designers, landscapers, etc. Start a free account, then create pinboards related to your business. Add a “Pin It” button to your website so people can pin images from your website and drive traffic back to your site. Optimize your pins by using hashtags and keywords in your descriptions.



Snapchat

SNAPCHAT (www.snapchat.com) is a must-use social media platform if your market demographic runs young—in fact 82% of the 218 million active users are under age 34. The messaging app lets users share pictures and videos intended to disappear after being viewed. “Snaps” can be accentuated with various filters, lenses and stickers giving the user tons of creativity options. The app also allows users to discover new business brands via a “Discover” icon on the home screen with good results—users spend 35% of their time on the app in the Discover section.



TIKTOK (www.tiktok.com/business/) has grown exponentially in popularity over the past few years. The latest statistics show the TikTok app has been downloaded over 2 billion times on the App Store and Google Play. If your target market falls between the ages of 16 and 24, it benefits your business to become part of this short-video sharing community. TikTok offers four ways to advertise your business: 1) Brand takeovers. Ads appear at top of user feeds; 2) Native ads. Video ads play between user content; 3) Sponsored hashtag challenges. Very popular with the TikTok crowd, challenge users to post videos using your brand; 4) Branded lenses: Businesses design a TikTok filter and users select the lens when choosing a filter for their video



TWITTER (www.twitter.com) is a social network where users send out short messages (up to 280 characters, including spaces) called “tweets.” Forwarding a tweet is called “retweeting” and users “follow” each other to stay connected. Start by importing your email contacts and follow them. As you see who they follow, your network will build organically. Twitter is a place to connect and engage with consumers, customers, potential partners, industry experts, and the media. It’s about having conversations, not just about promoting your business

SOCIAL COMMERCE

Social media users not only discover products and engage with brands but also have wholeheartedly embraced shopping and purchasing through social commerce platforms, such as Facebook Shops and Shops on Instagram. Both platforms offer immersive storefronts to help build your brand and allow users to buy their favorites without ever having to leave their apps.



You Tube

YOUTUBE (www.youtube.com) is an online video channel allowing individuals and businesses to upload and share digital videos. You must have a Google account to start your own channel and then you can host your business videos and access tools to help promote them. Feature everything from product demonstrations and how-to instructions to behind-the-scenes tours of your business or interviews with industry experts.

SOCIAL MADE SIMPLE

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

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

- **DON'T BE TOO PROMOTIONAL.**

If all you do is post or tweet about your newest projects or products, people will start to tune you out. Be helpful and share things you think are helpful.

- **BE REAL.** Social media isn't about a fake corporate image; it's a way to let the "real you" show through. As an entrepreneur, the personal touch you bring to your business is one of your core advantages—so let it shine in your social media efforts.

- **PICK A FEW AND DO THEM WELL.**

To start, choose a few social media platforms where your target audience "lives" and devote time to creating a quality presence on those platforms. Develop a comprehensive strategy and expand to additional networks as time and resources allow.

- **USE TOOLS.** There are a lot of social media tools and applications that can streamline your social media efforts and save you time. Some are free; others have fees. Use the tools that best fit your needs.

- **TRACK YOUR RESULTS.** Set measurable goals and track your results from the sites. You'll soon find out which social media platforms give you the best return on investment.



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

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

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

Components of Your Financial Plan

There are five elements that make up a financial plan:

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

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



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

1. REQUIRED STARTUP FUNDS

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

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

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

2. SALARIES AND WAGES

- Include wages for employees and the business owners.
- Remember to include taxes on wages.
- As a rule of thumb, mandatory and voluntary fringe benefits should total about 30 percent of wages.

3. FIXED OPERATING EXPENSES

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



GET HELP

You can find free tools and templates on SCORE's website, www.score.org.



NEXTSTEP

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

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

NOTES

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

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4. PROJECTED SALES FORECAST

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

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

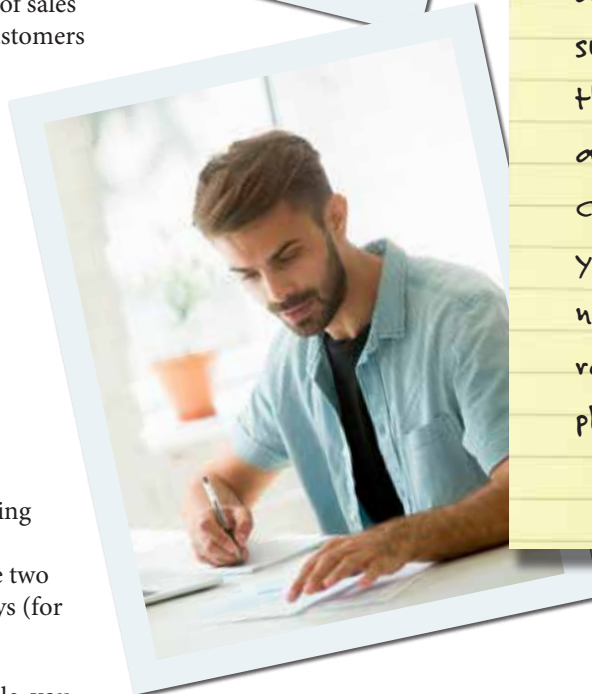
Of course, a single business may also have multiple categories. For example, you might open a store that offers computer repair (which is sold in hours) but also sell computer hardware and peripherals (which are products).

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

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

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

- Your direct cost per unit
- Your price per unit



SALES UNIT DATA SOURCES

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

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

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

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

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

5. CASH RECEIPTS AND DISBURSEMENTS

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

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

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



FINANCIAL AID

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

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

www.score.org/find-mentor today to find a mentor.

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

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

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



BEYOND BOOKKEEPING

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

Here's a closer look at each.

1. INCOME STATEMENT

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

The income statement is required annually, but usually prepared monthly or quarterly, with the final report for the year being the annual summary that is filed as part of the business's tax return.

Businesses are required to pay taxes in quarterly installments, based on the proportion of total annual profit earned in each quarter.

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

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

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



Start working on the Income Statement on the next page.

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

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2. BALANCE SHEET

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

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

Assets include:

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

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

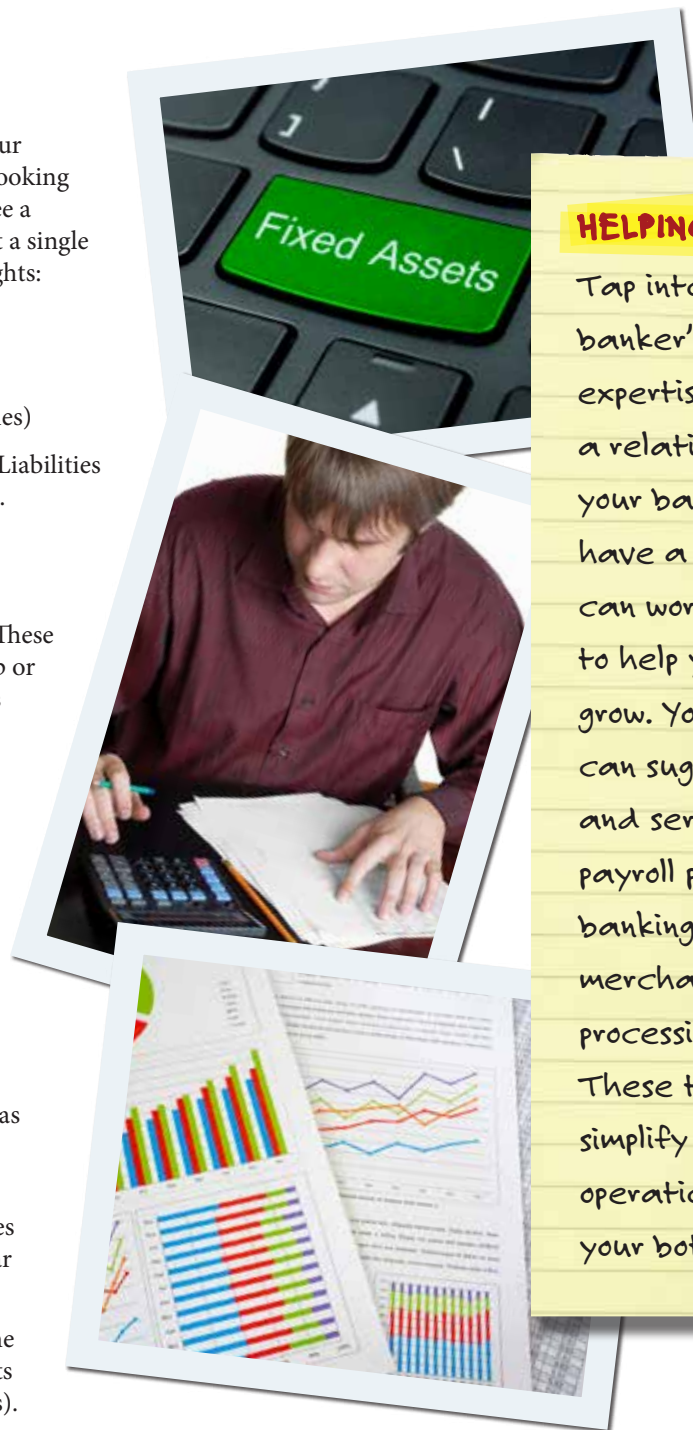
Liabilities include:

● **DEBT** (money owed to others)

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

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

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



HELPING HANDS

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



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

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

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3. CASH FLOW STATEMENT

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

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

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

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

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

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



MAKING A STATEMENT

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

NEXT STEP

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

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

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Other Important Financial Tools

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

1. BREAKEVEN ANALYSIS

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

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

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

2. BENCHMARKING AND FINANCIAL RATIOS

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

Sources of financial ratios include:

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

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



NEED HELP?

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

GET ADVICE ONLINE:

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contact@score.org

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SCORE WEBSITE:

www.score.org



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

FINANCIAL ANALYSIS

Before you approach lenders and investors, you should regularly analyze your financial statements.

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

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

FINANCIAL RECORDKEEPING

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

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



LEARN THE LINGO

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

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

Bank Loans: What You Need to Know

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

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

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

The lender will also ask:

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



GIVE YOURSELF CREDIT

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

www.annualcreditreport.com.

THE SIX C'S OF CREDIT

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

1. CHARACTER

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

2. CAPACITY

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

3. CAPITAL

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

4. COLLATERAL

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

5. CONDITIONS

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

6. CASH FLOW

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



SKIN IN THE GAME

How much money will lenders expect you to put into your business?

A good rule of thumb is that owners should contribute a minimum of 25 to 30 percent of the required capital. Banks won't finance 100 percent of your business; they seek a risk cushion and want to know that you, too, have skin in the game.

Sources of Capital

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

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

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

TRADITIONAL FORMS OF FINANCING

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



GO WITH THE FLOW

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

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

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

not available. If grants

OTHER FORMS OF FINANCING

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

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

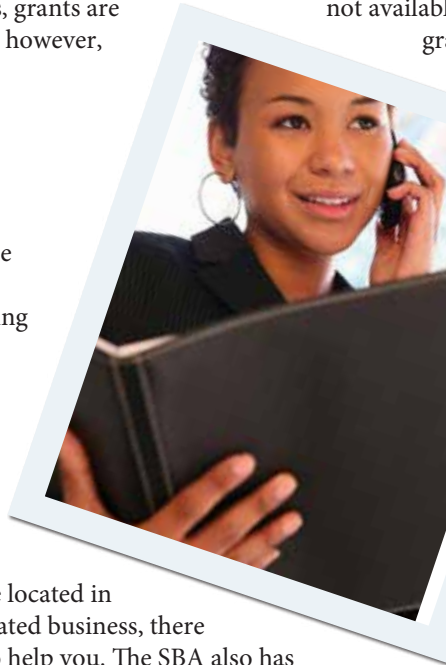
● **DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT SERVICE:** If you are located in a rural area or starting an agricultural-related business, there may be special loan programs available to help you. The SBA also has loans targeting rural entrepreneurs.

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

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

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

● **FINTECH.** Fintech refers to companies that use advanced technology to improve financial decision-making. It encompasses a wide range of financial services from mobile payment apps to online lenders. For startup businesses, fintechs offer various financial opportunities. For example, PayPal (www.paypal.com/workingcapital/) offers working capital loans based on your business account activity. Fundbox (www.fundbox.com) has several offerings, including lines of credit. Other top fintech companies for small business include: Lending Tree (www.lendingtree.com/business/small/); OnDeck (www.ondeck.com/); and Kabbage (www.kabbage.com/). It's important to remember, it may be easier to get your loan approved by a fintech company but interest rates may be higher and loans may be due sooner.



PART OF THE COMMUNITY

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



● DONATION, CHARITY, SOCIAL OR REWARDS-BASED CROWDFUNDING

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

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

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

FINANCING FROM THE BALANCE SHEET

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

● ACCOUNTS RECEIVABLE FINANCING:

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

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

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

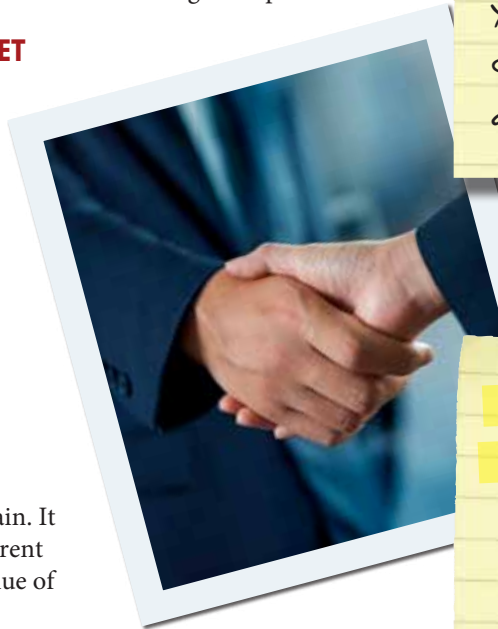
● **CHattel MORTGAGES:** In a chattel mortgage, you obtain a loan to buy an item and use the item itself as collateral for the loan.

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

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

KEEP IN MIND

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



FOR MORE INFORMATION

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

FEDERAL GOVERNMENT

GRANTS: www.grants.gov

SBA GUARANTEED LOANS:

www.sba.gov

SCORE:

www.score.org

Whether you're starting your business virtually from home, in a high-rise office, or retail shop on Main Street, it's vital to equip your business with the right technology from the start. Here's what to know about the tech needs for your startup.

HARDWARE

Many computer buyers make the mistake of buying cheap business computers only to find an upgrade is needed right away. Be smart and think about power when it comes to your computer hardware needs.

■ **PROCESSOR.** To run multiple applications at the same time, you'll need a large processor. The more powerful and speedy the processor, the less time you have to wait for your computer to catch up. With so many power-sucking applications out there (such as videos and video conferencing), a speedy processor is essential. It's a good idea to chat with an IT expert and explain what programs you'll be running to get advice on what processor is right for your requirements.

■ **HARD DRIVE STORAGE.** Although many applications are now run and stored in the cloud (see "Cloud Computing"), you still need at least 500GB on your computer for files and documents. Many computer owners opt for 1TB.

■ **SSD.** A solid-state drive (SSD) is an alternative storage device and has replaced traditional hard drives by using flash-based memory, which is considerably faster. Companies working with large amounts of data would do better with SSDs for faster access times and file-transfer speeds.

■ **RAM.** Random-access memory (or RAM) is how the computer stores files for quick access. You can expect to be using several applications simultaneously, so you'll be using more RAM. Therefore, if your computer/laptop is reaching its RAM capacity, it will slow down. Look for computers with at least 16GB of RAM.



CLOUD COMPUTING...

By now, you're probably a cloud user, even if you don't know it. Most everything is available and accessible in the cloud, which means storage savings and added security for you and your business. It also means, as a business owner, you can access data from any of your mobile devices 24/7, wherever you are in the world. Top cloud storage websites include Dropbox (<https://www.dropbox.com/>), Google Drive (https://www.google.com/intl/en_in/drive/), and OneDrive (<https://onedrive.live.com/>).

■ **PORTS.** Again, if you're unsure what ports you need for your business computer, it's advisable to have a salesperson walk you through it. The more ports and connectivity options you have, the more flexibility you'll have down the road if you want to add accessories such as webcams, extra monitors, headsets, and more.

■ **BLUETOOTH.** Not all computers come with Bluetooth compatibility, so if that's important to you and your business needs, look for that feature. You can always buy a Bluetooth adapter later if you aren't sure you need it.

Make sure to do your homework before buying a computer or laptop for your business. Check popular review websites such as CNET (<https://www.cnet.com/>), PCMag.com (<https://www.pcmag.com/>), and Consumer Reports (<https://www.consumerreports.org/>).

SOFTWARE

Obviously, the software applications you'll use depend on your business, but in general, you'll need:

- An office bundle with word editing, spreadsheet creation, and a presentation tool
- An accounting program for invoice creation and financial recordkeeping
- A website application with plugins suitable for your business such as e-commerce, chatbots, voice recognition
- A web conferencing system for conferences with employees and clients
- Project management application
- Customer Relationship Management (CRM)
- Social media dashboard to organize all your social networking needs

Talk to industry experts, other business owners in your field, or your SCORE mentor, to get their insight before purchasing software programs.

OTHER BUSINESS EQUIPMENT

You'll also probably want to purchase a printer/copier/scanner multifunction machine to start. You can always scale up when the need arises.

For internet access, make sure you have a capable router and enough bandwidth for your business needs. Talk to your communications provider for options.



CYBERSECURITY...

Sixty percent of small-to-medium-size businesses experience network breaches, so it's important to implement safe security practices right from the beginning. Check out Cybersecurity for Small Business (<https://www.fcc.gov/general/cybersecurity-small-business>) from the FCC for tips and resources to customize a cybersecurity plan for your business.

Starting a business doesn't mean you have to hire employees right away—or ever. But, down the road, you may find your business can't grow without the proper help. Here are some options for staffing your business when you're just starting.

1. FAMILY AND FRIENDS

Hiring family and/or friends to help run your business has its pros and cons. One advantage is that starting a business requires working long hours, taking time away from people close to you. If family and friends are involved, you get to see them and also get help from the people you trust the most. Also, there are tax advantages for family businesses. However, working with family and/or friends might cause problems in your relationships, so it's crucial to have a specific agreement in place to make sure everyone's responsibilities are clear.

2. BARTER

You can still get the help you need without having to actually hire anyone by bartering for services. Exchange your services or products for the services and products you may need, such as web design, social media marketing, or even accounting. Be sure to keep good records of your barter activity since the IRS expects businesses to report bartering activities on their tax returns at the fair market value of the products or services received.

3. FREELANCERS/INDEPENDENT CONTRACTORS

More than ever, the Gig Economy (meaning hiring independent contractors) is a popular way to get the help you need without having to hire employees. Tasks such as logo design, website



THE INDEPENDENT CONTRACTOR TEST...

State regulators and the IRS are on the lookout for businesses and independent contractors that cross the lines into employer/employee territory.

To be considered an independent contractor, a worker must satisfy the following “A-B-C Test.”

- A.** The worker is free from control or direction in the performance of the work under the contract of service.
- B.** The service performed is outside the usual work offered by the business.
- C.** The individual is customarily engaged in an independent trade, occupation, profession, or business.

The test varies by state, so be sure to check the requirements in your state for specifics.

content, and financial services are perfect for outsourcing. Ask your community for referrals to find freelancers or search on freelance marketplaces such as Upwork (<https://www.upwork.com/>), Fiverr (<https://www.fiverr.com/>), and Freelancer.com (<https://www.freelancer.com/>). It's crucial that your business and any independent contractors you hire adhere to IRS regulations (<https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee>), which define the differences between an independent contractor and an employee. Otherwise, you will be subject to stiff penalties, and the IRS could come after your business for not paying employment taxes. See sidebar: "The Independent Contractor Test."

4. INTERNS

If you think an intern could help your business, look to high schools and colleges for students wanting real-world experience. Many schools include internship experience as a graduation requirement. In many states, interns must be paid at least the minimum wage. Unpaid internships are closely monitored by the Department of Labor's Wage and Hour Division, and the internship must include training that would take place in an educational environment. Overall, the internship must be a benefit for the intern, and not just for the company.

5. PART-TIME EMPLOYEES

You also have the option of hiring part-time employees before making the leap to full-time hires. Part-time workers are paid an hourly wage and, depending on the state, work less than 30 hours per week. Like full-time employees, they are protected under the Fair Labor Standards Act and OSHA's safety and health policies related to work-related injuries, illnesses, and occupational fatalities. Part-time employees are usually not eligible to receive company benefits, such as health benefits, vacation and sick time, paid holidays, and unemployment compensation, unless required by state labor laws and/or company policies. Before hiring full or part-timers, be sure you understand both state and federal employment laws.



HIRING REMOTE WORKERS...

The 2020 coronavirus pandemic disrupted the "traditional" way businesses conduct operations. Business owners faced the new challenges of keeping workers and customers safe from disease by employing new cleaning and distancing protocols.

However, sending employees home to work remotely proved valuable to employees and employers alike, giving employees more control over their work environment and employers' access to remote talent anywhere in the world. Plus, hiring remote workers saves businesses money on office space and utilities.

With today's technology, businesses can hire and maintain a remote staff seamlessly.

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

GO OR NO-GO?

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

NO MATTER WHAT STAGE OF THE DECISION-MAKING PROCESS YOU ARE IN, SCORE CAN HELP YOU:

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

SCORE OFFERS:

- Free live and recorded webinars and interactive classes on small business topics
- Free mentoring from experts knowledgeable about your specific business needs. Mentors are available to participate in remote mentoring sessions via phone, email, and video.
- Free business templates, e-guides, checklists, blogs, infographics, videos, and other helpful resources
- And remember, once your business is up and running, keep turning to SCORE for help growing your business!



Small Business Resilience Hub

While you may be facing uncertainty, there is one thing you can be sure of: SCORE is here for you.

- We know that small businesses are facing unprecedented challenges.
- We're here to help turn crises into opportunities for growth with personalized mentoring, resilience training, and timely resources.

Visit SCORE's Small Business Resilience Hub (<https://www.score.org/recovery/small-business-resilience>)



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

BUSINESS CONCEPT FEASIBILITY ASSESSMENT

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

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

TOPIC	STATEMENT	POINTS
IDEA FEASIBILITY	I know that my idea is serving an unmet need and solving an unserved need.	
	I know that my product/service can be expanded to gain additional customer groups.	
MARKET IDENTIFICATION	I know who my potential buyers are.	
	I have a clear value proposition for my potential buyers.	
IMPLEMENTATION	I know what it will take to start my business.	
	I know what it will take to run my business.	
FUNDING	I understand what it will take to obtain funding.	
	I have a plan to fund my business startup.	
PERSONAL READINESS	I am ready to work hard to achieve my business goals.	
	I understand the challenges lying ahead and have a plan to tackle them.	
TOTAL SCORE		

TOTAL SCORE	RECOMMENDATION
40-50	Congratulations! It seems that you feel ready to move forward. You know your product/service can sell, you understand what it will take to start and you feel ready to tackle the challenge. SCORE can help you turn your entrepreneurial dream into reality. So make sure to schedule your next meeting to start with the right advice.
20-39	You are in luck! It seems that you are very close to making a decision. SCORE can help you fill the gaps.
0-19	Think about the topics you have the lowest points in. Make sure to discuss your results with a SCORE mentor so you can get some additional advice.

NOTES

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



SMALL BUSINESS RESILIENCE

COURAGE TO ADAPT.
STRENGTH TO SUCCEED.

The SCORE Small Business Resilience Program

is designed to help you navigate the challenges that small business are facing during these unprecedented times. With SCORE's resources and free business mentoring, you'll be prepared to:

- **Navigate** COVID-19 federal and local government programs to find the information you need, when you need it most.
- **Pivot** your business to launch a new product or service and emerge in new markets.
- **Launch** your business post-pandemic.
- **Discover** how to scale your business amidst a rapidly changing business climate.
- **Rebrand** and inspire your customers to reach for and rally around your business.
- **BE READY FOR ANYTHING!**

Get started at:

www.score.org/resilience



REMOTE MENTORING



RESOURCE PORTAL



RESILIENCE TRAINING



Your business success is our success.

Get free business mentoring.
Plus, local workshops and
online, expert resources.



Our trusted business advisors are here to help.

Get sound advice from people who know their stuff

Improve your chances for success at any business stage

Meet in-person or remotely to save valuable time

Use digital support tools and templates to guide you along

Form strong relationships you can depend on down the road

**Don't hesitate.
Get in touch today.**