

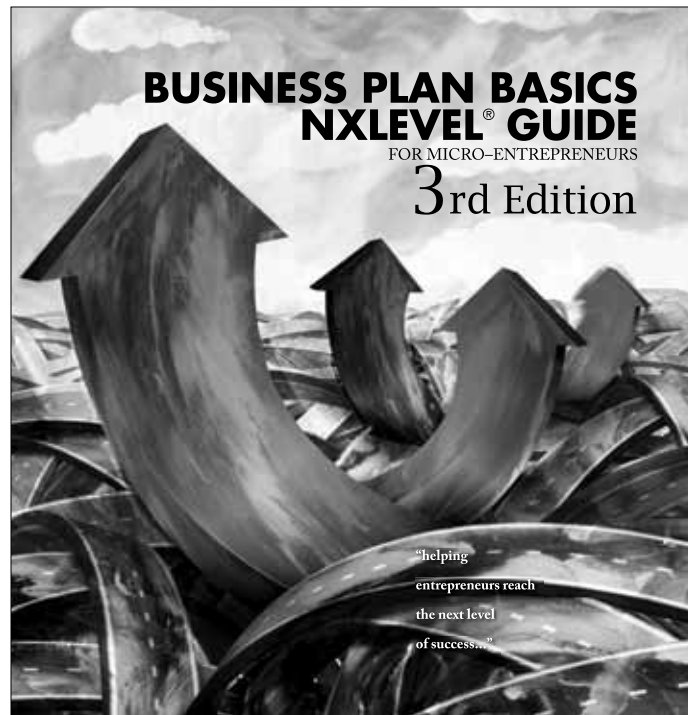
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Third Edition

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“Helping Entrepreneurs Reach the Next Level of Success...”

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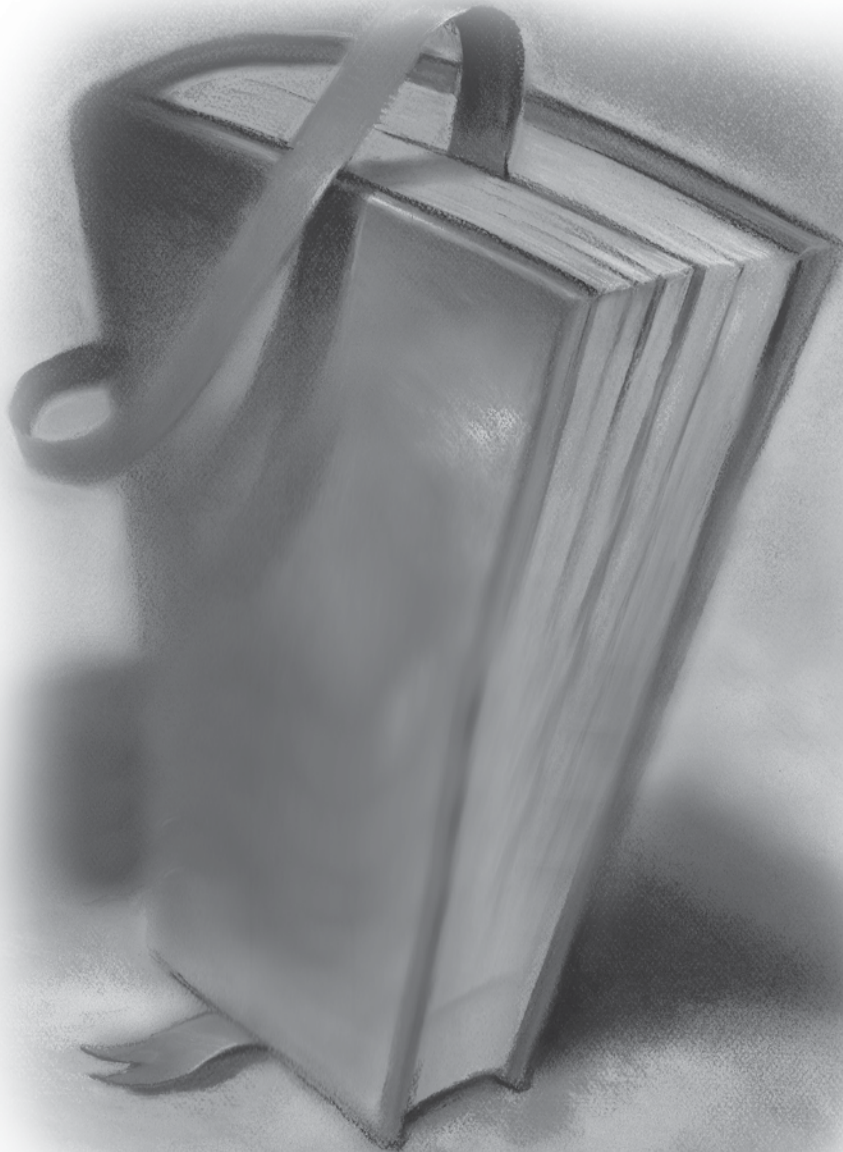
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“

“Only the educated are free.”

—Unattributed

”

What Is the NxLevel® Training Network?

The NxLevel® Entrepreneurial Training Program was founded in 1994 through a grant from The US WEST Foundation to the University of Colorado at Denver.

At first, NxLevel® was operated by the Western Entrepreneurial Network

(WEN), in collaboration with partners located in the 14 western states that comprise US WEST Communications' corporate territory.

After beta-testing its educational materials in 1996, WEN began expanding nationally. In order to reflect the program's national scope, WEN changed its name

to the NxLevel® Education Foundation (NEF).

At the same time, NxLevel® received requests from participants, educators and state coordinators for training materials that would cover the issues entrepreneurs face when starting or expanding a business. NxLevel® accordingly developed

new curricula and course materials, based on the collective expertise of successful educators and entrepreneurs. The goal was to produce easy-to-use, conveniently packaged training materials that met the stated needs of more than 4,500 previous participants.

Today, NxLevel® is the world's largest and most effective entrepreneurial training network. Since 1994, more than 350,000 students have participated in NxLevel® training, and some 5,500 people have been certified as NxLevel® instructors. Training has been implemented in all 50 states, American Samoa and Puerto Rico. NxLevel® is also used in many other countries.

NxLevel® Training Materials

All NxLevel® training materials are beta-tested before being marketed nationally. Additionally, all training materials are reedited periodically, based on the feedback of participants and instructors.

- **NxLevel® Guide for Business Startups** is a comprehensive overview of startup business requirements, with an emphasis on concept development and entry strategies.
- **NxLevel® Guide for Entrepreneurs** is a comprehensive overview of the art of business that explains how to improve existing business operations, from marketing to financial controls.
- **NxLevel® Business Resource Guide.** This useful text includes a list of business resources for research, financing or assistance, as well as legal forms and samples of practical business letters, library resource information and additional reading references.

- **Get the Buzz on Biz: NxLevel® Guide for Enterprising Youth** is a text, workbook and resource guide for youth interested in starting a small business.
- **Tilling the Soil of Opportunity: NxLevel® Guide for Agricultural Entrepreneurs** explains how to start or expand an agriculture-based operation producing non-commodity products.
- **NxLevel® Signage for Entrepreneurs** explains the importance of well-designed and properly positioned signage, and describes the legal and technical aspects of designing, manufacturing and siting effective signs.
- **Money Matters: NxLevel® Guide to Money Management** is designed to aid entrepreneurs in sound financial decision making, and focuses on providing practical solutions to money management and credit challenges.
- **Going Green: NxLevel® Guide to Environmental Solutions** takes a comprehensive look at current green business options, and teaches readers to create an action plan that will help them reach appropriate, affordable and attainable goals.
- **Search Engine Optimization: NxLevel® Guide to Tools and Strategies** introduces the basics of SEO, including keyword research, content creation, social media marketing and online advertising.
- **Business Plan Library.** Comprises sample business plans provided in universal formats.

Business Plan Basics: NxLevel® for Micro- Entrepreneurs

We listened to individuals throughout our network and found that there was a need for an easy-to-read training program that would introduce the basics of launching and managing a microbusiness.

NxLevel® began by assembling an experienced development team with experience in microenterprise training through various groups, including SBA-funded women and minority training organizations, business incubators, microloan funds, Community Development Corporations, and Small Business Development Centers. The goal was to develop a program that combined the best components of a traditional NxLevel® program (participant text, workbook and thorough Instructor's Manual) with elements of successful microenterprise trainings held by groups long involved in this area.

The result of this effort is *Business Plan Basics: NxLevel® Guide for Micro-Entrepreneurs*, which culminates in a written business plan.

On behalf of those involved in developing this text, we at the NxLevel® Education Foundation wish you the best of luck with your entrepreneurial adventure!

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Business Plan Basics: NxLevel® Guide for Micro-Entrepreneurs was made possible through the efforts of more than 20 authors with business, training and self-employment backgrounds, all of whom shared their combined decades of educational and practical experience.

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WORKSHEETS INTRODUCTION

The worksheets in this book are designed to create a business plan that will serve as your road map for starting a successful microbusiness. By completing these worksheets, you will take a hard look at your business idea and yourself, and decide whether you have the time, energy, desire and resources to launch a microbusiness.

How to Use the NxLevel® Business Plan Worksheets

There are worksheets for each of the 15 sessions. They will guide you through a series of self-evaluation exercises, as well as the step-by-step process of writing your *NxLevel® Micro-Entrepreneur Business Plan*. They also address questions about your personal and financial resources for starting a microbusiness.

There are worksheets to help you develop marketing strategies, examine operating costs and project future financial performance. Your goal is to produce a *NxLevel® Micro-Entrepreneur Business Plan* so that family members, potential partners, and potential lenders and investors will understand your business idea.

The worksheets should be completed in the same order as the sessions. You must complete all relevant worksheets before trying to write the corresponding sections of the business plan.

Don't expect to complete every worksheet on your first try. As a beginning entrepreneur, you're not expected to know all the answers. Keep a list of information you'll need to research in order to complete the worksheets. You may find that your answers change as you discover additional information. That's good! A business plan will naturally change as your ideas develop and improve.

Even if you don't think you are a very good writer, you should make every effort to complete the written business plan sections. Remember: This is only the first draft of your business plan. It doesn't have to be perfect, and it can always be cleaned up and edited later.

Please bear in mind that all businesses are different. It's impossible to cover every business situation with general questions and worksheets. The worksheets focus on business knowledge and practices that are common to most businesses. In the end, it's up to you to figure out what makes your business different and special within the context of your industry and marketplace.

Writing a business plan is a lot of work. But the knowledge you'll gain from exploring your business idea will save you plenty of money, time and energy in the long run.

The outline of the *NxLevel® Micro-Entrepreneur Business Plan* appears on the next two pages.

NxLevel® Micro-Entrepreneur Business Plan Outline

Section	Worksheet Pages
COVER PAGE	14-8
TABLE OF CONTENTS	14-9
SECTION I. EXECUTIVE SUMMARY	14-6
SECTION II. BUSINESS CONCEPT	
A. General Description of the Business	3-3 to 3-6
B. Business Goals and Objectives	3-1 and 3-2
C. Industry Information	
Industry Background	4-5
Current and Future Trends	4-6 and 4-7
Business Fit in the Industry	4-8
SECTION III. BUSINESS ORGANIZATION AND OPERATIONS	
A. Business Structure, Management and Personnel	
Business Structure	5-1
Personal Background Information	1-8 and 1-9
Management Team	6-1 to 6-3
Outside Services and Advisors	6-4 and 6-5
Personnel	6-6 to 6-11
B. Operations Plan	
Site and Equipment	6-12 to 6-14
Purchasing and Inventory	6-15
Risk Management	6-16 to 6-19
Laws, Regulations and Taxes	5-2 to 5-4
Contracts and Leases	5-5 and 5-6
C. Managing Books and Records	13-1 to 13-6

Section	Worksheet Pages
SECTION IV. MARKETING PLAN	
A. Products and Services	
Product Description	7-1 to 7-3
Features and Benefits	7-4
B. Market Analysis	
Customer Analysis	7-5 to 7-7
Competitive Analysis	7-8 to 7-11
Market Potential	7-12 and 7-13
C. Marketing Objectives, Strategies and Tactics	
Product Strategy	8-1 to 8-5
Pricing Strategy	8-6 and 8-7
Placement Strategy	9-1
Promotional Strategy	9-2 to 9-8
D. Sales and Customer Service	
Sales Strategy	11-1 to 11-5
Customer Service Strategy	11-6 to 11-8
SECTION V. FINANCIAL PLAN	
A. Capital Requirements	
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Loans, Grants and Self-Financing	14-1 to 14-3
B. Sales Forecasts	12-7
C. Cash Flow Projections	
Monthly Cash Flow Projections—Year 1	12-1 to 12-9
Notes to Cash Flow Projections	12-10
Annual Cash Flow Projections—Years 2 and 3	12-11 and 12-12
D. Financial Statements	
Sources and Uses Statement	14-1 to 14-3
Personal Financial Statement	1-14 to 1-16
Income Statement [Optional]	
Balance Sheet [Optional]	
ATTACHMENTS	14-10 to 14-11

Writing Hints

The length of your business plan depends on how much detail you include in each section. An average business plan consists of no more than 25 typed, single-spaced pages, plus attachments.

Generally speaking, a short, straightforward plan is better than a long and complicated one. Don't include information in your plan unless it's essential to the reader's understanding of your business idea. Text and graphs that don't communicate essential facts about your business should either be left out, or included in the *Attachments* section as an optional resource.

Should your business plan look professional? The answer depends on how you'll use it. If you want to use it to seek financing, then it needs to look as professional as possible. You'll probably need some expert help to get it ready for lenders and investors.

Writing the plan will take time. It's best to complete one section before tackling the next section, and to keep notes on sections that require more research and rewriting.

Making Use Of Your Plan

There are many uses for your business plan. The first and foremost purpose of the plan is as a management tool for you, the owner and manager of your business.

A business plan may also be used as a financing tool for getting loans or finding investors. A plan is generally required when seeking financing. It helps the lenders make decisions more quickly and easily. It may also be used to inform family members and employees of your goals.

Launching a business is like planning a journey: You need a clear, detailed, up-to-date map. In terms of business, the NxLevel® *Micro-Entrepreneur Business Plan* is your map to success!

BUSINESS PLAN BASICS

NxLEVEL® GUIDE FOR MICRO-ENTREPRENEURS

COURSE OVERVIEW

- | | |
|-------------|--------------------------------------------------------------------|
| Session 1. | Preparing For Success
Optimism, Dedication and Knowledge |
| Session 2. | Researching Your Business Idea
Check It Out! |
| Session 3. | Business Planning
Plan to Profit! |
| Session 4. | The Marketing Plan
Make a Splash! |
| Session 5. | Laws, Regulations and Taxes
Be a Legal Eagle! |
| Session 6. | Managing Your Microbusiness
First Things First! |
| Session 7. | Analyzing Your Market
Chart It Before You Start It! |
| Session 8. | Product and Price
Right Product, Right Price, Right On! |
| Session 9. | Placement and Promotion
Recipes for Success! |
| Session 10. | E-Commerce
Business Without Borders |
| Session 11. | Selling Success
Attitude Is Everything! |
| Session 12. | Cash Flow Management
Follow the Money! |
| Session 13. | Keeping Books and Records
Make It Count! |
| Session 14. | Financial Tips and Tools
Bank On It! |
| Session 15. | Bringing It All Together
Ready, Set, Go! |

Session Objectives

- Understand the course curriculum and expectations.
- Learn about professionalism in the business world.
- Complete self-assessment exercises in communication skills, time management and other business skills.
- Experience networking with class participants.
- Learn to create and follow an action plan.

Preparing for Success

Session 1

Date: _____

Due: _____

Class Overview and Introductions

1. Getting the Class Started
 - Administrative Details
 - Staff Introductions
 - Instructor Introduction
2. Course Introduction
 - Textbook Review
 - Course Outline and Session Dates
 - Class Structure
3. Expectations
 - Student Responsibilities
 - Instructor Responsibilities
4. Participant Introductions

Break

Instructor Topics and Worksheet Time

5. The Importance of Microbusiness
6. Are You An Entrepreneur?
7. Keys to Your Business Success
8. Next Steps: Your Action Plan



Assignment for Session 2

TEXT	Read all of the material in Session 1: Preparing for Success and Session 2: Researching Your Business Idea .
WORKSHEETS	Read and complete the Session 1 worksheets .
WRITE	First, complete the Session 1 worksheets. Then, follow the instructions on the <i>Writing Your Business Plan</i> page at the end of the worksheets to write Section III. Business Organization and Operations: Part A. Business Structure, Management and Personnel (Personal Background Information) and Section V. Financial Plan: Part D. Financial Statements (Personal Financial Statement) .

Session Objectives

- Examine business types and choose a business idea.
- Understand mass markets, niche markets, market segmentation and target markets.
- Begin preparing a customer profile.
- Understand the market research process and available market data resources.

Researching Your Business Idea

Session 2

Date: _____

Due: _____

Class Opener

Session 1 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Where Do Business Ideas Come From?
2. Manufacturing, Service and Retail Businesses
3. A Look At Your Business Idea
4. Finding Your Business Niche

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

5. Your Customer Profile
6. Beginning the Research Process



Assignment for Session 3

WORKSHEETS Read and complete the **Session 2 worksheets**.

WRITE There is no *Writing Your Business Plan* assignment for this session.

TEXT Read all of the material in **Session 3: Business Planning**.

Session Objectives

- Understand the planning cycle and basic planning concepts.
- Start the planning process by setting business goals and objectives.
- Become familiar with the components of the NxLevel® Micro-Entrepreneur Business Plan.

Business Planning

Session 3

Date: _____

Due: _____

Class Opener

Session 2 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. The Importance of Planning
2. Business Goals and Objectives

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

3. The NxLevel® Micro-Entrepreneur Business Plan
4. Contingency Planning



Assignment for Session 4

WORKSHEETS Read and complete the **Session 3 worksheets**.

WRITE First, complete the Session 3 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to write **Section II. Business Concept: Part A. General Description of the Business** and **Part B. Business Goals and Objectives**.

TEXT Read all of the material in **Session 4: The Marketing Plan**.

Session Objectives

- Become familiar with the components and purpose of the marketing plan.
- Gain a basic understanding of market research.
- Understand how to gather primary and secondary data.
- Research your industry and draw conclusions about your place within it.

The Marketing Plan

Session 4

Date: _____

Due: _____

Class Opener

Session 3 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Introduction to the Marketing Plan
2. The NxLevel® Marketing Plan
3. Creating Sales Forecasts

Break

Instructor Topics and Worksheet Time—continued

4. Industry Research



Guest Speaker



Assignment for Session 5

WORKSHEETS Read and complete the **Session 4 worksheets**.

WRITE First, complete the Session 4 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to write **Section II. Business Concept: Part C. Industry Information**.

TEXT Read all of the material in **Session 5: Laws, Regulations and Taxes**.

Session Objectives

- Understand the legal forms of business ownership and select a structure that makes sense.
- Awareness of government regulations affecting microbusiness and of resources for help with compliance.
- Research regulations that affect your business and determine their impact and cost.
- Identify and understand applicable contracts and leases.
- Understand, use and follow intellectual property laws.

Laws, Regulations and Taxes

Session 5

Date: _____

Due: _____

Class Opener

Session 4 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Setting Up Your Business Legally
2. Business Laws and Regulations

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

3. Business Laws and Regulations—continued
4. Contracts and Leases
5. Intellectual Property

Assignment for Session 6



WORKSHEETS Read and complete the **Session 5 worksheets**.

WRITE First, complete the Session 5 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to write **Section III. Business Organization and Operations: Part A. Business Structure, Management and Personnel (Business Structure)** and **Part B. Operations Plan (Laws, Regulations and Taxes and Contracts and Leases)**.

TEXT Read all of the material in **Session 6: Managing Your Microbusiness**.

Session Objectives

- Understand why management is important to microbusinesses, even if they're sole proprietorships with no employees.
- Understand the challenges of managing a home-based business.
- Identify internal and external management team members, and determine related expenses.
- Determine current employee needs and related expenses, and identify employee management issues.
- Understand how to avoid or manage common business risks.

Managing Your Microbusiness

Session 6

Date: _____

Due: _____

Class Opener

Session 5 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Why Management Matters
2. Managing Time
3. Managing a Home-Based Business
4. Managing Business Communication

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

5. Managing Your Team
6. Managing Logistics
7. Managing Risk

Assignment for Session 7



WORKSHEETS Read and complete the **Session 6 worksheets**.

WRITE First, complete the Session 6 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to write **Section III. Business Organization and Operations: Part A. Business Management, Structure and Personnel (Management Team, Outside Services and Advisors and Personnel)** and **Part B. Operations Plan (Site and Equipment, Purchasing and Inventory and Risk Management)**.

TEXT Read all of the material in **Session 7: Market Analysis**.

Session Objectives

- Learn where to get the market research data you need.
- Understand the features and benefits of your products.
- Learn how to find out who and where your customers are.
- Learn how to research your competitors.
- Learn how to estimate your market potential.

Analyzing Your Market

Session 7

Date: _____

Due: _____

Class Opener

Session 6 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Introduction to Marketing
2. Expanding Your Market Research
3. Describing Your Product
4. Market Analysis

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

5. Market Analysis—continued

Assignment for Session 8



WORKSHEETS Read and complete the **Session 7 worksheets**.

WRITE First, complete the Session 7 worksheets. Then, follow the *Writing Your Business Plan* page at the end of the worksheets to write **Section IV. Marketing Plan: Part A. Products and Services** and **Part B. Market Analysis**.

TEXT Read all the material in **Session 8: Product and Price**.

Session Objectives

- Identify and understand common marketing strategies.
- Understand how packaging affects business image and success.
- Consider how to position products.
- Understand and consider branding issues.
- Discuss pricing strategies and make preliminary pricing decisions.
- Understand the break-even point, and learn about the process of break-even analysis.

Product and Price Session 8

Date: _____

Due: _____

Class Opener

Session 7 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Overview of Marketing Strategies
2. Product Strategies

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

3. Pricing Strategies



Assignment for Session 9

WORKSHEETS Read and complete **Session 8 worksheets**.

WRITE First, complete the Session 8 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to write **Section IV. Marketing Plan: Part C. Marketing Objectives, Strategies and Tactics (Product Strategy and Pricing Strategy)**.

TEXT Read all of the material in **Session 9: Placement and Promotion**.

Session Objectives

- Determine placement (distribution) strategies.
- Understand how location and distribution affect price and profitability.
- Examine promotional options.
- Determine which advertising, public relations and networking strategies are appropriate, attainable and affordable.
- Develop a marketing budget by examining promotional costs.

Placement and Promotion

Session 9

Date: _____

Due: _____

Class Opener

Session 8 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Placement Strategies
2. Promotional Strategies

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

3. Promotional Strategies—continued



Assignment for Session 10

WORKSHEETS Read and complete the **Session 9** worksheets.

WRITE First, complete the Session 9 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to write **Section IV. Marketing Plan: Part C. Marketing Objectives, Strategies and Tactics (Placement Strategy and Promotional Strategy)**.

TEXT Read all of the material in **Session 10: E-Commerce**.

Session Objectives

- Understand the basics of connecting to the Internet.
- Understand the issues involved in website design.
- Think about the pros and cons of building or buying a site, versus selling through an e-commerce host.
- Think about how e-commerce and social media affect your business plan, and update the relevant sections accordingly.

E-Commerce

Session 10

Date: _____

Due: _____

Class Opener

Session 9 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Introduction to the Internet
2. Introduction to E-Commerce

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

3. Building or Buying a Website
4. Customer Service Online
5. Online Marketing Strategies

Assignment for Session 11



WORKSHEETS Read and complete the **Session 10 worksheets**.

WRITE First, complete the Session 10 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to update the relevant parts of your business plan, based on what you've learned about the Internet, social media and e-commerce.

TEXT Read all of the material in **Session 11: Selling Success**.

Session Objectives

- Learn basic selling concepts, and understand the need for sales training.
- Understand how your attitude affects customer service.
- Identify what customers need and expect from your business.
- Understand how to resolve customer complaints.
- Begin developing a customer service philosophy.

Selling Success

Session 11

Date: _____

Due: _____

Class Opener

Session 10 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. The Art of Selling

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

2. Creating Customer Loyalty

Assignment for Session 12



WORKSHEETS Read and complete the **Session 11 worksheets**.

WRITE First, complete the Session 11 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to write **Section IV. Marketing Plan: Part D. Sales and Customer Service**.

TEXT Read all of the material in **Session 12: Cash Flow Management**.

Session Objectives

- Understand cash flow projections and budgeting.
- Learn to develop sales and expense forecasts.
- Assemble financial data and prepare a one-year monthly cash flow projection.
- Determine startup capital requirements.
- Understand the purpose and meaning of basic financial statements.

Cash Flow Management

Session 12

Date: _____

Due: _____

Class Opener

Session 11 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. The Cash Flow Cycle
2. Cash Flow Projections
3. Preparing a Cash Flow Projection

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

3. Using Cash Flow Projection as a Management Tool
4. Financial Statements

Assignment for Session 13



WORKSHEETS Read and complete the **Session 12 worksheets**.

WRITE First, complete the Session 12 worksheets. Then, follow the *Writing Your Business Plan* page at the end of the worksheets to write **Section V. Financial Plan: Part A. Capital Requirements (Startup Costs)** and **Part B. Sales Forecasts**. Also, complete **Part C. Cash Flow Projections** by inserting your **Cash Flow Projection Worksheets**.

TEXT Read all of the material in **Session 13: Keeping Books and Records**.

Session Objectives

- Develop a mindset for business success and business ethics.
- Understand why bookkeeping, recordkeeping and financial systems are vital to business success.
- Understand bookkeeping and recordkeeping functions.
- Understand the basics of accounting systems.
- Learn where to get professional help with recordkeeping and accounting.

Keeping Books and Records

Session 13

Date: _____

Due: _____

Class Opener

Session 12 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Developing a Professional Mindset
2. Accounting Basics

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

3. Accounting Basics—continued
4. Business Ownership and Tax Forms
5. Getting Professional Help



Assignment for Session 14

WORKSHEETS Read and complete the **Session 13 worksheets**.

WRITE First, complete the Session 13 worksheets. Then, follow the instructions on the *Writing Your Business Plan* page at the end of the worksheets to write **Section III. Business Organization and Operations: Part C. Managing Books and Records**.

TEXT Read all of the material in **Session 14: Financial Tips and Tools**.

Session Objectives

- Explore financing options for the business.
- Understand the difference between debt and equity financing.
- Understand what lenders expect and require to make a loan.
- Learn how ratios measure the financial health of a business
- Learn the basics of credit and collections.

Financial Tips and Tools

Session 14

Date: _____

Due: _____

Class Opener

Session 13 Homework and Worksheet Review

Instructor Topics and Worksheet Time

1. Financing Your Business
2. Money Sources
3. Preparing to Seek Financing

Break



Guest Speaker

Instructor Topics and Worksheet Time—continued

4. Understanding Financial Ratios
5. Credit and Collections
6. Worksheets and Final Sections of the Business Plan



Assignment for Session 15

WORKSHEETS Read and complete the **Session 14 worksheets**.

WRITE First, complete the Session 14 worksheets. Then, using the *Writing Your Business Plan* pages at the end of the worksheets, write **Section V. Financial Plan: A. Capital Requirements (Loans, Grants and Self-Financing)** and **Part D. Financial Statements (Sources and Uses Statement)**. Also, create the **Cover Page, Table of Contents, Section I. Executive Summary**, and the **Attachments** section.

TEXT Read all of the material in **Session 15: Bringing It All Together**.

NOTE: Check with your instructor to see if you are to bring your COMPLETED Business Plan to Session 15.

Session Objectives

- Understand the importance of negotiating and contract management in the business world.
- Recognize and prepare for the barriers and pitfalls of starting and growing a business.
- Discuss implementation decisions and next steps.
- Evaluate participants' NxLevel® learning experience

Bringing It All Together**Session 15**

Date: _____

Due: _____

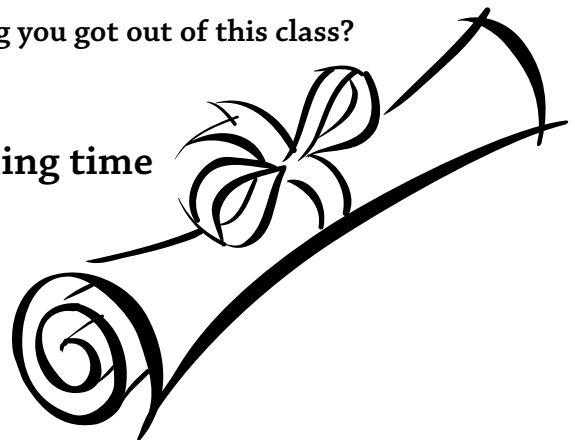
Class Opener**Session 14 Homework and Worksheet Review****Instructor Topics and Worksheet Time**

1. Making and Managing the Deal
2. Overcoming Barriers and Pitfalls
3. Moving to the Next Level

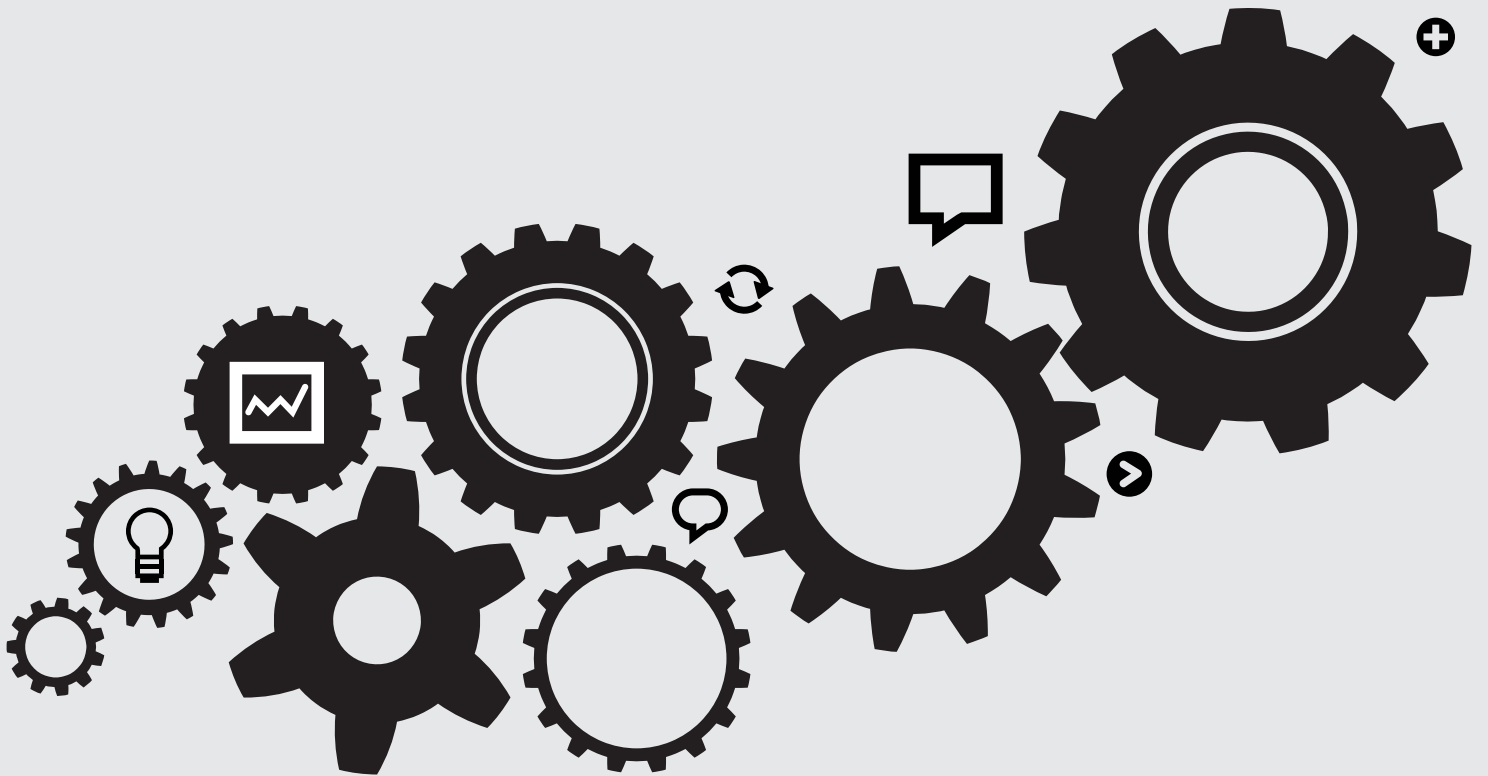
Break**Course Evaluation**

Break into small groups and discuss the following:

1. What did you like most about the class?
2. What did you like least about the class?
3. Which guest speakers were most effective? Least effective?
4. Which session(s) would you shorten? Lengthen?
5. Which session(s) would you like to see added? Deleted?
6. What suggestions do you have to help make the course better?
7. What was the most important thing you got out of this class?

Break and Graduation—all remaining time

TEXT



SESSION 1

Preparing for Success

OPTIMISM, DEDICATION AND KNOWLEDGE



HIGHLIGHTS

Are You An Entrepreneur?	page 2
Your Personal and Business Goals	page 6
Keys to Your Business Success	page 9
Next Steps: Your Action Plan.....	page 23

“*The secret of success in life is to be ready for your opportunity when it comes.*

—Benjamin Disraeli”

About This Session

Microbusinesses are enterprises that have no more than five employees. By this definition, about 92 percent of U.S. businesses qualify. Many microbusiness owners build successful ventures around a hobby, craft or previous job experience. These businesses are often home-based, and they usually don't require much startup capital. However, they tend to lack access to commercial banking services and credit.

They also have a high failure rate. Only 50 percent of new microbusinesses still exist after one year.

The businesses that survive are usually the ones with organized, well-informed owners. This means that you can increase your chance of success by setting smart goals, learning basic business skills and seeking expert help before developing your business idea.

Are you an entrepreneur? You probably already have many personal traits of a successful business owner. We can help you learn the skills you don't have.

Your personal and business goals. Starting a microbusiness takes time and energy, so your business goals must fit with your personal goals, such as starting a family or getting a diploma. Before launching your business, take an honest look at

your background, experience, personal finances, family situation and motivations.

Keys to your business success. This section discusses skills all business owners need, including networking; communication skills; and time, stress and money management.

Next steps: your action plan. Once you know which business skills you have, you can work on developing the ones you don't. Creating an action plan will help you find the information, resources and guidance you need.

Are You An Entrepreneur?

You may have a great idea, but even the best idea won't succeed unless you develop the skills it takes to launch and run a business. It's always smart to assess your strengths and weaknesses before sinking time and money into a new business.

You don't have to come from a special background to create a successful microbusiness. You can be a man or a woman of any race, a college graduate or a high-school dropout, a teen or a retiree. But successful business owners *do* have a few important things in common.

Passion

Enjoying what you do is a big part of doing it well, whether you're playing a sport, learning a skill or running a business. Passion also inspires other people to believe in your business. If you're not excited about your business idea, you probably won't be able to get customers, partners, lenders and employees excited about it.

If money is your biggest motivation, think twice before starting a microbusiness. Wanting money is normal, but it may not be enough to sustain you through a rocky

startup phase. To have the best chance of success, you should be passionate about the benefits your microbusiness will bring to your customers and to your community. This will keep you focused and committed when times get tough.

Persistence

Entrepreneurs aren't afraid of a challenge. They do whatever it takes to get the job done. Of course, this means they often have to do things they don't want to do. For example, very few entrepreneurs enjoy paperwork. But they do it anyway, because they know their success depends on it.

Entrepreneurs also don't give up when they face problems or setbacks. Even when success seems far away, they stay on course. Perhaps most important, they don't let rejection get them down. They know they may have to hear *no* many times before they hear *yes*, so they learn to take setbacks in stride.

Self-Confidence

Successful business owners have confidence in themselves and in their ideas. But they also know that being confident means being able to ask for help and listen to other people's advice. The best entrepreneurs are confident about their ability to improve, adapt and learn from mistakes, so they're always open to constructive criticism and new ideas.

Optimism

Entrepreneurs tend to be optimistic. This doesn't mean they sit around hoping for the best or assuming everything will work out. Rather, they have what's known as **effort optimism**; they believe that their hard work and planning are likely to pay off.

They have faith, but it's a faith based on realism and personal determination. They



Even the best idea won't succeed unless you develop the skills it takes to launch and run a business.

aren't optimistic that a failing plan will magically succeed at the last minute, but they are optimistic that they can figure out what's wrong with the plan and fix it.

In short, they don't assume things will improve; they assume they can improve things.

Critical Thinking

The best entrepreneurs look at situations as they are, not as they want or imagine them to be. They don't let political or social prejudices get in the way of adapting to—and making the most of—a changing world.

Furthermore, they don't cherry-pick facts to support their plans. Instead, they base their plans on the best available evidence. These traits allow them to innovate, adapt and solve problems for their business and their customers.

Creativity

New product ideas often come from new ways of looking at a problem. Creativity and flexibility are valuable qualities in launching, running and growing a business. In fact, some studies suggest that creativity is the main factor that determines whether an entrepreneur will succeed or fail.

Risk-Taking

Entrepreneurs know that launching a new business carries certain risks. Although they have fears and insecurities like everyone else, they're able to push them aside and accept the risks of business ownership.

They also understand that they need to look before they leap. They're brave, but they're not reckless. In other words, they take calculated risks to reach worthwhile goals.

Willingness to Work Hard

A microbusiness owner we know once said, "I work only half the time: 12 hours a day!"

In most cases, starting a business takes self-motivation, long hours and plenty of hard work. And success doesn't mean you get to relax; it almost always brings new challenges. Most entrepreneurs face these challenges gladly, because they are achievement-oriented people who take pride in overcoming obstacles.

Cooperation

Smart entrepreneurs don't try to do everything themselves. They have enough confidence to know when to seek help and give up some control. When necessary, they are comfortable finding and assigning tasks to qualified people, collaborating with employees and contractors, and sharing power with partners.

Communication Skills

Entrepreneurs need good communication skills to handle upset customers, manage employees, negotiate contracts and sell their products. Also, marketing your business is an ongoing process of communicating the things that make it special.

Fairness

Successful entrepreneurs earn a good reputation through fair dealing and personal integrity. Because they're in business for the long haul, they avoid short-term gains that may lead to long-term losses. The best entrepreneurs treat customers, employees and partners fairly and respectfully. In negotiations, they pursue a win-win outcome.

The best entrepreneurs treat customers, employees and partners fairly and respectfully.

Staying Healthy

Wise entrepreneurs take care of themselves. That means eating right, managing stress and getting plenty of exercise and

sleep. When you're in good mental and physical health, you make better decisions and have an easier time coping with the daily demands of a growing business.

This advice applies to people of all body types, income levels and ages. No matter what physical or emotional challenges you face, you can take simple steps to improve your health and state of mind. For more information, visit <http://www.cdc.gov/physicalactivity/everyone/guidelines/adults.html/>.

What These Traits Have in Common

Smart entrepreneurs hone the skills they have and learn the ones they don't.

These traits have one thing in common: You can learn and practice them. Very few entrepreneurs have all these traits from the moment they start a business. Instead, they hone the skills they have and learn the ones they don't. They also know that in some cases, they must seek outside help to get access to the skills they need.

Completing the *Entrepreneurial Traits Worksheet* and the *Business Skills Worksheet* will tell you which traits you already have and which ones you need to develop.

...

Everyone in the house was working so much we almost never saw each other. Mom worked at a club in Koreatown, and Dad worked at a restaurant down the street from her. And I was working at a fast-food place that paid about \$5 an hour after taxes. It's funny we were paying so much rent, considering no one was ever home. I used to joke that we should just sleep at our jobs and save the money.

Things weren't so hard when I was little. But then my parents lost a lot of their savings to one of those identity-theft scams.

A few years later, my sister was born and someone had to stay home with her. I was looking for an excuse to get away from the

restaurant, so I volunteered. Plus, I had this idea for a business.

Hannah Park lives in Los Angeles with her parents. When she was 19, she quit a dead-end job to look after her newborn sister. For a family that needed every penny it could earn, it was hard to have Hannah give up her job. But being at home all day would give her the chance to expand her hobby into a business.

For years, she'd been making one-of-a-kind greeting cards for special occasions like birthdays and weddings. She used things like dried flowers, vintage paper scraps, and interesting pieces of wood, fabric and metal.

Usually, she made only a few cards a year. She spent a lot of time working on each one, because she wanted them to match people's personalities. For a niece who loved the beach, she coated a card in a thin layer of sand and decorated it with beach glass and shells. For lettering, she used strips of green plastic that looked like seaweed.

People often told her she could make good money selling her cards in stores, but she'd always been too busy. Now, she had a chance to build up a stock of cards while minding her sister.

I felt like the cards didn't really cost anything to make because most of the materials were free. But the decorations were usually things I saved because they reminded me of a family member or friend. Now, I could make more simple cards.

If I sold them for \$5 each, I'd only have to sell 40 a week to make what I earned at my old job. How hard could that be in Los Angeles, with so many people? And since I was home all day, I'd have plenty of time to work on them.

Or that's what I thought, anyway.

...

The Risks and Rewards of Business Ownership

When we're really excited about an idea, we sometimes ignore its downside. However, it's very dangerous to ignore the risks of going into business. These risks include:

- **Stress.** Starting a business is stressful at the best of times. The more you have at stake, the more stressful it is. In the short term, stress can harm your work, your decision-making and your relationships. In the long term, it can cause serious health problems ranging from insomnia and depression to heart disease and stroke.
- **Financial hardship.** You may have your own money or other assets at risk. If your business fails, you may end up with serious debt, credit problems and other financial troubles that make it hard to get back on your feet.
- **Failure.** The emotional effects of business failure can be hard to handle, especially for people who don't have strong support from friends and family. Entrepreneurs who fail often report feeling disappointed in themselves, and they may also worry about what other people think of them. Although many successful entrepreneurs have said that failure was a valuable learning experience—or perhaps even a necessary one—few would say the experience was easy or pleasant.
- **Long hours.** You may have to work 50 hours or more per week. This could mean giving up some of the activities you currently enjoy.
- **Family problems.** If your family members don't understand and accept the risks of your new business—in-

cluding long hours and new financial stress—serious conflicts are likely. The same is true if you don't recognize your family's need for attention and support. Balancing family needs against business demands is one of the hardest parts of starting a business, but it's essential to a happy outcome.

Only you can decide how much risk is acceptable at this stage of your life. Your age, income level, family status, work experience and many other factors affect this decision. For instance, if you're 25 and single, you probably have more risk tolerance than a married 50-year-old who's thinking about sinking retirement savings into a new microbusiness.

When weighing risk, always remember to look at the risks of *not* acting. Although entrepreneurship is risky, so is every other method of making a living. As we note below, choosing not to start a microbusiness can be risky, too!

Depending how much risk you're comfortable with, you might choose to delay launching your business. Or you might decide to start with a very small part-time business and grow gradually; this can reduce the amount of risk you face and allow you to build on your successes.

Now, let's look at some rewards of starting a microbusiness:

- **Independence.** If you're like most entrepreneurs, being your own boss is a powerful incentive for launching a business.
- **Job security.** In the past, starting a business was a risky alternative to the stability of working for someone else. Today, working for someone else may actually be riskier than striking out on your own. Downsizing and outsourc-

When weighing risk, always remember to look at the risks of not acting.

ing are common. Many “stable” jobs vanished in recent years, and businesses tend to be less willing to make a long-term commitment to their employees. In this environment, a microbusiness may offer more stability than a traditional job would.

- **Money.** The financial rewards of running a microbusiness can go far beyond what you would earn at a normal job.
- **Pride.** A sense of personal achievement is one of the most fulfilling parts of running a successful microbusiness. But microbusinesses don’t just help their owners; they also help their communities. U.S. microbusinesses create jobs, drive economic growth and bring struggling business districts back to life. In fact, the Association for Enterprise Opportunity estimates that if one out of every three U.S. microbusinesses hired one employee, the United States would have full employment. That’s just one example of how important microbusiness owners are to the U.S. economy.
- **Excitement.** Running your own business offers opportunities for excitement, creativity and recognition that most traditional jobs can’t match.

Now that you’ve thought about the risks and rewards of running a microbusiness, do you feel confident and excited about taking on the responsibility of business ownership?

If you don’t, this might not be the right time for you to start a business. Planning a microbusiness takes plenty of energy, dedication and enthusiasm right from the start. It may be better to hold off on your business idea than to pursue it at the wrong time.

Deciding that it’s not a good time to launch your business doesn’t mean you’ve failed. It means you’re a smart, responsible decision-maker who carefully weighs risks and rewards. When you’re ready to start your business, these traits will serve you well.

Your Personal and Business Goals

When you start your own microbusiness, it often becomes a central part of your life. Therefore, your business goals should be in tune with your personal goals. The *Personal and Business Goals Worksheet* will help you decide whether starting a business makes sense at this point in your life.

Also, think about how running a business will affect your family and friends. How will you draw the line between work, family and leisure time? The *Personal and Family Considerations Worksheet* and the *Personal and Business Goals Worksheet* will help you assess whether your business goals conflict with your personal relationships.

Here are some typical business goals:

- Grow your business by 10 to 15 percent each year.
- Grow the business to a certain size and sell it to someone else.
- Grow the business to a certain size and open a second location.
- Hire two employees in your first year.
- Be the greenest business in your industry.
- Capture a certain percentage of your market.
- Revitalize a struggling community or neighborhood.



Planning a microbusiness takes plenty of energy, dedication and enthusiasm right from the start.

And here are some typical personal goals:

- Use your creativity or talent.
- Move to a bigger home.
- Put money aside for your child's education.
- Get off welfare or Section 8.
- Sponsor community events (concerts, lectures, afterschool programs).
- Spend plenty of time with your family.
- Help to solve a social or environmental problem.

Of course, you can pursue more than one of these goals at the same time. The purpose of listing goals is simply to set priorities and identify potential conflicts—both within and between the two categories.

Personal Assessment

As a microbusiness owner, you are responsible for all business tasks, including sales, marketing, bookkeeping, cleaning and merchandising. Even if you hire someone else to do these tasks, you still need to know enough about them to judge your employee's performance.

That's another good reason to understand your strengths and weaknesses before starting a business. You may like to cook, but that doesn't mean you'll be a successful restaurant owner. Cooking is actually a very small part of running a restaurant. Do you have experience hiring, scheduling or firing staff? Have you worked with food suppliers? Can you understand and meet licensing and health code requirements? Have you managed money before? How are you at dealing with angry or unreasonable customers? All these tasks are at least as important to a restaurant owner's success as cooking a good meal.

Complete the *Personal Assessment Worksheet* to take an honest look at the skills you can bring to your new microbusiness.

Overcoming personal weaknesses

We all have personal flaws and weaknesses that can prevent us from reaching our goals. Here are a few that often affect entrepreneurs:

- **Bad temper.** Some people just aren't very good at working with others. They get mad too easily, stay mad too long and have a hard time putting themselves in other people's shoes. If you have these problems, you definitely need to work on them. Business owners should always be fair and respectful to customers and employees. They also need to stay calm to make smart decisions; studies show that being angry actually causes our IQ to drop!
- **Stubbornness.** There's a fine line between persistence and stubbornness. Entrepreneurs need to strike a healthy balance between trusting their gut instincts and staying flexible. They must also be able to admit when they're wrong. Sometimes, they may even have to swallow their pride and accept the blame for a problem that wasn't really their fault. Otherwise, they might chase away customers, employees and partners.
- **Overvaluing authority.** If you value your authority too much, you might not want to give any to other people. The result? A customer walks into your business, finds that no one but you can make a simple decision and goes away mad. Also, people who overvalue their authority tend to see advice or criticism as a threat. They don't want to be questioned or challenged, even if they're driving the business into a ditch.

Business owners need to stay calm to make smart decisions.

- **Overwork.** Some people just can't stop working at the end of the day. Maybe they're trying to get away from problems elsewhere in their lives, or maybe they're so afraid of failure that they're overdoing things. Whatever the cause, it's dangerous! A balanced life—one with time for family, friends and relaxation—is much better for you. And that makes it better for your business, too.
- **Putting things off.** This is one of the worst habits a business owner can have. Putting off chores and responsibilities can waste huge amounts of money and time. Sometimes, it can take hours to fix the problems caused by putting off a half-hour chore. Also, most of us feel bad when we avoid a job we need to do, so not only does putting off chores waste more time than it saves, but you'll probably spend a lot of that time feeling worried and guilty. If a task is unpleasant, why drag it out? Get it over with and move on to something you actually enjoy.

Personal finances

Assessing your personal finances is just as important as assessing your business skills. Do you follow a budget? Do you make ends meet each month? Are you free of debt? How is your credit rating? Do you have any money in savings? How much can you invest in your business?

If you don't currently manage your money, start practicing financial management skills now. Take steps to deal with any credit problems you have, and start saving whatever you can manage. We offer helpful tips and strategies later in this session.



If you don't currently manage your money, start practicing financial management skills now.

...

To start with, I made three card styles. There was a birthday card, an anniversary card and one for graduation. I tried to use the same materials for each. But if I ran out of one ingredient, or found a bunch of stuff for free somewhere, I just used what I had. Finding enough materials and making them work was actually the hardest part.

During her first month of babysitting, Hannah managed to make 150 cards. The following Saturday afternoon, she took them to some shops in Los Feliz and Silver Lake. The response amazed her. Almost every store she visited wanted more cards than she had. Two shops bought 20 cards each. Other stores took cards on consignment, which meant that Hannah wouldn't get paid until the cards sold. She went home with \$100 in cash and orders for 25 more cards.

Soon, she was seeing less of her parents than ever. When she wasn't looking after her sister, she was designing and creating cards. Or searching thrift stores and junk shops for raw materials. Or explaining to a store owner that she could only deliver 10 birthday cards that week.

At first, it was kind of exciting to be overworked. But a little later, my cards were picked up by a huge gift shop on Hollywood and Vermont. After that, my life was like a blur. I was working almost 100 hours a week and I hardly ever got to sleep before 2 a.m. At that point, I think I was making about 400 cards a month.

I did that for a couple of months, and then I realized that I actually missed my fast food job! Mostly, I missed being able to just walk out the door at the end of my shift and leave the job behind me. With the cards, it was like my life was completely gone. I didn't see my parents or my friends anymore. Plus, I didn't have a car, so I spent half the day on the Red Line, traveling to all these different stores.

And the worst thing was, I never seemed to have any money!

...

Keys to Your Business Success

In this section, we'll look at some of the skills and resources that most successful microbusinesses rely on:

- Bootstrapping
- Mentoring
- Professionalism
- Communication skills
- Networking
- Time management
- Stress management
- Money management

Bootstrapping

Bootstrapping means getting by with as few resources as possible and getting the most out of the ones you have. This may mean holding down three jobs, setting up an office in your garage or bartering for supplies. Not only does it work, but it's actually the most common method of starting a microbusiness. Even if you can't fund your entire business through bootstrapping, it will reduce the amount of capital you need to borrow.

Bootstrapping isn't just a way to launch your new microbusiness. It's also a way to keep it lean and flexible. You should always be looking for creative ways to cut costs and increase profits. Here are some tips:

- Share a rental space with another business. Or form a cooperative or collective with likeminded or complementary businesses.
- Hire workers for specific, one-time tasks through a bulletin board, a clas-

sified ad or a website like Craigslist (<http://www.craigslist.org>) or TaskRabbit (<http://www.taskrabbit.com/>).

- Participate in a small-business incubator. Many state and local governments sponsor incubators by providing below-market rent and low-cost support services to microbusinesses.
- If you don't have a computer, use your public library's, or look for a local nonprofit that provides microbusiness owners with free or low-cost computers (see Session 10 *E-Commerce* for more information).
- You can get all sorts of useful things for free from Freecycle.org (<http://www.freecycle.org>). This is a constantly updated list of items people are giving away on a first-come, first-served basis. If no one has what you need, you can request it. This can be a great way to get office supplies, craft materials and tools. Craigslist also has a listing for free goods.
- If you need special equipment or work space, find an existing business that will let you rent it during closing or off-peak hours.
- Test-market your product online. You can learn a lot about customer demand and preferences by offering a product on sites like Etsy or eBay. You can see how buyers respond to different descriptions, features and prices. Best of all, you get paid for it.
- Ease yourself into business by selling at flea markets, farmers' markets, street fairs and other "pop-up retail" options. The cost is minimal, and it gives you an opportunity to gather marketing data and build your professional network

You should always be looking for creative ways to cut costs and increase profits.

and customer base. This approach also gives you lots of face time with customers, which may help you to understand their needs and improve your product.

- Look into **Local Exchange Trading Systems (LETS)**. These are local non-profit networks whose members trade goods and services, usually by means of interest-free **local currency**. A LETS member can earn local currency by building a fence for one member, and then “spend” it on plumbing services from another member. In some areas, local currencies can even be used for medical and dental care. This is an increasingly popular method of bootstrapping and community renewal in economically disadvantaged areas. To learn more, visit the Complementary Currency Resource Center (<http://www.complementarycurrency.org/>).
- Use barter arrangements to procure supplies, or trade the expertise you have for expertise you don’t. For instance, if you make sweaters, but you don’t know how to draw, you might knit a sweater for a local artist in return for the artwork you need.
- Use free or low-cost online faxing, database and accounting programs.
- Look at funding options based on social networking tools, such as Kickstarter (<http://www.kickstarter.com>).
- Increase your visibility and reach with Twitter, Facebook and other social networking platforms.
- Choose policies that save money while giving you a positive, greener brand image. For example, send marketing materials and catalogs electronically instead of printing and mailing them.

A mentor can offer an objective take on the strengths and weaknesses of your business ideas.

Mentoring

A **mentor** is a person who agrees to give you ongoing guidance and support as you strive to reach your business goals.

The ideal mentor is a knowledgeable, upbeat person who has climbed up to where you want to be and is willing to lower a rope down to you.

A mentor shouldn’t be someone you run to every time you have a problem. Instead, your mentor should meet with you regularly to assess your progress, offer constructive criticism and motivate you to excel. A mentor can also offer an objective take on the strengths and weaknesses of your business ideas and help you to improve them.

A good mentor offers smart advice without trying to run your business. Someone who tries to control your business decisions doesn’t have the right attitude to be a mentor. Always look for a guide instead of a boss.

How often you meet with your mentor is up to the two of you, but an hour per month or quarter is typical. Your mentor’s time is valuable, so prepare for each meeting by organizing your information and choosing the topics you need to discuss. You can also keep your mentor up to date on your progress by sending a brief monthly letter or email.

How do you get a mentor? If you have a good relationship with someone who’s given you valuable business advice in the past, you can simply ask that person to be your mentor. Another option is to approach a successful business owner in your community.

If you don’t know anyone who fits the bill, your local Small Business Development Center (SBDC) may be able to help. Visit <http://www.asbdc-us.org> to find an SBDC near you.

Other possible sources for mentors include:

- **SCORE** has more than 13,000 business experts who offer free and confidential mentoring in 62 industries. Business help is available through email or personal meetings (<http://www.score.org>).
- **MicroMentor** is a free online service that pairs low-income and underserved entrepreneurs with volunteer mentors (<http://www.micromentor.org>).

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Why was Hannah so overworked? Part of the problem was that her cards were much more popular than she'd expected. But there were other problems, too.

She knew she could save money and time by creating simpler card designs and buying her materials in bulk, but she never had enough cash on hand. So instead, she had to scour her neighborhood for raw materials every week or two, make her cards as quickly as possible, and then start all over again. It took her a lot of time to hunt for new and interesting materials week after week!

She asked friends and relatives to be on the lookout for unusual paper and cloth. That helped a little. But none of them had her eye; they usually brought things she didn't like and wouldn't use.

One night I was complaining to my mom about all this, and she told me that what made me strong was making me weak. What made people love my cards was that no two were alike, and they had all these weird materials no one expected to see on a card.

But once I started selling them, people did expect to see those materials. So I had to keep using them, and that was making it hard for me to succeed. She was right: My strength was my weakness!

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Networking

Networking means making connections with people who can help you and your business. For example, a friend of a friend may be a possible customer or supplier for your business. Networking increases your access to people who can help you succeed.

It's never too early to start making these connections. Start by writing the names of everyone you know on notecards.

- **Family members.** This may seem too obvious to mention. However, your family members may have talents that will help you down the line. Do you have a son who knows all about social media, or a daughter with drawing or painting talent? You may find these skills very useful as you launch or grow your business.
- **Friends.** In addition to their own skills and resources, your friends have their own networks. They can promote your business, ask favors and get advice.
- **Work contacts.** Coworkers, bosses and people you meet through work—such as suppliers—can be very valuable assets as long as you won't be competing with them directly. This is also a good place to look for mentors or even business partners.
- **Neighbors.** They may have equipment you can buy or borrow, workspaces you can rent or kids you can hire for odd jobs.
- **School contacts.** Schools bring people of all types together, which makes them a great networking resource. Your fellow students probably have a wide variety of skills, contacts and useful information. You may also know teachers, staff or counselors who could be helpful.



It's never too early to start networking!

- **Internet groups, forums and social networking sites.** If you spend time on an online forum, you may be able to get help or advice from fellow members. Take care, though; deal only with people you know and trust. Also, don't join a forum just to talk about your business, unless that's the stated purpose of the forum.
- **Interest groups.** Do you have a hobby, belong to a club or play a sport? Can you join your chamber of commerce or a local microbusiness support group? Attending local meetups, events and lectures is the one of the best ways to build your list of contacts.

Once you've made your list, think of the things you will need to get your business up and running. Could anyone on the list help you? If so, make a note of it. As you meet new people, add them to your file. Keep track of their personal information for future reference. For instance, you could make a note about issues important to that person, the person's birthday, the names of any children and so on.

When networking, keep three things in mind. First, don't treat networking as a sales opportunity. The point is not to promote yourself, but to build long-term relationships, connections and trust. With that goal in mind, always make an effort to stay positive and listen more than you talk. If you take an honest, friendly interest in the people you meet, they'll be more likely to do the same for you. If your interest is phony or self-serving, people will know it. Second, don't treat networking as a one-way street. It's not just about looking for people who can help you; it's also about looking for people, groups and causes you can help. Relationships based on networking should always benefit both

parties. The more you're willing to give, the more you're likely to get.

Third, keep your network "warm" by scheduling time on your calendar to stay in touch. Ignoring members of your network for months, and then calling them out of the blue on the day you need something, isn't likely to be successful.

Professionalism

Your image is your business's image. The things you say and do, the way you look and act, the condition of your office, vehicles and tools—all of these things affect how people relate to your business. In fact, research suggests that appearance accounts for as much as 90 percent of a first impression.

This is especially true for microbusiness owners who don't have a traditional office, warehouse or retail space. If you want customers, partners and lenders to take your business seriously, you must develop professional business habits. That means maintaining the appropriate appearance and behavior at all times. It also means keeping promises, meeting expectations and always being on time.

This is true of your personal life as well as your business life. You never know when you're going to run into a potential employee, partner or customer, so you should always be prepared to impress the people you meet. Remember: Professionalism isn't just about putting your best foot forward; it's also about showing respect for other people. By meeting or exceeding their expectations, you communicate that their good opinion matters to you.



Relationships based on networking should always benefit both parties.

Dressing for Success

- In most cases, the safest approach is to dress conservatively or traditionally. Most business professionals have two different closets: One is for business, and one is for relaxation or sport.
- Wear clean clothes that aren't too tight or too loose.
- Your shoulders should be covered. Avoid tank tops, halter tops and spaghetti tops.
- Your shoes should be clean and polished.
- Your nails should be clean and trimmed. If you wear nail polish, it shouldn't be chipped or worn.
- Men should be clean-shaven, or have a neatly trimmed beard or moustache.
- Tuck in your shirt or blouse.
- Avoid tennis shoes, jeans, T-shirts, baseball hats and sandals.

Communication

Some people are naturally good at communicating in speech and in writing. For the rest of us, it takes practice. One of the best ways to improve your communication skills is to read lots of business magazines, newspapers and websites. These publications hire professional writers who know how to present information clearly, in a way that makes people want to keep reading. Pay special attention to how these writers begin and end sentences, where they break paragraphs and how they develop ideas logically.

Appropriate language

Proper business language follows these guidelines:

- **Be polite.** Never use slang, vulgar words or swear words.
- **Be concise.** Get to the point when you speak. Long stories are fine for family reunions, but they're out of place in the business world.
- **Avoid controversy.** When you run a business, you'll run into all kinds of people. You don't have to agree with everyone's beliefs or lifestyle, but you also don't have to express your disagreement. Especially if you're serving the general public, it's usually best to keep your political or religious opinions—or any other potentially controversial views—to yourself.

Learning business language

Learning business terms is a little like learning a foreign language. Some words will be totally new to you. Others have different meanings than you're used to.

It's important to understand these terms and use them correctly. The glossary in the back of this book will give you a head start. Reading business journals, magazines and blogs can also help you learn business terms. Flash cards are another good way to build your vocabulary; defining business terms in your own words will help you understand and remember them. However, the best way to get familiar with business terms is to use them in conversation with other people. Your mentor can help you with this.

It's important to understand business terms and use them correctly.

One-on-one communication

We all have different communication styles. Maybe you're a straightforward person who likes to get down to business right away. In a lot of situations, that's a good way to be. But if you have a customer who's very talkative, you'll have a much

better chance of making the sale if you respect that style of communication and adapt to it. If you don't respond to small talk, and try to rush the sale, the customer might think you're unfriendly.

Listening skills

There's an old joke that says we were given two ears, but only one mouth, because listening is twice as hard as talking.

It's very true that hearing people talk isn't the same thing as listening to what they say. Here are some tips on how to be a good listener:

- **Stop whatever you're doing.** Part of being a good listener is *acting* like a good listener, so always make it clear that you're giving the other person your full attention.
- **Be responsive.** Make eye contact, and look alert and interested. Give physical or verbal cues that encourage the speaker to continue, such as nodding, smiling or laughing at an appropriate time.
- **Stay calm.** When you're upset or excited, your mood affects how you interpret what you're hearing. Listen first, then understand, then judge, and *then* react.
- **Prove that you've listened.** Repeat what the other person says—in your own words—to show that you've understood the point. You can say something like, "Let me make sure I've got this straight," and then restate the message as you understand it. Again, don't judge what you heard until the other person confirms that you understand it.

Body language

Standing up straight, maintaining eye contact and looking confident are excellent ways to make a good impression. Slouching, staring at the floor or fidgeting may give people a negative impression.

Also, consider your tone of voice. Studies show that listeners pay at least as much attention to your tone as they do to your words. Don't let a negative or neutral tone undercut a positive message.

Paying attention to the nonverbal clues you send also helps you to interpret other people's tone and body language, which makes you a better communicator.

What Does Body Language Communicate?

- **Good posture.** Happiness, confidence, strength, energy.
- **Slouching.** Unhappiness, weariness, disinterest, defeat.
- **Fidgeting.** Anxiety, distraction, lack of self-control, boredom.
- **Smiling.** Optimism, friendliness, warmth, welcoming.
- **Frown.** Anger, unhappiness, disappointment, unwelcoming.
- **Eye contact.** Confidence, honesty, interest, respect.
- **No eye contact.** Dishonesty, no confidence, disinterest, shame, fear.

• • •

A year after Hannah started her business, she realized it had been six months since she went on a date and a month since she had dinner with her parents. She didn't even see much of her little sister any more; to free up more time, she was paying her niece to babysit.

*Hearing people talk isn't
the same thing as listening
to what they say!*

On paper, she was making good money. But for some reason, it never seemed to be there when she needed it. She felt like she was always struggling to make ends meet. She never had enough time to balance her books, collect past-due payments or keep track of her consignments.

I knew I needed help. But money was tight and I didn't know where to turn. Finally, I called up my high-school friend Jeremin, who was studying accounting at Los Angeles Trade Technical College. I offered to make her a stack of personal cards in return for some advice on business.

Jeremin came by later that week and asked to see my books. I pointed to the kitchen table, where I had three shoeboxes full of invoices and receipts. I said, "I think that's all of it." And she had this look on her face like, "What have I gotten myself into?"

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Public speaking

As a business owner, you may have to talk to large groups of people at one time or another—maybe at a church function, neighborhood association or chamber of commerce meeting.

Although this is one of the best ways to promote your business, it can be hard to speak to large groups. When asked what they are most afraid of, many people respond "public speaking." Fortunately, the fear of public speaking fades with practice. One option is to join Toastmasters International, which is a longstanding organization dedicated to helping people become better public speakers (<http://www.toastmasters.org/>).

The most important step in preparing a speech is choosing the main point you want your audience to understand and the main thing you want them to do. Once you've

done that, come up with two or three brief, strong examples or arguments that support these goals. Here's a simple way to proceed:

- Opening: Your message
- Two or three supporting points
- Evidence that supports those points
- Conclusion: Call to action

Typically, audiences remember the opening and closing of a speech. The opening should grab and hold their attention; the closing should inspire them to act. The middle section should support the opening and closing arguments without overwhelming the audience with data.

Outline your speech on a page or a series of index cards, but don't try to memorize it word for word. Instead, get comfortable enough with the outline that you can speak naturally while staying on track.

Avoid talking too quickly or slowly. Your pace should be brisk without sounding rushed or unfriendly. Recording and listening back to your practice speeches will help you to speak naturally.

Nervous speakers often try to cram too much information into their speeches. For most audiences, explaining a couple of important points very well is more convincing than covering a lot of ground.

Simple charts and visual aids can be helpful, but inexperienced speakers sometimes try to hide behind numbers, charts and graphics. This is likely to make the audience's attention wander.

When speaking to a group, look for body language, facial expressions and level of interest. This will help you adapt the tone and pace of your speech to your audience.



Public speaking is one of the best ways to promote your business

Public Speaking Tips

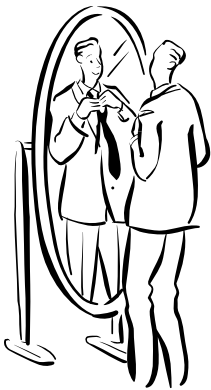
- Rehearse your speech in front of trusted friends and ask for their feedback.
- Take a few deep breaths before you begin speaking.
- Stand behind a podium or table so you feel less exposed.
- Make eye contact with your audience; don't stare down at your notes.
- Keep it short and to the point.
- Smile!

Business meeting etiquette

Making a good first impression is especially important when attending a business meeting. For some business owners, this is where a business idea succeeds or fails.

Here are some helpful hints:

- Prepare your facts and information. Write down what you want to accomplish in the meeting, and memorize the main things you want to say before you go.
- Make an appointment with the other party. Be clear about the purpose of the meeting. This demonstrates professionalism, courtesy, organization and planning skills.
- Call or email a day or two before the meeting to confirm your appointment and get directions.
- Always be on time (or better yet, a few minutes early).
- Introduce yourself confidently and state the name and nature of your business. Look people in the eye and shake their hands firmly.



Always be on time for business meetings!

- It's usually wise to be formal at the beginning of the business relationship. This includes referring to individuals as Mr. Smith or Ms. Jones. As you get to know the person better, you can speak more informally.
- After a brief conversation, present your information briefly and clearly. If you don't know the answer to a question, don't guess. Instead, say something like, "I'll have to check into that and get back to you."
- Always follow up on business meetings or important phone calls with a thank-you email or letter that summarizes your understanding of the discussion.

Writing skills

Good writing skills help you build relationships with customers, suppliers and other professionals. If you aren't comfortable with your writing skills, look for help. Ask a skilled friend or advisor to edit your work. Take a business writing course. Or use template letters to get started. The *NxLevel® Business Resource Guide* contains sample letters and memos. You can download it from <http://www.nxlevel.org>.

Inexperienced writers often put all their text into one long block. Most people find it hard to read text in this format, so be sure to use paragraph breaks. Punctuation should also be standard and consistent. Learning the proper use of commas, periods and paragraph breaks is one of the easiest and most powerful ways to improve your written communication.

If writing and editing are not your strong points, consider hiring (or trading services with) someone who has the skills to do the job right, like a professional writer, an English teacher or a gifted student.

Time Management

Time management takes discipline and organization, but it makes you more efficient and improves your performance.

One way to get organized is to think about how you spend your time now and what things slow you down. Using a daily organizer or calendar is a good way to improve your time management skills.

Identify time wasters

What daily activities waste your time? Everyone's list is different. Some of us get preoccupied by the Internet—once we get online, we can't seem to get off again. The next thing we know, the day's over and we haven't gotten anything done. Other people are disorganized, so they waste a lot of time looking for tools or papers they've misplaced.

Think about your time wasters and list them on the *Time Savers Worksheet*. After you finish, we'll look at some time-saving tips.

Identify time savers

Unfortunately, there's no miracle cure for time management problems. All the solutions involve changing your behavior, which is never easy.

The key is to choose one time waster to work on first. Pick the one that seems to be the worst and work on the others later.

For instance, if your time waster is misplacing your car keys, choose a place where you can put them each day when you come through the door.

You can also use a good habit to change a bad one or develop a new one. Suppose the first thing you do when you come home every day is check your email. In that case, you could put a note on the computer—or even tape an old key to it—to remind

yourself to put your keys in the bowl next to it.

If you can't think of solutions to your time wasters, ask other people what they do. Then, try the solutions that make the most sense for you.

Time Management Tips

- List all your activities and record how much time you spend on each one during a week. Identify wasted time and gaps that you could be using more efficiently.
- Make a list of tasks, starting with the most important and ending with the least, and cross them off as you do them.
- Learn to tell the difference between being busy and getting things done. On any given day, there are tasks that will keep you busy without increasing your productivity. Always prioritize your tasks.
- Don't try to do several things at once. Focusing on one task at a time, and working until it's finished, will increase your productivity and reduce your frustration.
- Schedule breaks and personal time. When you know you have a set amount of time for yourself, you'll find it easier to focus on work tasks. Studies show that people who take frequent, short breaks do more and better work than people who don't.
- Disorganization is a huge time waster. File important papers immediately and keep your work areas clear of clutter.
- Set a timer or alarm clock for things like lunch, breaks and personal phone calls, so that you don't drag them out too long.



Focusing on one task at a time, and working until it's finished, will increase your productivity



Planning and scheduling

As a new business owner, you'll have to juggle your family, your social life and your business. You need a way to keep track of your duties and responsibilities.

Coming up with a plan and a schedule is easy. The hard part is sticking to them. Even the most successful businesspeople have problems managing their time. Keep a sense of humor about failure while continuing to work toward success.

It helps to consider what times of the day you're at your best. Are you a morning person? Or do you do better in the afternoon or evening? Once you figure out your peak time, look at your activities during that time. Try to schedule difficult projects or important tasks when you're at your mental peak. The *Planning and Scheduling Worksheet* will help you.

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It took Jeremin a couple of visits to sort through Hannah's shoeboxes. She soon realized that Hannah hadn't kept track of the money she spent on materials, so she asked her to guess what the average card cost to make.

"They're pretty much free," Hannah said. "I find most of the stuff I use." With a little more probing, Jeremin found that on average, each card took an hour to make, once she factored in the time it took Hannah to find "free" materials. On top of that, Hannah regularly bought glue, rolls of tinfoil and bags of trinkets and charms. And when she was in a hurry, she sometimes even bought high-grade paper or fabric from art supply stores.

Next, Jeremin realized that Hannah's biggest clients were taking 60 days or more to pay. No wonder she was having cash flow problems! Also, Hannah was spending about \$150 per month on babysitting so that she'd have time to make her cards.

Not all the news was bad, though. It turned out that Hannah had 950 unsold cards gathering dust in 30 tiny consignment stores. That wasn't acceptable at a time when Hannah was struggling to keep up with her bigger clients' orders. By pulling her unsold cards out of those stores, she could fill her outstanding orders, earn some cash and get a little bit of breathing room.

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Stress Management

We all experience stress, and we all have different ways of dealing with it. The important thing to realize is that your stress level will probably rise once you launch your business.

Running a business puts your time, money, credit, personal relationships and pride at risk. Worse, even a viable microbusiness can face long periods of uncertainty; many successful entrepreneurs have had moments when they felt sure their business would fail. With so much at stake, it's no surprise that many business owners see coping with stress as one of their biggest challenges.

That's why it's good to create a plan for dealing with stressful situations. Uncertainty is a big source of stress for most business owners, so knowing that you've got a plan in place may even reduce the amount of stress you feel.

Your plan should include stress management techniques, as well as sources for help such as online forums, support groups or counselors. Also, think in advance about how much stress is too much. For example, if you're losing a lot of sleep, or having frequent conflicts with your family, that might be a warning sign to get help, slow down or possibly even give up your business. Having a plan will make these tough decisions easier.

Stress management tips

- **Take a break!** If you step away from the problem for a while, a solution might come to you. Even if it doesn't, getting some distance will clear your head and help you make better decisions.
- **Get some exercise!** Research shows that exercise reduces stress and eases depression. It can also help to reverse the physical effects of stress. It can even keep you from tossing and turning when you should be sleeping. Before beginning an exercise program, be sure to get advice from a doctor.
- **Eat well!** We all know people who seem to live on donuts and coffee, and others who end up eating fast food at every meal because they have no time to shop or cook. A microbusiness is only as healthy as its owner, so get your priorities straight. Structuring your workday should include making time to eat healthy, balanced meals; a good breakfast is especially important. Different people have different needs, so ask a doctor for advice on eating right and staying fit.
- **Get enough sleep!** The combination of high stress and little sleep is very dangerous. Do your best to get at least seven hours of sleep every night. Apart from worrying about business, common causes of poor sleep include having alcohol, caffeine or heavy meals within three hours of bedtime. Try to improve your sleep by changing habits like these, instead of taking medications that can affect the quality of your sleep (and may have other dangerous side effects).
- **Think positively!** You may not have control over stressful events, but you *can* control how you react to them. A stressful situation can make you feel like everything in your life is awful. Don't fall into this trap! Situations are rarely as bad as they seem to be when we're feeling stressed. Keeping the problem in perspective will help you cope and may even lead to a solution.
- **Find support!** No matter what you're going through, someone else has survived it and can help you get through it. Local support groups and online business forums are good places to seek advice from fellow business owners.
- **Slow down!** Many people are calmed and strengthened by prayer or meditation. If that's not your style, set aside some quiet time every day to reflect and relax. It doesn't matter what method you use to calm down, as long as you make it a daily routine.
- **Stay motivated!** Carry an inspirational quote with you. This could be something a famous person said, a favorite religious text or a personal note from someone who believes in you.
- **Get help!** If you have a hard time overcoming negative thoughts, cognitive behavior therapy (CBT) is proven to reduce anxiety and depression. Online CBT programs like MoodGYM (<http://moodgym.anu.edu.au/>) can be a helpful low- or no-cost alternative to one-on-one therapy.



Careful planning can reduce the stress of launching and running a new microbusiness.

Money Management

Unless you're lucky enough to have a business idea that will pay for itself on the first day, starting a microbusiness is likely to put a strain on your personal finances.



Without budgeting and bookkeeping, business owners don't know if they're making money.

It may be six months—or even longer—before your business starts supporting you. Before going ahead with your business, you must make sure you have enough money to cover your living expenses.

It's also important to understand how different ways of handling money affect your business. Suppose you have a checking account, but you don't balance it regularly. You might think that as long as your checks don't bounce, you're doing pretty well.

That's a dangerous way of handling a personal bank account, but it's absolutely out of the question when you start a business. Balancing your books is not optional. Without budgeting and bookkeeping, business owners don't know if they're making money or not. Getting into the habit of balancing your personal accounts now will make it much easier to balance your business accounts.

Personal budgeting

A personal budget looks at three things:

1. The money you expect to come in each month (income, earnings).
2. The money you expect to go out each month (expenses).
3. The amount that's left over (positive or negative balance).

Budgeting lets you estimate your **cash flow** for the coming month. (Cash flow is the money that moves into and out of your business.) At the end of the month, you can check whether your estimate was right. This will help you come up with a better estimate for the next month.

The goal is to have money left over at the end of each month. That means your expenses should be less than your income. That's easier said than done, of course. All

of us sometimes spend more than we take in. But people who always spend more than they earn eventually get into serious trouble.

The *Personal Budgeting Worksheet* explains how to create a personal budget. Not only will this give you a better picture of your financial situation as you prepare to launch your microbusiness, but it can also help you find expenses to reduce or eliminate. (We'll talk more about budgeting and financial statements in later sessions.)

Personal financial statement

Your personal budget shows how your money comes in and goes out over time. By contrast, your **personal financial statement** is a snapshot of your financial situation at a specific moment. It compares what you own (your **assets**) to what you owe (your **liabilities** or **debts**). When you own more than you owe, you have assets left over. This leftover amount is your **net worth**. When you owe more than you own, you have a negative net worth. This means that you can't pay all of your debts.

When you seek financing for your business, lenders will ask to see your personal financial statement. They want to see how well you manage money and debt. When you manage your own finances well, lenders feel more comfortable that you can manage your business's finances. The *Personal Financial Statement Worksheet* will teach you to prepare this document.

If you have a lot of debts, setting up a system to pay them off will put you in a much better position to start a business. Again, budgeting is the key.

Banking

As a business owner, you will need a personal and business bank account. Some banks may not offer favorable terms for

your microbusiness, especially if you've had problems with banks in the past. In this case, it may be best to approach a small community bank or—if you're eligible—a credit union. Depending on your area, you also may be able to approach a low-income credit union (LICU) that focuses on meeting the needs of people who don't have access to traditional banking services.

Even at smaller banks, personal credit problems can sometimes make it hard to open a business bank account. If you have unpaid charges from a previous bank account, make arrangements to pay them off before applying for a new account. Be sure to get proof of payment from the old bank so that you can show it to the new one. Another option is to start small by opening a savings account. If you manage this account responsibly for a few months, the bank will be more likely to let you open a checking account.

Whatever your situation, don't get discouraged. You may have to approach several banks to find the one that's right for you. If you have ongoing difficulties opening a bank account, consider consulting a credit counseling agency.

When choosing a bank, make sure its location, hours and fees are appropriate for your business. Some banks have special deals for customers who set up business and personal accounts. Also, check the paperwork, deposit and minimum balance requirements for opening a business account.

The most important aspect of having a bank account is to keep accurate records so that you know exactly how much money you have. Always follow these rules:

- Write down the amount, date and source of each deposit you make into your bank account. Add the amount to your balance.

- Every time you write a check, write the amount, date, check number and payee in your check register. Subtract the amount from your account balance.
- Every time you use a bank card—in a store, at an ATM or online—write down the amount and the purpose of the funds, and subtract the amount from your account balance.

Most people know that these steps are important, but surprisingly few people actually follow them. Regardless, there's no better way to avoid banking problems.

Understanding credit

Making sure your personal credit history is in order will help you start and operate your new business. In this section, we'll discuss things you should know about credit and steps you can take if you have credit problems.

Types of credit

There are two types of credit. **Open-end credit** lets you make frequent purchases and pay them off in full or in installments. When you pay in installments, you usually have to pay interest. This means that the item you bought costs more the longer you take to pay for it. If you owe \$100, and you take a year to pay, you might have to pay \$120 to cancel your debt. The extra \$20 is the profit the lender makes for extending credit to you.

Examples of open-end credit include credit cards like MasterCard and Visa, gas cards and revolving charge accounts.

Closed-end credit is extended for a set amount over a set time. Usually, it's used for a single item, such as a car or a piece of furniture. The monthly loan payments include an interest charge. Auto loans, home mortgages and business equipment loans are examples of closed-end credit.



Getting your personal credit history in order will help you start and operate your new business.

What You Must Know About Credit

- Whenever you buy something on credit or apply for credit, it's reported to a national credit bureau that tracks your credit and payment history.
- If you apply for additional credit—such as a store credit card or auto loan—a credit report is generated based on your name and Social Security number.
- A credit score is assigned to you based on your credit history.
- Creditors and lenders use credit scores to make decisions about your application.
- If you are denied credit, you are entitled to a free copy of your credit report.

How your credit score affects your business

If you've never owned a business before, your personal credit history determines your ability to borrow money or secure credit for your startup business. Lenders want to know how you handle credit, because they want to be confident that you will pay back your loans.

Do you know what a credit check will reveal about you? If not, check your credit report so that you know what to expect. You are entitled to a free annual copy of your credit report from AnnualCreditReport.com (<https://www.annualcreditreport.com>). This is an official site provided by Equifax, Experian and TransUnion, which are the three major credit-reporting bureaus. Don't be fooled by imitators or unsolicited emails; AnnualCreditReport.com does not charge fees or send out marketing emails.

Looking at all three of your credit reports is important not just because you need to know your credit score, but also because

it gives you the chance to fix mistakes, address problems and make smart choices. For example, you may find that one report still lists a debt you already paid. In this case, providing proof of payment to the credit bureau will boost your credit score. Here are the steps you should take:

- Make a photocopy of the report and highlight the disputed entry.
- Write a letter that explains why the entry is incorrect.
- Make photocopies of supporting documents, such as receipts and canceled checks.
- Send the information to the credit bureau by registered mail.

When reading your credit report, remember that negative items disappear after a certain number of years. If a significant problem is only a few months away from dropping off your report, you may want to wait before applying for new credit.

The *Credit Danger Signals Worksheet* will help you recognize current credit problems. If you have any of these problems, you need to fix them. This may take time, so it's important to start now. The *Safe Credit Use Worksheet* will help you make sure you're not taking on more debt than you can handle.

You can also find sample letters to creditors in the *NxLevel® Micro-Enterprise Resource Guide*.

Getting help with credit

Many online and offline businesses claim that they can fix your credit problems quickly. Remember the old saying: "If it sounds too good to be true, it probably is." You can solve your credit problems, but it takes time and patience. Legitimate

Do you know what a credit check will reveal about you?

credit counseling agencies can be a huge help; fly-by-night agencies that charge a fee to “erase” your credit problems will often make matters worse. To avoid scams, stick with agencies approved by the U.S. Department of Justice (http://www.justice.gov/ust/eo/bapcpa/ccde/cc_approved.htm).

...

While going through Hannah’s papers, Jeremin found \$500 worth of overdue invoices that Hannah had been too busy to collect. At Jeremin’s urging, Hannah collected these invoices and used most of this money to buy bulk materials.

She also placed an ad on Craigslist.com, offering to buy vintage fabric scraps, old board games, unusual paper and trinkets. This saved her lots of time and money, and brought in materials she might not have found otherwise. Some people were so happy to empty out their closets that they gave her the materials for free!

Jeremin came up with new payment terms for stores and distributors, including a discount for buyers who paid within 30 days. Most of them took advantage of this discount, which did a lot to improve Hannah’s cash flow.

Now that some of the pressure was off, Hannah was able to streamline her operations. She didn’t have to run all over the city looking for scrap materials anymore, which allowed her to standardize her designs and to hire her cousin to do prep work on the cards.

The biggest thing I learned from Jeremin was how to organize my time and plan ahead. I’m still very, very busy, but now it’s a good kind of busy. Once I stopped wasting so much time and energy, I stopped feeling so overwhelmed and crazy.

Lately I make about 50 cards a day, and I can usually do it without working after 9 p.m.

I’ve even been on a couple of dates. Also, I’m looking into more ambitious projects, like selling customized cards online. Now that I’ve finally gotten organized, I can’t believe there were days when I missed working in a fast food restaurant!

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Next Steps: Your Action Plan

Congratulations! You’ve taken the first steps toward launching your microbusiness. You’ve looked at the risks and rewards, and you’ve considered your own strengths and weaknesses.

Now, it’s time to take action by looking at areas where you need improvement and seeking help.

An **action plan** is a simple but effective management tool that lists the steps required to complete a project. As such, it’s different from your daily calendar or scheduler.

If you were planning a party at your house, you might write “Party” on your calendar to remind you of the date. By contrast, an action plan lists all the steps for arranging the party, such as *send invitations*, *plan menu* and *go shopping*.

Your action plan should outline how and when you will accomplish each of your project goals. Breaking a project into steps also helps you track costs and use resources wisely, which is very helpful when starting a microbusiness. In short, your action plan will help you choose the right projects and finish them on schedule.

Use the *Action Plan Worksheet* to prioritize your action items, and then begin working on them systematically.

Your action plan should outline how and when you will accomplish each of your project goals.

The Planning Process

1. Write down everything you need to do (personal and business).
2. Write down the deadline for each item.
3. Use a calendar or scheduler to organize the items by their deadlines.
4. Prioritize items if several of them have the same deadline.
5. Cross off items as you complete them, and add new tasks as they arise.
6. Update your plan weekly.
7. At the end of each month, review your progress and note areas for improvement.

5. Three of the most important keys to business success are time management, stress management and money management. All of these skills can be learned.
6. The most important aspect of having a bank account is to keep accurate records so that you always know exactly how much money you have.
7. Making sure your personal credit history is in order will help you start and operate your new business.
8. An action plan is a simple project management tool that lists the steps required to complete a project. This helps you choose the right projects, prioritize them and finish them on schedule.

What You've Learned

Here are the main concepts you should understand after completing this session:

1. Successful business owners have certain traits in common. Practicing the traits you already have, and developing the ones you don't, improves your odds of success.
2. Before starting a business, you must take an honest look at your experience, skills and financial situation.
3. Professionalism is important for microbusiness owners. Always dress appropriately, and speak and write professionally and politely.
4. Learning to manage personal finances makes it much easier to manage business finances.

WORKSHEETS



SESSION 1

SESSION 1: PREPARING FOR SUCCESS

Optimism, Dedication and Knowledge

Entrepreneurial Traits Worksheet

You don't have to come from a specific background to launch a successful business. You can be a man or a woman of any race, a college graduate or a high-school dropout, a teen or a retiree. But successful business owners *do* share a few important traits.

Completing the worksheet on the following page will show you which of these traits you already have, and which ones you need to learn and practice. Read each statement carefully, and enter a score in the right-hand column based on how well the statement agrees with your feelings. Use a scale of 1 to 4:

1 = strongly disagree

2 = disagree

3 = agree

4 = strongly agree

When you finish, add up all the points in the "Score" column. A score of 25 to 62 points may mean that starting a microbusiness is not the right choice for you at this time. On the other hand, a midrange score may simply mean that you haven't had a chance to develop the skills you need. With a little training and experience—such as you'd get from partnering with more experienced people, or going to work in a small entrepreneurial business—you can easily overcome this problem.

If you scored between 63 and 100 points, you are well on your way to having the skills you need to run a successful business. That said, lasting business success requires an ability to discover and overcome weaknesses. Therefore, you should try to improve any skills for which you scored below 3.

Entrepreneurial Traits Worksheet

Statement	Score
I enjoy competition in work and play.	
I often set goals for myself and meet them.	
I'm good at motivating myself. Nobody has to get me going.	
I like being responsible for myself and making my own decisions.	
I enjoy seeking out new challenges.	
I'm comfortable taking risks.	
In group situations, I often take a leadership role.	
I welcome opportunities to adapt, improve and grow.	
I'm not the type to put things off when they need doing.	
I have an open mind. I consistently challenge my own thinking.	
I inspire enthusiasm and commitment in other people.	
I'm a naturally curious person who enjoys learning new things.	
I believe I have something valuable to offer the world.	
I wake up early, feeling alert.	
I know how to cope with uncertainty and stress.	
I don't get discouraged easily. Challenges motivate me to try harder.	
I can accept and learn from constructive criticism.	
I often identify new skills I need and work at acquiring them.	
When things start going wrong, I usually find a way to make them right.	
I'm willing to work hard to achieve goals that mean a lot to me.	
Where other people see threats, I see opportunities.	
I have a strong sense of personal ethics.	
I can make up my mind in a hurry if I have to. These decisions usually turn out well.	
People tell me I'm a good communicator.	
I believe in being fair, so I aim for win-win situations whenever I can.	
Total Points	

Business Skills Worksheet

Entrepreneurs have limited time and resources, so they must focus on the things they do best. It's important to know which skills you have now, and which skills you'll have to learn or find in coworkers.

Many of the skills discussed in this exercise are not difficult to learn. In fact, you may even use them without knowing it. To rate yourself fairly, consider your past and present participation in community, church and family activities; hobbies; and professional organizations. You probably have more business skills than you realize!

Read the following statements, scoring yourself on a scale of 1 to 4.

1 = strongly disagree

2 = disagree

3 = agree

4 = strongly agree

If you score between 25 and 62 points, you may wish to find a community college or continuing education program that offers basic accounting, financial management, and marketing classes. Talking with experienced business people is another great way to get real-life knowledge about business skills. Seek out people who work in your targeted field and ask them which skills they feel were crucial to their success. No matter what your total score was, we recommend that you take steps to improve any skills for which you scored below 3.

If you score above 63 points, you already possess basic business knowledge. This will make starting your microbusiness much easier. However, you still need to keep your skills up to date, and prepare yourself to learn new ones throughout your business career.

Business Skills Worksheet

Statement	Score
I keep track of my personal finances and balance my checkbook every week.	
I create monthly and yearly budgets for myself and follow them.	
I know what I spent on medical costs and living expenses last month.	
I never overdraw my bank account or bounce checks.	
Even if I don't prepare my tax return myself, I understand the basic concepts.	
I know how to borrow money from a bank.	
I have a good credit rating.	
I use a computer to manage my business and personal finances.	
I've worked as a manager or supervisor.	
I've worked in a business that's very similar to the one I want to start.	
I make a point of keeping up with business and economic news.	
I've taken business classes at school.	
When negotiating with a friend or salesperson, I'm usually happy with the outcome.	
I have managed people by setting goals and assessing performance.	
I'm detail-oriented and organized.	
I'm good at prioritizing tasks.	
I'm good at structuring my workday.	
I work equally well as a leader or a team member.	
I'm comfortable meeting new people and speaking in front of groups.	
I usually have no problem juggling several tasks at once.	
I'm a good listener.	
I'm familiar with common business terms.	
I can write clearly, speak clearly and spell words correctly.	
I'm pretty good at math.	
I make a point of meeting deadlines and keeping promises.	
Total Points	

Personal and Family Considerations Worksheet

Assessing lifestyle preferences means measuring what you value as a human being. Take a careful look at your motivations and priorities to ensure that your work and personal life are compatible.

Read the following statements, and score yourself as you did in the previous assessments.

1 = strongly disagree

2 = disagree

3 = agree

4 = strongly agree

Are you flexible enough to take on the challenges and uncertainties of a new business? If you score below 62 points, financial, family, community or other personal responsibilities may be a source of conflict. By looking at the statements for which you scored a 1 or 2, you may be able to draw some conclusions about how time, money, family, health and other issues will affect your ideal lifestyle.

Remember: Starting a business doesn't just affect *your* life. It also affects your family. If they don't share your perception of risks and rewards, you could face serious personal conflicts. That's why you should always look for conflicts between your answers and your family's answers. If you're prepared to lose your savings, but your family isn't, you have a problem.

If you score between 63 and 100 points, you're probably in a good position to launch your microbusiness. But as always, you should look carefully at scores below 3 and take steps to reduce or avoid family and lifestyle conflicts.

Personal and Family Considerations Worksheet

Statement	Score
Launching my own business is a very important personal goal for me.	
My family strongly supports my personal goal of launching a business.	
I can support myself without taking any money out of my business for one year.	
If I had to, I could keep my current job and run my new business on the side.	
I'm willing to go into debt to finance my business.	
My family is willing to go into debt to finance my business.	
I'm willing and able to get by on less money while launching my business.	
My family is willing and able to get by on less money while I launch my business.	
I'm prepared to deal with new financial and emotional stresses.	
My family is prepared to deal with new financial and emotional stresses.	
I'm OK with working 50+ hours a week, including weekends and holidays.	
My family is OK with me working 50+ hours a week, including weekends and holidays.	
I'm prepared to lose personal savings if my business fails.	
My family is prepared to lose personal savings if my business fails.	
I can handle uncertainty and stress without getting sick or losing sleep.	
My family can handle uncertainty and stress without getting sick or losing sleep.	
No matter how hectic things get, I always make time for friends and family.	
My family is willing to pitch in to help my business succeed.	
I have a fallback plan in case my business fails.	
My health is generally good. I don't get sick very often.	
I have enough time and stamina to run a successful business.	
My friends and family would describe me as a high-energy person.	
I have a strong support network I can turn to for help and good advice.	
I know where to get any business training I need, and I can afford it.	
I'm willing to give up hobbies and activities I currently enjoy, if I have to.	
Total Points	

Personal and Business Goals Worksheet

Step 1 *Think of five things you want to accomplish personally in the next five years. List them on the lines below, then rank them in order of importance, with 1 being the most important and 5 being the least important.*

Things I want to accomplish in the next five years

Priority

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Step 2 *Now that you've looked at your personal goals, list five reasons why you want to start this business and rank each reason in order of importance.*

Why I want to start a business

Priority

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Step 3 *Look at the personal and business goals you identified. Do they fit together, or do they conflict? If there's a conflict, what steps can you take to resolve it?*

Personal Assessment Worksheet

1. What experience do you have in the type of business you want to start?

2. What technical skills or knowledge do you have that will help you run your business (i.e., computer skills, sewing skills, etc.)?

3. Have you taken any classes or workshops that specifically apply to your business idea, or to running a business? If so, which ones?

4. What hobbies and interests do you have? Do any of them relate to your business? How?

5. Do you have any advisors who can help you start your business (e.g., mentor, other microbusiness owner, accountant, marketing professional, etc.)? If not, what is your plan for developing a team of advisors?

6. In which of the following areas will you need help? Do any family members or close friends have these skills? Would they be willing to help you?

- | | |
|-----------------------------------------------|---------------------------------------------------------|
| <input type="checkbox"/> Accounting | <input type="checkbox"/> Legal compliance |
| <input type="checkbox"/> Bookkeeping | <input type="checkbox"/> Computers and technology |
| <input type="checkbox"/> Financial management | <input type="checkbox"/> Website design and maintenance |
| <input type="checkbox"/> Customer management | <input type="checkbox"/> E-commerce |
| <input type="checkbox"/> Employee management | <input type="checkbox"/> Negotiation |
| <input type="checkbox"/> Market research | <input type="checkbox"/> Safety and risk management |
| <input type="checkbox"/> Marketing | <input type="checkbox"/> Written communication |
| <input type="checkbox"/> Sales | <input type="checkbox"/> Graphic design |

Time Management Worksheet

Time management takes discipline and organization, but it's perhaps the most important skill you can have as a microbusiness owner. It doesn't matter how good you are at everything else; if you can't find the time to do your work, it won't get done!

Complete the following worksheet to assess your time management skills. The skills for which you choose "Sometimes" or "Rarely" are the ones you will need to work on.

	Often	Sometimes	Rarely
Do you write to-do lists each day?			
Do you prioritize your to-do list items?			
Do you usually finish all of the items on your to-do list?			
Is your work area clean and organized?			
Are you able to say "no" when you need to?			
Do you procrastinate?			
Do you allow yourself quiet time so you can work alone and undisturbed?			
Do you focus on preventing problems?			
Are you on time for appointments?			
Do you meet deadlines?			
When you are interrupted, can you return to your work without losing focus?			
Can you relax during your free time without worrying?			
Do you do your most important work during your peak energy hours?			
Are you easily distracted by TV, phone calls or websites?			
Do you regularly plan ahead for next week or next month?			

Time Savers Worksheet

Before you can improve your time management skills, you must identify your time wasters. Time wasters can be recreational activities like watching too much TV, or inconveniences like waiting in long post office lines.

Once you've identified your time wasters, think of ways to reduce or eliminate each one. For example, if washing dishes is a time waster for you, maybe you can ask family members to rotate washing the dishes each day. If the post office eats up too much of your time, maybe you can buy postage online.

If you can't think of any tips, ask your friends, family or coworkers for ideas. Be sure to begin using the tips as soon as possible. Try working on only one or two at a time. If you try to fix all of them at once, you may end up not fixing any.

[illegible]

Planning and Scheduling Worksheet

Step 1 Fill in the schedule below, based on a typical week. Include all of your current activities.

Time	Sun	Mon	Tues	Wed	Thurs	Fri	Sat
5 - 6 a.m.							
6 - 7 a.m.							
7 - 8 a.m.							
8 - 9 a.m.							
9 - 10 a.m.							
10 - 11 a.m.							
11 a.m. - noon							
noon - 1 p.m.							
1 - 2 p.m.							
2 - 3 p.m.							
3 - 4 p.m.							
4 - 5 p.m.							
5 - 6 p.m.							
6 - 7 p.m.							
7 - 8 p.m.							
8 - 9 p.m.							
9 - 10 p.m.							
10 - 11 p.m.							
11 p.m. - midnight							

Step 2 At what time of day are you at your mental peak? Circle or highlight these times. What activities are you doing at these times? Are you taking full advantage of your peak times?

Step 3 *Now, think of how much time you'll need in order to plan and prepare for starting your microbusiness. If you want to open your business soon, you'll have to find significant time on your schedule. Redo your weekly schedule to include time for business planning activities. What current activities can you eliminate or delegate to free up more time for your business? Again, are you making the best possible use of your peak performance time?*

Time	Sun	Mon	Tues	Wed	Thurs	Fri	Sat
5 - 6 a.m.							
6 - 7 a.m.							
7 - 8 a.m.							
8 - 9 a.m.							
9 - 10 a.m.							
10 - 11 a.m.							
11 a.m. - noon							
noon - 1 p.m.							
1 - 2 p.m.							
2 - 3 p.m.							
3 - 4 p.m.							
4 - 5 p.m.							
5 - 6 p.m.							
6 - 7 p.m.							
7 - 8 p.m.							
8 - 9 p.m.							
9 - 10 p.m.							
10 - 11 p.m.							
11 p.m. - midnight							

Personal Budgeting Worksheet

Before starting a microbusiness, you need to know how you will pay for your everyday living expenses. Will you need to take money out of the business to support yourself and your family? If so, how much?

Complete the *Personal Budgeting Worksheet* on the following page. You'll need to track your budget over several months, so you should make several enlarged copies of this worksheet.

The "Budget" column shows how you think you'll use your money during the month. Complete this column on the first of each month. Then, save your receipts during the month to track your actual expenses. On the last day of the month, complete the "Actual" column to compare the amount you budgeted to the amount you actually spent. Use this information to create a more accurate budget for the next month. This will help you to manage your personal and business finances.



	Month:		Month:		Month	
INCOME	Budget	Actual	Budget	Actual	Budget	Actual
Salary						
Partner's salary						
Public assistance						
Food stamps						
Other:						
Total Income						
EXPENSES						
Living and Housing Expenses						
Rent or mortgage						
Electric and gas service						
Water and sewer service						
Internet service						
Telephone service						
Cable TV						
Other:						
Regular Payments						
Student loan payments						
Credit card payments						
Other loan payments						
Health insurance						
Car and home insurance						
Life insurance						
Child care						
Other:						
Food						
Groceries						
Restaurant meals						
Other:						
Personal Expenses						
Personal care						
Hair and nail care						
Clothing and shoes						
Medical and dental care						
Prescriptions						
Laundry and dry cleaning						
Recreation and travel						
Transportation						
Gas and auto expenses						
Public transportation						
Parking						
Other:						
Miscellaneous						
Church						
Gifts and charity						
Savings						
Other:						
Total Expenses						
Total Income minus Total Expenses:						

Personal Financial Statement Worksheet

A personal financial statement is a snapshot of your current financial status. Complete the following worksheet to the best of your ability. You will need to update this worksheet as your financial situation changes, so make copies of it or use a pencil.

Name:		Date:	
CURRENT ASSETS		CURRENT LIABILITIES	
Cash on hand (in checking accounts)		Current personal and household bills	
Cash (in savings accounts)		Credit and charge cards (specify):	
Certificates of deposit			
Notes and accounts receivable			
Marketable securities (stocks, bonds)		Installment loans (short-term)	
Life insurance (cash value)		Short-term notes and accounts payable	
Other current assets (specify):		Taxes due	
		Loan payments due this year	
		Other current liabilities (specify):	
Total Current Assets		Total Current Liabilities	
NONCURRENT ASSETS		NONCURRENT LIABILITIES	
Real estate (market value)		Real estate debts and mortgages	
Vehicles (market value)		Other noncurrent liabilities (specify):	
Individual retirement plans, etc.			
Major household items			
Other personal property			
Other assets (specify):			
Total Noncurrent Assets		Total Noncurrent Liabilities	
(A) Total Assets (current + noncurrent)		(B) Total Liabilities (current + noncurrent)	
Assets (A) – Liabilities (B) = Net Worth			

Credit Danger Signals Worksheet

When used wisely, credit is a helpful financial tool. When used carelessly, credit can cause huge financial problems.

Check all statements that apply to you to assess your current credit situation.

<input type="checkbox"/> I can't seem to save any money.
<input type="checkbox"/> I usually run out of money before payday.
<input type="checkbox"/> My new monthly charges are almost always more than my account payments.
<input type="checkbox"/> I need a longer time to pay most of my monthly account balances.
<input type="checkbox"/> I often have to juggle my payments to creditors.
<input type="checkbox"/> I often have to borrow money to cover insurance, gas, utilities or food.
<input type="checkbox"/> I sometimes use credit-card cash advances to pay everyday expenses.
<input type="checkbox"/> I receive creditor calls and letters demanding payment of overdue bills.
<input type="checkbox"/> I'm not sure how much money I owe.
<input type="checkbox"/> I'm usually late paying bills.
<input type="checkbox"/> I've reached my credit limit on my credit cards.
<input type="checkbox"/> I pay no more than the minimum monthly amount due on my credit cards.
Total:

If you checked one box, be careful! You could end up with serious credit problems unless you manage your debt carefully.

If you checked two boxes, you have credit problems that you should clear up as soon as possible.

If you checked three or more boxes, you're in a dangerous situation and should take immediate steps to correct the problem. You may need to seek help from a professional credit counseling agency approved by the U.S. Department of Justice (http://www.justice.gov/ust/eo/bapcpa/ccde/cc_approved.htm).

(Adapted from CMG Business Concepts)

Safe Credit Use Worksheet

Normally, credit payments should total no more than 15 to 20 percent of your take-home pay.

Use the following worksheet to calculate the maximum amount of your budget that should be financed by credit.

- Calculate how much money you require to meet your basic needs, including food, housing, clothing and transportation.
- Subtract what you spend for those basic needs from your take-home pay. This is your spendable income.
- No more than one-third of your spendable income should be spent on credit.

Monthly take-home pay: \$ _____ (A)

Monthly expenses for basic needs:

Mortgage or rent	\$ _____
Utilities	\$ _____
Food	\$ _____
Clothing	\$ _____
Transportation	\$ _____
Child care	\$ _____
Medical expenses	\$ _____

Basic needs total: \$ _____ (B)

Spendable income: (A - B = C): \$ _____ (C)

Divide your spendable income (C) by 3: \$ _____ (C) ÷ 3 = \$ _____

Personal financial credit is a tool that comes with serious personal responsibilities. Making credit payments on time, and not taking on more debt than you can afford, demonstrates that you have two of the most important financial skills for running a microbusiness.

(Adapted from CMG Business Concepts)

Action Plan Worksheet

List the actions you must take to address the weaknesses you identified in the previous worksheets. Do you need to get a little more business experience? Will you take classes to brush up on an old skill or master a new one? Whatever you need to do, list it here, research the costs and set a realistic deadline for completion. We recommend that you make extra copies of this page, and use it to set and schedule additional goals as you work through this book.

Goal:		
Start Date:	Deadline:	Estimated Cost:
Notes:		

Goal:		
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Worksheets Assignment for Session 2



Although there are a lot of worksheets in this session, most of them should be fairly easy to complete. The *Personal Budgeting Worksheet* must be filled in over a period of at least one month. The *Action Plan Worksheet* should be filled in gradually as you identify weaknesses to address and problems to solve. Making multiple copies of the *Action Plan Worksheet*, and using it to keep track of the steps you must take to prepare for running a microbusiness, will help you to stay organized.

Writing Your Business Plan



Use your answers to the Session 1 worksheet questions to write the following sections of your *NxLeveL® Micro-Entrepreneur Business Plan*. When writing this section of your business plan, use the following headings and subheadings:

Section III. Business Organization and Operations

A. Business Structure, Management and Personnel

Personal Background Information

Based on your answers to Questions 1 through 6 of the Personal Assessment Worksheet, write a paragraph or two describing your skills, your experience and your ability to start and run a business. Discuss your weaknesses as well as your strengths, and explain how you plan to overcome them.

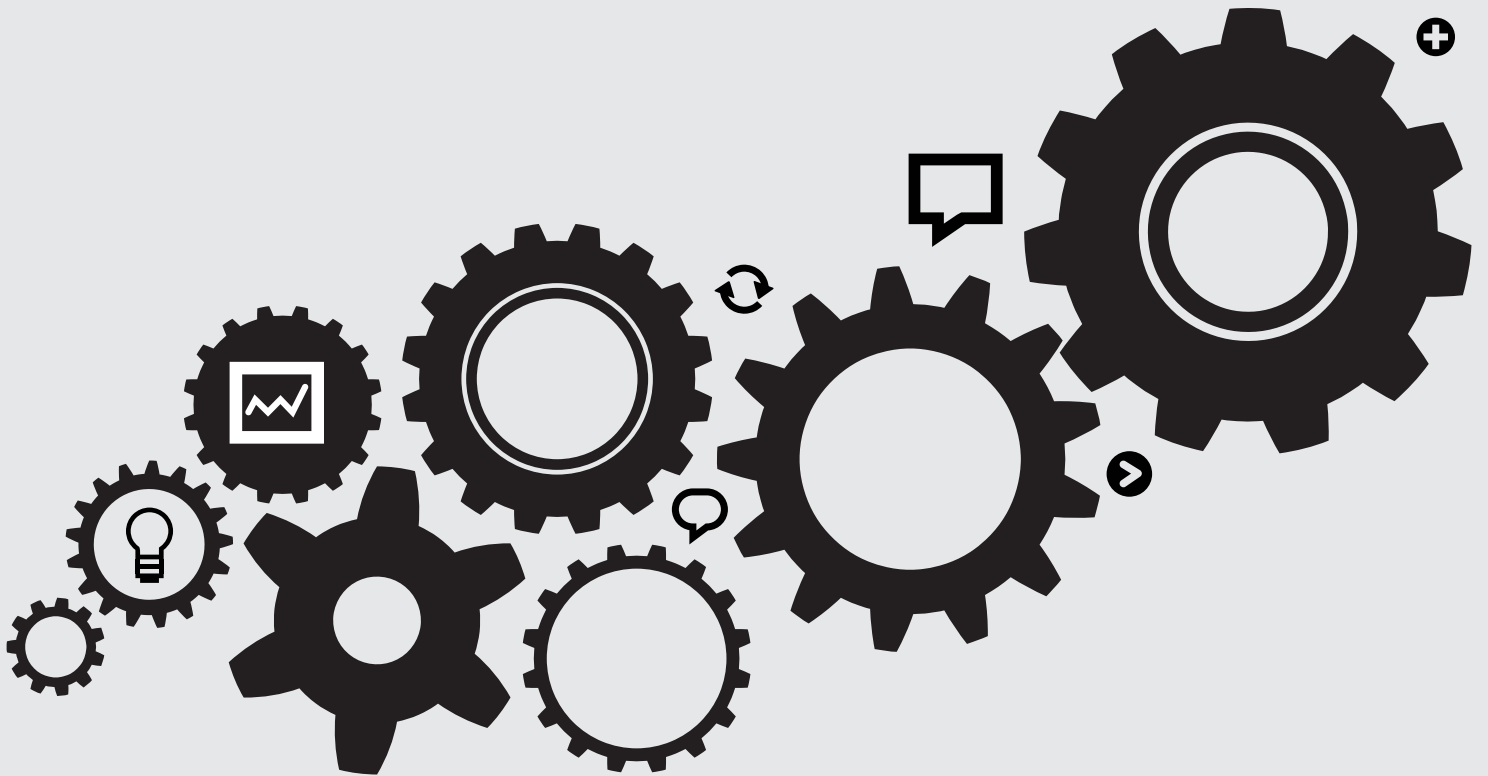
Section V. Financial Plan

D. Financial Statements

Personal Financial Statement

Review the Personal Budgeting Worksheet and the Personal Financial Statement Worksheet. Write a paragraph describing what you can bring to your business financially, and state the amount of income you require from your business to cover your personal expenses.

TEXT



SESSION 2

Researching Your Business Idea

CHECK IT OUT!

HIGHLIGHTS

Where Do Business Ideas Come From?page 2

Manufacturing, Service and Retail.....page 3

A Look at Your Business Ideapage 12

Finding Your Business Nichepage 17

Your Customer Profile.....page 19

“*A mediocre idea that generates enthusiasm will go further than a great idea that inspires no one.*

—Mary Kay Ash

”

About This Session

In the last session, we looked at your ability and readiness to be a business owner. Now, we'll take a closer look at your business idea, your customers and your options. We'll also introduce the basics of market research, which will give you the information you need to make smart business decisions.

Where do business ideas come from? The most common source of inspiration for microbusinesses is a prior job. But hobbies, talents,

volunteer work and chance can also lead to a viable business idea.

Manufacturing, service and retail. These are the three main types of business. Each one requires different skills and has different startup needs. This section will help you decide which one is right for you.

A look at your business idea. Having an idea is great, but figuring out if it's the best idea for you takes some work. Why did you choose

this idea? What other options do you have?

Finding your business niche. Once you define what makes your business different, you can promote the benefits of that difference to your target customers.

Your customer profile. You probably don't have a lot of money to spend on promotion, so you need to figure out which people are most likely to buy from you. That way, you can focus your efforts on

attracting their attention. Understanding your customers is one of the main factors in microbusiness success.

Where Do Business Ideas Come From?

Have you ever wondered where micro-business owners get their ideas? Here are some common sources of inspiration.

Prior Job

Most new business ideas come from work experience. Every day, people working for every sort of business—from restaurants to florists to barber shops—decide to strike out on their own. Some of them believe they can do things better than their current employers, while others base a spinoff business on an unmet need.

Another way to develop a full-time business is to expand on a part-time job. By keeping your part-time income and starting slowly, you can reduce your risks. Internet businesses—such as eBay stores—are a common way of starting out. Doing part-time freelance work is another good way to become self-employed. Once you build up a reputation and a stable income, you can move to full-time self-employment.

When looking at your work experience, consider whether you have a skill you can pass along to others. For example, maybe you know a lot about gardening, but you have mobility problems that make it hard for you to do the work yourself. If so, you may be able to start a training, consulting or design business.

Hobbies and Interests

It's natural to want to make a living doing something you really love, such as a hobby, sport or game. And for some people, it works out well. But it's important to

remember that hobbies and businesses are very different things. As we said earlier, you may enjoy cooking, but that doesn't mean you'll enjoy running a restaurant.

Social Issues and Volunteerism

Some people discover a business idea as a result of charitable work, volunteering, elder care, animal rescue or related activities. For example, a person involved in water-safety issues might start a microbusiness that improves public access to clean water. Such businesses often sell their products to national and international aid groups. In many cases, the entrepreneur is a community member who has come up with a low-cost solution based on local resources and knowledge. In fact, engineers and designers around the world are increasingly studying these innovative solutions, many of which were invented by people with no formal education.

Chance

Some business ideas come out of the blue. For instance, we know an entrepreneur whose friend had a new baby. This mom preferred to use cloth diapers, so her friend wanted to give her a gift of diaper service for a month. However, she couldn't find that service in her city. After doing some research, she decided to start her own.

Someone Else's Suggestion

Friends, relatives or acquaintances may come across an opportunity that suits your talents. Contacts in another part of the country may have a successful business idea you can copy in your area. Or maybe your Aunt Susie is willing to give you the family recipe for the world's best brownie.

Artists and craftspeople often go into business after producing gift items for friends who suggest that the gift would make a great product. One nice thing about



this type of business is that handmade goods often get premium prices. On the other hand, it can be hard to mass-produce handmade items.

Education

Some people have an educational background that prepares them to start a small business. A good example would be a tech school graduate who opens an auto body shop or beauty salon.

Research

Some business owners find unmet needs by looking for them. They read news stories, talk to local customers and read online business reviews in hopes of finding an opportunity that everyone else has missed.

...

I got married and I never planned for anything else. I was so naïve, I thought you just get married, and that's your life and your job. I had a husband and I had a son, so what more did I want? Everything was going like it should.

Then my husband walked out and never came back. He wrote a couple times, telling me how he'd get some work in Houston and send money. But by that time, I wasn't so naïve anymore. I knew I had to rely on myself, so I went back home to my old place and thought very hard about what I should do next.

Estelle Brazile was a 32-year-old woman who was having a hard time finding work. She was raising her son Martin on her own, so any job she found had to cover daycare as well as living expenses.

She was living in her father's house in the Virginia Park neighborhood of Detroit—the house she'd grown up in. He emigrated from the Dominican Republic in 1960 and worked at the Post Office for 30 years. The house only had eight more years before it was free and clear. But jobs were scarce.

And rising property taxes were making it harder to get by.

Estelle had been a receptionist in a dentist's office, a teaching assistant at the elementary school and a checkout clerk at a local grocery store. But the cost of daycare and the demands of motherhood made it impossible to keep those jobs. She quit two of them, and the grocery store fired her because she missed too many days.

I looked into Martin's eyes one day and thought, "This child trusts me. He thinks I'm in control, but I'm not." And that's when I knew I didn't want to go out looking for more of the same old jobs. I didn't want the same old dead ends and troubles. I wanted a life where I'm in control, instead of being at someone's mercy.

I knew it wouldn't be easy to change everything. But like my father used to tell me, "If you're really hungry, no bread is too hard to eat." And I was really hungry.

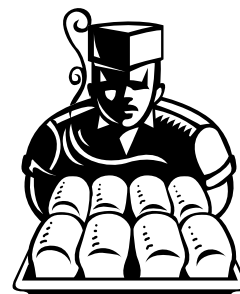
So I went to community college and took a couple of business and computer classes, all the time thinking there had to be some way I could work for myself and turn things around. All I needed was an idea.

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Manufacturing, Service and Retail

Most businesses fall into one of three categories: manufacturing, retail or service. Each has advantages and disadvantages.

- **Manufacturers** normally buy raw materials and turn them into a finished product that they sell to consumers (B2C), or to other businesses as inputs for another product (B2B). For example, someone who manufactures knitted goods buys yarn and turns it into a sweater. However, some microbusiness owners don't buy materials. Instead,



they find and recycle free materials. They might make Christmas ornaments out of tin cans, bottle openers out of old bicycle chains or handbags out of flour sacks. There are many clever, low-cost ways of manufacturing useful and attractive items.

- **Retailers** buy finished products from manufacturers or wholesalers and sell them to customers. Local shops, mail order and online selling are the most common retail businesses.
- **Service businesses** typically sell the skills and talents of the business owner. They include catering, child care, consulting, cleaning, tailoring, car washing and repairs.

The next section discusses each type of business in more detail, so that you can think about which one makes sense for you.

Manufacturing Businesses

If you turn raw materials into a finished product, you're a manufacturer. Traditionally, manufacturers sell to retailers or wholesalers. But smaller manufacturers often sell directly to customers.

Some microbusinesses manufacture many identical items, such as bottles of shampoo or bars of soap, while others make unique craft items, such as earrings or sweaters.

Manufacturing trends

For microbusinesses, one of the most important manufacturing trends has been the growth of Internet sales. If you knit scarves, you can auction them on eBay or sell them at a fixed price through an e-commerce website such as Etsy.com. There's also a growing market for handcrafted and one-of-a-kind items, as well as environmentally friendly items that use recycled or green materials.

Customers who buy these products are often attracted by the story behind them. They're looking for a personal or local connection, such as a traditional knitting pattern from another country, a recipe made out of locally sourced ingredients, or a product that addresses a social or environmental problem.

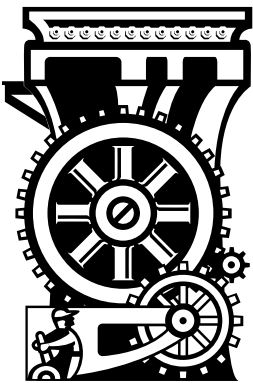
As mass-produced objects become more common, consumers are looking for authenticity and individuality. For this reason, the source of raw materials is increasingly important for manufacturers. Where manufacturers once competed to find the lowest-cost materials, they increasingly look for special materials with a story to tell. For example, a knitter might identify the animal that provided her wool by name. Above and beyond the purpose they serve, such products connect customers to a person, a place, a lifestyle or a community.

Operations and planning

Common concerns for manufacturers include reducing lead times and inventory, lowering costs, improving quality and efficiency, and speeding up delivery times.

Their main planning issues are:

- Improving energy efficiency and reducing waste
- Using appropriate technology
- Competitive positioning
- Which geographic markets to serve
- Which channels of distribution to use
- After-sales service and support
- Quality control
- Quality/price tradeoff



- Health, safety and environmental concerns (including waste disposal)
- Cost controls

Customers

Customers of manufacturing businesses often expect the following benefits:

- Timely delivery
- Close communication via computer and phone
- Ongoing technical support
- Sharing information (e.g., product specs, ingredients, sourcing)
- Customized or made-to-order products

Employees

Manufacturers often rely on skilled employees to maintain quality control, provide customer support and drive innovation. Therefore, manufacturers tend to invest a lot of time in training their employees and reducing employee turnover.

Even if you are the sole employee of your manufacturing business, the same rules apply: Creativity, technical skill, continuous learning and customer service are central to manufacturing success.

Quality

Whether they make identical or one-of-a-kind items, manufacturers must set strict quality standards and meet them consistently. They typically choose raw materials carefully and inspect the product for quality as it moves through each production stage.

If you run a T-shirt printing business, this might mean choosing good-quality shirts and nontoxic printing inks, as well

as checking individual shirts to make sure they're printed properly.

"Strict quality standards" doesn't mean that every product must have the highest possible quality. Instead, it means you need to set a basic quality level—one that's appropriate for your product, price and customer—and stick to it. Whether you make 50, 500 or 5,000 items, all of them should meet the same quality standard. This is one of the trickier aspects of running a manufacturing business, but it's crucial to success.

Are you a manufacturer at heart?

Do you like working with your hands? Are you good with tools? Do people often ask you to make or fix things for them? Do you enjoy learning new things and improving skills you already have? Do you have good planning skills?

If so, manufacturing may be a good option for you. Arts and crafts—including clothing and jewelry—have formed the basis of many successful microbusinesses. Other possibilities include:

- Sports equipment, such as fishing lures
- Handmade toys and small novelty items
- Desk accessories, such as pencil cups or mouse pads
- Furniture
- Pet toys and accessories, such as dog beds and cat trees
- Candles
- Soaps, body oils and related products
- T-shirts
- Specialty foods (e.g., jams, salsa, cookies)

Quality control is essential to achieving and maintaining success as a manufacturer.

Service Businesses

The service sector has more microbusinesses than the manufacturing or retail sector does. It's also the fastest-growing sector in the U.S. economy, probably because service businesses are relatively inexpensive to launch and can often be run by only one person.

Because the service sector tends to be easy to enter, service providers may find it hard to get noticed. If you're a gardener, for example, it may be hard to convince people that you're better than all the other gardeners out there. For this reason, service providers need to be good at selling themselves, building relationships and earning loyalty.

Service business trends

The main trends affecting service businesses are:

- **Downsizing.** Big companies are laying off employees and relying on outside service providers for everything from cleaning offices to answering phones.
- **Time pressures.** As more members of households go to work to make ends meet, fewer people are left at home to do basic household chores. This creates new opportunities for service providers.
- **Organization problems.** Time pressures can lead to disorganized homes and offices. Many service businesses maintain order and save time for other businesses and individuals.
- **Repair.** Financial pressures mean that people are repairing goods rather than replacing them. From shoe repair to plumbing services, repair businesses generally do well in a weak economy.

- **Collaboration.** Service providers are increasingly partnering or sharing workspaces. For instance, a mechanic might partner with a car detailer to offer a package deal of a tuneup and full-service cleaning.
- **Rising incomes.** As national incomes rise, so does discretionary spending on services.

Challenges

Challenges for service businesses include:

- Customizing services to individual customers
- Differentiating themselves from competitors
- Maintaining professionalism
- Accurately measuring costs and pricing services
- Quality control and consistency
- Time management and scheduling

Customers

Compared to manufacturers and retailers, service businesses are flexible as to how, where and when they serve customers. They can deal with customers face-to-face—as gardeners do—or indirectly via mail, phone or the Internet.

Also, many service businesses have an ongoing relationship with their customers. Some of them even involve customers in the design and delivery of their services.

Trust is a big issue for service consumers, so references, experience and training are usually very important. The more trust a job involves, the more these concerns come into play. For relatively unskilled labor like debris hauling or hedge trimming,

Service providers need to be good at selling themselves, building relationships and earning loyalty.

references are less important. But for service providers who impact customer safety (auto repair), finances (tax preparation) or self-image (hair styling), building trust is a basic requirement of doing business.

Quality

Characteristics of excellence in service business include:

- Measuring customer needs and satisfaction
- Measuring performance against competitors
- Continuous improvements in knowledge, service and communication
- Using technology to improve customer service
- Offering security and confidentiality, especially online

Startup costs

Fixed costs usually make up most of a service providers' costs. For example, a tree trimmer can trim an additional tree using his existing tools. Therefore, his cost for pruning one additional tree is small. However, if he wants to trim trees for an additional neighborhood, he may need to hire an assistant and buy more equipment. Typical startup expenses for service businesses include tools, vehicles, office equipment and supplies, and liability insurance. Some service businesses may need special licenses and permits. The initial marketing costs may also be higher than they are for other types of business.

Are you a service provider at heart?

Successful service businesses know their customers well and are flexible enough to customize the services they offer. The best service providers tend to be:

- Good communicators
- Excellent at selling themselves
- Confident, friendly and honest
- Able to recognize and adapt to new tools, quality standards and consumer needs

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Estelle knew there had to be a business opportunity that would let her cut child care costs by working from home, but she was having a hard time coming up with one.

One day, while she and Martin were walking hand-in-hand along the tree-lined street near her house, she saw a young girl heading for the park with five leashed dogs.

Right then, an idea struck her: What if she could combine limited babysitting with dog-walking? What if she could pick up people's kids at the same time she took dogs to the park? This way, she could save time for parents and pet owners.

At \$20 a head, five kids and five dogs could bring in \$200 a day! Her main concern would be to make sure the dogs' training and temper were suitable.

She wouldn't have to worry about daycare anymore, because Martin would come with her to the park. He'd get lots of fresh air and playtime with other kids, and she'd get paid for it. It seemed too good to be true!

And on second thought, maybe it was. Estelle soon realized there was no way she could look after Martin, five kids and five dogs. Even if she were willing to try, few parents would feel comfortable with the idea. Clearly, she'd have to hire a couple of leash holders. And that would cut into her profits.

Still, maybe that wasn't so bad. She knew plenty of kids in the neighborhood who



would love to earn \$20 for a couple hours of work.

There was another problem, though: At least one other person in her neighborhood was already walking dogs. How many more dogs *were* there in her neighborhood? And how could she find out? Why would a dog owner or a parent choose her services over someone else's? For that matter, how would they even know she was offering those services?

The more she thought about it, the more questions she had. And if she'd learned one thing in her business class, it was that she'd have to answer these questions before she made another move.

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Retail Businesses

Today, roughly 30 percent of new U.S. businesses are retailers. Most of them buy goods from wholesalers or manufacturers and resell them to consumers.

Unlike manufacturing and service sales—which might take place over days, weeks or months—retail sales tend to happen in 30 minutes or less. Because retailers have so little time to earn customer loyalty, excellent customer service is especially important to their success.

Retailing trends

Retailing has changed in the past 15 years. More giant retailers have emerged, and shopping malls are just about everywhere. In many areas, malls have replaced downtown shopping districts. But many retail businesses are still run by a single owner with a loyal customer base.

Although online businesses have put a lot of pressure on traditional retailers, brick-and-mortar retailers are fighting back by offering social activities and relationships

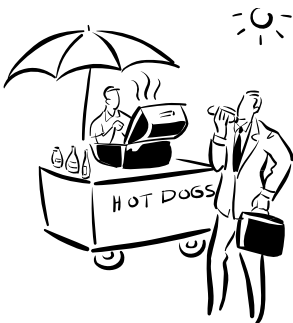
that online sellers can't deliver. Shopping has always had a recreational side. But now, the best retailers are bringing the fun, social, entertaining side of shopping to the forefront. They focus on socializing, building relationships, and engaging all five senses instead of delivering experiences through a computer screen.

Some retailers also increase their appeal by sharing a space with a complementary retailer or service provider. For example, a startup retailer might piggyback with an existing retailer by renting a small space within a larger store for a fraction of the cost of renting the full space.

Another important microbusiness trend is **cart-based retail**. These small businesses are run out of a temporary building, cart or trailer, often in a vacant lot or between two buildings. Many of these retailers serve food; often, they use the cart to build up a loyal customer base, and then rent a traditional restaurant space. Because the cost of running a cart is very small, this is a low-risk way to get into business. Also, a business that gets popular enough to move into a restaurant already knows that it has a strong customer demand—and which products are most popular—which makes budgeting and planning much easier.

Although food carts are the most common form of cart-based retail, other types of businesses are also viable. As of this writing, entrepreneurs in Oregon and Texas sell vintage clothing out of old buses. And in Asheville, South Carolina, a solar-powered cart prints and sells customized T-shirts on the spot.

The related trend of **pop-up retail** involves temporary businesses that cash in on hot or seasonal trends and events. This can be a good way to test ideas or generate publicity. Internet retail is also booming. In addition



to being convenient for consumers, it lets small businesses target niche markets around the world. We'll talk more about this in our session on e-commerce.

Many retailers succeed by offering green, healthy, sustainable, American-made or local products. At a time when consumers are worried about money, buying green or sustainable products is a way to make spending feel more positive. Also, consumers who are wary about spending are more likely to explore a wider range of product features and benefits. A relaxing, low-pressure atmosphere may be the best way to attract and keep these customers.

Above all, online and offline retailers need to focus on the quality of consumer experience. Some experts urge retailers to think of the customer as a ticket holder at a play: All the props must be in the right place and all the roles must be performed perfectly. In a world where sameness increasingly defines the shopping experience, creativity and innovation matter more than ever in creating a successful retail operation.

Location

How do brick-and-mortar retailers choose a location? First, they find out where their target customers live, work and shop. Second, they consider the type of merchandise they sell. Retailers who carry convenience goods such as coffee and fast food tend to locate themselves in convenient, high-traffic spots. Retailers who offer specialty products might not be as choosy about location, because their customers will be willing to travel farther.

When evaluating a location, consider the following:

- Concentration of target customers
- Growth or decline in population

- Income and spending patterns
- Competition
- Government incentives for business relocation or startup
- Health of the local economy

When evaluating an area within that city, consider:

- Types of customers and businesses in downtown, suburban and residential areas
- Access and public transportation routes
- New construction or development
- Appearance of the area
- Local bankruptcies or closures

When narrowing the selection to a specific site, consider:

- Corners (they have higher visibility and more traffic)
- Parking and traffic flow
- The image of the neighborhood and building
- Location and number of competitors
- Zoning restrictions
- Nearby landmarks and attractions
- Nearby businesses with complementary or attractive products or services (e.g., a popular restaurant or coffee shop, or some other high-traffic business)
- Opportunity for expansion
- Internet and networking capabilities (e.g., availability of a DSL or cable connection)

Online and offline retailers need to focus on the quality of consumer experience.

- Monthly rent and common area maintenance charges
- Pedestrian traffic patterns
- Security for customers and employees
- Former tenant's type of business and reason for closure

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Every element of your store design affects your customers.

...

My idea seemed very simple at first. But when I started looking at it for real, it got complicated. For one thing, I knew that if I did things in the wrong order, the idea wouldn't work. I knew this from being a parent myself. There was no point trying to sign up parents before I had everything in place, because they wouldn't listen to anything I couldn't back up. When you look after people's kids and pets, everything comes down to trust. Everyone had to be 100-percent sure that the dogs wouldn't hurt the kids, the kids wouldn't hurt the dogs and I wouldn't hurt either one. And I couldn't just say that, because everyone knows talk is cheap. I had to show it to them and prove it.

With the help of Dana Hall, her instructor at the community college, Estelle started working on market research. She found out how many dogs lived in her area by asking the county animal-control office how many dog licenses had been issued within her ZIP code. She also researched leash laws, pet diseases and vaccinations, tax issues and local laws relating to child care.

Most important, she signed up for a certification class in first aid and CPR at the American Red Cross. She knew she'd only get one chance to convince a skeptical parent that she was safe and responsible. If there were even one question about safety she couldn't answer, she'd probably get turned down. For similar reasons, she also signed up for a dog obedience class.

No mother cares more about the safety of her child than I do, so that was where I started.

What kind of person would I trust? What would make me feel secure? What would frighten me away? Once I decided what made me feel safe, then I could reassure my clients.

Store design

Every element of your store design affects your customers, so you must create an environment that encourages your customers to visit, buy and return regularly. The primary components of a store include:

- **Signage** should be easy to see, read and understand. It should also complement your business concept.
- **Show windows.** This is where you must present the most compelling reasons for customers to come in and buy. Window displays should be kept clean and current. Get help from a professional designer or a creative friend to create colorful and enticing displays.
- **Store entrance.** Make sure your doorway is clean, inviting, and wide enough that customers can easily enter and leave the store. It is important to keep the area immediately in front of your store well swept, and clear of debris, ice and snow.
- **Selling area.** The selling area is dedicated to merchandise displays and the interaction between customers and employees. Also, remember that employees need at least 30 inches of clearance space for easy movement behind counters.
- **Lighting** showcases merchandise and creates your desired atmosphere.
- **Decor or theme.** Paint, wallpaper, photos, pictures and murals can all create the right selling environment

for your business. If possible, have an interior designer develop a theme.

When choosing these components, think carefully about the needs of your target customers. Parents with very young children will need room to manoeuvre strollers, and would probably appreciate rest rooms with a changing table. Customers with disabilities may need special features like wheelchair ramps and handrails. Older customers may need a place to sit and rest, while young children may need a play area to distract them while their parents shop. Don't overlook customers with special needs when designing your retail space!

Startup costs

Retailing startup costs vary widely depending on your target market, your retail space or website, your merchandise, and the decor and image you want. A brick-and-mortar space could cost thousands of dollars to lease, furnish and decorate, although you may be able cut costs by moving into a shared space. Common pop-up retail options like carts and booths may cost less than \$1,000, depending on the type of building and your local permitting and licensing issues. Flea markets, farmers' markets and street fairs tend to be very inexpensive, while the simplest online selling options require little more than paying a percentage of your sales to the host site.

No matter what type of retail business you run, inventory management is likely to be a substantial cost. Effective managers use sales forecasts to plan for their inventory needs and ensure the fastest possible turnover of merchandise. Limiting inventory also reduces the cost of storage, stocking and maintenance.

Good inventory management means knowing which items are hot sellers and

which are slow movers, and ordering and pricing them accordingly.

Are you a retailer at heart?

Are you people-oriented? Service-oriented? These are the two most important traits for retailers.

Successful retailers create a unique brand identity in which all elements complement each other, from layout and design to customer service. They have an eye for detail, a flair for color and design, and an understanding of human nature. They also tend to be knowledgeable about trends, or about a specific type of product, such as kitchen supplies or comic books.

- **Customers.** You must enjoy contact with people to be a successful retailer. Also, customer buying habits change frequently, so you must adapt to be successful.
- **Products.** Expert product knowledge is essential in a small retail environment.
- **Suppliers.** Are you a firm, assertive negotiator? You'll need to negotiate the best price and ensure that deliveries are timely.
- **Hours.** The best times for customers to shop are when they're not working, so you should expect to work late hours and weekends. Does this schedule suit you? Is your family life compatible with long hours?
- **Employees.** Unless you own a very small microbusiness, you'll need to hire employees. Can you give clear directions, motivate people, delegate responsibility, and evaluate performance fairly?



You must enjoy contact with people to be a successful retailer!



- **Recordkeeping.** Can you develop and maintain excellent recordkeeping systems and controls? If not, are you willing to learn? This is especially important for retailers who must collect sales tax.
- **Security.** Shoplifting, employee theft and robberies are inherent risks of retailing. Creating controls and safeguards is essential.

A Look at Your Business Idea

In the last session, you took an honest look at your personal strengths and weaknesses. Now, you must take an equally honest look at the strengths and weaknesses of your business idea.

The *Choosing a Business Worksheet* will help you decide whether your business idea is worth pursuing.

How to Identify Business Opportunities

Most startup businesses are based on one of the following concepts:

- Selling a new product to a new market
- Selling a new product to an existing market
- Selling an existing product to a new market
- Selling an improved product to an existing market

Each approach has pros and cons. Selling a new product means you'll have fewer competitors—at first, anyway—but it may involve more risk and expense. Selling an improved product means you'll probably have a better idea of the size of your

market, but you may find it harder to get people's attention.

Which approach is best for you? That depends on your skills and interests, as well as the current market trends. Have you heard people complaining about an existing product, or expressing a desire for something that's not on the market? Do you know of foreign products you could import, or American ones you could export?

Can you serve a specific population, such as skateboarders, families with young children, or retirees? Can you partner with likeminded businesses to add value to their product?

Remember: A great business idea doesn't have to be something no one's ever done before. Some of the greatest innovations are spinoffs of an existing idea.

Here are some of the best ways to identify business opportunities:

- **Take stock of your skills.** Are you an organized person? Maybe you can teach other people to get organized. Are you a good cook? Maybe you can start a cooking class, or prepare ready-to-eat meals for working families with limited time. Do you send out handmade cards to friends during the holidays? Maybe local stores will carry them.
- **Look for unmet or underserved needs.** Have you ever heard someone express frustration over the fact that a certain product doesn't exist, or is hard to find? These comments may indicate a business opportunity. Pay attention to unmet needs identified by acquaintances, friends and relatives.
- **Meet temporary needs.** Rental businesses are springing up for tools, col-

Some of the greatest business innovations are those that leapfrog off of an existing idea.

lege textbooks and even baby clothes. What all these businesses have in common is that they provide temporary access to products that people normally use for a limited time. Motivations for the consumer include reducing environmental impact, and saving money and time.

- **Look for green opportunities.** Many successful businesses started out by taking an ordinary product and making it better for the environment. Examples include biodegradable utensils and solar-powered cell phone chargers.
- **Find new uses for old things.** There are hundreds of potential uses for old and discarded things. For instance, people have based businesses on turning old barn wood into picture frames, making candle holders out of glass telephone-line insulators, and weaving rugs out of old clothes. Tools, toys and processes that were popular before the age of electricity and oil may also be viable in a green economy.
- **Find a new way to deliver an old product.** Many entrepreneurs make their fortunes by changing where and how people buy an existing product. For example, people used to go to video stores to rent movies. Now, they can also rent them from Netflix or vending machines outside convenience stores.
- **Stay informed!** Stay on top of business ideas and trends by reading newspapers, trade journals, magazines like *Inc.* and *Forbes*, and future-oriented sites like Red Herring (<http://www.redherring.com>), Wired (<http://www.wired.com>) and Trendwatching (<http://trendwatching.com/>).

Researching Your Business Concept

- The U.S. Census Bureau's County Business Patterns (<http://census.gov/econ/cbp/index.html>) provides sub-national economic data by industry. The series is useful for studying the economic activity of small areas, analyzing economic changes over time, analyzing market potential, measuring the effectiveness of sales and advertising programs, setting sales quotas and developing budgets.
- The Census Bureau also hosts the most recent County and City Data Book at <http://census.gov/statab/www/ccdb.html>. This is one of the most complete sources of demographic data imaginable. It allows you to break cities, counties and states down by income, ethnicity, vehicle purchases, housing units, and other factors.
- Small Business Development Centers (SBDC)
- University and community libraries
- Local chamber of commerce
- SCORE (<http://www.score.org/>)
- Association for Enterprise Opportunity
- Microlenders
- Business Information Center (BIC)
- Local business mentoring groups

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I made a mistake right at the start, because I was sure most parents feel just like me. In other words, the things that concern me concern them, too. But Dana told me I couldn't do that. She said I needed to interview parents

Many entrepreneurs make their fortunes by changing where and how people buy an existing product.

and ask them what they really wanted from a child care and pet care provider.

And she was right about that. I learned a lot from digging just a little deeper. I found out we're not all alike. We have different issues, different concerns. We even have different ideas of what to do at the park. Some parents want a lot of structure and supervision and rules, and others want their kids to have more freedom. It was hard to see how I could make everyone happy.

That was when I had a good idea. I'd been worrying so much about parents and pet owners screening me and judging me. But then I realized I could screen them, too. For the business to work, I couldn't accept a bad dog or a child who hits people. I needed to have standards, and my clients needed to meet them. They had to earn my trust just like I had to earn theirs.

Maybe that doesn't sound like a big deal, but it gave me confidence to hold my head up. For the first time, I really started to believe in the business.

Dana liked Estelle's idea. By marketing herself as a provider of exclusive services, she explained, Estelle would make a powerful statement about her standards and ethics. Her clients might think, "If she's screening everyone this carefully, she must be really good!"

Dana felt that Estelle had found her business niche. The next step was to figure out how much startup capital she'd need.

• • •

From Dream to Reality

Once you've found a promising business idea, it's time to think about what it will take to turn it into an actual business.

To start with, here are some basic questions to ask yourself.

Product

- Is my product safe and legal? What regulations apply, if any? Will I need a license or permit to make or sell it?
- Is anyone else already offering my product? If so, can I do it bigger, better, faster, cheaper or greener?
- If nobody is currently doing it, why not? How do I know there's a market?
- Is there enough customer demand to support a profitable business?
- Can I produce enough of the product to meet customer demand?
- Where will I get the materials and equipment I need? How much will they cost?
- What kind of workspace do I need? Can I work from home?
- What skills does my business require? Can I do it alone, or will I need a team?
- Will I need to protect the product with a patent or copyright?
- Can I use materials or packaging that will add value (e.g., green, reusable or unique)?
- If the product must be serviced or guaranteed, can I handle this?

Customers

- Who are my customers? How old are they? Where do they live?
- How will they learn about my product?
- Where will my customers buy? At a store? At a street fair or public market? Online?

- How much are they willing to pay for products like mine?
- Will they have to change their behavior or learn something new to buy and use my product?
- Why will they buy? What makes them need or want my product? Is it something they'll buy on impulse—like a cookie or a T-shirt—or will they need to research their options before making a decision?
- How often will they buy?
- How much will they buy?

Competition

- How many competitors do I have locally, regionally, nationally and internationally?
- What are their strengths and weaknesses?
- How do they package and price their products?
- Where and how do they sell?
- How do they communicate with customers?
- What is my competitive advantage over them?
- What is their competitive advantage over me?
- How will my business withstand new competition?

Business future

- Why does the opportunity for my business exist?

- Will this opportunity exist long enough to make my business profitable?
- How and when will my business grow?
- Can I expand my idea into additional products or services, or by offering my product to new markets?

Financial

- Do I have enough money to finance my business? If not, where will I get the capital I need?
- When will I reach my break-even point? (This is the point where your revenues cover your costs, and you neither make nor lose money.)
- Do I have enough money to cover my personal expenses until my business becomes profitable?
- How do I know my business will become profitable?
- Will the amount of profit I earn be enough to cover my personal expenses and debts?
- What is my maximum possible financial loss? Financial gain?

Do you have enough money to cover your personal expenses until your business becomes profitable?

Personal

- How will my background and skills help this business succeed?
- How will I overcome the personal weaknesses I identified in Session 1? Do I need additional classes or training? If so, where will I get this training? Can I afford it?

Although you should ask yourself all of these questions, some will play a bigger role in your business than others.



Here's an example. For retail shops and restaurants, choosing the right location is very important. For a landscaping business, choosing a site may be less important, because the service is provided at the customer's location.

Of course, you can't answer all of these questions right now. That's OK, because the first step in researching a business idea is figuring out what you know and then working to fill the gaps in your knowledge.

Seek outside advice when analyzing and developing your microbusiness concept.

You should also seek outside advice when analyzing and developing your concept. Retired business executives, professors, bankers and SBA groups can all provide valuable comments and ideas. It's easy to be too optimistic or too pessimistic about your own ideas, so get honest feedback from people you trust.

If you do your best to answer all these questions, and you conclude that your idea is probably not viable, does that mean you should scrap it and start over? Not necessarily. Maybe the idea just needs a minor adjustment. Maybe you can't sell it locally, but you can sell it online. Maybe it has some environmental or social benefit you haven't considered. Or maybe you need more time to prepare yourself—or find a partner—to launch a new venture.

Try looking at the idea from different angles, and make sure that you've accurately identified the benefits, targeted the right customers and chosen the right method of distribution. Often, a small change in design, marketing or distribution can save an idea that seems like a dud. Even if that doesn't happen today, it may happen a week, a month or a year from now. It does no harm to keep your scrapped concepts on file, just in case they contain the seed of an idea you can use later.

One last point: The idea that you settle

on should seem viable to you, and to your family, friends and mentors. But it should also excite you. As we said in Session 1, entrepreneurs who are passionate about their business not only work harder and enjoy themselves more, but are also more likely to succeed.

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With Dana's help, Estelle got a \$1,500 microloan. The first thing she did was buy a desktop computer and get a high-speed Internet connection. Then, she went to Amazon.com and found a slightly used smartphone for about \$50; this would allow her to keep her schedules and contact information handy.

Next, she worked on promotional strategies. Simply tacking up notes at the laundromat and supermarket didn't fit the image she wanted to project. Instead, she hired a professional to write a letter of introduction and had it printed on nice letterhead. She put the letters in matching, hand-addressed envelopes and sent them by first-class stamped mail to 75 parents and dog owners she'd identified in her neighborhood.

How did she get their addresses? It was actually pretty easy. First, she asked her friends to give her the names and addresses of people they knew who might need child care or dog walking. Then, with the help of a friend who ran a laundry and dry cleaning service for young professionals, she targeted nearby buildings that had been turned into condos over the past 10 years.

Her letter was simple. She introduced herself as a mother and a long-term resident of the neighborhood. She offered her services from 2 to 6 p.m. weekdays, and politely explained her requirements: All children must be respectful of others and obedient when asked to behave. The dogs must have proof of shots and no history of

aggression. She'd supervise the children at the playground while her assistant took the dogs to the nearby dog run. She stressed that at no time would the children be going to her house. In bad weather dog-walking would continue, but the children's outing would be canceled. She specified that parents must send snacks and drinks with their children. And of course, she also mentioned her certifications in first aid, CPR and dog obedience.

Last, she offered to pay a personal visit to each prospect. During that visit, she said, she'd explain her services and terms in more detail.

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Finding Your Business Niche

A **market** consists of sellers who compete to meet the needs of buyers. Some businesses target **mass markets** that consist of many people with general needs, such as clothes buyers or cell phone users.

Others target **niche markets**, which consist of a small group of customers with very specific needs, such as cloth diapers.

Microbusinesses usually target niche markets, because it's easier and tends to take much less money. Also, there's usually less competition.

Larger companies tend to target mass markets. But even in cases where they *do* target niche markets, smaller businesses often have a powerful advantage, because they can compete on the basis of flexibility and personalized customer service.

Market segmentation is the process of breaking a mass market into smaller niche markets. It helps you find the customers who are most likely to buy your product, which in turn reduces the time and money you must spend on promotion.

As an example, consider shoes. We all wear them, but we don't all wear every kind of shoe. Younger people are more likely to wear sneakers, joggers are more likely to wear running shoes, people who go hiking are more likely to wear hiking boots, and people who live in rural areas are more likely to wear cowboy boots.

That being the case, it doesn't make much sense to advertise hiking boots to the entire population. Instead, you should target the people who are most likely to buy that type of shoe.

To find your target market, you might start by considering three things:

- How old are your target customers?
- What are their interests and hobbies? What do they do for recreation?
- Where do they customers live? Are they urban or rural? Eastern or western? Is the land mountainous or flat?

These questions are examples of three basic types of market segmentation:

- **Demographic segmentation** sorts customers by factors like age, gender, marital status, education, occupation and income.
- **Psychographic segmentation** looks at their opinions, culture, beliefs, values, lifestyle, recreational activities and entertainment preferences.
- **Geographic segmentation** sorts customers into groups based on where they live. Depending on your product, you can group them by country or by neighborhood; by urban, suburban or rural environment; or even by climate (mild versus harsh winters; floods versus tornadoes).

Microbusinesses usually target niche markets, because it's easier and tends to take much less money.



Understanding what motivates your customers will help you communicate your product's benefits.

Suppose you plan to sell skateboard parts. Naturally, you would target the market segment that rides skateboards. In demographic terms, this probably means people who are 25 or younger.

But is everyone who's younger than 25 in the market for skateboard parts? Of course not! That's why you need psychographic data. Looking at the lifestyles, opinions, reading habits and musical preferences of your target customers narrows things down a lot more, and it also helps you choose the right promotional strategy.

Last, you should consider skateboard sales by geographic region. They tend to be higher in urban and suburban areas, and lower in rural areas that have fewer paved surfaces.

Here are some things to look for in a niche market:

- Clearly defined and measurable (skateboarders in your area, aged 12 to 25).
- Worthwhile size and sales potential (how many customers are there, and how much do they spend each year on skateboard parts?).
- Unmet needs (no parts shop in the area).
- Growth rate (stable or expanding).
- Presence and strength of competition, locally and online.
- Percentage of the market you can realistically target, given your budget, capabilities and competitors.
- Percentage of the market you must capture to earn a profit.

The *Business Differentiation Worksheet* will get you thinking about the things that make your business special. What does

your product do? What needs does it meet, and what problems does it solve? How is it different? What makes it exciting? Why will customers want it?

When considering these questions, think about what you're really selling. For example, are you cutting hair, or are you selling beauty and self-confidence? Are you selling child care, or are you selling security? Understanding what motivates your customers will help you communicate your product's benefits.

Possible Signs of a Viable Business Idea

- **Government or industry data show a strong trend.** If reliable data show a growing demand for your product, and other businesses in your area aren't meeting that demand, this could indicate a good business opportunity.
- **Similar businesses are doing well in similar places.** Suppose you plan to sell bird feeders in Idaho. If a similar business is booming in Montana, that could suggest that you'll be successful. However, the comparison needs to be a valid one. For instance, a new type of snow shovel may sell very well in Duluth, Michigan, but that doesn't mean it will be popular in Tempe, Arizona.
- **Media reports identify new or growing demand.** News stories on new consumer trends can be valuable evidence that your business idea is viable. Be cautious, though. Sometimes, media only notice a trend after it has peaked. In other cases, they may be using a PR firm as a source for their story.

Your Customer Profile

Your business's **competitive advantage** comes from offering your target customers more value than your competitors do. To do this, you have to know what your customers value. That's an important purpose of market research.

By researching your customers, you'll learn what kind of people or businesses they are, how much they spend on your type of product and why they buy. Understanding your customers helps you choose merchandise and services they want, and focuses your promotional efforts. If you sell tea, you need to attract tea drinkers. If you provide child care, you need to attract people who have children. Someone who doesn't want or need what you're offering won't buy, no matter how good your product is!

In fact, identifying people who are not your customers can be a good way to start creating your ideal customer profile. For example, if you know that people who are over 60 don't spend much on your type of product, you can use that as a starting point. By defining who your customer *isn't*, you'll soon find out who your customer is.

You should also think about your target customers' attitude toward new technology, as well as the role of technology in the customer's career, family life and leisure activities. This is relevant to how you communicate with customers, whether you will sell online, who your competitors are and so forth.

Next, condense this information into short, clear statements to create a customer profile that accurately describes your target customer. It's also very helpful to create a fictional portrait of your ideal customer, like this:

My ideal customer is a woman in her late teens to early 30s. She lives in a city or a smaller

college town and has at least some college education. She makes \$30,000 to \$50,000 per year and spends about \$300 per year on beauty and grooming products. Of that, about \$75 is soap and shampoo. She favors organic, nontoxic products in recycled packaging. She usually buys online to save money, but she'll pay a higher price for products from a local street fair or farmers' market.

If you will be undertaking business-to-business selling (B2B), you should create a similar profile for business customers.

Fill out the *Customer Profile Worksheet* to define your current concept of your ideal customer. As you continue your research in upcoming sessions, you can refine and improve your customer profile.

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After mailing the letters, Estelle waited nervously for almost a week. Then, one Tuesday afternoon, her phone rang. It was a woman with twins and a Labrador retriever. Estelle took down her name and address, and arranged to meet her at 6 p.m. the next day.

Estelle took the \$450 left over from her loan, and spent a chunk of it on a nice, conservative suit from her church-run consignment shop. She also had her hair done and got a pair of nice shoes. On her way to the meeting, she caught sight of herself in a store window; it took her a moment to realize that the confident, well-dressed woman was really her!

The meeting with her first prospect went well, and Estelle said she'd be in touch when her list of subscribers was complete. She made it very clear that she would carefully evaluate each client, and wouldn't go over five children per group. After that first meeting, the phone calls picked up. Soon, she found herself meeting parents for 10 days in a row.

Someone who doesn't want or need what you're offering won't buy, no matter how good your product is!

It turned out that her idea wasn't too good to be true after all. By pinpointing her target market, anticipating their needs and presenting herself as an upscale service provider with high standards, she earned a strong advantage over her competitors.

I make about \$300 a day, five days a week. But with all the extra business, I have to pay three local kids \$10 an hour for three hours a day. This brings my daily income down to \$210, but that's alright. I'm making \$4,200 a month to work outside on nice days. Best of all, I'm right there watching my son grow up. And that's what makes me feel like I'm truly rich.

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What You've Learned

This session explains how important it is to take a good, hard look at your business idea and ask yourself what kind of business is best for you.

1. Are you interested in manufacturing, service or retail?
2. What is your business niche?
3. Who are your target customers?
4. What do you need to find out about your customers before you continue?

Once you've completed the worksheets for this session, you may decide that your business idea isn't viable, or that this isn't the right time to pursue it. That's a good thing. It gives you a chance to come up with a new idea, or to launch your business when the time is right.

But more likely, you've decided that your idea really does look promising, and just needs a bit more research and preparation. In the next sessions, we'll take an in-depth look at your business idea and begin developing your business plan.

WORKSHEETS



SESSION 2

SESSION 2: RESEARCHING YOUR BUSINESS IDEA

Check It Out!

Choosing a Business Worksheet

This worksheet will help you ask yourself some tough questions about your business idea.

Most people have one business idea they want to explore. If you have more than one idea, this worksheet can help you decide which idea is best for you. If the first idea you choose doesn't make sense after you do some research, make additional copies of this worksheet and try other ideas.

For each business idea, read the following statements and rate yourself on a scale of 1 to 4.

1 = strongly disagree

2 = disagree

3 = agree

4 = strongly agree

Business idea: _____	Score
My product is unique.	
There is an unmet need or ongoing demand for my product.	
This market is relatively easy to enter.	
I don't have many current competitors in this business.	
I'm passionate about this idea.	
I have most of the skills I need for this business.	
I have experience in this business or one like it.	
I have enough time and money to start this business.	
I can run this business by myself if I have to.	
I have a mentor or advisor with experience in this business.	
TOTAL	

If you score above 25 points, this may indicate a good business opportunity. If you score 20 points or less, you may be better off choosing a different idea.

Choosing a Business Worksheet—continued

1. What's your business idea? Is it a manufacturing, retail or service business?

2. What are the three main reasons you chose this idea?

3. What skills, knowledge and resources can you bring to this business to help it succeed?

4. Do you have a name for your business yet? If so, write it here (or list some possibilities).

Business Differentiation Worksheet

Your business niche is what makes your business different from others like it. Basically, it's the thing you offer your target customers that your competitors don't.

List specific features of your business idea. Then, place a checkmark in the second column if you're assuming this item is a differentiator, or the third column if potential customers have actually told you that you offer something unique.

It's very important to get feedback from potential customers at this stage. What do they want? What are they not getting from your competitors? Will you be able to meet their needs and still keep your prices affordable? You can check this out by talking to family, friends and neighbors who might be potential customers. This step is often overlooked by new entrepreneurs who assume that they already know their customers. Don't make this mistake! Take the time to interview potential buyers.

[illegible]

Customer Profile Worksheet

Your **primary customers** are the ones who are most likely to buy from you. They are your target market. Your **secondary customers** are less likely to buy, but they are still within your target market.

For example, a childcare center's primary customer might be single, working mothers with children ages 1 to 4 years old, who live within two miles of the center. Its secondary customer might be mothers who work at a factory three miles away. Because they're farther away, they're a bit less likely to use this center. But they're more likely to use it than people who live or work eight miles away.

Write down your current assumptions about your primary and secondary customers below. In upcoming sessions, your research will show how accurate your estimates are.

If you're having trouble being specific, try this: Pretend that you only have \$100 to spend on attracting new customers to your business, and you want to make sure that spending it will result in a sale. Who would you want to attract with this limited amount of promotional money?

	Current Assumptions	
Customer Characteristics	Primary Customers	Secondary Customers
Gender (male or female)		
Average age, or age range		
Income level		
Education level		
Residence location		
Employment/job location		
Worker type (professional, hourly, etc.)		
Marital status (married or single)		
With or without children		
Renter or home owner		
Lifestyle/interests (sports, arts, pets, etc.)		
Level of familiarity with your service		
Beliefs/opinions that affect your business		
Other:		
If selling to other businesses:		
Type of business (what industry?)		
Annual sales		
Number of employees		
Location		
Other:		

After you identify your customers, you need to find out if there are enough of them to support your business. Government census data from the Internet or a local library can give you a rough idea of how many potential customers live in your area.

You also need to decide what percentage of these customers are likely to buy. (Remember: Not all of your target customers will buy your product!)

You'll be researching these and other questions about your target market in Sessions 8 and 9. For now, the goal is to come up with a rough estimate that you can refine and improve as you continue your research.

Use the information on the previous chart to write a profile of your ideal customer. Here's an example:

My ideal customer is a woman in her late teens to early 30s. She lives in a city or a smaller college town and has at least some college education. She makes \$30,000 to \$50,000 per year and spends about \$300 per year on beauty and grooming products. Of that, about \$75 is soap and shampoo. She prefers organic, nontoxic products in recycled packaging. She usually buys online to save money, but she'll pay a higher price for unique products from a local street fair or farmers' market.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Worksheets Assignment for Session 3



Complete the following worksheets:

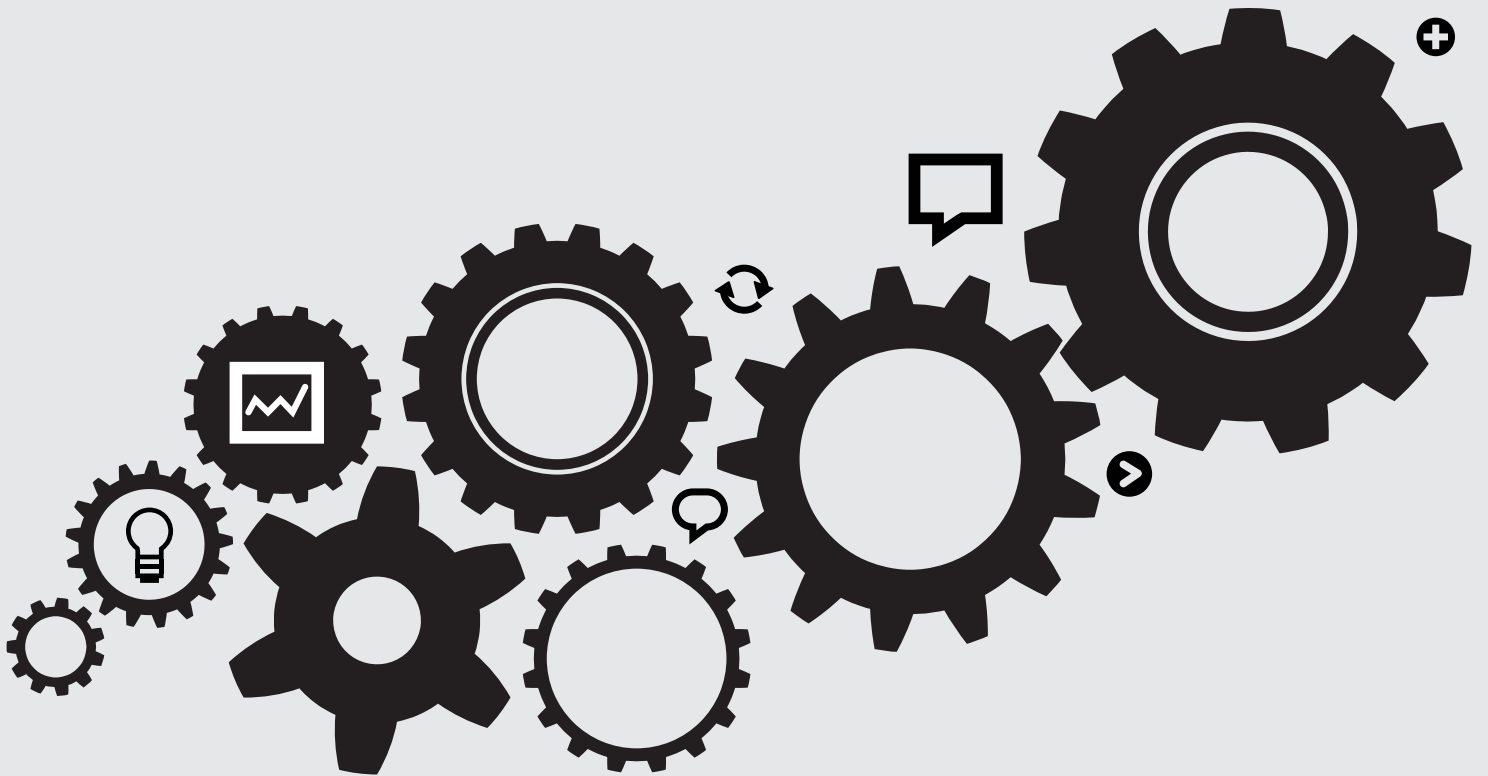
- *Choosing a Business Worksheet*
- *Business Differentiation Worksheet*
- *Customer Profile Worksheet*

Writing Your Business Plan



There is no *Writing Your Business Plan* assignment for Session 3. However, the information you gather in this session, and the questions you answer in the worksheets, will be useful in later written assignments.

TEXT



SESSION 3

Business Planning

PLAN TO PROFIT!

HIGHLIGHTS

The Importance of Planning	page 2
Performing a Feasibility Study	page 4
The NxLevel® Micro-Entrepreneur Business Plan	page 7
Contingency Planning	page 14

“

To be prepared is half the victory.

—Miguel de Cervantes

”

About This Session

With your business idea and your personal goals and objectives in mind, you're ready to start working on your NxLevel® Micro-Entrepreneur Business Plan.

Why are we presenting the business plan here, before we've introduced important marketing and financial concepts?

Because this chapter shows you where you're headed and highlights the concepts you must understand to complete your business plan.

The importance of planning.

Planning is just as important to your success as marketing and bookkeeping, so you must make it part of your everyday business management. No matter how big or small a business is, good planning can increase profitability.

Performing a feasibility study.

Looking at your strengths, weaknesses, opportunities and threats helps you decide whether your business idea is worthwhile.

The NxLevel® Micro-Entrepreneur Business Plan.

The NxLevel® Micro-Entrepreneur Business Plan is the road map for your new business. It takes time and effort to prepare a business plan, but it's critical to your success.

Contingency planning. No matter how sure you are that your business will succeed, you need to think about what you'll do if it doesn't. Planning for problems is a big part of planning for success!

The Importance of Planning

Would you take a long car trip without knowing where you wanted to go, which route you would take, how much money you had or what stops you would make along the way? Of course not—you would schedule your trip and plan your route.

Having a plan is just as important for your business. The NxLeveL® Micro-Entrepreneur Business Plan outlines the basics of your business concept. As you prepare your plan, you'll learn whether your business idea is truly viable. You'll also fine-tune your business concept, making it more likely that your venture will succeed.

Before we discuss the business plan, let's take a look at the importance of planning in everyday business operations.

- **Seeing the big picture.** From day to day, you may face problems that don't seem to be connected, but actually are. Planning helps you sort through your business issues and identify the ones that cause most of your problems.
- **Clear communication.** A good business plan clearly explains your goals to employees, partners, lenders and investors.
- **New opportunities.** Change brings opportunities, and careful planning helps you make the most of them.
- **Surviving economic downturns.** Microbusinesses are usually more vulnerable than larger competitors to changes in the economy. Owners who plan are more likely to stay in business.
- **Continuous improvement.** Comparing planned to actual results helps you improve your business operations.

- **Being prepared.** A good business plan is like a fire prevention plan. Fires may still occur, but they're not as likely, and you know what to do when they happen.
- **Assessing financial performance.** The process of preparing a financial plan helps you measure and improve your business's financial performance.

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You've got to be able to plan. When I got left with the kids, I felt like I couldn't handle it. I used to plan ahead maybe 24 hours—food on the table, clean clothes and getting the kids to school. But having that plan is what got me through it, one day at a time. Knowing what I had to do each day and just doing it.

Now I run my own business, so I need to plan farther ahead. But it's the same kind of thing and you do it for the same reasons. You set your goals, and you plan the best you can to make them happen.

To me, the worst feeling in the world is not knowing what to do, not even knowing where to start. Planning means you're prepared. It means you have some control, instead of things just happening to you.

Clarissa Franks is 26 years old. She was born and raised in Brooklyn, New York, in a neighborhood called Fort Greene. For four years, she's been the sole guardian of her two younger sisters, Debra and Jennifer.

Clarissa hasn't had an easy time. She never really knew her father, and her mother died of emphysema when Clarissa was 16. But she's always had a lot of nerve and heart, and she never considered letting her family break up. She worked part-time jobs, applied for public assistance and even traded daycare for services. It took hard work and very long hours, but she made ends meet and is getting her sisters through school.

Owners who plan are more likely to stay in business.

See, the time comes when you've got to decide whether you want to drift with the tide or learn to swim. I had no time to lie to myself, so I took a honest look at myself and my options.

I made a list about myself. You know, my good points and bad points. And I asked some friends to write about me the same way. I want it honest, I told them.

And that was where I started to think I could do whatever I set my mind to. Because in my own life, I saw that I'd held it together. The kids staying in school and getting good grades was proof of that. And the worst thing my friends said about me was they didn't see me enough because I was working all the time. That built up my confidence.

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Types of Planning

There are three common types of planning:

- **Strategic planning** outlines how you want your business to grow over the next two to three years, based on realistic predictions.
- **Operational planning** is day-to-day planning. Normally, you begin operational planning once your strategic plan is in place.
- **Financial planning** includes preparing budgets, cash flow analysis, sales forecasts and projected financial statements, all of which must be updated whenever any new planning is undertaken.

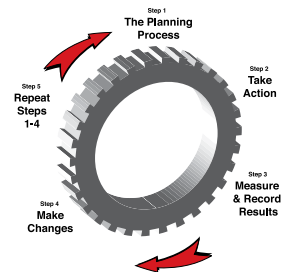
Understanding the Planning Cycle

You should start planning several months before starting your business. Some micro-entrepreneurs plan for as many as six months before starting up. The

timing depends on how much time you can dedicate to your new venture. Once your business is up and running, planning should become a natural and normal part of your operations.

Planning is a five-step process. A well-managed business takes these steps every day.

1. Plan a course of action for your business.
2. Act by taking steps that support the plan.
3. Measure the results of the actions you took in Step 2, and note any differences between the results you expected and the results you got.
4. Change the plan as needed, based on what you learned in Step 3.
5. Repeat steps 1 through 4.



Building a Planning Team

Although you must take the lead role in developing your business plan, it's a good idea to form a planning team to help you. In addition to your mentor, you should involve your family and friends in the process. And if possible, try to involve professionals, such as a lawyer or accountant. If you have employees, you should involve them, too.

Not every team member should be involved in every step. Instead, they should review and comment on the parts of the process in which they have expertise or insight.

Business Goals and Objectives

The best way to start planning is to write down your business goals. What do you want to accomplish in the first year? These are your **short-term goals**. What do you want to accomplish in the second and third

years? These are your **long-term goals**. The steps you will take to meet these goals are your **objectives**.

Each objective should be clear and easy to understand. It should include a deadline and name the person responsible for getting it done.

The *Business Goals and Objectives Worksheet* will help you set goals and define objectives.

Performing a Feasibility Study

A **feasibility study** helps you decide whether your business idea is viable. If it is, you can proceed with your business plan. If it isn't, you must either improve your idea or come up with a new one.

This is a very valuable skill to develop. Existing businesses often use feasibility studies to decide whether new ideas and opportunities are worth pursuing.

You can follow this same process to look at raising your prices, purchasing new advertising, giving pay raises to employees, and almost any other decision that changes the numbers for your business.

A business idea that's worth pursuing will pass the following feasibility tests:

- **SWOT analysis** looks at strengths, weaknesses, opportunities and threats. When strengths and opportunities outweigh weaknesses and threats, there's a good chance your idea is feasible.
- **Financial feasibility.** It's natural for entrepreneurs to be optimistic, but to reach your financial goals, you also have to be a realist. If your business idea isn't financially feasible, there's no sense in pursuing it.

- **Feasibility of sales volume.** Any idea can seem financially feasible if you assume a high enough sales volume. Can you really achieve the sales volume you need to make your idea work? This is an area where many entrepreneurs falter, usually by being too optimistic. Although sales forecasting isn't easy for startups, it's well worth the effort.
- **Marketing feasibility.** If your idea passes the sales volume test, you must develop a marketing plan that will outline how your business will reach the projected sales volume.

Outline of a Feasibility Study

This section explains how to prepare an initial feasibility study by assembling its main sections in the following order:

1. Scope of the business concept
2. SWOT analysis
3. Financial feasibility
4. Sales volume assessment
5. Conclusion

Step 1: Scope of the business concept

Define your business opportunity. Are you introducing a new product or improving an existing one? (Please note that we use the term "product" to refer to products and services, except when we need to make a clear distinction between the two.)

Consider these questions:

- What is my business opportunity?
- What is my product?
- How do my business and my product reflect my personal values and talents?

When strengths and opportunities outweigh weaknesses and threats, there's a good chance your idea is feasible!

- Who are my target customers?
- Why, when, where and how will my target customers buy?
- How much will my customers pay?

Based on your answers to these questions, write a brief definition of your business concept. Here's an example:

I'm going to use my sewing talent to make unusual handbags out of materials I find in thrift stores and elsewhere. These handbags will reflect my eye for color, my interest in recycling vintage materials and my desire to make a sturdy bag that will last for years. I will target women between the ages of 18 and 35 who are interested in one-of-a-kind urban fashions. I will sell online through sites like eBay.com and Etsy.com. The bags will cost between \$25 and \$50 to manufacture, and will sell for \$75 to \$125 each. My customers will be willing to pay this amount because my bags are well made, unusual and attractive, and no two are alike.

Step 2: SWOT analysis

Strengths and weaknesses relate to internal areas of your business, such as personnel and management. If you're good at math, that's a strength; if you're not so good at it, that's a weakness.

Opportunities and threats relate to external factors such as competition, technology, social trends, and economic and political conditions. An opportunity might be a new online trend, while a threat might be competition from a bigger company or lack of access to capital. Note that external threats often result from internal weaknesses, while external opportunities come from internal strengths.

- **Strengths.** What are my skills and talents? What aspects of my personal background and work experience make

this business a good choice for me? What knowledge and expertise do I have? What tools and resources do I have? Who are my advisors? What is my competitive advantage? What makes my idea different?

- **Weaknesses.** What resources and tools do I lack? What skills do I lack? What are the gaps in my knowledge? What time constraints do I face? What do my competitors do better than I do? What family and work conflicts stand in my way? How much capital do I lack?
- **Opportunities.** Why does this opportunity exist, and how long will it last? What customer needs aren't being met? What's the outlook for growth? What political, economic, social and technology trends favor my business idea?
- **Threats.** What are my barriers to entering this market? How many competitors do I have? Who are my strongest competitors? How will they react to my entry into the market? What regulatory and legal problems do I face? Which political, economic, social and technology trends present obstacles to my success?

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Clarissa had been working for three years in a beauty shop, where she specialized in manicures and pedicures. Her clients loved her cheerful, bright attitude. She was very different from many of the workers in other local nail salons, who tried to get customers in and out as quickly as possible. And because she read all the fashion magazines and knew all the latest products and styles, customers often came to her for advice on what to wear to job interviews, or how to dress for a big date.



That's what gave Clarissa the idea of opening a combination nail salon and fashion consultancy. She'd offer the usual manicure services, but she'd do it at a leisurely, luxurious pace, and she'd also offer fashion consultations to mothers and young women who wanted advice on how to look their best. Competition was fierce, and many salons were offering lower prices and faster turnaround, even if they had to break labor laws or use illegal chemicals to do it. Clarissa decided to go the opposite route; she'd see fewer people, use better materials and charge more money.

The more she thought about it, the better it sounded. She knew about fashion, she had a warm personality and she'd been dressing her sisters beautifully for years on very little money. Also, she had lots of regular customers at the beauty parlor, and she felt pretty sure they'd keep coming to her if she started her own business.

I never thought about being optimistic or pessimistic. I just did what I had to do. But since I always hung onto the idea that things were going to get a lot better—because I was going to make them get better—I guess I must be an optimistic person. My goals were simple: Get the girls out in the world on the right foot, and do something for myself that would make money but also make me happy.

...

Step 3: Financial feasibility

How much will your business idea cost to launch, and roughly how much revenue will it bring in? Suppose you can spend \$10,000 to make 20,000 units of a product that sells for 25 cents a piece. You'd have to sell 40,000 units just to break even, which is twice the number of units you can afford to make. Spending \$10,000 to earn \$5,000 is definitely *not* feasible. Your business must bring in more money than it costs to start and run, and that money must be enough to meet your needs.

Your business must bring in more money than it costs to start and run.

Assessing financial feasibility is a four-step process.

- Determine the startup costs associated with your opportunity and calculate how much financing you need. Startup costs include professional fees, remodeling, licenses and permits, inventory, equipment and other fixed assets.
- Budget your annual operating costs and determine which are fixed and which are variable. Annual operating costs should be calculated on a cash basis, and include servicing any debt you need.
- Test financial feasibility by performing a break-even analysis. This identifies your break-even point, which is where total sales revenue equals total costs. This tells you the annual sales volume you will need to cover fixed and variable operating costs.
- Decide whether you will finance out of regular profits or will borrow to accomplish your goals. Don't forget to consider the costs associated with borrowing money. If these funds will come out of normal operating profits, you must weigh this against borrowing, or utilizing the profits for other ideas or to pay yourself a higher salary.

Step 4: Feasibility of sales volume

Any idea can seem financially feasible if you assume a high enough sales volume. Ask yourself if you can really achieve the sales volume you need.

For example, suppose it costs \$10,000 to make 80,000 units of a product that sells for 25 cents a piece. Again, you'd have to sell 40,000 units just to break even. But if you sold all 80,000, you'd double your money. Is that feasible?

For some products, maybe it is. But you also need to think about other factors that affect sales volume.

What if you have a huge competitor who offers the same product for 20 cents? What if you'll be selling exclusively to a store that gets an average of 5,000 individual customers per year? Or suppose the product is targeted at a small group of people, like birdwatchers in central Ohio? If you only have 1,000 people in your target market, you must sell each of them 80 units to earn a profit of \$10,000.

To see whether your break-even sales volume is feasible, you must research your market potential. During the SWOT analysis, you examined your industry, competition and strengths. These are also important considerations when estimating how much you can sell.

Completing cash flow projections helps to ensure that your ideas are financially sound, and prepares you to manage cash shortages and surpluses. This involves examining all the expenses associated with your new idea and preparing monthly sales forecasts for a three-year period.

We'll explain how to do cash flow projections in Session 12 *Cash Flow Management*.)

Step 5: Conclusion

Does your idea still seem feasible? If so, it's time to move forward. If not, return to Step 1 and revise your responses to the first four steps. This gives you a chance to fine-tune your idea, if possible.

Of course, not all business concepts are viable. Finding out on your first pass that a business idea won't work is a good outcome, because it saves time and money that you can then apply to a better idea.

The NxLevel® Micro-Entrepreneur Business Plan

The NxLevel® Micro-Entrepreneur Business Plan outlines the basics of your business concept. It explains your business's mission, values, products, management, marketing and financial plan.

Your business plan provides essential information to anyone who is seriously considering getting involved in your venture, such as employees, mentors and partners. Also, banks, microlenders, investors and other institutions usually review business plans before making loans. This helps them judge the abilities of the business owner and the potential profitability of the business.

Why are we presenting the business plan here, before we've introduced important marketing and financial concepts? Because it shows you where you're headed and highlights the concepts you must understand. Each session in this book contains elements that relate to the following business plan sections:

- Cover and Title Page
- Table of Contents
- Executive Summary
- Business Concept
- Business Organization and Operations
- Marketing Plan
- Financial Plan
- Attachments

Many business terms are introduced in the following descriptions of these sections. Getting familiar with them now will help

Your business plan provides essential information to anyone who is seriously considering getting involved in your venture.



you understand the upcoming sessions and worksheets.

Cover and Title Page

Your business plan must look professional, so you should present it in a binder or bind it with a stiff cover. The cover should state the name of your business; your name (and the names of your partners, if applicable); your business address, phone number, email and website address; and the date.

The title page is the first page readers see when they open the plan. It should have the same information as the cover.

Table of Contents

The table of contents lists the major headings and subheadings of your plan, along with their page numbers. To ensure that the table of contents is accurate, write it after you've finished the rest of the plan.

Section I. Executive Summary

The executive summary is a condensed version of the major sections of the business plan. You must fully understand these sections, and how they relate to each other, to write an effective summary. Therefore, it's best to write it after you finish the rest of the plan.

Your executive summary should be no more than one page, and it must include the following information:

- Business description, mission statement and product description.
- Names and relevant background of the owner or owners, as well as important team members.
- Your target market and your competitive advantage in that market.
- Financial requirements for startup, as well as estimated sales and profits. If

you're using your plan to get a loan, you should also explain how much capital you need, how you will use it to achieve your goal, and what type of collateral you offer.

- Any intellectual property, existing contracts or market research findings that support your business concept.

Instead of writing all this information from scratch, you will adapt it from the relevant sections of the plan after you complete them. When writing your executive summary, be clear, concise and convincing. Lenders and other professionals scan the executive summary to decide whether the rest of the business plan is worth reading, so it must capture and hold their attention.

Section II. Business Concept

This section introduces your products and the value they offer. It should also include your mission statement, which explains briefly what your business hopes to be and do.

A. Business Description

This section should describe your business simply, so that an outsider can easily understand what business you are in, what product you offer and who your customers are. The *Mission Statement Worksheet* will help you develop a clear mission statement that will guide your strategies and tactics.

This section should also describe the unmet or underserved needs in your target market and explain how you will meet them. Why will your business succeed? What advantages does it have that competing businesses lack?

B. Business Goals and Objectives

This section describes your goals and objectives for the **short term** (one year) and the **long term** (two to three years),

Your business plan must look professional!

and explains how you'll achieve them. This is also the place to explore options for growth. Thinking ahead will impress your readers, so use this section of the plan to state clear objectives for growth. Goals and objectives should be specific and include a deadline.

C. Industry Information

This section introduces your industry, explaining where it's been, where it is and where it's heading. It also explains how your business fits into current and future trends.

Industry Background Information

This section identifies your industry, and states its current size in terms of total sales, number of customers and number of businesses. It should also describe the industry's historic growth rate, and note whether large or small businesses currently dominate the industry. How do small businesses operate within your industry?

Current and Future Industry Trends

Where is your industry headed in the next three years? How are products currently bought, sold, packaged and delivered? What political, economic, social and technology trends affect it? Is the industry growing, stable or declining? What are the opportunities and threats? Is the Internet changing how your industry promotes, sells and delivers products? What current and potential regulations affect your industry?

Business Fit in the Industry

Here, you will write a brief description of how your business fits into your industry. Is it one of the smaller or larger businesses in your industry? How is it similar to competing businesses? How is it different or better?

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Clarissa knew she had a lot to learn about business, but she also saw a lot of positives on her list of good and bad points. She knew how to make the most of very little. And she knew a lot about planning, too. She knew that it's not a matter of writing down daydreams or wishes. It means knowing where you are and where you want to go, and figuring out how to get safely from one place to the other.

She already had her GED, so she started going to a community college at night to take some introductory business courses. She didn't have much classroom experience, and she soon found that she got the most out of her classes by talking one-on-one to her instructors afterward. One of her most helpful instructors was Esther Morris.

She took Esther out for coffee and talked about her business idea. Esther was able to give her advice on everything from setting up as an LLC, to conducting market research, to dealing with the environmental laws and health codes that apply to nail salons. Most important, she gave Clarissa an outline of a business plan and explained how this information would fit into it. Clarissa studied the outline until she knew it backward and forward, and then wrote up an action plan to guide her research.

I have passion, I have energy and Lord knows I'm persistent. I felt like I was bragging talking to Esther because everything she told me I need, I said I had it already. But it was true. My life proved I knew how to communicate with people. I already knew how to improvise and adapt and do things new ways. I already had self-reliance and confidence and planning skills. I was ready to go, except for needing some business education. That's why I was in school at the end of a long day, instead of at home with my girls!

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Section III. Business

Organization and Operations

This section introduces the people who own and manage your business, states their qualifications and explains how they will run it.

A. Business Structure, Management and Personnel

Business Structure

This section describes the legal form of business ownership. Will your business be a partnership? A sole proprietorship? A corporation? (We'll explain these options in Session 5 *Laws, Regulations and Taxes*.) If there's more than one owner, this section should state each owner's percentage of ownership.

Personal Background Information

This section briefly outlines your skills, training and experience as they relate to the proposed business. It should detail your experience (if any) in the industry, along with any special expertise that gives you an advantage.

Management Team

For each key manager, include relevant details such as skills, experience and education, as well as the specific assets each person brings to your venture. This section should tell readers why you and you team are qualified to manage the business. If applicable, include an organizational chart to clarify the roles and responsibilities of your management team.

Personnel

Summarize your non-management personnel needs, if any. Discuss where and how you will recruit employees, what screening process you will use in hiring, and how you will train and manage employees.

Outside Services and Advisors

Which tasks will your business outsource to freelancers, temporary employment agencies and consultants? This section identifies outside service providers and advisors who will help you achieve your goals. It should explain who they are, what expertise they provide and how this expertise will benefit your business.

B. Operations Plan

This section describes basic operational and logistical issues, such as where your business will be located, what kind of equipment and machinery it requires, what legal issues you face and how you will address them, and what risks you will insure against.

Site and Equipment

Where will your business operate? Will you work from home, or rent an office space? Do you need additional warehouse or work space? Why is your location and workspace appropriate for your business?

This section should also list all the major equipment and tools you will need to run your business. For example, if you are in the food business, you might need commercial kitchen equipment, a bottle-filling machine and a delivery van.

Purchasing and Inventory

This section explains how you will manage the purchasing of materials and supplies, and details how you will store, track and maintain inventory. If applicable, this section should also list your primary suppliers for raw materials.

Contracts and Leases

This section describes any contracts or leases you have signed, and explains their relevance to your business operations and management.



Risk Management

This section summarizes the risks your business faces and how you will manage them. List the types and cost of insurance you need, as well as the type and cost of intellectual property protection. Also, list any other internal and external threats, and the steps you will take to reduce them (e.g., fire safety plans, continuity planning, security system, online data backup).

Laws, Regulations and Taxes

This section identifies local, state and federal laws and taxes that affect your business, and explains how you will comply with them.

C. Managing Books and Records

This section explains how you will keep control of the major financial functions of your business. Indicate who is responsible for these tasks, what tools that person will use (e.g., accounting software) and how you will schedule and monitor these tasks. Will you do accounting and payroll in-house, or hire an accountant?

Section IV. Marketing Plan

The **marketing plan** identifies the markets your business serves and describes its position within those markets. We'll discuss the marketing plan in detail in the next session. For now, you should know that it contains the following sections:

A. Products and Services

- Product Description
- Features and Benefits

B. Market Analysis

- Customer Analysis
- Competitive Analysis
- Market Potential

C. Marketing Objectives, Strategies and Tactics

- Product Lines
- Positioning
- Packaging and Branding
- Pricing Strategy
- Placement Strategy
- Promotional Strategy

D. Sales and Customer Service

...

Clarissa's neighborhood was changing. It had a lot of once-fashionable houses that had been neglected for years, and outside buyers were starting to buy up the best of the two-story brownstones. Fort Greene had always been home to her, and seeing it change was hard. But she also understood that new money meant new opportunities.

Near Atlantic Avenue, there was an old barbershop that had been there for most of Clarissa's life. Now, it was closing down. The owner—who also owned the building—had announced his plans to retire. Clarissa talked to him and found out he was willing to lease her the shop.

The shop was old-fashioned in a good way, with chrome and porcelain fixtures from the days when barber shops were expected to be elegant. The chairs were perfect for manicures, and the front windows faced a couple of beautiful old sycamore trees across the street.

Soon, Clarissa was spending a lot of time at the Brooklyn Public Library, 10 blocks away on Grand Army Plaza. The librarians—a couple of whom had known her since she was a little girl—helped her find reference books listing government agencies, support groups and loan sources. After doing some research online, she also found free legal

Your marketing plan identifies the markets your business serves and describes its position within those markets.

assistance, as well as industry information on nail salons and income levels in her area. Before long, she had crossed off almost every item on her list.

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Section V. Financial Plan

The financial plan is often the most important section of the business plan. It describes your financial needs for starting your business.

A. Capital Requirements

This section details your basic financial needs for starting and running your business and explains the source of your startup capital (e.g., a bank loan, a microloan, a personal loan, personal savings or a combination of sources).

Startup Costs

In the section, you will list the capital and other resources it will take to start and run your business.

Loans, Grants and Self-Financing

Here, you should describe how you will finance your microbusiness by noting the source, amount and term of the loan. If you are applying for a grant, identify the funding agency and the terms and amount of the grant. If you plan to finance your microbusiness out of your own pocket, state the source and amount of the money.

B. Sales Forecasts

Here, you will present estimates of sales for the first three years of your business. This section also identifies your **break-even point**, which is the sales level at which your revenue covers the costs of running your business. Once your business is past its break-even point, it begins to earn a profit.

Sales forecasts are based on market research, coupled with your own honest

assessment of your ability to manufacture and sell your product or deliver your service. You can't look at your market or your business in isolation. For example, if your market research shows that it's possible to sell 800 birdfeeders a month, you must consider whether your business can realistically make and sell that many at a competitive price.

Many startup owners worry about getting sales forecasts just right. However, sales forecasts don't have to be 100-percent accurate. A good sales forecast is simply an educated guess; as such, it should be reasonable, achievable and supported by credible market data.

C. Cash Flow Projections

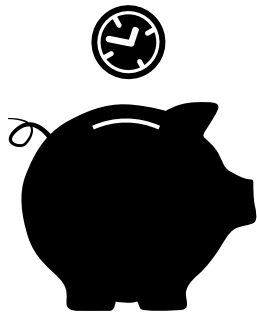
From the standpoint of lenders and investors—and your ability to run your business from day to day—**cash flow projections** may be your most important financial tool. They show how money flows into and out of your business each month. They also tell you when your business needs to borrow money, as well as how much cash it needs to pay bills each month. This section contains the following subsections:

- Monthly Cash Flow Projections—Year 1
- Notes to Cash Flow Projections
- Annual Cash Flow Projections—Years 2 and 3

D. Financial Statements (Optional)

Income Statement

An **income statement** shows how much your business earned, outlines your total cost and shows the resulting profit or loss. (That's why it's also called a **profit and loss statement**.) A **projected income statement** shows the profits your business



The financial plan is often the most important section of your business plan.

expects to make. Projected income is often shown monthly for the first year of business and quarterly for the two years that follow.

Balance Sheet

The **balance sheet** lists your business's assets and liabilities. **Assets** are any valuable items the business owns, including equipment, accounts receivable, inventory and cash. **Liabilities** are debts owed in the long and short term. These include lease payments, accounts payable and outstanding debts.

When you subtract your total liabilities from your total assets, you find out your net worth at a given time. Therefore, a balance sheet is similar to the personal financial statement you completed in Session 1.

E. Additional Financial Information

This section contains the following information:

- The **Sources and Uses Statement** shows readers at a glance how much capital you need, where you will get it and how you will use it. The information in this chart comes from **A. Capital Requirements**.
- The **Personal Financial Statement** shows your financial health.

Attachments

This last section contains supporting documents, such as:

- Personal credit history
- Résumés of key managers
- Product pictures
- Letters of reference
- Details of market studies, including surveys and other customer data

- Relevant magazine articles or book references
- Licenses, permits or patents
- Legal documents
- Copies of leases
- Building permits
- Contracts
- List of business consultants, including attorney and accountant

Although this is a crucial part of your business plan, you should not include it with every copy of the plan. Much of the information in this section will be confidential, so you should give it only to people who need to see it, such as lenders and investors.

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The biggest worry for me was my finances. All my life I lived paycheck to paycheck. And when you're paying your money out as soon as it comes in, you don't worry so much about planning two years ahead. But now all of a sudden I needed to think about balancing my accounts for real. I had to take charge of my cash flow.

By searching on Freecycle.org and visiting a few thrift stores, Clarissa was able to get a nice desk, some chairs, a few wall hangings and a coffee service for less than \$100.

Next, she made a list of expenses she couldn't cover: tools and materials, nail dryers, an airbrush, foot spas, a computer, a sound system, window decoration and painting, signage, interior paneling and business licensing fees.

She totaled these costs, added them to her business plan and went to see a counselor at the Minority Business Development Center. After suggesting some changes

Total assets - Total liabilities = Net worth

Planning for problems is a big part of planning for success!

to her plan, the counselor got Clarissa an appointment with a “social capitalist” microfinancing firm that had an interest in protecting Brooklyn’s historic buildings, as well as helping low-income entrepreneurs.

They were impressed with Clarissa’s business plan, her energy and her determination. What they weren’t sure about was whether her relaxed, very personalized service would really be enough to make her stand out from the competition and justify her higher prices.

After doing some research, they suggested that she avoid acrylic nails and glues and switch to safer materials. They explained the benefits:

- None of her local competitors was using nontoxic products. This would give her a strong competitive advantage, especially because asthma rates were on the rise in her neighborhood, as was market demand for newer, safer products.
- Using safer materials would reduce her regulatory issues.
- Avoiding strong odors and irritating dusts would maintain the soothing, relaxed atmosphere of her salon.
- Avoiding strong chemicals might lower her insurance rates, and it would definitely protect her health.
- Using a premium product would help justify her premium price.

Clarissa happily agreed to this. She revised her business plan—taking the cost of alternative nail-care products into account—and resubmitted it. This time, the loan was approved right away!

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Contingency Planning

No matter how sure you are that your business will succeed, you need to think about what you’ll do if it doesn’t. Planning for problems is a big part of planning for success!

Consider these questions:

- What would you do if your business failed?
- Would your business survive if you got sick, or had to look after a family member who got sick? Who would run it?
- What would you do if your business suddenly became very successful?

It may seem strange to talk about success as though it’s a problem. But the fact is, growing too fast is a very common cause of business failure. That’s why planning for growth is so necessary.

Suppose you repair electronic equipment, and you offer such fast and friendly service that word of mouth starts to spread. One day, you come to work and find that 20 people want things repaired. And naturally, each of them expects the fast service you delivered when you were repairing only 15 units a month. How will you cope with this increased demand while maintaining the fast and friendly service that brought you the extra business?

Of course, growing too slowly causes a whole other set of problems. For instance, you might not make enough profits to accomplish certain goals, or you may face cash flow problems. As with quick growth, the solution is contingency planning. A business that doesn’t have a plan in place to deal with sudden or sluggish growth may not survive.

Exiting Your Business

It's sad but true: Many young microbusinesses go belly up and have no choice but to call it quits. But there are also happier reasons for exiting your business. For example, someone may want to buy it for a lot of money! Here are some other reasons for calling it quits:

- You've identified a better opportunity elsewhere.
- You're bored and want a new challenge.
- Your business has achieved all the growth it can.
- You're no longer willing to work 50 or more hours a week.
- You're ready to retire.
- You're no longer able to work.
- Your family no longer supports your business.

Setting Exit Limits

Exit limits are a safety net against personal and professional loss. Your exit limits might look something like this:

If my business experiences the following, I will seriously consider calling it quits:

- Overdue bills exceeding \$5,000
- Annual sales below \$30,000
- More than \$50,000 in long-term debt
- Profit margins below 12 percent over four consecutive quarters
- A buyout offer of \$50,000 or more

If my business experiences the following, I will call it quits:

- Overdue bills exceeding \$10,000

- Annual sales below \$20,000
- More than \$75,000 in long-term debt
- Profit margins below 10 percent over six consecutive quarters
- A buyout offer of \$75,000 or more

You can also set limits for your involvement in the business once it becomes too large or too successful, as indicated by a certain level of sales, customers, employees, or personal or family stress. Once your business reaches these limits, it will be your signal either to hire a full-time manager or to bail out and start your next business.

You don't have to carve your exit limits in stone. You can and should revisit them often as your business grows and your personal situation changes.

The *Contingency Planning Worksheet* will help you think about these issues.

...

It all comes down to knowing what you have to do and knowing how to get it done. And part of that is knowing what you don't know, and what you can't do on your own.

I'm a proud person, so sometimes it was hard for me to ask for help. But I've learned that asking for advice always helps me think more clearly, whether I take it or not. The way I look at it now is, if someone out there wants to help me get to the next level, and I don't know about it, I'm not doing my job as an entrepreneur.

Clarissa began her marketing efforts with personal phone calls to every client she'd ever served. Her years of good advice, skillful service and cheerfulness soon paid off in a substantial core clientele.

Today, Clarissa's salon combines high-end manicure and pedicure services with expert fashion consulting. The walls are decorated with fashions and personal coiffures taken

Revisit your exit limits as your business grows and your personal situation changes.

from the leading style magazines, and Clarissa recommends appropriate colors, fabrics and styles to her customers. She's built up a loyal following and word of mouth is starting to pay off.

But that doesn't mean she's stopped planning. Clarissa still plans carefully and realistically, using her computer to research trends, economic news and new nontoxic products. She revises her business plan twice a year to reflect changing conditions, so that it can continue to guide her toward success.

...

What You've Learned

The NxLevel® Micro-Entrepreneur Business Plan is a road map for you, a financing proposal for lenders and a source of inspiring information for prospective partners and employees. It is also the goal of this NxLevel® training program for micro-entrepreneurs.

After you complete the soul-searching and hard work that go into completing your own business plan, you'll have every reason to feel proud. You will have taken an enormous step toward making your dreams come true!

In this session, you learned:

1. Planning is essential to business success.
2. In a well-run business, the planning process happens every day.
3. Short-term goals are what you want to accomplish in one year. Long-term goals are what you want to accomplish in two to three years.
4. Helping you to create a NxLevel® Micro-Entrepreneur Business Plan is the purpose of this book.
5. Your business plan provides important information to anyone who is seriously considering getting involved in your business.
6. Your business plan should evolve as you learn more about your market, your business and yourself.
7. Part of preparing for success is preparing for unexpected outcomes. Planning for contingencies and setting exit limits before you launch your business will limit your potential losses if the worst happens, and it will also put you in a better position to launch your next venture.

WORKSHEETS



SESSION 3

SESSION 3: BUSINESS PLANNING

Plan to Profit!

Business Goals and Objectives Worksheet

When starting a new business, you should consider your **short-term goals** (within one year) and **long-term goals** (within two to three years). Goals are usually measured in dollars and other tangible outcomes. Each goal must be clearly defined so that you can track progress toward it. In other words, every goal must be measurable.

Objectives are specific strategies for reaching goals. A goal may have several objectives, but every objective must be measurable and assigned to a specific person within your business.

You can set goals and objectives for any aspect of your business, including:

- Sales volume
- Owner compensation
- Number of employees
- Assets
- Customer satisfaction
- Owner time commitment
- Profit
- Market share

When setting goals and objectives, ask yourself the following questions:

- What will I do?
- How will I do it?
- Who can help me do it?
- What problems will I face?
- Why should I do it?
- When will I do it?
- What will the outcome be?
- How will I overcome these problems?

To understand the difference between goals and objectives, consider the following example:

I own a small bakery in a metropolitan area. One of my goals is to be bigger than my largest local competitor within three years. My objectives are:

- To get out of my current location and into a suitable leased space.
- To sell outside of my immediate metropolitan area.
- To take 25 percent of market share from my largest local competitor.

Step 1 *Identify at least three short-term goals and objectives for your business and list them in order of importance. (Remember: Objectives include what needs to be done, when it needs to be done and who is responsible for doing it.)*

Step 2 *Identify at least three long-term goals and objectives for your business and list them in order of importance.*

Business Goals and Objectives Worksheet—continued

SHORT-TERM GOALS and OBJECTIVES (Year 1)		
Goal 1:		
Objective	Deadline	Who's Responsible?
Goal 2:		
Objective	Deadline	Who's Responsible?
Goal 3:		
Objective	Deadline	Who's Responsible?
LONG-TERM GOALS and OBJECTIVES (Years 2 and 3)		
Goal 1:		
Objective	Deadline	Who's Responsible?
Goal 2:		
Objective	Deadline	Who's Responsible?
Goal 3:		
Objective	Deadline	Who's Responsible?

Mission Statement Worksheet

A **mission statement** briefly sums up your values, your vision and the purpose of your business. Creating a mission statement helps to focus your efforts, guide your strategies and communicate your business's aspirations. It's helpful to begin by working on these elements one at a time, using the worksheet on the following page.

Step 1 Your Business Values.

Business values reflect the philosophy of your business and describe how you will treat employees and customers.

Step 2 Your Vision.

Your vision for your business defines what you want it to be and do. In broad terms, what do you want your business to be and do for your customers? How will it contribute to or enrich their lives? What would you like it to be known for in your community?

Step 3 Purpose of Your Business.

You should determine the purpose of your business in two ways. First, you should use an internal measure of success. Second, the only external purpose of any company is to serve the customer and solve their problems.

Try to integrate your values and vision when defining the purpose of your business. Together, they provide the framework for your business concept.

Example: I love worms. The internal purpose of my business is that it will give me a chance to work with worms. The external purpose of my business is to provide composting, soil improvement and fertilizer services to area gardeners.

Step 4 Your Mission Statement.

A mission statement sums up all of the above elements: values (the philosophy of your business); vision (what you want your business to be and do); and purpose (what your business does to serve its customers).

It should be short and focused (no more than 35 words). It is stated in the present tense, in positive terms and without qualifiers. *Example: Vulpinex Consulting helps its small-business clients succeed by providing them with honest, ethical, affordable project implementation assistance in such areas as management training, merchandising and business planning.*

Many companies proudly display their mission statement in a place visible to customers and suppliers. Of course, posting it on a wall is easy. The challenge is to live up to it!

Mission Statement Worksheet—continued

1. What values guide your business? How will it treat customers, employees and partners?

2. What do you want your business to be and do? What would you like it to be known for, now and in the future?

3. What is the purpose of your business, internally and externally?

4. Based on your previous answers, write a draft mission statement:

Business Description Worksheet

1. What business are you in? What are your key products?

2. Why will customers want to buy your product?

3. Provide a general description of how your business will operate.

4. What stage of development is your business in?

5. Describe your plans for growth.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Contingency Planning Worksheet

Although we all hope to be successful, it's always wise to prepare for unexpected events. Thinking ahead now will prepare you to deal with positive and negative changes as they happen.

- 1. What are the most likely problems that could keep you from running your business?**

[illegible]

- 2. What steps can you take to protect your business and operations if such problems arise? (Consider protecting your income, too.)**

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

3. Suppose you decided to close your business for good. What steps would you take?

4. If your business closed, what would you do to earn income and pay back any debt?

5. If your business succeeded and grew faster than you planned, describe the steps you would take to keep it on track.

6. Exit limits tell you when it's time to bail out of your business and move on to your next venture. List your exit limits for your business.

Worksheets Assignment for Session 4



You will need to finish the following worksheets before you try to write **Section II** of your business plan:

- *Business Goals and Objectives Worksheet*
- *Mission Statement Worksheet*
- *Business Description Worksheet*

For best results, review all your answers to the worksheet questions before starting the writing assignment.

Writing Your Business Plan



Use the information from this session to write the sections of the business plan shown below. Start with the headings and subheadings just as they are shown here. Then, follow the instructions in italics under each subheading.

Section II. Business Concept

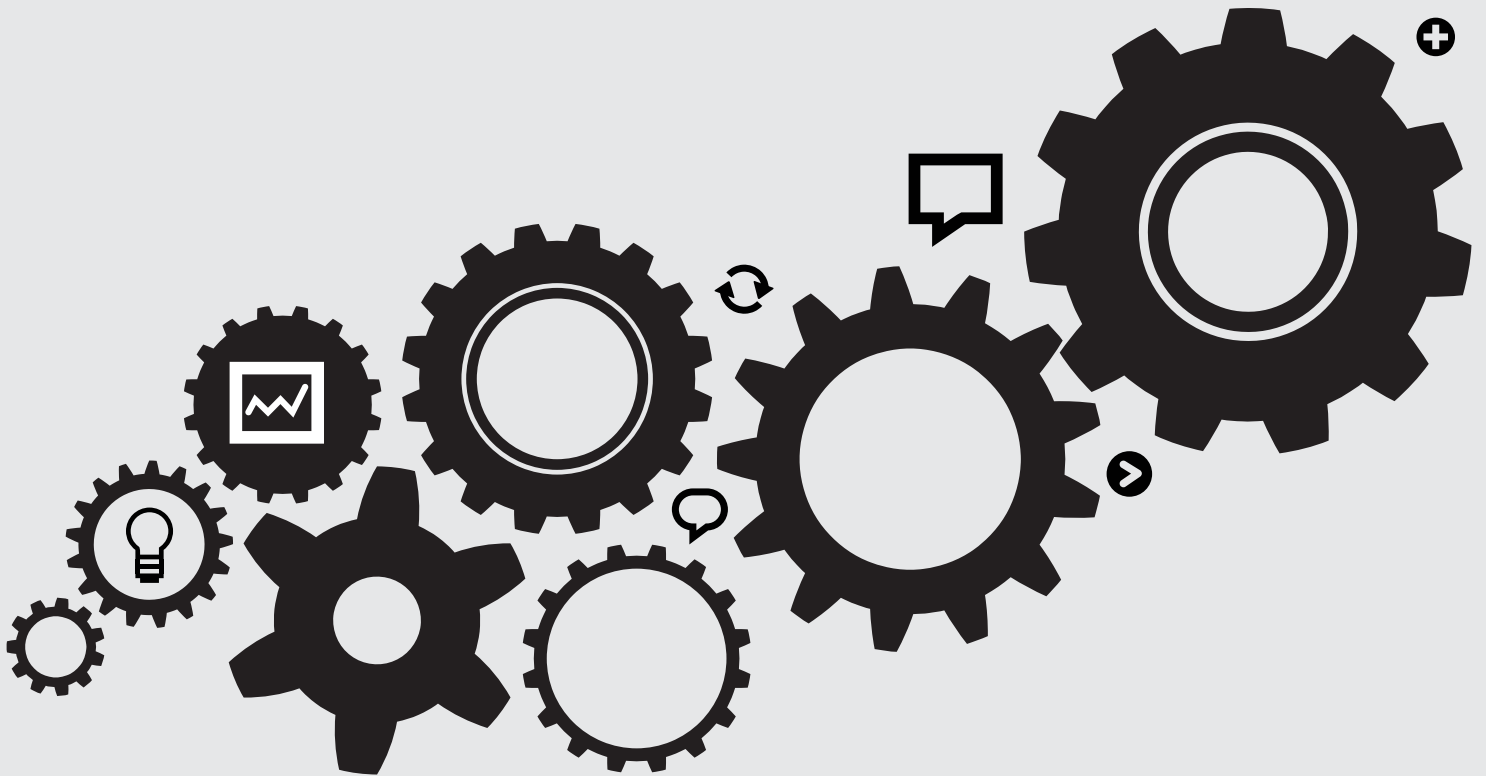
A. General Description of the Business

*Review your **Business Description Worksheet** and write a simple but complete description of your business idea. Include your Mission Statement, as set forth in the **Mission Statement Worksheet**. Describe your key products and explain how they will meet customer needs. Write this section so a stranger can read it and understand exactly what your business hopes to be and do.*

B. Business Goals and Objectives

*Review the **Business Goals and Objectives Worksheet**. Summarize your short-term goals (within one year) and long-term goals (two to three years in the future). Include the objectives or steps you'll take to reach each goal. You can write this section using your goals as a main sentence, and put bullet points under the sentence to show the steps you'll take to reach each goal.*

TEXT



SESSION 4

The Marketing Plan

MAKE A SPLASH!

HIGHLIGHTS

The Marketing Plan.....	page 2
Creating Sales Forecasts	page 7
Using Your Marketing Plan.....	page 9
Industry Research.....	page 10

“

*Knowledge is of no value unless
you put it into practice.*

—Anton Chekhov

”

About This Session

Your marketing plan defines your product, your customers, your industry, your customer service policies and the strategies, objectives and tactics you'll use to reach your financial goals. It gives you a chance to show off your knowledge of your customers and market, and it gives investors, lenders, employees and advisors a reason to believe your microbusiness will succeed.

The marketing plan. Your marketing plan is the core of your business

plan. Using information gathered from market research, it explains what you want to accomplish in your chosen market, how you plan to go about doing it and which tools you'll use. Finally, it describes your customers, and explains what you will do to meet their needs better than your competitors.

Using your marketing plan. Once you've got all the market data you need, it's time to think about how best to present your marketing

plan. You'll also want to revisit it often, and revise it to reflect changing market conditions.

Creating sales forecasts. Sales forecasts estimate how much of your product will sell over a specific period of time. You can create forecasts for specific markets, geographic regions and products.

Industry research. As a simplified introduction to market research methods, this section explains how to conduct industry research.

A marketing plan organizes your thoughts and keeps you from spending your precious time and money on the wrong things.

The Marketing Plan

This section of the NxLevel® Micro-Entrepreneur Business Plan describes your product, your market and your marketing objectives, strategies and tactics:

A marketing plan organizes your thoughts and keeps you from spending your precious time and money on the wrong things.

Investors and lenders view a business's marketing plan as an indicator of its potential. Who will your business sell to? In which geographic areas? At what price? How will you position your business in the market? How well do you know your customers and industry? How realistic are your goals? What is your schedule and budget for specific marketing tactics?

Your marketing plan answers these questions and many others. A good plan takes a lot of work, and may require several revisions.

The marketing plan breaks your market information down into four sections:

- A. Products and Services
- B. Market Analysis
- C. Marketing Objectives, Strategies and Tactics
- D. Sales and Customer Service

A. Products and Services

Why do we buy products? Because they meet basic needs like food, safety or shelter. We also buy products that make our lives easier, that prevent or solve problems, or that make us look or feel better. We buy to influence other people and to feel differently about ourselves.

In this section of the marketing plan, you must explain not just what your product is and does, but also what needs and desires

it meets from the customer's point of view. The best microbusiness owners have an excellent knowledge of their customers.

Product Description

In the broadest sense, a product is something that's sold in order to satisfy customer needs. This means that a service can be a product, too. Services deliver benefits like time savings, convenience, expertise, labor and comfort. A product can even be a combination of a tangible product and the services that go along with it. For example, a new computer might come with tech support services.

Here are the basic questions your product description should answer:

- What is your product, and what does it do?
- What needs does it meet? What problems does it solve?
- How is it different? What makes it appealing to your target customers?
- Is your product seasonal? In other words, do people buy more of it at one time of year than another?

Don't limit your thinking to the product itself; think about the materials that go into it, too. How is your product made, and how does that make it special?

Also, consider the appeal of your product's design and appearance. Remember: Marketing is communication. Every aspect of your product tells people something about your company's values.

Features and Benefits

Every feature of your product should have a corresponding benefit that does something for or gives something to your customer. As an example, the vacuum-insulated

wall of a travel mug is a feature that gives customers the benefit of keeping coffee hot for a longer time. And the gel-filled sole of a running shoe is a feature that benefits customers by increasing comfort and reducing joint stress.

Startups often make the mistake of thinking they're selling only the product. But what they're *really* selling are the benefits of that product. It can't be said often enough: Customers buy benefits!

This section of your marketing plan should list each important feature of your product, and then explain how that feature benefits your target customer.

...

A lot of people out here commute to the city. Even if I had a car, I wouldn't want to do that again. You're looking at an hour each way, plus bridge toll and gas. Commuting cost me about \$350 a month, not counting the time and the headaches.

I guess that's why a lot of the kids I went to school with either moved away or ended up hanging out down at the park all day with a bottle. As for odd jobs like brush clearing and carpentry, there are a few guys who've had that market sewn up for years. They'll probably still be getting hired even when they're 80.

Joe Callahan has spent his entire life in Willow Camp, a small town on the California coast. His father got up at 5 a.m. every day and drove to San Francisco to work at the Post Office—30 miles each way, over steep, winding mountain roads.

Joe tried that once. He worked as a cook at a San Francisco restaurant for a couple of years, but the time and expense of the commute just wasn't worth it. That didn't leave him a lot of options. Willow Camp has a population of about 700, so job opportunities are scarce.

Then, the owner of a local diner-on-wheels retired, and Joe saw an opportunity. It was a beautiful old Airstream trailer that had been completely outfitted as a kitchen. The big question for Joe was what kind of money he could make if he used it to start a business. Would it really be worth the effort?

...

B. Market Analysis

This section has three subsections:

- Customer Analysis
- Competitive Analysis
- Market Potential

Customer Analysis

As we learned in Session 2, your target market is the group of customers most likely to buy from you. Customer analysis describes how many customers you have, who they are, where they live, why they need or want your product, how much of it they'll buy and what they're willing to pay. The goal is to prove that you've found a market that's large enough to support your business.

Customer analysis should present the **demographic data** and **psychographic data** that describe your target market. As we explained in Session 2, demographic data describe things like age, sex, income level, education, ZIP code and marital status. Psychographic data describe things like lifestyles, hobbies, beliefs, preferences, media choices and cultural attitudes.

Customer analysis should define your target market clearly in terms of size, trends and growth potential. It should also explain how often your target customers buy your product: Is it something they need

The goal of customer analysis is to prove that you've found a market that's large enough to support your business.

every month or two, like a haircut? Or is it something they usually buy only once or twice a year, like shoes?

Here are the questions this section of the marketing plan should answer:

- How big is your target market?
- What are the major segments of your market?
- Who are your customers?
- What are their needs (a table)?
- What are their desires (a wood table)?
- What are their preferences (a wood table made from bamboo)?
- Why, where, when and how do they buy?
- Is your market expanding, shrinking or stable?
- What political, economic, social and technology trends affect your customers?
- Is your market seasonal, or do consumers buy throughout the year?

Competitive Analysis

Competitive analysis is the process of finding out who and where your current and future competitors are, and how their strengths and weaknesses compare to yours.

This section should also explain how you will take advantage of your competitors' weaknesses and overcome their strengths. (Remember that in the age of e-commerce, your competitors may live almost anywhere on earth!)

Competitive analysis identifies:

- Your local, regional, national and international competitors (direct and indirect, current and future).
- How your target customers feel about them.
- Your competitive advantage over them.
- Their competitive advantage over you.
- Your plan for dealing with new competitors who enter your market.

Market Potential

Once you know who your customers are, who your competitors are, and what trends affect your industry, you can estimate your **market potential**.

First, you need to figure out how much your target customers spend annually on products like yours. Then, you need to figure out what percentage of this amount you can realistically capture.

Your estimates must be logical and realistic. Some startups make the mistake of saying something like, "My target market spends \$100 million annually on food. If my new food cart captures just 1 percent of this market, I will make \$100,000 per year."

Using this approach is a surefire way to get your plan rejected by lenders and investors. Your description of market potential can't simply assume that a certain percentage of the market is yours for the taking. Instead, it must explain exactly how, when and why your sales are achievable.

This section should also discuss possible **barriers to entry**, such as high initial startup costs, or skills or expertise you currently lack. This section explains how you'll overcome these obstacles and achieve your market potential.

*In the age of e-commerce,
your competitors may live
almost anywhere on earth!*

C. Marketing Objectives, Strategies and Tactics

This section describes your marketing objectives, strategies and tactics for each of your target markets.

- **Objectives** are actions that support your business's goals within a chosen market. This might mean controlling 20 percent of the market, increasing sales by 50 percent over the next six months, or getting 100 new customers by the end of the year. Each of these objectives should be well defined and measurable, with a clear due date.
- **Strategies** are plans for achieving your objectives (for example, targeting customers who are between 24 and 40 years old, or entering a niche market for customized bridal gowns). Your strategies show how you'll segment customers into target groups, and how you'll position your products to make the most of your competitive advantage.
- **Tactics** are actions that support your strategies. Marketing tactics might include repackaging heavy products in smaller, easier-to-lift containers; offering a two-for-one promotion; creating a classified ad that emphasizes your customized service; or distributing your products through specialty boutiques.

Your marketing objectives, strategies and tactics guide your marketing mix, which consists of the Four Ps: **product**, **price**, **placement** and **promotion**.

Product Lines

A **product line** is a group of products or services offered by a single company. For example, a beauty shop's product

line might be haircuts, perms, manicures and pedicures. A jeweler's might be bracelets, rings, necklaces and pendants. A landscaping business might offer lawn mowing, rototilling, planting and tree trimming.

This section should introduce and describe your product line, and explain why it makes sense for your target customers and your business.

Product Positioning

This section of the marketing plan explains how you will position your product within each of your target markets. This means deciding how to portray your business to customers, and how to make it stand out from your competitors. Do you want to offer better quality? Lower prices? Different ingredients?

Your **positioning statement** should identify the primary benefit you offer your customers, and the primary differentiator that motivates customers to buy. You will learn to write a positioning statement in Session 8 *Product and Price*.

Branding and Packaging

Simply put, your brand is how you present your product to the world. It includes benefits, packaging, advertising and customer service.

You can also look at your brand as a promise. When customers see your name or logo, it promises them certain things. Every time you deliver on that promise, your brand is strengthened. Any time you break the promise, your brand suffers.

Packaging helps to communicate and reinforce your brand. It also affects your promotion, price and placement strategies. We'll discuss branding and packaging in Session 8 *Product and Pricing*.

Every time your business delivers on its promises, your brand is strengthened.

...

I was excited. I liked to cook, and I was good at it. Here was a chance to earn a living without leaving town. It seemed perfect!

But then my girlfriend Elaine said, "You don't know if there's really a market. You're just guessing."

That comment brought me right back down to earth. She was right; I'd have to find out whether it could really work. Unfortunately, I had no idea how to do that. Fortunately, Elaine did.

Elaine talked to the previous owner and found out that he'd never made much money from the diner. He'd lived in Willow Camp for almost 50 years and his house was paid off, so he'd been happy with seasonal income from the tourist trade.

"I never tried to build the business," he told her. "It was more like a hobby for me. But I always thought someone with more energy could really turn it into something big."

When Elaine talked to Joe, she was optimistic but cautious. As she saw it, Joe had two hurdles to overcome before he could even *think* about buying the diner. First, they needed to come up with a type of business that wouldn't be seasonal. Second, they had to figure out if there were enough customers in Willow Camp to keep the business running. If not, they'd have to target nearby coastal communities as well.

...

Pricing

Pricing is crucial to profitability, which makes it crucial to your business's success. No marketing decision is more important—or more difficult—than choosing a price that will attract customers and deliver enough profit to keep your business healthy. This section introduces your pricing objectives and strategies, and explains why

they're right for your customers, business and industry. What will you charge for your product? How have you calculated your costs and your profitability? How will your price position you in the market? Will you offer special discounts to attract new business?

Placement

Placement, or distribution, is the method you use to get your product to your customers. For a retailer, placement might mean selling online or at a street fair. For a manufacturer, it might mean selling to a distributor, a retailer or a consignment shop. For a service business, it might mean serving customers at an office, the customer's home or online.

The distribution strategy you choose will affect your sales and your profit margin, so it must make sense for your business, your industry and your customers. Where possible, it should also deliver benefits that your competitors' placement strategies don't. An alternative distribution channel—such as Netflix created for movies, or iTunes created for music—can be a powerful competitive advantage.

Promotion

Promotion refers to the methods you use to inform your customers about your business and products. Promotional strategies for microbusinesses typically focus on advertising, public relations, online social networking and direct customer interaction. Good salesmanship is essential for microbusinesses because of their limited advertising budgets.

- How will you promote your business?
- Will you sell or advertise online?
- How much will your promotional tactics cost?

No marketing decision is more important than choosing the right price!

D. Sales and Customer Service

Your sales strategy identifies your major sales prospects or target markets in order of importance and explains how you will sell to them (e.g., personally, online or through a rep). This section should explain why you chose your selling strategy and how it will contribute to your success. See Session 11 *Selling Success* for more information on sales and customer service.

Your customer service strategy explains your policies for ensuring excellent customer service, including handling returns, dealing with complaints and tracking customer satisfaction. What are your quality control policies? How will you track and measure customer satisfaction? What is your refund and return policy? How will you communicate with customers, and what steps will you take to resolve problems? How will you answer technical questions and provide support?

Creating Sales Forecasts

Sales forecasts predict how much of your product you'll sell to your target customers over a specific period of time. They help you estimate how and when your business will become profitable.

Sales forecasting is very important for startups. It may take six months or more to break even, so you need to know how much it will cost to keep your business open until it can sustain itself through sales. Sales forecasts are also useful for cash flow projections, planning production schedules and allocating responsibility, time and resources.

Sales forecasts should be ambitious but realistic. It's fine to set a challenge for yourself, but you must be able to achieve it within the specified timeframe. Most important, you must be able to back up

your forecasts with credible data.

Here are some common approaches to sales forecasting:

- **Breakdown forecasting** looks at your largest population of prospects and then estimates the sales you can expect from target customers. First, you gather data on the population of your trade area. Then, you figure out the number of target customers by age, income, needs, preferences or buying patterns. Last, you estimate how many times each customer will buy your product per year. Useful resources for breakdown forecasting include census reports; articles in national marketing magazines; state department of commerce data; and information gathered from your own surveys or interviews.
- **Buildup forecasting** estimates the size of each market segment and combines them to arrive at a forecast. For example, a business that sells children's bathing suits might calculate how many children between the ages of 5 and 12 live in the four surrounding counties, and then add these numbers to estimate the total market size.
- **Indirect forecasting** is a method businesses use when they can't get specific market data. Instead, they gather related data that indicate the size of the market. For example, if you can't find information on bathing suit buying patterns, you might gather information on total spending on summer play clothing for children. You could also gather data on the number of swimming pools in the surrounding counties and the number of children enrolled in swimming lessons. You often have to be creative to find indirect data that offer good insights.



The better your market research is, the better your sales forecast will be.

Forecasting can be especially tricky for startups that offer a brand-new product. They often use industry publications, trade associations or business periodicals to research typical costs and profit levels for similar businesses or products. Generally, researching the data is harder than doing the actual forecast. And of course, the better your market research is, the better your forecast will be.

No matter which method you use, it's always best to err on the side of caution. Forecasting a high level of sales may not be realistic, especially in the startup phase. Instead, aim for a realistic estimate of sales. You can also improve your profitability by looking for ways to lower your costs, which may be easier than achieving a high sales level during the startup phase.

...

For me, it was a big help to break the problem into smaller parts. First, what can I do with this diner to earn a year-round income? Second, what market should I target?

I knew the tourist market wasn't what I was after. It could be an extra source of income in the summer, but it was still secondary. If I built my business around selling hot dogs to surfers from Mill Valley, I'd barely squeak by during the summer. And I'd be sitting on my hands the rest of the year.

I wasn't having any luck puzzling things out. Life out here makes people get a little out of touch, I guess. That's why Elaine's so good for me. She works in the city in the advertising department of a big retail store, and she's always got her feet on the ground.

Elaine explained that they needed to do some research and prepare a marketing plan. They started by going over to the Civic Center and getting the census data for the area, as well as other statistics for that part of the county. Elaine had a hunch

that most of their target market lived in a wealthy private community called Seagate, which sat on a narrow sandspit between the ocean and the bay. A fair amount of commuters lived there, but it was also home to wealthy retirees and professionals who worked from home. Demographically, most Seagate residents were 45 and older, with no children at home. Most made about \$300,000 per year; some made a lot more.

Elaine was sure they were the logical primary market. But how could she confirm her hunch? One thing she did was call competing catering firms within a 30-mile radius. Posing as a customer, she asked whether they'd be willing to cater an event in Seagate. Several businesses said things like, "We go out there all the time." By chatting with people at these firms, she was able to learn what sorts of foods were popular on Seagate. Fish was the number-one item people wanted, with grilled vegetables a close second.

Elaine wrote all of it down. And of course, she asked for price quotes, too. Now, not only did she have a great deal of information about her target market, but she'd also learned some important details about the competition. Next, she decided to look for market information online.

...

Using Your Sales Forecast

Tying your sales forecast to specific business activities is very important for lenders and investors, who always want to understand how you will make your forecast work in the real world. How many personal sales calls will you make to convert each prospect into a customer? What form of advertising will you use to drive interest in your product? How many customers will your advertising campaign attract? (Example: Handing out 500 fliers produces two customers, on average.)

Tying the sales forecast to the rest of your business plan is also important. For example, your sales forecast should be supported by your selling strategy. This explains how you will earn more sales revenue, which in turn translates to a better balance sheet and income statement, which shows that your business will be profitable.

Using Your Marketing Plan

Once you've have all the information you need, it's time to think about how to present your marketing plan. Your finished marketing plan might be several pages long, but first try to state its findings in one paragraph. Give this paragraph careful thought, and then make it brief and to the point. This will help you focus on what's really important when presenting the plan to others.

Later, you should create a more detailed marketing plan that includes long-, medium- and short-term projections. You may even want to include some "what if" scenarios and contingency plans. Customers and markets change often, so your marketing plan will inevitably need some fine-tuning.

The most important part of any marketing plan is committing yourself to it and using it. This should be a living document—one you go back to at least every three months so you can see what works and what doesn't. Remember: Positive and negative results are equally important. Treat every response to your marketing efforts as an opportunity to narrow your focus and improve your targeting.

The best way to keep track of important marketing data is with a computer database. That way, you can easily find out how many customers are new, how many

current customers you have retained and which ones were influenced by a specific marketing tactic (e.g., an online coupon, social media campaign or individual sales call). If you don't have computer access, you can keep track of the necessary data on index cards or in a ledger.

You should also consider how your marketing tactics affect sales. If one of your tactics isn't producing results after you gave it a fair chance, change it or drop it.

...

When Elaine was finished, we were pretty confident there was a market for a gourmet food service on wheels, and she thought we should go for it. We'd prepare and deliver custom dinners for up to 12 people, and cater parties for up to 100. Our primary target market was upscale consumers on Seagate. But Elaine had found there weren't enough of them to keep us afloat. So our secondary market would be other locals, as well as potential customers in nearby towns up the coast.

And during the tourist season, we'd pick up some additional sales during the day by offering quick lunches over by the beach entrance, as well as pre-packed picnics that people could take on hikes. The plates and utensils would be strictly compostable. We were pretty sure that's what most hikers and beachgoers around here wanted. But more than that, it's what we wanted. These trails and beaches are our backyard, so environmentally friendly packaging was a no-brainer for us.

Luckily, our research showed that this was a good idea from a marketing perspective as well. The extra cost was minimal enough that our customers weren't sensitive to it. In fact, we found that the money we'd save by using plastic and Styrofoam was more than offset by the sales we'd lose by not offering compostable goods. Our target customers didn't want the lowest price; they wanted a good price for the best product.

The most important part of any marketing plan is committing yourself to it and using it.

The marketing plan was coming along nicely. Joe got to work filling out paperwork and getting the necessary permits, and he also looked into operational issues such as food procurement, equipment needs and the kitchen capacity of the trailer. Meanwhile, Elaine started looking into reaching their target customers.

Because their target market was small and local, she felt they could rely on three simple, low-cost ways to promote the business: word of mouth; ads in local newspapers and phone books; and posters on the bulletin boards outside the grocery store and the library. This was one benefit of living in a tiny town: Tell one person about your business, and the whole town will know about it by the next morning!

Elaine went through the marketing plan methodically and detailed each of the Four Ps.

Their product? Fresh seafood and vegetable dishes with Asian, Cajun and Pacific Island influences. Their prices would be based on those of the competitors Elaine had spoken to on the phone. As for placement, their competitive advantage was obvious: “Don’t feel like going out to the restaurant? The restaurant will come to you!”

That left promotions. Elaine thought the combination of ads, a poster and word of mouth would do the trick. And maybe some fliers on people’s doorknobs. But Joe had other ideas.

...

Industry Research

As a simplified introduction to market research, we’re going to focus on industry research. In other words, we’re going to take a close look at the industry in which your business operates. This will help you to complete the *Industry Information* section of your business description. As

we learned in the last session, the business description has three parts:

- Industry Background
- Current and Future Industry Trends
- Business Fit in the Industry

Although we’re focusing on your industry, the steps we describe also apply to other types of market research.

Primary and Secondary Data

Market data can be either primary or secondary. **Primary data** means information that you collect firsthand (by asking people how they feel about your product, for example). **Secondary data** means information originally collected by other people. This includes the information you find in magazines and on industry or government websites.

Secondary data

It can be tough and expensive to collect primary data, so most entrepreneurs start by looking at data that’s already available. (The *NxLevel® Micro-Entrepreneur Resource Guide* at <http://www.nxlevel.org> lists many sources of information.) The library and the Internet both offer lots of secondary data, as well as background and forecasting information on your industry. Other good sources of secondary data include:

- U.S. Census Bureau
- Small Business Development Centers
- Women’s Business Centers
- U.S. Small Business Administration’s Business Data and Statistics page (<http://www.sba.gov/content/understand-your-market-and-economic-conditions>)



- Trade associations
- Industry associations
- Chambers of commerce
- Local newspapers and magazines
- EconomicIndicators.gov
- Standard & Poor's Industry Surveys
- FedStats.gov
- Business magazines such as *Business Week*, *Wall Street Journal*, *Journal of Commerce*, *Inc.* and *Forbes*, as well as any industry-specific titles that relate to your business

Once you've found secondary materials that are relevant to your business idea, read them carefully and take lots of notes. The *Industry Research Worksheet* will help you use this information to answer questions like these:

- What is your industry, and how big is it?
- Is your industry new, growing, stable or declining?
- How does your industry compare to the economy as a whole? Is it doing better, worse or about the same?
- How and where do businesses in your industry promote, sell and deliver products?
- How many competitors do you have? What are their sales levels? What's their share of the market?
- How are small businesses in this industry affected by large competitors (e.g., chain stores, franchises or online retailers like Amazon)?
- How does international trade affect your industry?
- What political, economic, social and technology trends are affecting your industry right now? What trends will affect them in the future? How do they affect microbusinesses, in particular?
- How does your business fit into your industry? Why is there an opportunity to enter this industry? How will you take advantage of it? What threats and risks do you face?

Primary data

Once you have a working knowledge of your industry—which includes knowing what you *don't* know—you're ready to look for primary data, if necessary. Start by studying the background information you gathered from the library or Internet. Then, make a list of all the ideas you want to cover. After that, it should be easy to come up with a list of people to contact—such as members of a local chamber of commerce or national trade association—and questions to ask.

Using the names and information you gained from secondary sources, make a list of people and organizations to contact by phone, mail, email or in person. After you've done this, you're ready to choose a research method.

...

What Elaine did in terms of gathering market research and shaping it into a plan was incredible. But there was one thing I didn't agree with, and that was her promotional strategy. I felt like if we were going to cater to these people, our advertising needed to cater to them, too. I was friends with kids who lived on Seagate when I was growing up, and I knew something about the community. With a lot of them, it's like they live here, but they

Primary data is information that you collect firsthand by personally contacting sources.

really don't. They don't necessarily look in the phone book for food, or take the local paper, or stand around downtown reading the bulletin board. And it's not like you can put fliers all over a gated community. You won't get past the guardhouse!

I explained all that to Elaine and she just stared at me, like she was in shock that I'd said something that actually made sense.

When the shock wore off, Elaine agreed wholeheartedly. She confessed that she hadn't been thinking about the need for the advertising to project the same image as the restaurant.

There was one other restaurant in town: The Oystercatcher. Joe started to think that just maybe, he could advertise his new business by hosting a fixed-price dinner there. Elaine reminded him the restaurant was their competition. "Why would they want to help us out?" she asked.

Joe pointed out that most of the Oystercatcher's income came from its bar, rather than its restaurant. Also, it had been a local institution for decades; no one was going to stop going there just because there was a tiny new high-end caterer in town.

Elaine was skeptical, but Joe thought it couldn't hurt to ask. The next day, he went to talk to the owner, Arnie Williamson.

...

Tools of the Trade

After you prioritize the people or organizations you want to contact, it's time to decide how you'll collect the information you need.

- **Interviews.** An interview is really nothing more than asking questions and encouraging open, honest answers. Afterward, the people you contacted should feel like they had a good conversation. The people you contact may

be very busy, so keep your questions brief and to the point.

- **Surveys.** A survey is basically a written interview. There are three big differences, though. First, you can't ask follow-up questions. Second, the person filling out the survey can't ask you questions. Last, you can't see body language or facial expressions, or hear the person's tone of voice. For these reasons, your survey must be clearly written and very easy to understand. Surveys that have only a few questions, and offer multiple-choice answers, are far more likely to get a response.

You should be comfortable conducting interviews and surveys, because you may have to use these tools often as a microbusiness owner. Before we move on, let's recap how to gather your secondary and primary data.

1. Use the library and the Internet to research your industry.
2. Based on these secondary sources, decide where to get primary information.
3. Contact primary sources by phone or email, and collect information from them with an interview or survey.



Interview Tips

- Know your background material.
- Write out your questions.
- Practice your interview technique with friends or relatives.
- Listen carefully, and don't interrupt.
- Take notes! You'll never remember everything you hear.
- Say thank you!

Analyzing Industry Research

After you gather your industry data, you need to analyze and interpret it. You need to know where your industry has been, where it is right now and where it's headed.

Before drawing any conclusions, check your findings for accuracy and completeness. It's a good idea to go over your findings with an expert or mentor.

Once you've figured out what your research is telling you, write brief summaries of your findings under the following headings:

- Industry Background
- Current and Future Industry Trends
- Business Fit in the Industry

Keep notes on all of your sources (authors' names, dates, publications, page numbers, and so forth). You'll be collecting a lot of information, so you must stay organized. More important, you'll need to present your sources to lenders or investors.

...

I explained to Arnie what I was doing, and why it wouldn't be a threat to the Oystercatcher. I told him I'd be serving only a couple of dinners a night, and that people tend to go out for a drink after a special meal. As I saw it, we'd have a reliable base of maybe a hundred local people, tops, who might order once or twice a month. The rest of the time, we'd be targeting people farther up the coast.

Arnie seemed fine with that. But when I brought up serving a dinner in his restaurant, he looked like he didn't know whether to laugh or bounce me into the street. He kept listening, though. So I kept talking.

I said we'd take over the Oystercatcher on a Monday night—when they were closed—and serve a buffet-style meal. I'd pay Arnie \$500 for the use of the room. All he'd have to do is

provide the space and sell drinks, and he could make money on a Monday night.

Arnie wasn't convinced. The way he saw it, he was still being asked to help someone take some of his dinner customers. But he was also intrigued. He was a good businessman, and he sensed that there was a way for both of them to come out ahead.

He also realized that Joe would be opening the business either way, so it would be best if they came to some kind of an agreement.

After talking for a while longer, they found a solution. The Oystercatcher would provide the beer and wine for Joe's catered meals. For larger parties, they'd provide a bartender and a full bar. Arnie might lose a few dinner customers, but he'd make a lot of extra money on drinks.

Arnie liked that idea. And he had one of his own. He offered to rent Joe his kitchen late at night, after the restaurant was closed. That would cut down dramatically on the kitchen equipment Joe would have to buy, and give him much more room for prep work than his house or the trailer could provide.

Once the details were worked out, Elaine and Joe sat down and wrote their marketing plan. Soon after, they completed their business plan, presented it to a local bank and received a microloan to buy the trailer.

Six months later, the business was doing nicely and Elaine quit her city job in order to work full-time on sales and customer service.

I worried about that decision at first. She'd been there a long time, and it was a safe, stable job. But she said, "I won't have to commute anymore, and the money's just as good. Besides, you're a lot cuter than my boss." I sure wasn't going to argue with that!

...



Stay organized! Keep detailed notes on all of your primary and secondary data sources.

What You've Learned

Here are the things you should understand after completing this session:

1. Your marketing plan identifies your customers, your product and the steps you'll take to achieve your business objectives.
2. A strong marketing plan is the best argument for the viability of your business.
3. Sales forecasts predict how much of your product you can sell over a specific period of time. They help you pinpoint exactly how and when your business will become profitable.
4. Primary data come from information you get firsthand from other people (e.g., by interviewing them). Secondary data come from sources compiled by other people (e.g., government offices, online studies and so forth).
5. You must revisit and change your marketing plan when you launch a new product, sell in a new geographic area or face changing market conditions.

WORKSHEETS



SESSION 4

SESSION 4: THE MARKETING PLAN

Make a Splash!

Sources of Industry Data Worksheet

Use the following questions to identify secondary data resources that will get you started on your search for current industry information.

1. What is your industry? (Be as specific as possible.)

2. Identify trade associations that offer industry information for your type of business.

3. Identify industry magazines, publications and websites. Most industries have publications that offer valuable information about managing a business in that industry. Your librarian can help you find these publications.

4. Identify state and federal government publications and websites that offer data on your industry.

5. Identify other sources of industry data and trend information.

Key Contacts Worksheet

Your ability to network with key contacts is an important factor in your business success. These individuals may be able to find information, solve problems or provide you with primary research data. Successful entrepreneurs maintain an awareness of local and regional contacts. Use the following steps to update your contact list.

- 1. Who is the director of your chamber of commerce?** Contact the director and find out what help is available for microbusinesses.

- 2. Who is your trade association contact?** Find out if someone in the trade association can help you on a local or regional level.

- 3. Who is your local librarian?** Meet with your librarian and find out what assistance and tools are available.

- 4. Who is your local SBDC, WBC, MBC, SCORE or BIC director?** Your local Small Business Development Center, Women's Business Center and Minority Business Center provide counseling to microbusiness owners. If you live in a larger metropolitan area, the Small Business Administration (SBA) may have a Business Information Center that can help you.

- 5. Identify other local business and civic organizations.** Being active in local organizations and networking with your community is a key to success for many types of businesses. In particular, look for local and regional groups that focus on microbusiness issues.

- 6. Identify social networking sites or online forums where you can make contacts.** Look for sites where people in your industry gather in order to network, get advice or trade strategies. Whether you participate in these groups, or simply read them, they can provide lots of valuable information.

- 7. Identify supplier representatives.** Many business owners think of suppliers simply as the people that sell them products. However, these representatives often have expert knowledge of your industry. Get to know more about your supplier representatives and their backgrounds.

Industry Research Worksheet

Using trade association information, industry publications, websites and the other resources you identified in the previous exercises, research the following information about your industry. At a minimum, your industry research should reveal your industry's size and current stage (new, growing, stable, declining) and identify trends that are likely to affect it in coming years.

Step 1 Industry background

- The industry's current size in terms of total sales, number of customers and/or number of businesses
- The industry's historic growth rate
- Do large or small businesses dominate the industry?

Step 2 Current and future trends

- Current trends (industry life cycle stage, current and predicted growth)
- Economic outlook for the industry, and for microbusinesses within the industry
- What niche markets are currently hot?
- Future trends predicted by industry experts (document your sources)
- How are microbusinesses in the industry affected by large companies and franchises?
- Opportunities and threats relating to current and future technology
- Opportunities and threats relating to current and future government regulations

Step 3 Business fit in the industry

- How does your business compare to other businesses in your industry?
- Why does the opportunity exist for you to enter this industry? (Possible answers include: a strong trend toward smaller, local businesses; e-commerce; a financing opportunity; weak competitors; a new delivery system.)
- How is your business positioned to profit from the trends you identified in Step 2?

Industry Background

1. What is the current size of your industry? (Consider annual sales, number of businesses and number of customers.)

2. What type of businesses dominate your industry (micro, small, medium, large)? State the percentage of each, if possible.

3. Does your industry show seasonal trends? If so, explain.

4. How and where do businesses in your industry promote, sell and deliver products?

[illegible]

WORKSHEET SESSION 4

- 10. What political, economic, social and technological trends are being predicted by industry experts? (Document your sources.) How will these trends affect microbusinesses in your industry over the next year? How about the next two to three years?**

Industry Research Worksheet—continued

Business Fit in the Industry

11. How does your business compare to other businesses in your industry? How is it similar? How is it different?

12. How do your products and business fit into the industry? Relate this to your discussion of current and future trends.

13. Why is there an opportunity to enter this industry? How will you take advantage of it? What threats and risks do you face? How will you address them?

14. How is your business positioned to profit from the trends you identified?

Worksheets Assignment for Session 5



Complete the following worksheets before trying to write the *Industry Information* section of your business plan:

- *Sources of Industry Data Worksheet*
- *Key Contacts Worksheet*
- *Industry Research Worksheet*

Writing Your Business Plan



Use the information from this session to write the sections of the business plan listed below. Start with the headings and subheadings just as they're shown here. Then, follow the instructions under each subheading to write that section of your business plan.

Section II. Business Concept

C. Industry Information

Industry Background

Review your answers to Questions 1 through 4 on the Industry Research Worksheet. Summarize the information to describe the current size of your industry in terms of dollar sales and/or number of businesses or customers. Discuss whether large or small firms dominate the industry, and note any seasonal trends. Explain how and where products and services are currently promoted, sold and delivered in this industry.

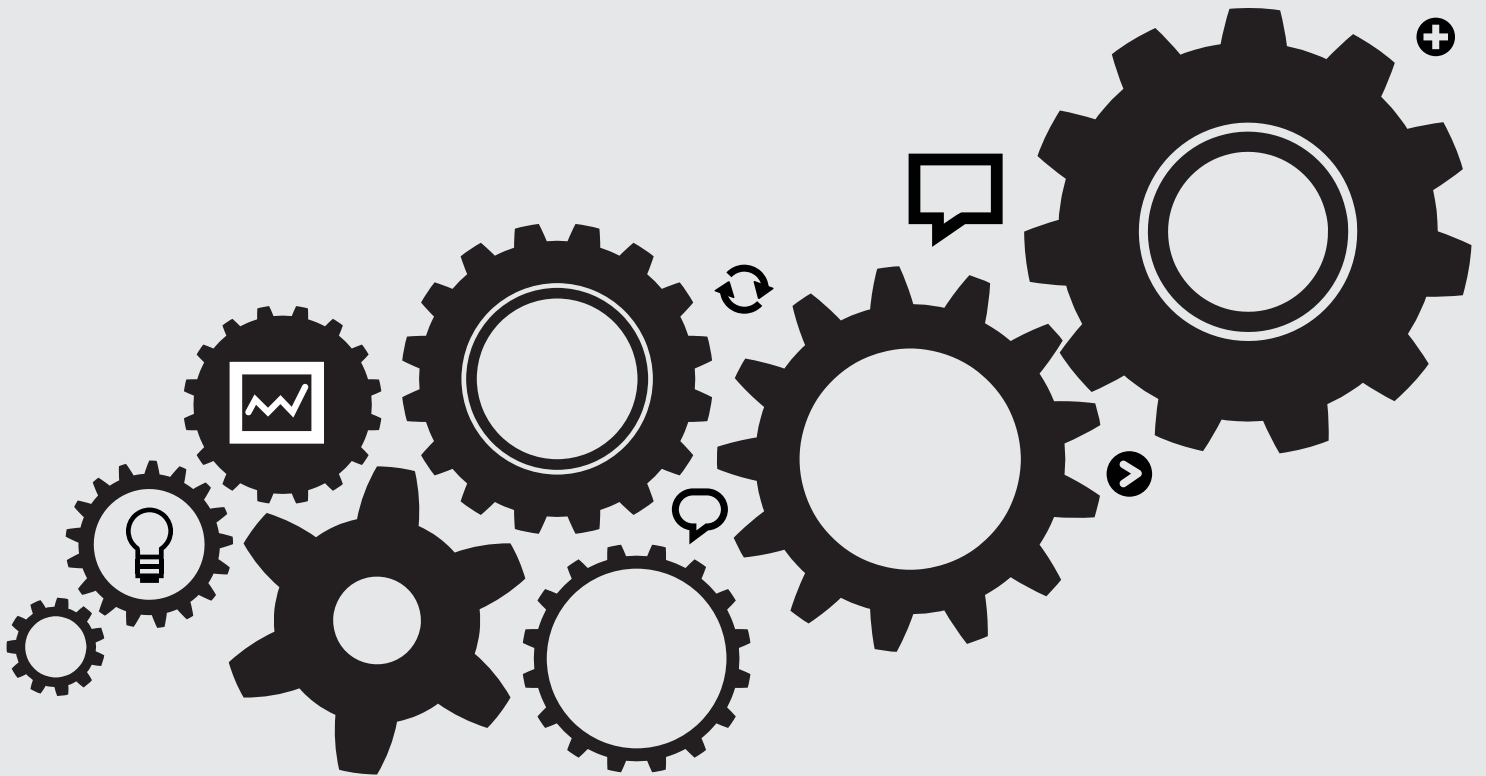
Current and Future Trends

Review your answers to Questions 5 through 10 on the Industry Research Worksheet. Explain whether the industry is growing, stable or declining. Summarize the economic outlook for the industry, and for microbusinesses within the industry. Identify and explain important niche market trends that relate to your microbusiness. Describe the impact of current and future political, economic, social and technological trends on microbusinesses within this industry.

Business Fit in the Industry

Review your answers to Questions 11 through 14 on the Industry Research Worksheet. Then, describe how you see your business fitting into this industry. Will your business be like most others in the industry, or will it be different? Explain any unique aspects of your business that you feel improve its chance to succeed in this industry. If possible, relate your fit in the industry to important trends you identified in the previous section.

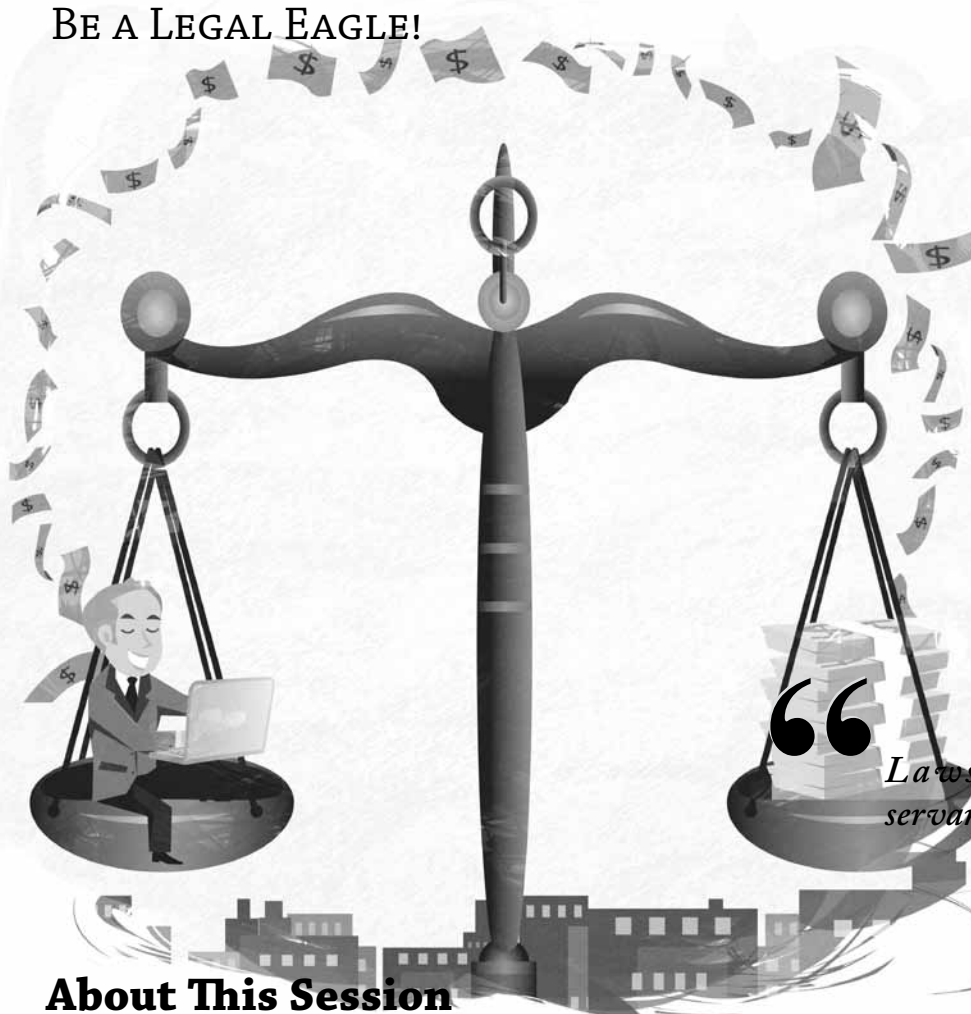
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SESSION 5

Laws, Regulations & Taxes

BE A LEGAL EAGLE!



HIGHLIGHTS

Setting Up Your Business Legally	page 2
Business Laws and Regulations	page 7
Contracts and Leases	page 15
Intellectual Property Rights.....	page 21

“

Laws are not masters, but servants.

—Henry Ward Beecher

”

About This Session

How does the legal system affect your business? How can you use it to protect your interests? We'll answer these and other questions by discussing some of the major areas of business regulation.

There's a lot of information in this chapter, but don't let that scare you off. No one expects you to become an expert in any of these topics overnight, and some of the information here may not apply to your microbusiness. Also, free

or low-cost professional help is available for all of these issues.

Our goal is to give you a brief overview of the types of legal issues businesses face. The issues that actually apply to your business idea will be addressed—briefly—in the worksheets for this session.

Setting up your business legally.

This section will help you understand the most common ways of establishing microbusiness ownership. To decide which one is best

for your business, you must consider issues like ownership control, taxes and legal liability.

Business laws and regulations.

This section discusses government laws that may affect your business. The most important of these are tax laws, which will definitely affect your business. The importance of getting professional tax advice can't be overstated.

Contracts and leases. No matter what kind of business you run, you



need a basic understanding of contract law. You also need expert legal help to ensure that your contracts are smart, safe and legally enforceable.

Protecting intellectual property. Intellectual property law prevents other people from copying your ideas and products. This section will help you understand the basic protections available for patents, copyrights, trademarks and trade secrets.

Setting Up Your Business Legally

This section discusses the advantages and disadvantages of the most common types of business ownership. Selecting the one that's right for you means considering liability, taxes, financing and other issues. The *Business Ownership Worksheet* will help you make this important decision, but you should also get advice from a mentor, accountant or lawyer.

Sole Proprietorship

This is the most common form of business ownership. It's run by one person—or a married couple—with no outside owners or investors. Sole proprietorships are the easiest business entity to form. In fact, you can form one without knowing it. For example, if you provide cleaning services to a local business without being on that business's payroll, you are legally considered a sole proprietorship. The same is true if you offer handmade jewelry online, sell jam at your local farmers' market or provide solo entertainment at weddings.

Pros:

- This is the simplest way of doing business. Sole proprietorships are easy to form and dissolve.

- You have complete control over the business and receive all its income.
- Filing income taxes is relatively easy.

Cons:

- You are personally responsible for every act and debt of the business. This means that creditors can legally come after your assets (including your house, car and personal savings).
- You can't expand your business through new owners and their capital.
- Sole proprietorships end when the owner dies or is unable to work. This can cause serious problems for the owner's family.

Personal liability is the biggest disadvantage of sole proprietorship. For business activities like welding, auto repair, child care, consulting or the use of dangerous chemicals, sole proprietorship may be too risky. Buying property and liability insurance can reduce some of this risk. However, bear in mind that no insurance policy covers business or tax debt.

Note that you can change your business structure if necessary. For example, some business owners start out as a sole proprietorship, and then switch to an LLC or corporation once the business becomes larger.

Tax considerations

Business income or loss is reported on the owner's personal income tax return, which is due on April 15 of each year. The business itself does not pay income tax. The sole proprietor may also be required to pay quarterly estimated income taxes, as well as self-employment taxes.

Sole proprietorships are the easiest business entity to form.

Although sole proprietorships can legally mix business and personal income, we strongly recommend that you keep your business and personal finances totally separate. Your business should have its own bank account, its own credit and its own books and records.

Forming a sole proprietorship

There are usually few costs involved in setting up a sole proprietorship. However, most cities and many counties require sole proprietorships to register with them. (We'll discuss business registry shortly.)

If you have employees, you must fill out Internal Revenue Service Form SS-4 to obtain an **Employer Identification Number (EIN)**. If you don't have employees, you can use your Social Security number as your EIN. However, it's best to apply for an EIN regardless. That way, you'll be prepared to hire employees if it becomes necessary.

If you do business under a fictitious business name—meaning any name other than your own—you must register the name with the appropriate state, county or city office.

...

I'm definitely not disabled. I wouldn't even say I'm handicapped. But whatever you want to call it, doing the work I did before is just not possible anymore.

I might wake up and feel 100-percent better tomorrow, but I can't count on that. And I'm not going to wait around for a day that may never come, not when I have a wife and two kids. So I had to figure out what I could do well enough to make a living. All I knew was, it had to be something where I used my hands. It also had to be something where my time was flexible, because some days are worse than others.

Tom Pritchard is a veteran of the Iraq War. For some reason, he's had weakness and pain in his arms and legs ever since he got back to his home town of Slidell, Louisiana.

Although it was almost impossible for him to do heavy work, he managed to earn some money on the side for smaller jobs. But when his wife Regine had twins, he knew he needed a source of income beyond his disability payments and the odd jobs he could still manage. While he was trying to sort out the possibilities, Hurricane Katrina struck.

...

General Partnership

A general partnership forms when two or more people agree to operate a business for profit. You can form a general partnership by verbal agreement—or simply by acting like a partnership—but it's best to create a written partnership agreement that states each partner's rights and responsibilities. Otherwise, the laws of your state will govern your partnership by default. Also, working out the details of a partnership in advance may help the partners identify and resolve conflicts that could otherwise derail the business.

Pros:

- Fairly simple to set up.
- Partners may bring new expertise or additional funding to the business.
- Business profit and loss pass through to each partner's personal income tax return.

Cons:

- Partners are jointly liable for business debts, and each partner is individually liable for the entire debt. Creditors will

A general partnership forms when two or more people agree to operate a business for profit.

go after whoever has enough assets to cover the debt.

- Each partner usually has the right to sign contracts that are binding on the other partners. This means that if your partner buys a new computer for the business on credit, you could be stuck with the debt even if you didn't agree to the purchase.
- General partnerships usually end if one partner dies or withdraws.
- Partners pay tax on their share of profit even if they don't withdraw it from the business.
- Business partners must really know, like and trust each other. Personal conflict is the number-one cause of partnership breakups.

Personal conflict is the number-one cause of partnership breakups.

As with sole proprietorships, personal liability for business debts is a serious concern. If your partner makes a bad business decision, you can be held personally liable. If that happens, you can sue your partners for their share of the debt. But if they don't have the money, it may not do you much good.

Tax considerations

Like sole proprietors, general partners report their share of business profit or loss on their personal income tax returns. They must also make estimated tax payments every quarter.

The **distributive share** of profit or loss depends on each partner's level of investment in the business. Thus, if you own 75 percent of the partnership and your partner owns 25 percent, that's usually how you'll split the partnership's profit or loss (unless you come to a different arrangement in your partnership agreement).

Apart from liability issues, the worst thing about operating as a general partnership is that all partners owe taxes on their distributive share whether or not they actually withdraw the money from the business. In other words, even if you choose to keep your share of the partnership's profit in the business, you must still pay personal income tax on that amount.

Forming a general partnership

Setting up a general partnership usually doesn't take much money or paperwork. As with a sole proprietorship, you must register as a business and—if necessary—file a fictitious business name.

Although it's not legally required, we strongly recommend drafting a clear and comprehensive **partnership agreement** that specifies:

- How much capital each partner will contribute to the partnership.
- The rights, duties and ownership interests of each partner.
- How the partners share profit and losses, and how and when profits will be distributed.
- How the partnership will make decisions (e.g., do all partners have to agree, or does a majority rule?).
- How partners resolve disputes (e.g., mediation or arbitration).
- Which partners can sign contracts and authorize cash withdrawals and salaries.
- The length of the partnership.
- How to expand or dissolve the partnership.

Limited Partnership

In a limited partnership, one or more general partners manage the business. Limited partners are investors who give up most or all of their control over the business in return for limited liability.

Pros:

- Limited partners are only liable for debts to the extent of their investment.
- Partners can provide additional funding for the business.

Cons:

- More expensive to form.
- General partners are jointly and severally liable for debts. If limited partners get too involved in the business, they can also be held liable for losses that exceed their investment.
- It may be hard to find a partner who's willing to invest without having the authority to make decisions.

Forming a limited partnership

In most states, the Uniform Limited Partnership Act governs partners' duties, liabilities and rights. You must file a certificate of limited partnership (or a similar document) with your secretary of state. This process tends to be costly; you may need to pay for legal assistance, and you will also be subject to state filing fees.

Corporations

A corporation is a legal entity separate from the shareholders who own it. The "corporate shield" doctrine limits personal liability for debts, as long as the corporation is operated legally. If a corporation doesn't follow the law, creditors can pierce its corporate shield. For this reason and

others, you must seek legal advice before forming a corporation.

Pros:

- A corporation can shield owners from debts and liabilities. For instance, if someone falls down in your store and sues your business, the business is responsible for any financial or legal judgments, instead of you personally.
- You can raise money by selling stock.
- The business continues even if the owner dies or sells to a new owner.
- You may be able to deduct employee health insurance, as well as benefits such as group term life insurance, company vehicles and public transportation passes.

Cons:

- If corporate rules aren't followed, the owners can be held responsible for the corporation's debts and liabilities.
- Time-consuming and expensive to form.
- More regulations and paperwork.
- Risk of double taxation. This happens when the corporation pays tax on its income, and you pay tax on any dividends you receive as a shareholder. An accountant can help you avoid this problem.

If corporate rules aren't followed, the owners can be held responsible for the corporation's debts and liabilities.

S corporations

Owners of S corporations report profit and loss on their personal income tax returns, which avoids the risk of double taxation. S corporations are limited to one class of stock, and they must file their federal tax return on a calendar year basis.

To operate as an S corporation, you must file a special election with the Internal Revenue Service. You can switch your corporate status only once during the existence of your company, so consider the change carefully.

The S corporation provides another substantial tax benefit, in that it may allow you to pass the losses of your business through to your personal tax return. This often has a significant benefit in the early years of a business, because the business may generate “paper losses,” but still make enough money to pay a salary.

Limited Liability Company (LLC)

An LLC is a hybrid form of ownership that combines the best features of partnerships and S corporations: It’s usually taxed like a partnership, but liability is limited like a corporation. (Also like a corporation, the “shield” of an LLC can be pierced if it doesn’t follow the law.)

Pros:

- Limited liability, like a corporation.
- No double taxation, like a partnership.
- If one partner can utilize tax losses better than another, the LLC allows beneficial allocation of that tax benefit.

Cons:

- Can be expensive and complicated to form, depending on where you live.
- Some states don’t allow LLCs to have only one owner.

Liability limitation

Although LLC status protects owners from some types of business risk, you can still be held liable in certain circumstances:

- Tax debt. If you owe federal or state taxes, LLC status will not protect your personal assets from seizure.
- Failing to keep personal and business assets separate. If you mix your LLC’s money with your personal money, you may lose your liability protections.
- Fraud and negligence. If you harm someone intentionally or through negligence during the course of your business, you may be held personally liable.
- Many lenders require LLC owners to personally guarantee loans. This means that the owner must repay the loan even if the business fails.

Forming an LLC

Check with a lawyer or accountant about the costs and advantages of LLC ownership in your state. Ask up front what it would cost to form a corporation versus an LLC. In some states, forming an LLC requires nothing more than filing simple **articles of organization** with the secretary of state. You should also create an **operating agreement** that sets forth the rights and responsibilities of each member.

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Katrina was the worst thing ever. I can’t tell you what it was like down here, with all that water and wind. Sometimes I feel guilty that’s where my business idea came from. But the reality is, what I’m doing is necessary. I give people security and safety.

After the hurricane, Tom’s house was in pretty good shape. There was a lot of water damage, but his foundation hadn’t shifted.

Unfortunately, his neighborhood was in bad shape. They had no power, little food and less water.

LLCs combine the best features of partnerships and S corporations.

What did people need right after the flood, I mean absolutely need? They needed drinking water. The kids and old folks, especially. But I saw firsthand that there's no good way to get it. The government tells you to fill your bathtub with clean water before a big storm. And that's good advice, unless your house doesn't have a bathtub. Or your tub ends up under six feet of muddy water.

Over in Iraq, I saw all the ways people managed to cope with ruined plumbing and drought. That gave me a pretty good idea of what folks in Louisiana needed.

Tom reasoned that if every house in his neighborhood had a tightly sealed 55-gallon water tank set up on a platform and anchored in concrete, they'd be in better shape to withstand the next flood. When the hurricane warning came, families would simply fill the tank with a garden hose. A 55-gallon tank would sustain a family of four reasonably well for about two weeks.

The problem was, I couldn't handle the work myself. So I called up my brother-in-law Luther Palmer. Luther was a woodworker and he needed work, too. He wasn't a contractor or a cabinetmaker or anything like that, but he was good with rough construction and that's exactly what I needed.

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Low-Profit Limited Liability Company (L3C)

This is a relatively new type of business ownership designed for businesses that have a charitable purpose. The main advantage of an L3C is that if you run a for-profit business that benefits the public—a company that provides a disadvantaged community with clean drinking water, for example—L3C status makes you eligible for investment or grant money from nonprofit foundations.

As of this writing, only Illinois, Louisiana,

Maine, Michigan, North Carolina, Rhode Island, Utah, Vermont and Wyoming have enacted L3C laws. However, all states recognize L3Cs, which means that you can form an L3C in one state and operate it in another. For more information, contact your secretary of state or visit Americans for Community Development (<http://americansforcommunitydevelopment.org/>).

Business Laws and Regulations

City, county, state and federal laws apply to different aspects of running a business. State agencies or boards can also regulate certain industries, such as food service, pest control and child care. Before you start your business, call or visit your state department of commerce to find out whether you need a special license.

It's impossible to describe all the legal requirements that affect different types of businesses. Again, our goal is to give you general knowledge so that you can seek expert help. The *Business Fees, Permits and Taxes Worksheet* and the *Business Laws and Regulations Worksheet* will help you to stay organized and ask the right questions.

We recommend using the SBA's online search tool for permits and licenses (<http://www.sba.gov/content/business-licenses-and-permits>). When you enter your ZIP code, the tool finds the licenses and permits that apply to your business, and it also links to application forms and instructions.

Business Registry

A state's department of commerce or secretary of state usually maintains the state's business registry. Its duties include the registration of business names and trademarks, and annual corporate and partnership filings. Many cities and towns also require local businesses to pay business license fees.

Before you launch your microbusiness, ask your state department of commerce whether you need a special license.



Check with your state to determine the requirements for registering your business. These requirements vary by state, and also by the form of ownership you choose.

Business name registration

Unless you plan to do business under your own name, you must register your business name with your state. Depending on where you live, your business name may be known as a fictitious business name, an assumed business name or a DBA (for “Doing Business As”). In addition to being a legal requirement, registering your business name is usually a requirement for getting a business bank account under a fictitious name.

Typically, registration is a simple matter of filing a form with your county and paying a fee. However, some states also require you to place a DBA notice in a local newspaper.

Zoning

Zoning laws regulate land use to protect the public’s health, safety and general welfare. If you plan to run your business from home, you must check the zoning laws in your neighborhood. Common zoning restrictions include:

- No onsite sales
- No deliveries
- No inventory storage
- Restrictions on noise, hazardous materials, odors and waste disposal
- Sign restrictions
- No customer parking
- No employees other than family members

Operating without the proper zoning permit (or waiver) is illegal, and could cause authorities to shut down your business and fine you.

Even if all your papers are in order, you need to be a very good neighbor if you’re running a business from home. Unhappy neighbors can easily get your business closed down, so try to keep noise, traffic, signage, deliveries, visible on-site storage and other evidence of your business to the bare minimum. If your business generates loud noise, strong smells, or water or air pollution, you will almost certainly need to move it to a nonresidential area. You may be able to cut costs by finding a shared-use facility or a business incubator.

For information about zoning laws in your neighborhood, check with your county’s building or zoning department.

State Taxation

Federal, state and local governments can all collect taxes. In most states, personal and business taxes follow the federal system.

Sales tax

All but five states collect sales tax. Some states tax nearly all transactions, while others exempt necessity items such as food and clothing.

Check with your accountant or state to see if your business is subject to sales tax. If you’re in the retail business, you will probably have to collect sales tax and submit sales tax returns.

Property tax

Most states assess property taxes on real estate to fund state government. Some states also apply property taxes to business property, including major equipment and inventory.

If you plan to run your business from home, check the zoning laws in your neighborhood!

Depending on its location, your business may have unique tax benefits or burdens. Many states have “enterprise zones” where businesses get tax breaks if they locate in economically disadvantaged areas. Urban renewal districts can also result in favorable tax assessments for real estate.

Federal Taxes

The type of business ownership you choose determines which federal tax forms you must file, which taxes you must pay and when you must pay them. For example, many businesses are required to make estimated tax payments. Rather than waiting until the end of the year, they make quarterly deposits toward their annual tax bill.

Taxes are one of the most complicated issues any small business faces. For information on federal taxes, ask a tax consultant or call the Internal Revenue Service at 1-800-829-1040.

What You Must Know About Taxes

- Even if your business doesn’t show a profit, you must file a tax return.
- Money you collect for sales tax or withholding tax is not yours to keep!
- If you don’t pay taxes, your business’s name will be printed in the newspaper.
- Penalties for unpaid taxes add up quickly and may cost much more than you save by not paying.
- Bankruptcy won’t clear your tax debt.
- Owing back taxes makes it harder for you to get a business loan.
- The IRS can seize your property and wages for unpaid tax debt.

Payroll tax

The federal government requires employers to withhold payroll taxes from employees. These taxes include the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA).

FICA is better known as the Social Security tax. If you have employees, you must withhold a portion of each employee’s paycheck to pay the employee’s share of Social Security. Your business must also match the employee’s withheld amount and send the total amount to the federal government.

Each state has its own tax laws for business, which can vary depending on business structure, the type of business and the stage of business development.

FUTA is better known as unemployment insurance. It requires you to collect a portion of the employee’s payroll and send it to the government to cover the employee’s unemployment insurance benefits. You must collect this same amount for state unemployment insurance (SUI). As with Social Security, your business must pay a portion of the employee’s contribution to FUTA.

Workers’ compensation is another type of insurance coverage that benefits employees. Employers are usually required to pay this on behalf of their employees. The amount depends on the type of work (e.g., steelworker versus secretary), and on the number and size of the claims filed against the employer. As an employer, you must make quarterly (sometimes monthly) payments of withholdings to the state government; incorrect or late payments can result in severe penalties.

Independent contractors

Some employers legally avoid federal withholding requirements by hiring





independent contractors. An independent contractor is a person or business that does jobs for you but is not your employee.

The difference between an employee and an independent contractor can be confusing. In most states, persons or businesses hired by a business owner are considered independent contractors only if they:

- Are free from the direction and control of the owner, except that the owner specifies the desired results.
- Are responsible for getting their own business licenses.
- Provide their own tools or equipment.
- Have the authority to hire employees to assist them.
- Are paid upon completion of specific portions of the project.
- File tax returns as a business, rather than as a W-2 wage earner from the owner's business.
- Advertise to the public as an independent business through business cards, advertisements, online listings and the like.
- Work for more than two business owners in a year.
- Have their own place of business.

If you hire an independent contractor, you don't have to withhold payroll taxes from the worker's check. However, you normally have to report the worker's total annual income from your business on IRS Form 1099-MISC. A copy of this form goes to the IRS and to the independent contractor. When launching a new business, you should carefully review IRS rules on

independent contractor relationships, as well as your state's laws regarding independent contractors.

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Tom sat on his back porch and thought about the best way to install a water tank. It had to be strong enough to withstand the force of water and wind, and tall enough to stay above all but the worst floods. The platform had to be sturdy, too. Fifty-five gallons of water would weigh nearly 500 pounds.

He took out a notepad and a stubby carpenter's pencil and sketched out a design. He knew a thing or two about reinforcing structures from his time in the military, and he also had the benefit of hindsight: He could walk around the neighborhood and see which types of construction had made it through Katrina.

Next, Tom looked at Louisiana State University's flood maps to find the average flood depths in his area.

Later that week, he and Luther drove over to Covington to see Luther's other brother-in-law, an attorney named Mike Delacroix. After talking to Mike for a while, they decided a general partnership was the way to go.

Before we did anything else, we got ourselves legal. Scam artists were all over the place after Katrina, so I wanted a piece of paper that made it clear we were legit.

I guess we could have just canvassed the neighborhood and started work right then. But if things went as well as I thought they would, I wanted everything in place. I didn't want to be fussing about the money.

So we set ourselves up as a general partnership, 50/50 down the line. Luther was a little uneasy about being responsible for anything I signed. But I said "Well, that goes both ways." And besides, my wife Regine—his sister—was

going to be the one keeping the books and records. He knew he could trust her, so that settled that.

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Sources for Business Tax Information

- Your city and county clerk's office
- Your city and county tax assessor's office
- Local chamber of commerce
- Local chapter of SCORE
- Local Small Business Development Center (SBDC)
- State department of economic and community development
- State department of revenue
- Internal Revenue Service (800-829-1040)
- Certified Public Accountant (CPA) associations
- Local Women or Minority Business Center

Laws That Apply to Businesses With Employees

As your business grows, you may need to add employees. Federal labor laws are the same wherever you live, but you must check with your state and city to make sure you're complying with their regulations as well.

Employee regulations

Many laws regulate workers' rights, workplace safety and fair hiring practices. Here are some of the most important ones.

Wage and hour regulations

The federal government has established a minimum wage under the Fair Labor Standards Act. Most states have adopted these requirements, along with laws regulating overtime, breaks and related

issues. You may also be required to post certain rules and regulations clearly in the workplace. Check with your state department of labor to find out which laws apply to your business.

Equal Pay Act

The Equal Pay Act of 1963 requires virtually all U.S. employers to pay men and women the same amount for equal work. "Equal work" means work requiring "equal skill, effort, and responsibility...performed under similar working conditions." However, it's legal to pay men and women different amounts based on seniority, merit, productivity and other work-related factors other than sex. To learn more, visit <http://www.eeoc.gov>.

Immigration Reform and Control Act

The Immigration Reform and Control Act of 1986 prohibits private employers with four or more employees from discriminating against job seekers or employees based on citizenship or national origin.

IRCA also makes it illegal for employers to knowingly hire or retain employees who are not authorized to work in the United States. Employers are required to examine employee documents and to keep records verifying that their employees are authorized to work in this country.

OSHA regulations

The Occupational Safety and Health Administration (OSHA) sets guidelines for worker safety. There are penalties for failing to meet these guidelines, but what's more important is that it makes good business sense to provide a safe and healthy workplace for your employees.

OSHA offers a free, confidential consultation program that helps small, high-risk businesses maintain a safe workplace. Program consultants help the

It makes good business sense to provide a safe and healthy workplace for your employees.



business owner identify worksite hazards and meet OSHA safety standards. These consultants have no enforcement power and will not punish or report you. To learn more, visit www.osha.gov/dcsp/smallbusiness/consult.html.

Civil rights laws

Various federal laws prohibit businesses from discriminating against anyone on the basis of race, color, sex, national origin, disability or age. Although federal antidiscrimination laws usually apply only to businesses with 15 or more employees, similar city and state laws may apply to smaller businesses. They may also forbid other types of discrimination, such as firing people based on their sexual orientation. Check with your state to find out which antidiscrimination laws your business must follow.

Antidiscrimination laws also target workplace harassment, from unfair job placement and promotion to sexual harassment. The best way to avoid these problems is to adopt and enforce an employee policy manual detailing behavior your company won't tolerate.

Child labor

In many states, children aged 14 through 17 must have a work permit, and there are limits on how many hours they can work per day. Check with your state labor department for more information. Note that most states make a distinction between employees and family members.

Consumer Protection Laws

Federal and state consumer protection laws affect everything from consumer credit to warranties. Your local chamber of commerce can help you understand and comply with these regulations.

Consumer privacy

The rise of e-commerce has heightened concern over the use and misuse of personal data. Because e-commerce often happens across state lines, laws regarding data collection in a customer's state can affect your business.

As an example, California's Online Privacy Protection Act of 2003 requires commercial websites that collect personal data from Californian consumers to post a statement that describes their privacy policies.

Another law, which took effect in January of 2005, states that you may need to provide California consumers with information on your sharing of their personal data with third parties for direct marketing purposes.

It's a good idea to post a privacy policy that explains how you will use the private information customers give you. Such policies typically state that the business will not give or sell customer information to a third party without the customer's permission. If it becomes necessary to change your privacy policy, alert customers well ahead of time.

Telephone solicitation

In March 2003, the Do-Not-Call Implementation Act created a National Do Not Call Registry. Failure to obey this act can result in substantial fines.

Most states also restrict telephone solicitations. And of course, every state prohibits dishonesty or fraud in telephone sales. Consult your state attorney general's office—and a lawyer, if possible—before engaging in telemarketing.

Commercial emails

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM) applies to



Check with your state to find out which antidiscrimination laws your business must follow.

businesses that send commercial emails.

Here are some of CAN-SPAM's most important provisions:

- The email's subject line can't mislead recipients about the content of the message. For example, if you're selling novelty paperweights, your email's subject line can't represent it as a personal message from a friend or co-worker.
- The email must be clearly identified as an advertisement. It also must include your valid physical postal address.
- Recipients must be able to opt out of receiving future emails. The email must explain how to unsubscribe from the mailing list, and the specified method must actually work within 10 days. In addition, the opt-out method must be functional for at least 30 days after you send the initial email.
- Once a recipient has opted out of receiving emails, you cannot sell or transfer that person's address to another entity. This rule applies whether that entity intends to send the recipient email on your behalf or not.

Internet, telephone and mail orders

The Federal Trade Commission (FTC) has strict rules for businesses that take orders online, over the phone or by mail. These rules guide shipping times, refunds and communication with customers.

Although this may sound like a headache, the rules are simple; most reputable businesses will have no problem following them. For example, businesses must ship merchandise within 30 days of receiving an order, unless they clearly state that order fulfillment will take longer.

To learn more, visit <http://business.ftc.gov>

and search for their publication entitled *A Business Guide to the FTC's Mail or Telephone Order Merchandise Rule*.

Refunds and returns

All businesses are required to give refunds for defective goods or services. Businesses that post an official return policy are legally required to follow that policy, and most states also require businesses to post their return policy clearly. Your return policy should specify whether you offer cash refunds, store credit or exchanges; how long the customer has to return the item; and any special requirements, such as proof of purchase.

For instance, if you offer merchandise returns within 14 days for store credit only, you must make customers aware of this. Of course, whether or not the law requires such notices, setting clear policies and communicating them to customers is a basic element of good customer service.

If your business doesn't have an official return policy, the state's default refund law will apply. For example, if your state says that consumers who return an unopened item within seven days are entitled to a cash refund, you must follow that law.

Setting clear return policies is a basic element of good customer service.

Advertising and labeling laws

The Federal Trade Commission (FTC) Act states that advertisements must be truthful, fair and nondeceptive. In deciding whether ads are false, deceptive or unfair, the FTC looks at both express and implied claims. Thus, in the case of a company that advertises a "100%-natural" product, the FTC might look at the express claim that the product is natural, and the implied claim that being "natural" confers some health benefit.

The FTC also looks at what the ads *don't* say. For instance, if a company advertises



a “solar lamp,” without revealing that the lamp needs to be plugged in to work, that would probably be considered deceptive.

The law requires advertisers to back up certain claims with evidence. The type of evidence required depends on the product and the type of claim. A claim like “Kids love Abner’s Ice Cream” is unlikely to need evidence. But claims like “Abner’s Ice Cream cures athlete’s foot” or “Abner’s ice cream is made from 100-percent organic ingredients” must have a reasonable basis in fact.

Certain types of products may also be subject to labeling laws. Packaged foods that require nutritional labeling are a good example.

Public health and food safety laws

If you plan to run a food-service business—such as a restaurant, food truck or food cart—you must consult your city, county and state health regulations. In the case of food carts, for example, local or state laws may limit vendors to prepackaged and precooked foods that are warmed and served on disposable plates. Vendors may also be required to pass a food safety test and submit to regular inspections. Failing to follow health department rules for your type of business can lead to very serious penalties.

Packaged food products are also strictly regulated. For example, you need a permit to make food for sale in your home kitchen. If your kitchen doesn’t meet the legal standards, your permit will be denied. For this reason, many small food businesses share the use of a commercial kitchen. Food businesses must also obey Food and Drug Administration (FDA) labeling requirements.

Shipping and Transportation Laws

National and international laws regulate what you can transport, how and when you can transport it, and where it can go. Some of these laws protect national security and were created or strengthened in the wake of the terrorist attacks of September 11, 2001. Other regulations protect American agriculture; ensure safe shipping of hazardous materials; and limit the distribution of alcohol, tobacco and firearms.

The U.S. Postal Service has strict rules with which you should become familiar, as do commercial carriers such as UPS and FedEx. If you ship internationally, you may face additional regulations. For example, it’s illegal to send artificial flowers, bells, clocks, shoes, handkerchiefs, scarves, hats, leather goods, nutmeg, playing cards, coffee or non-wooden toys to Italy. Your carrier can help you follow these rules.

Environmental Laws

Environmental laws regulate how your business and its employees use, store and dispose of hazardous materials.

If you work with chemicals or other hazardous materials, check with your state’s environmental protection agency to make sure you’re following the current regulations for air, soil and water pollution. Bear in mind that you don’t have to be working with high explosives to be regulated under environmental laws. Things like batteries, oil and certain cleaning supplies and solvents count as hazardous materials, too.

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Figuring out what kind of tank to use took some doing. Looking online, we found some indestructible drums made of rustproof stainless steel, but those ran about \$600 a

If you plan to run a food-service business, you must consult your city, county and state health regulations.

piece. That was a little out of our price range, to say the least.

Then there were yards where you could buy reconditioned steel drums for about \$35 a piece, but those weren't approved by the FDA for drinking water. There were also FDA-approved plastic drums that had a threaded hole for a hand pump. Those were only about \$60, but I wasn't convinced the lightweight plastic would stand up to a really bad storm.

I thought getting the drums would be the easy part. But finding ones that met FDA standards for drinking water, and were sturdy enough to stand up to a hurricane, and didn't cost a few hundred bucks when you factor in shipping... well, let's just say it took us a while.

In the end, Regine went online and tracked down a source for heavy-duty polyethylene barrels that had formerly held flavored drinks. These steam-cleaned barrels were about \$50 a piece, siphon pump included. That was ideal. Better yet, the supplier was in Baton Rouge. That meant Tom would be able to pick them up instead of paying to have them shipped.

The other things Tom needed were a good solid pallet, some structural lumber, some rebar and Sonotubes, and a few sacks of concrete. He and Luther figured they could do the whole job for about \$350, including labor. At that rate, they'd make \$200 per unit, or \$400 a day once they were up and running. But where were people going to come up with the money to pay them?

The city was swarming with agencies that offered help, but a lot of people still weren't asking because of the shell shock and confusion. Tom made the rounds of his neighborhood and told people his idea. He said he was pretty sure he could get them a grant to get the tanks installed. He said he'd even get them the paperwork and help fill it out. That was the clincher for most people.

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Contracts and Leases

Contracts are a necessary part of running a business. Although many people think of them as formal documents filled with confusing language, all sorts of informal documents and agreements can have the same legal force as a traditional contract.

To understand this, consider these four basic elements of a legal contract:

- Mutual assent
- Consideration
- Capacity
- Legality

Suppose you walk into the corner grocery store where you've been shopping for 15 years, and pick up a bottle of milk. You take it to the counter and show it to the grocer, who enters the price on your account.

Although this is an informal transaction, it has all the elements of a contract. There's mutual assent, because the grocer offered the milk for sale and you agreed to buy it at his stated price. There's consideration, because value was exchanged when you got the milk and the grocer recorded an account receivable. There's capacity, because you both had the mental capacity to understand the terms of your agreement. And there's legality, because the sale of milk is legal.

Because this is such an important topic, let's look at each of these elements a little more closely.

- **Mutual assent.** Suppose a car salesman points to a brand-new Ferrari and says, "Wouldn't you like to have one of these?" The fact that you answer "yes" doesn't mean you've reached mutual assent. In order to determine whether



Contracts are a necessary part of running a business.



you have a deal, the first question is, have both parties agreed to the same thing? There must be a valid offer for goods or services, and an acceptance of this offer at an agreed-upon price. Also, the offer must set forth the basic terms of the contract: the price, the date of performance or delivery, and the place of performance or delivery.

- **Consideration.** In a legal contract, consideration must pass between the two parties. In our grocery store example, you received the milk as consideration, and the grocer received your promise to pay. Consideration can consist of various kinds of value. For example, suppose you promise to paint the offices of a graphic design firm, and they promise to design a logo and a business card for you in return. Both your services have value, so both count as consideration.
- **Capacity.** Both parties must have the mental ability to enter into a contract. For this reason, most states rule that contracts with children for unessential goods or services are unenforceable against the child. Likewise, you can't enter into a contract with a person who lacks the mental capacity to understand the transaction, regardless of his or her age (e.g., someone with Alzheimer's disease). Another example of lack of capacity is being drunk or under the influence of drugs, prescribed or otherwise.
- **Legality.** The terms of a contract must be legal. In most states, you can't enforce a contract based on prostitution, drug trafficking, child labor or other illegal transactions.

Types of Contracts

A contract can either be express or implied. An express contract is stated in words (preferably in writing), while an implied contract is demonstrated by conduct.

Implied contracts

Suppose you call your office goods supplier and ask for 500 padded envelopes, and then you hang up without making any verbal commitment to pay. Even without that verbal commitment, your promise to pay is implied by the fact of your order. Such contracts are **implied-in-fact**.

If your supplier mailed you an extra 500 envelopes by mistake, and you used them but refused to pay for them, a court might find that a contract was **implied-in-law**. Although you didn't order the envelopes, the court recognizes that if you use them, you should pay for them. This is also known as a **quasi-contract**.

Oral contracts

Oral contracts are valid and binding, but their terms can be very hard to prove in court. Of course, it's possible to come up with a very specific and detailed oral contract and agree to it in front of witnesses. But if you're going to go to that much trouble, you may as well go ahead and put it in writing.

Written contracts

Some types of contracts must be in writing. Examples include:

- Contracts for the sale of goods costing \$500 or more.
- Contracts for the sale of real estate.
- Contracts that can't be performed within one year (such as an employment agreement with a three-year term).

In a legal contract, consideration must pass between the two parties.

By committing your agreements to writing, you reduce the chance of fraud and eliminate the risk of time-consuming legal disputes over who said what, when.

Get Legal Advice

The *Contracts and Leases Worksheet* will help you decide which legal agreements your business will require.

If you ask your lawyer to draft a contract for you, outlining the basic terms ahead of time will save money. If possible, look at other agreements that people in your industry use. Your chamber of commerce may be able to help, or you might find relevant information at the library or online.

You may want your lawyer to prepare a template contract you can use again and again. There are even sample contracts available on computer software, in certain business books and online. However, remember that the circumstances surrounding every contract are unique. A lawyer should always review the agreement before you finalize it.

Common Contract Issues and Terms

When you receive a contract, make sure you understand all its terms and conditions. Remember that the **boilerplate** (also known as fine print, or standard clauses) found in most business agreements is extremely important.

Don't assume that a printed form can't be modified. If a contract contains unacceptable terms, you can cross out or change them, initial the change and have the other party initial it, too.

Again, you're not expected to memorize every term in this section. But the information's here if you need to refer to it down the road.

- **Performance** means the things you must do according to the contract. For instance, you might be required to deliver 10 desks to an office by May 15th.
- **Delegation.** You can usually delegate (i.e., turn over) your contractual duties to someone else unless the contract terms forbid it. However, a duty to perform certain personal services (like singing at a wedding) can't be delegated to someone else without the customer's consent, because the customer bargained for that particular person's services.
- **Time to perform.** The contract must clearly state when performance is due, both from the delivery and payment sides of the transaction.
- **Place of delivery.** Where will the goods be delivered? Who pays for shipment? Who bears the risk of loss while the goods are in transit? Are your travel time and expenses covered? Failing to review the delivery terms of a contract can result in your profits being used to pay for these costs.
- **Notice.** Are you required to provide notice when you reach a certain production level, or even before beginning your performance? Whom do you notify, how often and where?
- **Price.** Your contract must state the unit and total price for your goods, and it should also specify whether the price is in U.S., Mexican, Canadian or some other currency.
- **Warranty.** A warranty is a promise that the goods delivered will match the description of the goods. A warranty can be created by a sample or model, or by a verbal or written statement.

A contract must clearly state when delivery and payment are due.



Remedies in the event of default should be clearly specified in the contract.

- **Nonconforming goods.** Usually, the seller must deliver exactly what the contract specifies or the buyer doesn't have to accept the goods. However, if the seller ships goods reasonably believed to be acceptable to the buyer—even if they don't exactly match the terms of the agreement—and the buyer doesn't reject those goods within a reasonable amount of time, the law recognizes the deal as complete.
- **Merger clause.** This clause tosses out any existing agreements between the two parties and affirms that the contract terms are the only valid description of the agreement. Before signing a contract that contains this clause (which is also known as an integration clause), make sure the contract is accurate and complete.
- **Partial invalidity.** If a judge decides that a contractual clause is invalid, a "partial invalidity" clause says that the invalid clause can be taken out of the contract without invalidating the entire agreement.
- **Professional fees and expenses.** Most contracts provide for the winning party to recover all fees and court costs from the losing party. You should make sure that this term also covers arbitration and other such fees and costs.
- **Indemnification clause.** An indemnification clause transfers the risk of damages or loss from one party to another. If that sounds serious, it is. Certain types of indemnification clauses can make you financially responsible for damages you didn't cause. Get legal advice before agreeing to such clauses.

Breach of Contract

A **breach of contract** occurs if either party fails to perform as promised, or makes it impossible for the other party to perform. If you lose money or property because someone breaks a contract, you're usually entitled to **compensatory damages**. These may include money or property, as well as the actual value of any services you rendered or any business you lost.

Remedies in the event of default should be clearly specified in the contract. Note that the law may limit the amount of damages you can receive. For more information, seek professional advice.

Alternative dispute resolution

Businesses are increasingly using alternative dispute resolution (ADR) to settle contract disputes. There are three types of ADR:

- **Negotiation.** The parties try to work out their differences between themselves.
- **Mediation.** A neutral mediator helps the parties arrive at a fair settlement
- **Arbitration.** A neutral arbitrator decides which party is right and determines how to resolve the conflict.

Many small businesses prefer to use arbitration or mediation because of the high cost of pursuing a lawsuit in court. Consider whether this will benefit you before specifying that ADR will apply to the contract. (Of course, it's always best to stay out of legal disputes by negotiating good contracts and sticking to the terms.)

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Once I had a good design and all the specs, I started taking it around to families in the neighborhood. Given the destruction people had just seen with their own eyes, I knew they

were going to have some tough questions. The most obvious one was, how is this little water tank going to stand up to a flood when the house across the street fell right over?

I was happy to answer questions like that. It drew on my background and gave me a chance to show off some knowledge. And it reminded me that even if I couldn't work like I used to, I wasn't out of the game. I knew the basic physics of what I was doing, and I knew they were sound. In a way, my confidence in the engineering boosted my own confidence. I felt good, and I think it was contagious. It must have been, because I got a very good response.

Once Tom had made a list of 125 families who said they wanted tanks, he got on the phone to City Hall. There were zoning issues, building codes and public health issues to sort out. But fortunately, the small size of the tanks—and the fact that they'd be filled only in case of emergency—exempted them from many of the rules that applied to larger water tanks.

Next, Tom approached a CDFI for a microloan to cover his construction materials and tools. With the help of the loan officer, he also got in touch with a nonprofit community development foundation called Riverrun, which was willing to offset the cost of installation for qualifying low-income homeowners.

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Contracts on the Internet

E-commerce contracts raise some interesting problems. Usually, consumers accept these contracts by visiting a page that lists the terms and clicking on a button that says "I accept" or "I decline."

But what if the user clicks the wrong button? The merchant would read this as acceptance and start performing according to the contract terms.

To avoid this, online merchants often

require their customers to confirm their acceptance by clicking on a second button, or by agreeing to a charge on their credit card after placing the order.

Email and contracts

Email exchanges between a business and its customers can constitute a contract, so save all emails to and from your customers. By law, it's the final email offer that, when accepted, creates a binding contract. Therefore, your final email should set forth all contract terms. Otherwise, a judge can look at the entire email exchange in order to figure out both parties' intent. But if she finds there was no mutual assent, she will rule that no contract was formed.

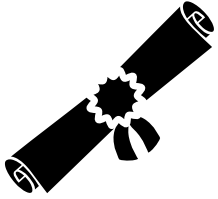
Email exchanges between you and your customers may form a legal contract.

A Checklist for E-Commerce Contracts

- All terms and conditions should be clear, simple and straightforward.
- State as a term of the agreement that the online display is the sole, exclusive and final agreement between the parties.
- Put a system in place for capturing complete, accurate, printable records of all negotiations and agreements.
- In agreements involving transactions in goods in excess of \$500, or agreements that cannot be performed within one year, obtain a fax-back signature.

Leases

A lease is an agreement giving one party possession of another party's land or personal property (e.g., equipment) for a stated period of time, in return for a stated amount of money. A lease differs from a sale in that a lease transfers possession of property, while a sale transfers both possession and ownership.



There are two main types of leases that you might have to sign: real estate leases, and equipment leases.

Real estate leases

Real estate leases—which include leases for workspaces, studios, offices and retail spaces—are the most common type of lease. Here are some things to think about when leasing business premises.

- What area are you leasing? What is the total square footage, in what area of the building?
- How long will the lease last?
- How will the rent change over time?
- Who pays for upkeep or improvements on the building, office space or landscaping?
- Is there enough parking? Are spaces reserved for you or your customers?
- Are you sharing space with other tenants? If so, how are the costs split?
- How are common area maintenance costs (CAMs) determined?
- Does your lease state that yours will be the only paint store in the complex, or can other paint stores come in and compete against you?
- Can you sublet your space?
- Can you get along with the landlord? Have other tenants had problems?
- Are taxes paid by you or the landlord?
- Is your right to renew the lease clearly stated?
- Do you have an option to buy the property? If so, what are the terms?

Equipment leases

Equipment leases are usually for such things as light or heavy machinery, photocopiers and computers. When a customer can't afford to pay the entire purchase price of the equipment at once, the seller offers either to finance the purchase price or to put the customer in touch with a leasing company. This can be a good deal, because the down payment under a lease is usually less than the down payment on a credit purchase. Also, leases usually let you trade old equipment for new equipment after a few years.

Consignments

A consignment arrangement is one in which a seller “consigns” a product to a business. No money changes hands until the product is sold to a customer. The consignee (the business that agreed to sell the product) takes a share of the purchase price and pays the rest to the consignor (the seller who put the product on consignment).

Consignment contracts should include the following details:

- Names and addresses of the consignor and consignee.
- Any provisions giving the consignee exclusive marketing rights (this should include a clause allowing termination of the contract if the consignee doesn't meet a specified sales level).
- The dollar value of the consigned product.
- The selling price of the consigned product.
- The percentage of the selling price to be paid, and the date on which payment is due.

- Any requirement that the consignee's insurance must cover the product.
- The duration of the consignment.
- Who pays to return unsold products?
- Who markets the product, and who pays the expenses of marketing?
- A right to inspect the consignee's books as they relate to the consigned product.

It's also important to include a statement that the consignee holds the product and any proceeds from its sale in a trust relationship, and that the proceeds must be kept in an account separate from the consignee's general business funds.

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Finally, Tom got a microloan for \$3,500. Etta Fulton, a woman with two young kids, lived right down the block and had the money to spend. So a week after the loan came in, Tom and Luther went to work.

First, Tom figured out where the highest water level had been during the flood. Then, he sank four Sonotubes and filled them with concrete and rebar. They were 8 feet long and rose 4 feet out of the ground. On top of those, he built a flat platform on which eight 4-by-4s rose another four feet, with an 8-by-8 in the center. These were all cross-braced and held together with heavy angle plates. On top of those were another heavy platform, and a 55-gallon water tank secured with thick wooden uprights and high-strength steel strapping.

I was very, very tired and sore heading back from that first job. But I was also very, very happy. Me and Luther, we got the tubes installed in just two hours. Once they were filled and the concrete had dried, we came back with a prefab frame and put the whole thing together in another two hours.

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Intellectual Property Rights

Intellectual property law prevents other people from stealing your ideas, company logo, product designs and business methods. Unlike machinery or money, these assets can't be picked up and handled. But they may be some of your most valuable business assets.

The *Intellectual Property Worksheet* will help you determine which of your intellectual property rights need protection.

Business Names

Most businesses operate under a fictitious business name, sometimes signified by the phrase "Doing Business As" or "DBA." These names are protected by state and federal trademark law.

Your business name should be easy to spell, say and remember. Above all, it should distinguish you from other businesses. If you choose a name that's too similar to the name of another business, that business can legally force you to change your name. For this reason, it's a good idea to come up with a list of possible names and type each one into a search engine to see if any businesses come up.

After this initial search, check the list of fictitious business names at your county clerk's office, as well as the corporation and LLC names in your secretary of state's business registry database. You can also search for business names registered with the U.S. Patent and Trademark Office (<http://www.uspto.gov/>).

If you find a business name that's similar or identical to yours, find out where the business is located and what products it offers. If it's in your county or state and offers similar products, choose a different name. If it's a large business with a strong online presence, you should probably

Your business name should be easy to spell, say and remember.



avoid the name even if you sell different products. Also, be aware that if the name is federally registered with the U.S. Patent and Trademark Office, it is protected in all 50 states.

Trademarks

A **trademark** is a word, phrase, symbol, color or design that identifies the source of consumer goods or services. The more distinctive your trademark is, the more legal protection it has.

You don't need to register your trademark to own exclusive rights to it in your area, but federal registration gives you much stronger protections. Trademark registration lasts for 10 years, and you can renew it for an indefinite number of 10-year periods. It also allows you to use the ® symbol with your trademark, which notifies would-be infringers that you have registered your trademark nationally.

Registering your business name as a trademark

Courts usually rule that the first business to use or register a business name has the right to continue using it, so it's important to register your business name as soon as possible.

If your music store is named "Sax and Violins," and you register this name in your county, it may be available for use by a business in another county. But even if you register your name as a trademark statewide, the court may allow another business to use it provided the competing business operates in a different region or industry. For this reason, businesses that do business nationally or internationally should register their business name with the U.S. Patent and Trademark Office.

Thanks to the popularity of e-commerce, it's much easier to run afoul of trademark

conflicts than it used to be. You may plan to sell only to customers in your home town. But if an online business with a similar name is also targeting those customers, they may be able to claim that you're violating their trademark. Therefore, even if a competing business is several thousand miles away, you shouldn't assume that you can use its name safely.

Intent to use

Small firms that haven't yet used their mark in interstate commerce often worry that another company will begin using their mark, or will even register it. To prevent this, federal trademark law includes an "intent to use" provision that gives your mark a six-month period of nationwide protection.

To enjoy this protection, you must file an "Allegation of Use" statement asserting your good-faith intent to use the mark. Once this is approved, you have six months to use the mark. If you need more time, you can get a number of extensions. But if you don't use the mark within three years, you won't be allowed to register it.

Copyright

Copyright protection applies to original works of authorship in tangible form. "Tangible" means that it can't simply be in your head; it must be physically available to other people, like a book or a DVD.

"Original" doesn't necessarily mean that the idea behind that work is original. Ideas aren't protected by copyright law. What's protected is a specific *expression* of the idea. For example, the authors of this book can't stop another author from writing a book about microbusiness, but they *can* stop another author from publishing the text in this book as his own work.

It's important to register your business name as soon as possible!

Works made for hire

If a copyrighted work is a work made for hire, the hiring party legally owns the copyright. Usually, this happens through an employer/employee relationship. For example, if a business hires a freelance writer to create a brochure, the brochure will normally belong to the business rather than the writer. Contracts of this type should always specify whether or not a work is made for hire.

Registering copyright

Copyright registration is not necessary to create a copyright. A copyright exists from the moment an original work of authorship is put in tangible form.

That said, registration is a very good idea. Copyright notices and registration are inexpensive and remain good for up to 70 years after your death. You can register your copyright with the Register of Copyrights in Washington, DC.

Respecting copyrights

The importance of respecting other people's copyright is often overlooked, especially among Internet users. Many people casually use copyrighted text, photos, music, recipes or patterns without asking permission or (in many cases) giving the creator of the work credit.

However, using other people's work without permission is illegal, and it also tends to make the copyright holder angry.

Always ask permission before using other people's work, whether it's a drawing on a product label, a song on a YouTube video or a photo on your website. To save time, you can create a copyright permission form template and fill it in as necessary. This form should detail all specific uses you have in mind, because permission for one use usually doesn't imply permission for others.

Can you get away with copyright infringement? Perhaps. But consider this: The goal of a business is long-term profitability. Usually, success means more visibility and more money. The more visible you are, and the more money you make, the less likely you are to get away with copyright infringement. If you don't want your business to end up as a case study in a copyright law class, commit yourself to respecting other people's copyrights, and to protecting your own.

Stock images

Many sites offer stock photographs for free or by subscription. This can be a good way to get the photos you need, but remember that there may still be restrictions on their use. Paying for a stock photograph doesn't mean you own it. It just means you can use it under specific terms. These terms vary greatly, so always read the fine print.

Also, note that using a copyrighted image as the basis for a new work (e.g., by altering it) counts as copyright infringement. There are many software tools that allow copyright holders to find altered images online.

Patents

Let's say you just invented a great new way to remove grass stains from clothing, and you want to make sure your competitors won't copy your product's ingredients. How do you do this? By obtaining patent protection.

A patent grants its owner the right to exclude other businesses from making, using, offering for sale, importing or selling the patented invention in the United States. Anyone can obtain a U.S. patent, regardless of age or citizenship. Patent protection lasts for 14 to 20 years.

Always ask permission before using other people's work!



Unfortunately, patents aren't cheap; they can cost thousands of dollars each, and you'll also need plenty of legal help from a patent attorney.

Patent pending

The phrase "Patent Pending" on a product warns would-be copycats that a patent application is in process. Applying the phrase "Patent Pending" to an item for which no patent application has been made is illegal and can result in a fine.

Trade Secrets

Trade secrets are the main intellectual property of most small businesses. They include private business information, methods and processes.

A customer list may qualify for trade secret protection (but *not* for copyright or patent protection), as long as the list took effort to develop, is valuable and is not readily available to people inside and outside the company.

Many states protect trade secrets and customer lists against theft or misuse under the Uniform Trade Secrets Act, as long as you take steps to keep them secret. Even if an invention or process isn't eligible for patent registration, it may still be a protected trade secret under state law. And unlike patent and trademark protection, trade secret protection never expires.

You don't have to be a biotech firm or a soft-drink manufacturer to have methods or processes that are not commonly known. Who your customers are, and what and how often they order, is vital information that's worth protecting.

Nondisclosure agreements

A **nondisclosure agreement** prevents people who receive nonpublic information about your business from revealing it to

someone else or using it for their own purposes. They are useful when you must give a person or business access to sensitive information. In fact, it's a good idea to include a nondisclosure agreement with each copy of your business plan.

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After installing 30 water tanks in the first month, Tom and Luther realized they needed a place to store their materials. Luckily, a neighbor was willing to rent them his empty garage for \$50 a month.

As people struggled to get back on their feet, there were lots of opportunities for barter and bootstrapping. Tom and Luther were sometimes able to get supplies and salvaged materials in return for a little work. Sometimes, they even got them for free. By keeping their costs low, they were able to make their loan money go a lot farther.

Tom recently read an article about low-cost water purification methods, which got him thinking about the possibility of rigging up a solar-powered ultraviolet bulb to ensure that the water in the tanks could be disinfected if necessary.

He and Luther are currently working on a formal business plan for this new idea, and they're feeling very excited about it. If all goes well, they may even turn each storage tank into a purification system that can produce tank after tank of drinkable water, even if the neighborhood's electricity and water is off for weeks.

Once I started getting some recognition and respect for being an honest man who did a good job, other doors started to open to me. And it turned out there were lots of other kinds of work I could do besides working on cars.

More than that, I found out that in a lot of ways, I like working with my brains even more than I like working with my hands.

Trade secrets are the main intellectual property of most small businesses.

So all in all, I'm feeling pretty good. My work helps my community and I'm building a real future for my kids. I can't ask for much more than that.

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What You've Learned

Don't be discouraged by all these rules and regulations. Many of them won't apply to your business, and there are people who can help you understand the ones that do. For now, the important thing is to understand these basic points:

1. There are different types of business ownership. Consider your situation carefully—and get expert advice—before choosing.
2. If you plan to run your business from home, you must check the zoning laws in your neighborhood.
3. Educate yourself about the laws that apply to your type of business.
4. Tax laws affect all small businesses. You'll need professional help to deal with them.
5. Contracts are at the heart of doing business. Get them in writing and make sure you understand every term before you sign. This applies to leases and consignments, too.
6. Intellectual property law protects your products, trademarks, inventions and trade secrets from being used or sold by other businesses without your permission.

Where to Get Help

In addition to the sites and services mentioned in this session, here are some sources of free or low-cost legal help for U.S. micro-businesses:

- **Small Business Development Centers.**

Your local SBDC may offer regular Legal Clinics for entrepreneurs. All services given at SBDCs are free and confidential.

To find the SBDC near you, contact the Association of Small Business Centers (<http://www.asbdc-us.org/>).

- **SCORE** offers access to e-guides, webinars, how-to videos and counseling on legal issues (<http://www.score.org>).

- **LawGives** provides underserved businesses and individuals with online access to free and low-cost legal advice from law students and supervising lawyers (<http://www.lawgives.org/live/>).

- Many state and national nonprofits help low- and moderate-income entrepreneurs overcome the legal hurdles to launching a business. To find nonprofit legal aid providers in your state, visit LawHelp.org (<http://www.lawhelp.org/>).

- A number of universities and community colleges host Community Economic Development Clinics that provide free legal assistance to low-income business owners. Contact your state university or SBDC to learn about programs in your area.

WORKSHEETS



SESSION 5

SESSION 5: LAWS, REGULATIONS AND TAXES

Be a Legal Eagle!

Business Ownership Worksheet

Which form of business ownership is best for you depends on your type of business, the kinds of products you will offer, and your local, state and federal tax laws. Check with your state about the rules governing each. Talk with your mentor or advisor to make sure you choose the best form of ownership.

1. What type of business ownership will you choose? Describe the advantages and disadvantages of this legal structure on the worksheet below.

Legal structure of your business: _____

Advantages	Disadvantages

2. Why is this the right form of ownership for your business? Will you switch to another form of ownership later? If so, explain.

3. Who are the owners of your business? What is their financial share of ownership?

Business Fees, Permits and Taxes Worksheet

Use the chart below to review the business registration, permitting, licensing and tax information that applies to your microbusiness. Be sure to research any fees you'll have to pay.

Business Registry/Licensing	Information Needed or Action Required	Agency to Contact	License/Permit Fee
Register business name			
Get employer identification number (EIN)			
Register trademark			
State, county and local business licenses			
Zoning permits			
Signage permits			
Other licenses or permits your business requires:			
Type of Tax	Agency to Contact	Registration Requirements	
Federal income tax			
State income tax			
Local income tax			
Sales/use tax			
Property tax			
Self-employment tax			
Other taxes that affect your business:			

Business Laws and Regulations Worksheet

Consult your state agencies to answer the following questions. *Note: Even if your business currently has no employees, researching these questions now will prepare you to hire employees when necessary.*

1. What are the payroll taxes and withholding requirements for your business (FICA, FUI, SUI, WC, etc.)?

2. Will you be employing anyone aged 14 through 17? If so, what are your state requirements for work permits, time restrictions and other child labor laws?

3. What other wage and hour regulations apply to your business? For example, when do you have to pay an employee overtime? Are any special permits or registration documents required for your employees?

4. Explain how other employee regulations affect your business (labor laws, harassment, organized labor laws, immigration laws, civil rights laws and so on).

5. What employee health /safety laws affect your business? How will you ensure compliance?

Business Laws and Regulations Worksheet—continued

6. What environmental laws apply to your business? How will you ensure compliance?

7. What public health and food safety laws apply to your business? How will you ensure compliance?

8. What shipping and storage laws and restrictions apply to your business? How will you ensure compliance?

9. What consumer protection and product labeling laws apply to your business? How will you ensure compliance?

10. What other laws and regulations apply to your type of business?

Contracts and Leases Worksheet

Use the worksheet below to explain which contracts and leases your business requires. Include agreements you already have, as well as any other agreements you need to launch your business.

Contract or lease type	Purpose
Employment agreement	
Nondisclosure agreement	
Independent contractor agreement	
Power of attorney	
Partnership agreement	
Buy/sell agreement	
Promissory note	
Lease agreement	
Purchasing agreement	
Land usage contract	
Warranties	
Licensing agreement	
Franchise agreement	
Other:	

Intellectual Property Worksheet

Use the following table to decide how you will protect your intellectual property.

Intellectual property	Steps needed to gain protection	Cost
Trademark		
Business name		
Copyright		
Patent		
Trade secret		

Intellectual Property Worksheet—continued

Use the following table to list any intellectual property you need to buy or license from other people. Note the business purpose and terms of use for each type of intellectual property, as well as any fees.

When researching this section, think about any creative work you will use in your business that is not your own creation. Smaller businesses often fail to realize that things like recipes, knitting and sewing patterns, and fonts can fall under intellectual property law. Therefore, your business must get permission from the rights holder—and possibly pay a fee—to use them. Pay special attention to online use of copyrighted materials; not only is this a common area of infringement, but online copyright infringement is also very likely to get noticed.

Intellectual Property	Purpose and Terms of Use	Fees
Photography		
Music		
Graphic design		
Illustration		
Logo design		
Fonts		
Writing		
Video		
Recipes and formulas		
Patterns (e.g., knitting)		
Software:		
Other:		
Other:		

Worksheets Assignment for Session 6



Complete the following worksheets before trying to write the corresponding sections of your business plan:

- *Business Ownership Worksheet*
- *Business Fees, Permits and Taxes Worksheet*
- *Business Laws and Regulations Worksheet*
- *Contracts and Leases Worksheet*
- *Intellectual Property Worksheet* (research only)

Writing Your Business Plan



Use the information from this session to write the sections of the business plan listed below. Start with the headings and subheadings just as they're shown here. Then, follow the instructions under each subheading to write that section of your business plan.

Section III. Business Organization and Operations

A. Business Structure, Management and Personnel

Business Structure

Review your answers to the Business Ownership Worksheet. Describe the legal structure you chose for your business and explain its benefits. Then, identify all business owners and state their financial share of ownership.

B. Operations Plan

Laws, Regulations and Taxes

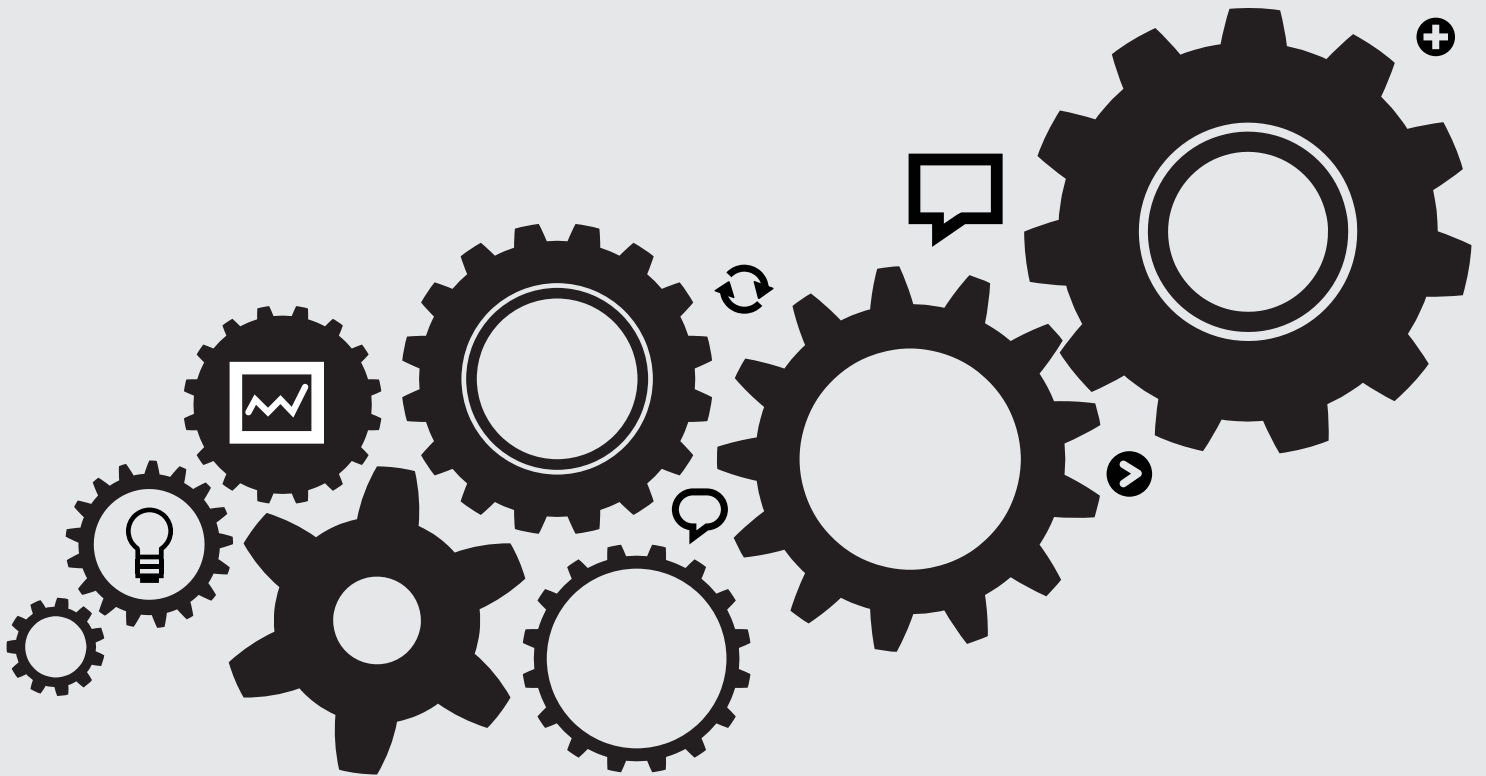
Review the Business Fees, Permits and Taxes Worksheet. Describe the registration requirements for your business. Review the Business Laws and Regulations Worksheet and identify regulations that apply to your business. Explain what other licenses or permits you'll need, and include the cost of all fees and taxes.

If you have employees, review Questions 1 to 5 on the Business Laws and Regulations Worksheet. Write a paragraph about the employee tax requirements and labor regulations your business will have to follow.

Contracts and Leases

Review the Contracts and Leases Worksheet. Describe the contracts and leases your business has or needs, as well as their purpose and benefits. Review the Intellectual Property Worksheet. Describe any intellectual property you need to protect, buy or license, and state its purpose and cost.

TEXT



SESSION 6

Managing Your Microbusiness

FIRST THINGS FIRST!

HIGHLIGHTS

Managing Time	page 2
Managing a Home-Based Business	page 4
Managing Business Communications	page 7
Managing Your Team	page 8
Managing Logistics	page 13
Managing Risk	page 16

“We are what we repeatedly do. Excellence, then, is not an act, but a habit.”

—Aristotle”

About This Session

Many microbusiness owners don't bother learning about management, because they feel it's only important for bigger businesses. However, you have three very good reasons to understand management. First, learning management skills makes you better at your job, and being better at your job means more profits.

Second, management is the key to handling risk, problems and opportunities, including economic

downturns and periods of high growth. If you wait to learn management skills until the day you need them, it may be too late!

Third, even the smallest businesses sometimes need a little help, even if it's just from family or friends. No matter who your workers are, you need to know how to direct their work, how to get them to work as a team and how to resolve conflicts. Therefore, it's best to learn basic team management skills

before hiring your first employee or contract worker.

Managing time. Time management is the basis of all other management skills. If you don't know how to structure your time and prioritize your tasks, all your other activities will suffer.

Managing a home-based business. Home-based business is one of the fastest-growing forms of entrepreneurship in the United States. According to *Home Business*

magazine, 50 percent of U.S. households run a business from home. In this section, we'll look at the special challenges of managing a home-based business, as well as the advantages and disadvantages of working at home.

Managing growth. Planning for growth is an essential management task. Businesses that aren't prepared for periods of high growth may not survive them.

Managing business communications. The tips in this section will improve your business communication and help you put your best foot forward.

Managing your team. Effective managers build strong relationships with advisors, suppliers, employees and customers. They also know how to expand and develop new contacts through networking.

Managing risk. You can't eliminate all business risks. But you can reduce them by having the right insurance, getting expert advice, creating a business continuity plan and establishing standard operating procedures.

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Dora and I moved into a three-room apartment a couple of years ago. It wasn't as nice as our old house, but it was a lot less money. And that's what mattered most to us at that point.

Not long after we moved, I was poking around in a thrift store and I came across a dusty old radio. An Emerson Model 587 Series B table model from 1949, to be precise. I plugged it in, but it didn't work. I know something about electronics, so I figured I could fix it up without too much trouble.

At first, it was just a distraction. I needed something to take my mind off all the other stuff that was going on. But while I worked on the radio, I was thinking "I wouldn't mind doing this for a living. It's too bad they don't make these things anymore!"

Walt Benjamin runs a small but successful home-based business in McKeesport, Pennsylvania, repairing tube radios and other vintage audio equipment. But two years ago, he was simply trying to get back on his feet after a run of bad luck.

First, a workplace injury left him unable to work. He was able to get a desk job, but that ended when his department was downsized. That left him living in subsidized housing on a small disability check. The only other source of income was whatever his wife Dora could earn waiting tables at a restaurant on Lysle Blvd.

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Managing Time

As we said in Session 1, time management is basic to business success. Unless you know how to manage your time, all the other management tools and tips in the world won't help you.

This is a good place to review the Session 1 material on time management. Take a moment to look back at the text and your worksheets. Once you've done that, we'll explain how to prioritize tasks.

Structure Your Workday

It's important to get into good working habits from the outset. It's much easier to start with a strict schedule and adjust it than it is to impose order on chaos. Set aside certain hours for tasks you do every day. Use a timer or alarm clock if necessary.

It's also important to schedule regular breaks. Not only will this keep you from burning out, but it will also help you maintain a daily structure. If you're working at a desk or a machine, remember to get up often and stretch your legs.



Priority Management

The first step in time management is to identify your business's main activities. Consider the tasks you face every day. Some of them relate directly to your income, such as customer service and shipping orders. Other tasks don't bring in money but are essential to your daily operations, like paying bills and answering emails. And then there are tasks that relate to growth, like designing a new product or planning a website.

Setting priorities

As an experiment, try prioritizing the things you do during an average day. Start by writing them down, and then prioritize them like this:

Task	Rank
Priority / Do Now	1
Priority / Do Later	2
Not a Priority / Do Now	3
Not a Priority / Do Later	4

Next, look at how much time you spend on each task. If you devote the first part of the morning to answering phone calls, monitor the time this chore takes over the course of a week and come up with an average. You can use a computer program or a clock to punch in and out of work. Busy people are poor judges of time, so do this with all your regular activities to get an idea of how much time they take each week.

It's normal to spend some time in each area, including the time wasters—we all need to take a break once in a while! But if you're like most people, you'll be surprised at just how much of your day is spent on low-priority items.

Understanding time wasters, and seeking out time savers, can fix this pattern. Again, the goal is to prioritize the tasks that you want to accomplish during a day. Then,

follow through by working on them in order of importance. Keep this up, and you'll soon get better at structuring your workday.

Prioritizing problems

Some microbusiness owners believe their problems will go away as their business grows. Actually, the opposite is true. As your business grows, you'll face even more problems. Ideally, they'll be good problems, like the ones that come from increased sales and new customers. But either way, you'll be managing problems for as long as you're in business.

When facing a problem, the first thing to do is ask yourself "Is this *really* a problem?" This is important because when things get hectic, all problems may seem equally huge.

For example, suppose a customer is trying to stiff you on a big job, and your printer used the wrong ink for your business cards. Both problems may make you feel like everything's going wrong. But the problem with the business cards is probably not that serious, all things considered. Do you *really* need the cards right now? If so, do you *really* need to have them redone with the correct color?

Just like business tasks, problems can be prioritized. Ask yourself this question: "What will be the impact on my business if I *don't* solve this problem right now?"

These are not easy questions, and there are no set answers. Learning to prioritize your problems takes practice. But more than that, it takes an ability to calm down, step away from the problem and view it objectively. Stress and anger make problems seem bigger than they really are, which is why stress management is central to problem management.



A Problem-Solving Framework

- **Define the problem.** One of the best ways to see if you clearly understand the problem is to write it out. Try to state the problem in one or two short, descriptive sentences. Also, list the ways in which the problem affects your business.
- **Identify the root cause.** Important questions to ask here include, “Why do I have this problem?” and “Why *else* do I have this problem?”
- **Find people who can help you with solutions.** If necessary, family, friends and mentors can offer new insights and fresh perspectives. The more perspective and experience you can bring to bear on the problem, the better the solution will be.
- **Gather information.** Once you have a good idea of what the problem is, and have assembled your problem-solving team, it’s time to gather all relevant facts about the problem.
- **Come up with possible solutions.** The benefits of having people to help you are very clear in this step. Write down all their suggestions, whether they seem possible or not. This will give you a wider range of solutions.

pointless meetings. But you may have to do everything else. You may end up being the accounting department, the marketing staff, the receptionist and the janitor...all at once. Don’t underestimate how much time these tasks can take or how much stress they can cause.

Setting Boundaries

For most entrepreneurs, the biggest challenge of working at home is setting a clear boundary between home and work. When it’s 5 p.m. in an office, people can get up, go home and leave their work behind. But when you work at home, your job is always right there in front of you.

Your friends and family may have problems with boundaries, too. It may be hard for them to realize that they have a different relationship with you when you’re working. If you had a regular job, they probably wouldn’t barge in and interrupt you in the middle of your work. But because you’re at home, anything goes.

Give yourself some space

If you can, set your workspace apart from the rest of your home. Choose a room with a door you can close and lock, where household noise won’t disturb you. Decorate and light it differently, so that it really feels like you’re going to work when you walk through the door.

You may not be able to do some of these things in your current situation. In that case, try to find other creative ways of setting emotional and physical boundaries between work and home life.

Make a clean break

People who first begin to work at home often fall into the trap of goofing off or getting distracted during the day, and then trying to catch up at night. This is a very bad habit.

Managing a Home-Based Business

To many people, working at home sounds like a dream. There’s no commute and you can set your own hours. Better yet, the IRS lets you deduct the portion of your living space and utilities you use for your business.

But it’s not always as easy and pleasant as it sounds. It’s true that you don’t have to deal with an unpleasant boss or sit through



Set a cutoff time for work and stick to it. It's good to have some kind of ritual—like having dinner or watching a movie—to help you switch gears and feel that work is over for the day. If possible, have it be something you do with friends or family members, so you have a commitment to them that you can't break easily. Like regular exercise and healthy meals, relaxing activities shouldn't be optional. Schedule them in your daily planner, just like any other work task.

Of course, sometimes you'll have no choice but to work during your free time. The goal is to reduce these times to the minimum. If work keeps eating up your personal time, you need to restructure your working habits, not your time with family and friends. The ability to relax, unwind and have fun is just as important to your success as working hard. The trick is to make sure that recreation is a *reward* for hard work, rather than an escape from it.

Exercise and diet

Many commuters get daily exercise by jogging, walking or riding a bicycle to work. By contrast, people who work at home sometimes don't get enough exercise. The easy availability of snack foods—and the stress of running a business—may also cause them to eat more than they would at a traditional job.

Setting regular breaks, choosing healthy snacks and taking frequent walks around the block can help you stay healthy. Like any other work task, these activities should be scheduled. Don't treat them as optional; make them part of your daily routine.

This is especially important for people who work mainly at a desk. Sitting for long periods can cause a wide variety of aches and pains, as well as serious health problems. Take a 10-minute break at least once an hour. Also, make sure your work

area is comfortable. Your chair should allow you to put your feet flat on the floor; if you use a computer keyboard, your arms should be parallel to the floor instead of tilting upward. To reduce muscle strain, avoid slouching or hunching your shoulders, and don't lean forward toward the computer screen. For more tips, visit OSHA's Ergonomic Solutions page at <http://www.osha.gov/SLTC/etools/computerworkstations/index.html>.

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Walt had been looking for a distraction when he decided to fix his first antique radio, and he got one. He needed lots of parts, but he had no idea where to find them. You can't buy parts for an Emerson Model 587 Series B at the corner store, after all.

Dora suggested that he go down to the library and look for parts on the Internet. That turned out to be very good advice. Walt typed the name of his radio into Google, and with the click of a button he found repair diagrams for his radio, a company that sold tubes for it, dozens of websites devoted to radio collecting and three more radios being offered for sale on eBay.

One of the radios—a nicely restored one in perfect working order—was at \$195 with 12 bids, and the auction wasn't even over yet. The other two were broken and had no bids at all. He could get them both for \$25 if he wanted them.

Walt was beginning to think he'd hit on something more than a distraction.

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Setting Up a Home Office

Many homes and apartments—especially older ones—lack adequate power, lighting, Internet connections and air conditioning.



The ability to relax, unwind and have fun is just as important to your success as working hard!



Before you start a home-based business, make sure your living space is up to the job.

Before you start a home-based business, make sure your living space is up to the job.

- **Electricity.** Setting up a home office can seriously affect your energy usage. This can increase your electricity bills, and it may also be dangerous. If you're going to be running lots of equipment, you may want to have an electrician check your wiring. To keep your energy costs down, look for appliances that have earned the Energy Star® seal, which use very little electricity. You should also buy surge protectors to keep your equipment safe from power surges and outages.
- **Internet connection.** Some houses and neighborhoods have limited or unreliable Internet connections, which means that your connection speed may be slow or erratic. You may also need to have new outlets or cables installed. In some cases, you may need to do your work at a nearby cafe or library with Internet access.
- **Lighting.** Good overhead lighting reduces eyestrain and makes your office more pleasant. If your office doesn't have it, you should install it! Compact fluorescent bulbs are quite bright, and some last for five to 10 years. Also, they use very little energy, so they can reduce your electricity bills.
- **Air conditioning.** Your office should be comfortable throughout the year. It should have good ventilation and air conditioning. You won't be happy working in an office that feels like an oven in summer and an icebox in winter, and your customers won't like it either.

Projecting a professional business image

What business image do you project? Factors to consider include:

- Your address (you may want a post office box or a commercial box instead of a residential address).
- Business graphics (logo design, business card, letterhead, signs, etc.).
- Telephone answering service, email, fax.
- Establish regular work hours.
- Prompt and professional response to mail, phone calls and emails.

Maintaining professionalism in home-based business can be especially hard for parents of small children. In some cases—such as an important meeting with a client—you may have to pay for child care. To offset this expense, the IRS offers home-based business owners a tax credit for child care expenses in addition to the standard home office deduction. Contact the IRS for more information.

Home office insurance

If customers, partners, employees or delivery people will be visiting your home office, you need liability insurance. This will protect you in case a client trips over a broken step or slips on a wet floor while on your premises.

Also, note that home insurance policies are usually inadequate for home offices. To protect your valuable equipment, inventory and other assets, you must either add a home office rider to your existing homeowner's policy or choose a full home office policy. The expense is minimal compared to the losses you face without home office insurance.

This advice also applies to business use of your car. If you will be using a personal car to make deliveries or pick up inventory, consider getting a business policy.

We'll discuss these issues in more detail in our section on insurance.

Managing Business Communications

One of the biggest obstacles for microbusinesses is poor communication. It can lead to lost customers, rejected loan applications and many other serious problems.

No matter how you communicate, you must always follow three basic rules:

- **Be polite!** Everyone deserves to be treated with respect.
- **Be honest!** Integrity is something you can't buy back after you've lost it.
- **Be clear!** Don't leave any room for misunderstandings with customers, suppliers, employees and partners.

Written Communication

Written communication includes all business correspondence, such as letters, memos, bids, invoices, bills and emails.

One good rule in written communication is always to use duplicates. For example, order a book of duplicate telephone message pads and keep them by the telephone. The duplicate pad lets you rip off the top message for immediate attention, while creating a record of all messages received. You should also photocopy or scan all your letters, bills, invoices and so on.

It doesn't matter what type of filing system you use for these papers. As long as you can find information quickly, your system works.

Writing Tips

- Always type your business letters. Handwritten letters may be hard to read or understand.
- Start and end the letter on a positive note.
- Put the most important fact or action item in the first paragraph.
- State the action required in the last paragraph.
- Check your spelling and grammar carefully. If you aren't 100-percent sure that a word is spelled correctly, look it up.
- Don't rely on computerized spelling and grammar checkers. They can catch some problems, but they can also add new ones, especially when used by non-experts.
- Capitalized words, multiple exclamation points and underlining look bad when used by themselves and worse when used together. Capitalize entire words only in headings. Use exclamation points singly and sparingly.
- Check punctuation and paragraph breaks. Do they make the text easier to read?
- Read your document out loud. Does it flow well? Does it make sense?
- Consider the content. Is it accurate, fair and honest? Are you making promises you might not be able to keep?
- Use template letters to save time and maintain a consistent tone. See <http://www.nxlevel.org> for samples.
- Stick to the facts. No matter what kind of discussion you're having, keep your writing unemotional and respectful.
- Putting something in writing may form a legal contract, so don't make or accept promises or offers lightly.

Check your spelling and grammar carefully!

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Dora thought I'd gone crazy. We'd go to thrift stores and junk shops and garage sales, and whenever I found an old radio I'd buy it. Just for the parts, usually. I had pieces in boxes everywhere, grouped by make, model and year.

She'd come home sometimes and I'd just be sitting there, staring at the orange glow in the tubes. When I got an old radio working, I really felt like I'd brought someone back to life.

Walt named his business "Resurrection Radio." He was able to sell the first radio he fixed for almost \$200, at a cost of about \$75. He had a few more successes with radios he found at flea markets or rummage sales. But in most cases, he either couldn't sell the radio, or he couldn't sell it for much more than it cost him to fix it.

It wasn't long before he had a pretty large collection of nicely restored vintage radios. He enjoyed looking at them, even if he couldn't sell them.



People are at the heart of your business!

On the other hand, he'd learned to fix just about any model out there. And those skills were applicable to other vintage audio equipment, like microphones and amplifiers. He started to think of himself as a repairman first and a retailer second.

In an average month, Walt did 10 to 12 local repair jobs. The rest of his income came from eBay, where he had a great reputation among radio collectors. His contact with eBay customers soon led to inquiries about mail-order repair.

After doing a couple of these jobs, he realized he'd found a steady new business opportunity. From then on, his auction pages always mentioned the fact that he did repairs.

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Verbal Communication

This includes face-to-face and telephone conversations with customers, suppliers, advisors and anyone else you deal with during your workday.

You should keep two things in mind when communicating verbally. First, don't mislead anyone. Always stick to the facts, and never make promises you can't keep.

Second, smart business owners never say anything they wouldn't be willing to put in writing. Reliability is very important in the business world; if people can rely on your word, you will earn an excellent reputation.

As we pointed out in Session 1, it's good to have a master calendar for all your important dates. If you have employees, hold regular meetings to make sure everyone knows what needs to be done, when and by whom. At business meetings, always have an agenda and speak clearly and briefly.

Managing Your Team

When you're dealing with the day-to-day pressures of running a business, it's easy to overlook the crucial task of managing your business's most precious resource: people. Whether we're talking about permanent employees or temporary help, advisors or partners, suppliers or customers—people are at the heart of your business.

Your Management Team

Your management team will probably include internal members (employees, family and trusted friends that help you with your business) and an external network (outside advisors, business professionals, mentors, customers and independent contractors).

To organize your team, create an **organizational chart** that maps the relationship between your internal team and your ex-

ternal network and assigns responsibility for work activities.

Although your core team may just be one or two people, it's still a good idea to map out the specific roles each person plays. This will make it easier to assign tasks to new people as your business grows.

You can begin with major business activities, such as:

- **Sales.** Who runs the register, takes orders or makes sales calls?
- **Accounting.** Who balances the check-book, and keeps the books?
- **Purchasing.** Who keeps track of inventory levels and other supplies?
- **Promotions.** Who's in charge of placing ads, creating fliers, ordering

business cards and sending out press releases?

- **Budgeting.** Who will create your budgets?
- **Production.** Who manufactures your product? Who checks its quality?

Building an effective management team takes time. It also takes a real commitment to thinking critically and creatively about your business. Give your management team plenty of time to learn how to work together and share ideas. Try to identify what each person needs to do in order to help others perform well.

Here's a tip from management guru Peter Drucker: Don't think of your team as people who are there to achieve the things you want done. Instead, think of them



Give your management team plenty of time to learn how to work together and share ideas.

Owner		
Responsible Person	Functional Area	Major Responsibilities
Owner/Employee	Production (manufacturer)	Purchasing Production Warehousing Shipping
Owner/Employee	Management	Job Descriptions Hiring Personnel Functions
Owner/Employee	Marketing	Marketing Sales Advertising
Outsourced Accountant or Bookkeeper	Accounting	Billing/Accounts Receivable Purchase Order/Accounts Payable Payroll and Payroll Reporting Financial Records Financial Statements
Outsourced Insurance Broker	Risk Management	Standard Operations Insurance

as people who are there to *contribute* to common goals. A successful business isn't about the achievements of individuals; it's about what individuals contribute to the team.

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I know a lot about old radios, but I don't know much about recordkeeping and bill paying. For most of my married life, I guess you could say I was spoiled. I didn't have to do any of that stuff. Dora had the skills and the time, so she handled all the financial chores.

When I started up my repair business, she was working full-time. I figured I could manage my business well enough without her.

But a few months later, I was bouncing checks left and right.

Walt's problem wasn't lack of success. In fact, Resurrection Radio was really taking off. Not only was there plenty of demand for Walt's repair services, but he'd also found an unexpected market for his restored radios. It turned out that a number of older hotels were decorating their rooms to look like they did in the 1920s and 1930s, in order to attract customers who like retro furnishings.



Walt found a couple of hotels that wanted vintage radios in every room; he was able to sell 24 radios to one of them and 30 to the other. This led to further sales, because each radio had a sticker on the back with the name of his company, his contact information and his eBay seller name. Many guests admired the radios and expressed an interest in buying one.

Checks and money orders were coming in almost every day, but Walt wasn't depositing them regularly. He meant to, and he always sorted them into their own pile. But when things got hectic, it was easy to put the deposits off or forget about them. Sometimes, this even caused him to misplace the checks.

Also, he wasn't filing receipts from his work expenses or keeping track of payments on his check register. The result was 10 bounced checks in six months, as well as confusing stacks of paperwork all over his office. Walt had no idea how he'd pull things together in time to file his taxes.

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Getting Outside Help

Getting outside help and advice is one of the most important things you can do for your business. Good advice translates into better management decisions, which reduces the risks you and your business face.

- **Advisors and mentors.** Ask your mentor to evaluate the way you plan to structure and run your business. You should also seek advice from friends or acquaintances who work in larger businesses. How did their company tackle similar issues? Your goal here is to learn from the successes and mistakes of others. Then, improve on their ideas and tailor their advice to fit your business.
- **Bookkeeper or accountant.** A bookkeeper keeps records of your daily, weekly, monthly and annual sales and expenses, and can also help you find your way through the maze of regulations relating to employees and payroll records. If you're going to keep your own books, an accountant can evaluate your work and also complete important reports that will help you look at revenues, expenses, cash flow, liabilities and assets.
- **Banker.** Sooner or later, most small businesses need outside capital. It's much easier to obtain financing if you already have a good relationship with a banker.

- **Attorney.** You may not need a lawyer right now, but you should have the name of a good one on file in case the need does arise. Be sure to choose a lawyer who's knowledgeable in your field. In the meantime, free and low-cost legal services are widely available to microbusinesses. For more information, check with an SBDC counselor or look online.

Outsourcing

Outsourcing means hiring outside people or businesses to perform such tasks as accounting, marketing, sales, purchasing, inventory management and market research. Many large companies outsource to reduce their overhead and focus on the things they do best.

As a microbusiness owner, you have limited resources and time. If someone else can do a task better than you at a reasonable cost, why not benefit from that expertise?

It may even be possible to trade services. For example, if you trim trees, maybe you can find a firm that will handle yard-waste disposal for you. Or maybe you can trade for unrelated services (e.g., doing jobs for a graphic design firm that will make a business card for you in return). As always, look for creative ways to run a more profitable operation.

Outsourcing normally means using **independent contractors**, who do work for you, but don't work directly for your firm. You can set up a similar arrangement for advertising, custodial cleaning, bookkeeping, selling and many other services. Of course, it's important to conduct regular checks on the cost, quality and delivery of your service contractors.

As we noted in Session 5, you must review the legal issues before hiring independent

contractors to make sure you're not actually setting up an employer/employee relationship.

Managing Employees

Outsourcing is not appropriate for some business tasks. For core jobs that are essential to your mission, you will need to hire employees.

Although this day may be a while off for you, it's a good idea to give it some thought now. Setting up good management practices early on can make the tricky process of hiring employees a lot easier.

Most entrepreneurs succeed because they're talented, motivated, creative and energetic. However, these qualities can sometimes be an obstacle to growing your business.

For example, many entrepreneurs find it difficult to allow other people to help them. Some are too proud to ask for help, while others are afraid that someone else won't do the job as well.

If you have this attitude, you need to work on getting over it. When your business begins to grow, you'll need help. And that means you'll have to learn to give up some control. Prepare yourself now and you'll face fewer conflicts later.

Unfortunately, great employees don't magically appear on your doorstep when you need them. Finding, training and keeping them will require time, effort and management skills.

That said, the potential payoff is huge: A team of reliable, well-trained employees could become your most important asset.

Setting up good management practices early on can make hiring employees a lot easier!

Tips for Managing Employees

- Be honest and respectful.
- Don't try to be an expert on all issues. Ask for help when you need it!
- Don't hire family or friends if they aren't qualified and responsible.
- Make a list of skills necessary to perform the job and interview candidates to ensure they possess these skills.
- Know what interview questions you can and cannot legally ask.
- Always check each applicant's references.
- Include clear job descriptions in your employee handbook.

Working with family and friends

Take care when seeking or accepting help from friends and family members. The stresses of running a business can lead to personal conflicts and hurt feelings. When people you care about need work, or are eager to help, it can be hard to turn them down. However, hiring the wrong person for a job doesn't benefit anyone in the long run. Just like any other business, a microbusiness needs team members who work together efficiently, effectively and—perhaps most important of all—respectfully. You shouldn't jeopardize your business by allowing conflicts to arise. But more than that, you shouldn't endanger important personal relationships by trying to fit someone into the business who—for whatever reason—doesn't belong.

Managing Your Network

A business owner depends on lots of people in order to conduct business. As we discussed above, this group of people, institutions and other businesses is your network. Your network may also include

family members, your landlord, your bank, your babysitter, your suppliers and so on.

Building your network is a wise investment in your business. Having a strong network gives you resources, support and flexibility that other microbusinesses lack.

Every now and then, you must approach someone in your network in order to get something you need. It could be a line of credit from a supplier or a favor from a friend.

Each time you get something from a network partner, you should give something in return. In the case of a supplier, you might refer another business to her. In the case of a friend, you might offer to babysit the kids so he and his wife can go out to dinner. Whatever approach you take, the goal should be to make the other person feel appreciated.

Expanding your network

The main tools required for expanding your network are a warm, outgoing personality and a stack of business cards. Here are some great ways to make new contacts:

- Join a formal networking group. Local chambers of commerce and similar groups usually offer regular networking sessions and business seminars.
- Become active in local business organizations, and get to know people with similar interests.
- Start an informal support group. Meet with other microbusiness owners to discuss common business issues.
- On behalf of your business, get involved with a local charity. As you give to the organization, you'll also have an opportunity to let others know about your business.

Hiring the wrong person for a job doesn't benefit anyone in the long run!

- Add contacts to a mailing list you can use to advertise your products.
- Use social networking tools like Twitter and LinkedIn to increase your visibility and grow your network.
- Remember that networking is a two-way street. You must give in order to receive!

Managing Logistics

The concept of the **supply chain** is at the heart of modern business. Briefly put, your supply chain consists of all the interdependent business processes that go into selling your product. Every business has its own supply chain, as well as its position in the supply chains of other businesses.

To assess your supply chain, you need to look at everything involved in sourcing, manufacturing, storing, selling, shipping, tracking, and servicing your product.

- **Materials and equipment.** What materials, parts and equipment do you need to produce your product? Where will you get them? Do you have the space you need to manufacture your product? Will product substitutes perform as required? Will your existing equipment be able to meet increased sales, or will you need to expand?
- **Suppliers and partners.** Who are your suppliers and partners? What services do they provide? Can they still meet your needs if you expand or change your business?
- **Transportation.** How will you ship your items? Do they require special handling, documentation or licenses? Can your transportation system handle

an increase in volume if sales take off? If you offer services, how, when and where will your personnel deliver them to clients?

- **Business location.** Do you need an additional or new retail outlet, warehouse, factory or distribution hub? How much parking do you need for customers, employees and company vehicles? What are your zoning requirements? Should you be in a retail or industrial district? Do you need to be near other facilities (e.g., an airport, train station or shopping mall)?
- **Other technology.** Do you need telephone networking systems? Inventory management, customer management or accounting software? Cash registers or checkout scanners? Credit card and check processing? Alarm or security camera systems?

All planning and decision-making, from choosing a new facility to choosing partners, should be based on an understanding of your own supply chain, and your place in your partners' supply chains. The *Supply Chain and Logistics Worksheets* will help you prepare this important part of your business plan.

Evaluating Suppliers

Where do you get your raw materials and other supplies? What alternative sources do you have? In a today's marketplace, these questions are more important and complex than ever. Even if your supplies come from a warehouse a mile away, that warehouse may receive them from suppliers all over the world.

Just as your marketing goals guide you in pricing your product, they should guide you in choosing suppliers. A low price does you no good if the product doesn't fit

All planning and decision-making should be based on an understanding of your supply chain.



Make sure your suppliers can meet or exceed your expectations!

your strategic goals—or can't be delivered right when you need it—so always consider these factors when evaluating prospective suppliers:

- Quality and service
- Location
- Technical skill
- Reputation and business ethics
- Competitive pressures
- Cultural fit and communications

You need to feel confident that your suppliers can meet or exceed your expectations, so visit their facilities and compare their capabilities to those of rival companies. Do they deliver goods on time? Do they run a smooth operation? Is their plant, warehouse or office clean, well ordered and efficient? Can you communicate well with management? Is their pricing competitive? What are their terms of sale?

Purchasing Basics

- Decide what to produce yourself and what to outsource.
- Set quality and environmental standards.
- Find qualified suppliers.
- Evaluate cost and quality.
- Ensure prompt and proper delivery.
- Control transportation costs throughout the supply chain.
- Compare transportation options.
- Pay invoices.
- Audit procedures.
- Set environmental ethics and standards.
- Meet legal requirements.

Warehousing and Storage

Startup microbusinesses often don't need a warehouse. Instead, they get by with a garage or basement at their home or office. As your business grows, warehousing usually becomes more important. Making a decision under pressure is never ideal, so it's smart to think about your warehousing needs before your business outgrows its current space.

Warehousing can be divided into two types: manufacturing and storage. The former stores raw materials and work-in-process. The latter stores finished goods until they're ready to ship.

There are two approaches you can use when determining your warehousing needs:

- **Internal warehousing** gives you more control over your inventory, but it also requires greater fixed costs.
- **Public warehousing** offers less control, but it requires no capital investment in land or the warehouse itself. If you're in an area with very efficient and dependable transportation, public warehousing is a good option.

Where should you locate your warehouse(s)? This depends on the following factors:

- The size of your products
- How much you sell in a given time
- The location of your office
- The location of major suppliers
- The location of your customers
- Transportation
- How fast the product sells

You might also consider storage options across your supply chain. Vendors, whole-

salers, distributors and retailers may have warehousing capability. You may be able to expand your manufacturing warehouse capacity by having vendors hold components for you until you need them. Or maybe you can increase your storage warehouse capacity by transferring finished goods to wholesalers, distributors and customers. Either way, your goal should be to develop a supply chain that lowers your carrying costs and allows you to focus on the things you do best.

No matter what kind of warehouse you choose, keep a path clear to all materials and finished goods so you can access them at a moment's notice. It's also a good idea to look into security systems to prevent theft. And of course, you should take steps to prevent fires and avoid damage from flooding, high and low temperatures and similar problems.

Last, always consider issues like temperature control, moisture control, dust control and pest control when choosing a warehouse site.

Inventory Management

The best inventory systems quickly and accurately tell you what to order based on:

- Components and parts on hand
- Merchandise on hand
- Merchandise that has been ordered but not delivered
- How much product has been sold, shipped and received in a given period

New technology has made computerized inventory control easy and affordable. However, such systems accomplish little unless you compile accurate data on products sold, products received and products on order.

Many microbusiness owners fail to manage inventory until it's too late and the business is in a crisis. An inventory crisis could be having too few products on hand to fill customer orders, or having too many products cluttering shelves and tying up precious capital. Over time, excess or unsold inventory can lead to business failure.

Stockturn

One way to measure the health of your business is to monitor **stockturn**. This is the number of times your average inventory turns over (is sold) in a given period. Are running shoes selling more quickly than golf shoes? Are mystery novels selling more quickly than children's picture books?

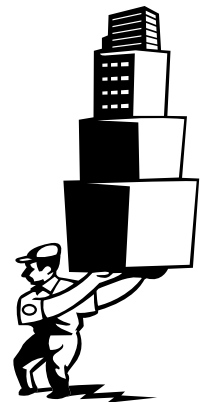
If your stockturn is too fast, you may be spending too much time and money reordering, in addition to paying extra freight costs by ordering inadequate quantities. You may also be losing sales due to lack of product. If stockturn is too slow, you may be offering the wrong products, targeting the wrong customers, charging the wrong price or advertising too little.

Your ideal stockturn rate depends on your industry and product. For example, cookies need to turn over much more quickly than jewelry. You can find guidelines that make sense for your business in industry publications, or by talking to a mentor or advisor.

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Dora wasn't too happy about the bounced checks. "Face it," she said. "You need help, and lots of it."

She put me in touch with George Agamben, a CPA who ate every day at the restaurant where she worked. She said, "He charges \$50 an hour, but it'll be worth it not to have these problems anymore."



Your ideal stockturn rate depends on your industry and product.



Fifty bucks an hour seemed like way too much to pay. But it's not like I had a better idea. And all the evidence showed that I couldn't handle things on my own. So I called George that same day, and we set up an appointment.

When he arrived at the house, George stood and stared for a while at Walt's "office." Everywhere he looked, he saw piles of paperwork, dusty old tubes, coils of copper wire and tools.

To George, the surprising thing wasn't that Walt was misplacing things, but that he ever found anything!

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Managing Risk

There are four basic ways to manage business risk: Buying insurance, getting help from qualified advisors, creating standard operating procedures for your business, and planning for disruptive events like disasters, economic downturns and fast growth.

Insurance

No other form of risk management is as inexpensive, effective or easily available as insurance. Despite this fact, most U.S. microbusinesses are not properly insured.

Because no two businesses are exactly alike, determining what type and amount of insurance you need takes some thought. The standard advice is to insure anything you can't afford to lose. In other words, if you can't afford to pay 100 percent of a business loss, you need insurance.

In most cases, having adequate insurance is a condition for getting a bank loan. In a sole proprietorship, insurance is especially important because you're personally liable for all acts of the business.

The *Insurance Needs Worksheets* at the end of this session will help you take a first look at the types of insurance you may need.

Choosing an agent

Insurance agents work for one or more insurance companies and receive a commission for each policy they sell. They tend to offer standardized coverage.

- **Direct writers** represent one insurance company, so they tend to be very familiar with the policies they offer.
- **Independent agents** represent multiple insurance companies, so they tend to offer a wider range of coverage and prices.

The best way to choose an agent is to ask your banker, accountant, mentor or a fellow business owner for a recommendation.

A good insurance agent will ask enough questions about your business to identify all the threats it faces. Always get three bids and check references carefully. Your agent should pick the policy that's in your best interests and offer it at a competitive price. You should understand exactly how your premium is calculated, and make sure the agent's estimate is correct. Because your agent is your contact with the insurance company, you'll need to have confidence in him if a claim arises.

...

Walt told George that he didn't like accounting and rarely balanced his checkbook. He understood that it was a good idea. But every time he sat down to do it, more important things seemed to come up.

"What sort of things?" George asked. After some good-natured prodding, Walt admitted that he'd recently been distracted from doing his books by the challenge of fixing an old accordion that someone had dropped off with a box of radio parts. George laughed.

No other form of risk management is as inexpensive, effective or easily available as insurance.

Walt was embarrassed. “I guess I’m a hopeless case, huh?”

George assured him that he’d seen worse, but pointed out that his accordion repair had cost him \$135 in bounced-check charges. They decided that over the coming month, George would work with Walt for two hours a week to organize his paperwork and balance his accounts. After that, they’d meet for an hour a week.

Walt protested that he couldn’t afford that much. After some discussion, they struck a deal: For the first 12 hours, George would take a radio worth \$200, plus \$400 in cash. After that, George would be an on-call supervisor and teacher, helping Walt to set up and maintain a simple filing system. For this service, which would mostly involve brief phone conversations, he’d charge \$30 an hour. Walt agreed, and shortly afterward they signed a contract.

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Types of insurance

The insurance industry divides coverage into two main categories: property and liability, and life and health.

Property and liability insurance

These are the most important types of business insurance. Property policies protect your building and other physical assets. Liability policies protect you against claims of injury or property loss resulting from negligence on your part.

Property and liability coverage is often offered in a package policy covering a number of business risks. Be cautious when considering such plans. Never assume that a package policy will cover all your insurance needs.

Some firms may need other types of property and liability insurance. Insurance companies have developed coverage for almost everything, but these are the plans

most microbusinesses should consider:

- **Liability insurance** protects your business if, for example, someone is injured on your site and sues you for damages. The cost of this coverage usually relates to your type of business. For instance, a plating shop where workers use dangerous chemicals would typically pay more for coverage than a shoe store.
- **Product liability insurance** protects against injury and property loss claims arising from your product’s defects or design flaws.
- **Business property insurance** protects equipment or assets against theft, fire, flood, vandalism and other unfortunate incidents. Other hazards—such as windstorms, hail, smoke and explosions—can also be covered. The coverage is written for a specific value, such as the cost of replacing a building. Monthly premiums are based on this value.
- **Business interruption insurance** protects against revenue losses due to fire, flooding and other disasters. This coverage is especially important for businesses with a high risk of fire damage, such as restaurants.
- **Business crime insurance** covers losses due to burglary, robbery, embezzlement, counterfeit money and employee theft.
- **Commercial auto insurance** is similar to personal auto insurance. Most policies cover damage to your vehicle, damage to other vehicles and injuries to drivers and passengers.
- **Electronic data processing insurance** protects against damage to computers and data from mechanical failures,

Never assume that a package policy will cover all your insurance needs!



power surges and viruses. A good EDP policy will cover the cost of business interruption and data recovery.

Insuring a home-based business

If you run a home-based business, you might assume that your homeowner's or renter's policy covers business losses. However, this is usually not the case. To get adequate coverage, you must usually choose one of these options:

Homeowner's or renter's policies may not cover home-based business losses.

- **Endorsement to an existing homeowner's policy.** Homeowner's policies rarely cover more than \$2,500 for home business equipment. You can increase this coverage by adding a home business rider. You may have to meet annual sales limits to qualify.
- **In-home business policy.** These policies insure business property for up to \$10,000. You can also buy up to \$1 million in liability coverage. In-home business policies cover lost income from damage to your house, and also offer limited coverage for valuable documents and off-site property.
- **Business owners' policy (BOP).** These package policies typically offer broad property, liability, crime and business interruption coverage for small to mid-size companies. They are available in most states. High-risk businesses generally don't qualify for this coverage.

Life and health insurance

Although life and health coverage is usually part of employee benefit packages, it can also insure owners and partners.

- **Workers' compensation** covers employees who are injured on the job. It's required by law, but specific requirements vary by state. Check with your

state insurance commissioner's office to find out what coverage you need.

- **Life insurance** often comes as part of a health insurance package. Otherwise, term life insurance can be purchased for your employees at a reasonable cost.
- **Self-insurance** is the practice of choosing not to purchase health coverage and paying claims of a specific type and cost as they occur. The business only purchases "stop-loss" insurance, which covers major illnesses, accidents and expenses. Consider the advantages and disadvantages carefully before choosing self-insurance.
- **Social Security** covers certain types of long-term disability that make work impossible. The amount of the disability benefit depends on your age at the time of the disabling sickness or injury, as well as your record of covered earnings. Social Security also provides survivors' benefits to your spouse or children in the event of your death.

Lowering insurance costs

When seeking insurance, it's not enough to look at all the risks you face. You also need to avoid them wherever possible. Improving safety and security reduces the risk of loss, which in turn reduces the cost of insurance. Here are a few safety measures that every microbusiness owner should take; your insurance agent may have additional suggestions:

- **Secure all doors and windows.** Although it's possible to break into almost any building, most criminals are looking for easy pickings. An unsecured basement window in a dark backyard, or a glass panel next to a doorknob, is much more attrac-

tive than locks that must be picked. Adequate lighting, barred windows and secure doors greatly reduce the risk of theft. If you can afford a security system, this is another good idea.

- **Fire safety** is one of the biggest factors in insurance costs. Install smoke alarms and test them every month. Avoid faulty appliances and dangerous electrical connections. Keep the perimeter and interior of your building free of debris and clutter. Store hazardous chemical properly, and keep fire extinguishers fully charged.
- **Keep your business site safe for visitors.** Walkways should be clean and dry, and steps should be sturdy and well maintained. Keep your office area free of clutter. If you have a home office, keep children's toys off the floor and control pets while visitors are on the premises.
- **Keep your business safe for employees.** Provide adequate ventilation and safety gear, and avoid unsafe working conditions. Replace hazardous chemicals with safer alternatives wherever possible. Create a written safety policy and hold regular safety meetings.

Your insurance agent can help you identify unsafe conditions at your site. Although these problems may cost some money to fix, addressing them can save you plenty on insurance. It may even save your business!

Your Operations Manual

Another way to manage risk is to develop standard operating procedures for all your important business functions. Following time-tested guidelines can greatly reduce the risk of problems.

Such procedures often develop naturally.

Suppose you run a retail shop. You want to keep the floor clean, and you've determined that the best time to wash the floor is at night, after the business closes. That way, the floor has time to dry before customers return.

Probably without meaning to, you've developed a standard operating procedure: You know that following this procedure reduces the risk that a customer will slip and fall in your store.

It takes discipline, but many successful business owners develop an operations manual that describe all such standard procedures.

This is especially helpful as a guide for temporary help. When you can't be at your business, the manual tells your stand-in how to keep things running smoothly and safely.

Business Continuity Planning

Business continuity planning means preparing your business to survive disasters and disruptions, including fires, floods, earthquakes, tornadoes and lengthy power outages.

No microbusiness is too small to benefit from a continuity plan. Statistics show that many small businesses fail to survive relatively minor and common disasters like building fires and floods. Businesses that have a plan in place stand a much better chance of getting back on their feet when the smoke clears.

Here are the basic steps involved in continuity planning:

1. List all necessary business functions, who performs them, and what equipment and supplies they require. Compile personal contact information for key individuals, and make a de-

No microbusiness is too small to benefit from a continuity plan.



tailed list of their everyday responsibilities. If disaster strikes, can any of these personnel telecommute, or perform key business tasks at another site? Do they have the equipment they need? If so, make a note of it. Also, consider who should be in charge of managing the business if you are injured or otherwise unavailable.

2. Identify threats and the business functions they threaten. Then, take steps to minimize the damage these threats can do to your inventory, equipment and data. For instance, you might back up essential data online, or on a remote computer, so that you won't lose it in the event of a fire or flood. If you have a delivery vehicle, you should know where to rent a replacement in case it's unusable. List multiple replacement options wherever possible.
3. Compile detailed contact information for suppliers, key customers, insurance agents, equipment repair specialists, attorneys, Internet service providers, lenders, investors, and any other essential outside partners.
4. List the type, amount and location of any hazardous materials or equipment in your facility for the benefit of emergency responders and rescue teams.
5. Identify and make copies of business licenses, leases, contracts, tax documents, financial records, loan documents, personnel files, software documentation, and any other documents you need to run your business. Where applicable, try to have legally valid copies made (i.e., by getting official or notarized duplicates). If you don't want to put all these documents into your plan, make sure that key employees

understand how to find them at an off-site location. You should also store electronic versions at a secure location online.

6. Choose a secondary work site to use until your primary site is restored or replaced. This could be a local hotel, a trailer or even your garage. Whatever location you choose, make sure it's clearly identified in your plan. If possible, list multiple sites in case your first choice is unavailable.
7. Get employee input. Before you finalize the plan, pass a draft version out to employees and hold a roundtable meeting to get their comments. People tend to take everyday things for granted, so it may take several passes to work through all the business implications of a disaster.
8. Distribute the finished plan to employees. Every member of your team should have a copy of the plan at work and at home. You should also consider storing a copy online, so that your team can access it easily from a remote location.
9. Revise the plan as necessary to reflect new equipment and software; personnel changes; customer and vendor changes; and so forth. Clearly date each revision of the plan, collect and discard the outdated hard copies, and update any online versions. You don't want employees working from two different plans!
10. Test your plan regularly. Even the most careful plan will overlook important details. It's better to learn about these mistakes during a practice run than in the middle of a crisis. To be effective, your test should assume a worst-case

Every member of your team should have a copy of your continuity plan at work and at home.

scenario in which your business location is destroyed. If your plan doesn't work as it should the first time, fine-tune it and try again within a month or two. Once you're satisfied with your plan, test it annually.

The *Continuity Planning Worksheet* will get you started on this crucial task. For additional advice and sample business continuity plans, visit the Federal Emergency Management Agency at <http://www.ready.gov/business>.

Planning for Growth

One of the most important decisions you face as an entrepreneur is how and when to grow your business. Growth for growth's sake will waste precious resources and energy. Your strategic choices should be calculated to increase competitiveness and profits.

If you do decide to grow, bear in mind that this can make managing your business more complicated and time-consuming. Also, you may have to give up a certain amount of day-to-day control.

Growth will affect your customers, too. If your business is known for personal, attentive service, you need to think about whether growth will change your image. Don't get so caught up in looking for new customers that you forget the ones you already have. Your goal should be to grow only as much as will allow you to serve your customers more effectively and profitably. If you can better serve your market by being small, then by all means stay small.

Reasons for pursuing growth include:

- Increasing profits
- Taking on new challenges
- Achieving economies of scale

- Getting volume discounts on inputs and materials
- Enhancing the company's status
- Acquiring a wider or more diverse customer base

Dangers of Unmanaged Growth

Unmanaged growth can affect every area of your business's performance. Pitfalls include:

- Inability to meet performance standards
- Low employee morale, and high turnover
- Loss of profitability
- Loss of customer loyalty
- Lower quality and professionalism
- Slowdown in business learning and competitiveness
- Inability of overworked leadership to provide direction
- Cash flow problems
- Inefficient use of resources
- Stress and burnout
- Loss of focus on core objectives
- Poor communication among employees

Don't get so caught up in looking for new customers that you forget the ones you already have!

Types of growth

Vertical growth happens when you increase sales of an existing product within an existing market. This tends to be the safest form of growth, because it usually doesn't require a large increase in manufacturing, personnel or warehousing costs. It also tends not to disrupt business processes.

Horizontal growth happens when you offer a new product or seek out a new market for an existing product. The riskiness of this strategy varies, depending

on how new and different the product or market is. In some cases, it may require nothing more disruptive than creating a new marketing plan, adding additional sales people or offering your products online. In other cases, it may take plenty of new capital, as well as big changes to business structures and processes.

Is it time to grow?

Generally speaking, you can't grow safely unless you have a stable core business that is strongly competitive within its market. As the leader of your business, you must be absolutely committed to this core business before you consider growth. You should also be an expert on your target markets and any trends that affect them.

It's seldom wise to expand into a type of business in which you lack expertise. This doesn't mean that you shouldn't consider new product lines, or new possibilities for old ones. But the best foundation for growth is the area where you truly excel.

You should have all of the following elements in place before you consider growing your business:

1. A profitable business model.
2. Proven operating procedures that have been set down in writing.
3. A clear understanding of your current and future customers.
4. A stable or growing market demand.
5. The ability to provide additional training to your employees, if needed.
6. An emotional and intellectual openness to change.
7. Access to growth capital.

The best foundation for growth is the area where you truly excel!

Growth Management Tips

- Keep your business on track by limiting it to a set level of customers, a specific geographic region or a particular order size. These limits aren't permanent; they just keep growth manageable for a given period of time, so that you can plan intelligently for the next stage of growth.
- Remember that as your business grows, your workload will increase. Some businesses fail because the owners are too busy making products or filling orders to take care of essential management tasks. The ability to delegate responsibility and authority at this stage is crucial.
- Look for the next level of financing early. Negotiations for second-round funding can be slow, especially when there's a short length of time between the first round of funding and a request for growth funding. A good relationship with a lender—and an updated business plan that highlights your track record and growth prospects—are the keys to success.
- Before creating new positions and hiring employees, meet with your current employees and explain your plans. Where possible, ask for their help and insight in creating new positions.

Update your plan!

Let's say that after careful consideration, you decide it's time to grow. The first step is to review and revise your business plan. Just as it guided you to the point where growth became a real option, it should guide you through the process of growth. Consider these issues:

- What new threats and opportunities will my growing business face?

- What new resources and equipment does growth require?
- How will I maintain good customer service during the growth phase? How will I continue to meet my quality and service goals?
- Will new regulations apply to my products, employees or raw materials?
- How will the cost of growth affect profits? When will I break even?
- Will I have new competitors? How will they react to my growth plans?
- Will I need to hire new staff? Will I be able to manage them effectively? Will they work well with existing employees?
- Will I need to change my location or supply chain?
- How much financing will I need, and where will I get it?

Surviving Hard Times

Good management is seldom more important than when the economy slows down or business drops off. Well-managed companies don't just survive lean times; they also become more competitive in the long term, because they come up with innovative ways to cut costs, optimize efficiency and win customer loyalty. In some cases, they even create new products and services that leave them in a better position than before the downturn.

Here are some basic rules for managing your microbusiness during tough times:

- **Revisit your budget and your business plan.** When the economy changes, your plans need to change with it. Expenses that aren't crucial may need

to be cut, scaled back or postponed. New target markets may need to be abandoned or approached differently. Don't approach this task in a strictly negative mindset by looking for costs to slash and dreams to abandon. Revising your plans and budgets may lead to positive ideas you wouldn't have thought of in better times.

- **Don't stop advertising.** When times are tough, the last thing you want to do is reduce your visibility. On the contrary, you need to make customers *more* aware that you offer great service or exceptional value. This is a good time to look for low-cost marketing techniques to keep your business in the public eye.
- **Innovate.** Consumers often welcome new tactics and approaches during a downturn, not least because they find it inspiring to see people overcome adversity in clever and interesting ways. Also, when the economy is doing badly, journalists tend to look for stories about local businesses that are holding their own. Come up with an interesting promotion, and you could find yourself getting lots of free publicity.
- **Reduce inventory.** This can free up space, time and money when you need it most. If you have products that aren't selling, consider returning them to your suppliers, or holding a sale or an auction. You may also need to consider discontinuing unprofitable product lines.
- **Keep employees informed and inspired.** They have a vested interest in your success, so they may be willing to tighten their belt if the alternative is being laid off. They may also have

Good management is especially important during tough times!



good ideas for cutting costs or boosting sales. If they do stand by you, be sure to reward their loyalty when things get better.

- **Keep an eye on your supply chain.** If vendors, customers or partners are having financial problems, it may affect your ability to fill orders or get paid. Consider asking partners directly how things stand. Alternatively, run a credit check or look them up on Dun & Bradstreet.

- **Form partnerships and alliances.** Other struggling businesses may be looking for ways to weather the storm. Maybe you can cut costs by sharing a warehouse or an ad campaign with a complementary business. Maybe you can split the cost of a piece of equipment you both need. Or maybe you can cut costs by exchanging services. In addition, it often helps simply to talk. A weekly meeting with likeminded business owners, where you compare notes and share strategies, could maintain your morale. It may even lead to new opportunities.

- **Offer incentives.** Special offers, contests, reduced prices, free services and added value can all help to attract customers who are worried about their own finances.

- **Watch your cash flow.** Conduct a cash flow analysis regularly to make sure your business stays liquid.

- **Don't ignore payroll taxes and other payments that are due to local, state and federal government.** These agencies can impose fines, place a lien on your property, or even shut down your business altogether. You can't dis-

charge tax debts through bankruptcy, so always pay these expenses first. It's also smart to keep your lawyer and accountant happy, for obvious reasons.

- **Keep your creditors informed.** If you're having trouble paying your bills, be honest about the problem. Stay in close contact with your creditors and vendors, and offer them a realistic repayment schedule. Remember that their survival may also be at stake, and look for solutions that will help both businesses stay afloat.

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What bothered me most was the idea that I needed to pay someone to hold my hand, just to get me to live up to my responsibilities and do what was expected of me. That hurt my pride.

So I decided I wasn't going to run away from it. These were all simple tasks that I knew I should be doing, so I was going to start doing them. I was going to be the best student George ever had.

Over the following month, a lot of changes were made at Resurrection Radio. George spent an afternoon at Walt's office, reconciling accounts and processing payments. Afterward, he worked with Walt to create a sensible, easy-to-use filing system that organized all his paperwork, from radio schematics to receipts for vintage tuning knobs.

George also wrote up a schedule of purchasing, bookkeeping and paperwork chores that Walt needed to do weekly or monthly. Basically, this was an action plan that explained exactly what Walt needed to do and when he needed to do it.

Walt got the hang of it quickly, and it wasn't long before he was able to do most tasks without George's guidance. Soon, he was meeting with George only once a month

Regular cash flow analysis will help your business stay afloat in uncertain times.

to review his reconciled bank statements, invoices and bills. This usually takes about an hour, and Walt considers it money well spent. He hasn't bounced a check in more than a year, and because his books are in order, he knows exactly how much profit he's making each month.

Looking back, I think the main reason I never liked managing my office and my finances is that I just didn't know how to do it.

Now that I do, it's really not that different from fixing a radio, or doing a crossword puzzle, or a lot of other things I do for pleasure even though they might not be easy.

These days, I see my weekly management tasks as a nice change from my repair work. Sure, it can be a struggle, but it's satisfying to do it right. And if I get stuck, I always know where I can get help.

It's kind of surprising to hear myself say that, because I was always the kind of guy who thinks asking for help means you're not strong enough to get by on your own. But the truth is, learning the things you need to know makes you a lot stronger. And a lot smarter, too.

If I'd kept on going my own stubborn way, I could've ended up losing a lot of my income and independence. Thanks to George, I'm in full control of my business.

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What You've Learned

In this session, you learned:

1. The best time to learn management skills is when you're just starting out. That way, you can build on them as you grow.
2. Time management skills are critical to microbusiness success.

3. Four rules of business communication: Be polite, be honest, be clear and practice active listening.
4. Developing people management skills early on makes hiring and managing employees much easier.
5. Creating a problem-solving framework helps you make the right decisions when things go wrong.
6. You can reduce business risks by having the right insurance, establishing standard operating procedures and writing a business continuity plan.
7. A business can thrive despite disasters and downturns, and it can fail despite high growth and consumer demand. It all comes down to the owner's management skills and dedication to planning.

WORKSHEETS



SESSION 6

SESSION 6: MANAGING YOUR MICROBUSINESS

First Things First!

Management Team Worksheets

These worksheets identify your internal and external management team and highlight their credentials and qualifications. Even if you are starting the business by yourself, it's wise to fill out these worksheets. As your business grows, you will almost certainly need help running it.

Step 1 Complete the Internal Management Team Worksheet.

List owners and managers and their titles. State who will manage day-to-day business operations and explain why you chose them (skills, education, experience, etc.).

Step 2 Complete the Management Skills Worksheet.

Which skills do you currently have in-house, and which do you need to learn or seek from outsiders? To answer these questions, review each skill area in the *Management Skills Worksheet*. In the **Adequate Knowledge** column, write the name of the internal management team member who has the relevant skill.

If no team member currently has that skill, decide whether you will train someone inside your organization or will hire an outside expert. Then, put an "X" in the **Outside Help Needed** or the **Education Needed** column. For skills that require education, research the cost of education or training and enter it in the **Cost** column.

Step 3 Complete the Outside Services Worksheet.

Identify outside services you need, and state who will provide them (if you know). Research monthly costs for each outside service you feel is essential. Always consider the legal issue of independent contractors vs. employees—as defined by the IRS—when deciding which functions to outsource.

Step 4 Complete the Advisory Board Worksheet.

Identify prospective advisory board members by the type of knowledge or experience they have and—if possible—by name.

Management Team Worksheets—continued

Internal Management Team Worksheet

1. Who are the owners and managers of your business, and what are their titles?

Name	Title	Owner	Manager

2. Who will manage the day-to-day operations of your business?

3. Why did you choose the managers listed above? Use highlights from their résumés to explain their relevant skills, education, and professional or practical experience.

Management Skills Worksheet

Review each skill area in the *Management Skills Worksheet* below. In the **Adequate Knowledge** column, write the name of the internal management team member who has skill in that area. If a skill isn't relevant to your business, write "NA" for "not applicable."

If no management team member currently has the skill, put an "X" in the **Outside Help Needed** or the **Education Needed** column. For each skill that requires education, research the cost of education and enter it in the last column. (You will research the cost of outside services on the next page.)

Management Skills	Adequate Knowledge (write in the name)	Outside Help Needed	Education Needed	Cost
Planning and organizing				
Employee management				
Budgeting				
Accounting and taxes				
Financial management				
Bookkeeping				
Payroll				
Credit and collections				
Design and engineering				
Manufacturing				
Quality control				
Inventory management				
Pollution prevention				
Information technology				
Graphic design				
Photography and video				
Copywriting and editing				
Website design				
E-commerce				
Marketing and promotions				
Sales				
Customer service				
Safety and security				
Legal				
Secretarial				
Other:				

Management Team Worksheets—continued

Outside Services Worksheet

The *Management Skills Worksheet* identified necessary skills you currently lack. With those skills in mind, complete the *Outside Services Worksheet*. You'll need to research the cost of each outside service. Consider obtaining two or three bids for each service category. Remember to consider low-cost/no-cost options like free legal services and barter.

Calculate the monthly expense of each outside service, and then add up the total annual cost. This way, you can compare the cost of using outside services to the cost of training someone to do the same work.

Service Category	Who	Monthly Cost	Annual Cost
Planning and organizing			
Employee management			
Budgeting			
Accounting and taxes			
Financial management			
Bookkeeping			
Payroll			
Credit and collections			
Design and engineering			
Manufacturing			
Quality control			
Inventory management			
Pollution prevention			
Graphic design			
Photography and video			
Copywriting and editing			
Website design			
E-commerce			
Marketing and promotions			
Sales			
Customer service			
Safety and security			
Legal			
Secretarial			
Other:			
Total Monthly Cost			
		Total Annual Cost	

Advisory Board Worksheet

Advisors can bring expertise and unbiased views to your business for a low cost. Many advisory boards meet once a year, while others meet on a quarterly or yearly basis. Most small-business advisory board members serve on an unpaid basis. They're often rewarded simply by having their meeting meal paid for, or with discounts on products or services. The board may consist of family members, local business professionals, former or current owners of similar businesses, customers, or mentors.

1. Identify potential advisory board members by the type of knowledge or experience they have and—if possible—by name.

Knowledge or Expertise Desired	Potential Board Member Name

2. How often and where will your advisory board meet? How will you compensate members?

Now that you've identified your management team, outside services and advisors, you need to consider your employee needs and the associated costs.

Detail your employee needs on the worksheet below. Identify full and part-time positions, and note when they will be needed (seasons, specific hours of the day, etc.). Then, answer the questions that follow the worksheet.

[illegible]

1. **Have you written current job descriptions for your management and personnel positions?**
If you haven't, schedule this activity on your *Action Plan Worksheet* from Session 1. If you have, include copies of job descriptions in the *Attachments* section of your business plan.

2. **How will you find, screen and hire the employees you need?**

3. **What training will new employees need? Specify training needs for each position. Who will conduct training (in-house; community college)? What are the costs?**

4. **What paperwork will be required when you hire new personnel? What other legal requirements apply?**

Employee Management Worksheets—continued

Employee Salary/Wage and Benefits Worksheets

This worksheet will help you summarize wage and salary expenses for prospective full-time and part-time employees. Include mandatory payroll taxes in your calculations, as well as any optional fringe benefits.

- Step 1** *List the job title for each employee you expect to need on the **Employee Salary/Wage and Benefits Summary Worksheet** below. Include managers and active owners who will receive wages (as opposed to owners taking a draw).*
- Step 2** *For each employee you identified in Step 1, fill out one copy of the **Employee Salary/Wage and Benefits Worksheet (Monthly)** on the next page. Make extra copies of this worksheet, if necessary. (Note: This is a monthly worksheet, so for part-time or seasonal employees, detail the months they will be working or their anticipated seasonal monthly hours.)*
- Step 3** *Fill in the salary/wage and benefits costs to be paid each month to each employee on the summary worksheet below. (Don't forget seasonal fluctuations.)*
- Step 4** *Calculate the total monthly salaries by adding down the columns, and the total yearly salaries by adding across the rows. Check for accuracy—column totals and row totals should match.*

Employee Salary/Wage and Benefits Summary Worksheet

[illegible]

Employee Salary/Wage and Benefits Worksheet (Monthly)

Title:		Notes:	
Work Performed:			
Salary/Wage per Hour/Month: \$			
Mandatory Benefits:		Optional Benefits:	
Social Security (FICA)	\$	Medical Insurance	\$
Federal Unemployment	\$	Dental Insurance	\$
State Unemployment	\$	Vision Insurance	\$
Workers' Compensation	\$	Life Insurance	\$
Other	\$	Disability Insurance	\$
		Pension Plan	\$
		Profit-Sharing Plan	\$
		Other	\$
Total Mandatory/Month	\$	Total Optional/Month	\$
		Grand Total/Month	\$

Employee Salary/Wage and Benefits Worksheet (Monthly)

Title:		Notes:	
Work Performed:			
Salary/Wage per Hour/Month: \$			
Mandatory Benefits:		Optional Benefits:	
Social Security (FICA)	\$	Medical Insurance	\$
Federal Unemployment	\$	Dental Insurance	\$
State Unemployment	\$	Vision Insurance	\$
Workers' Compensation	\$	Life Insurance	\$
Other	\$	Disability Insurance	\$
		Pension Plan	\$
		Profit-Sharing Plan	\$
		Other	\$
Total Mandatory/Month	\$	Total Optional/Month	\$
		Grand Total/Month	\$

[illegible]



3. Describe your policies for disciplining and firing employees.

4. Describe your policies for motivating and rewarding employees.

5. Describe your overall philosophy of managing employees.

Your supply chain consists of all the interdependent business processes that go into selling your product, from sourcing and manufacturing to distribution and sales. Every business has its own supply chain, as well as its own position in the supply chains of other businesses.

The **location** of your business should be compatible with your goals and strategies. The importance of physical location depends on what kinds of products you offer, what kind and amount of space you need, and what effect the location has on serving your target market.

[illegible]

3. Will nearby businesses or attractions help your business draw customers? Explain.

4. What drawbacks does this location have? How will you address them?

5. What renovations are necessary? How much will renovation cost? How long will it take?

6. How does your location fit into your supply chain? Is it near your suppliers, distributors, shippers or customers? Is it convenient and cost-effective for your transportation needs (consider the cost of getting supplies in and shipping products out)?

7. How will you deliver your products? Be sure to compare various transportation costs (e.g., air, rail, truck) related to your location.

Purchasing and Inventory Worksheet

1. What raw materials does it take to produce and deliver your product or service?

2. Who are your suppliers? Where are your suppliers? What tradeoffs are involved in choosing one supplier over another (e.g., local sourcing vs. low-cost materials from overseas)?

3. Will you make products to order, or keep an inventory? Will your inventory be on-site, or will you store it elsewhere?

4. What system (manual or computerized) will you use to keep track of your inventory? Explain your choice and cite estimated costs.

Risk Management Worksheets

Each business has special risk management needs. You need to think about managing the risks your business faces, and plan to address any special needs your business has.

Insurance Needs Worksheet

Use this worksheet when consulting with an insurance agent to determine the type, amount and cost of coverage you need. Make multiple copies, if necessary.

Type of Insurance	Required?	Type/Coverage	Cost per Month
Protecting Your Business			
General Liability			
Product Liability			
Professional Liability			
Business Property			
Business Interruption			
Business Crime			
Fire and Flood			
Key Person			
Commercial Auto			
Electronic Data			
Website			
Home Office			
Other:			
Protecting Yourself			
Personal Disability			
Life			
Medical			
Self-Insurance			
Other:			
Protecting Your Employees			
Group Health			
Life			
Pension Plan			
Workers' Compensation			
Other:			

Risk Management Worksheets—continued

Continuity Planning Worksheet

Statistics show that most small businesses that suffer a disaster—such as a fire, a flood or a costly break-in—never recover. Even if you have insurance, the loss of important business records and documents can make it very hard to get back on your feet. Creating a business continuity plan will help you prepare for and survive disasters of all kinds.

This worksheet will give you a first look at the kind of data required for a business continuity plan. As soon as it's practical, you should create an actual, full-scale plan to help your business recover from disasters and disruptions.

- Step 1 For each essential business function, list the name of the person who's responsible for the function, the tools and resources that person needs to do the work, and the steps required to get the business function up and running again in the event of a disaster.*
- Step 2 For each threat, describe the possible impact on your business, the steps you can take to reduce that impact, and off-site resources that can help you recover (e.g., a storage space or safe deposit box).*
- Step 3 List the name of each hazardous material your business uses. State the type of hazard (e.g., "Flammable Liquid"). Note the total amount stored (on average) and the location. This information could save the lives of first responders during an emergency.*
- Step 4 List essential documents and data. State their purpose. State their onsite location, and explain where to find backup copies in the event of a disaster (e.g., at a storage space or online). If data are stored electronically, include your password or explain where to find it.*



Worksheets Assignment for Session 7

Complete the following worksheets before writing the corresponding section of your business plan.

- *Management Team Worksheets* (finish and research costs)
- *Employee Management Worksheets* (finish and research costs)
- *Supply Chain and Logistics Worksheets* (finish and research costs)
- *Types of Insurance Worksheet* (contact insurance agent and work on costs)
- *Other Risks Worksheet* (contact insurance agent and work on costs)
- *Continuity Planning Worksheet* (finish and research costs)



Writing Your Business Plan

Use the information from this session to write the sections of the business plan listed below. Start with the headings and subheadings just as they're shown. Then, follow the instructions under each subheading to write that section of your business plan.

Section III. Business Organization and Operations

A. Business Structure, Management and Personnel

Management Team

*Review the **Internal Management Team Worksheets**. Describe your management team. Include details about key managers, and explain why they were chosen. In the **Attachments** section, include a résumé for each owner and key manager. If a management position is unfilled, include the job description instead of a résumé. This section should tell your reader why you and your team are qualified to manage your business. If applicable, include an organizational chart to help readers see the roles and responsibilities of your management team.*

Outside Services and Advisors

*Review the **Outside Services Worksheet** and the **Advisory Board Worksheet**. Discuss the outside services you'll need, and why you decided to use them instead of hiring an employee to do the work. Then, discuss whether or not you'll use an advisory board. Describe who (by member type, not names) might be on the advisory board, and what information they can provide to help your business.*

Personnel

*Review the **Employee Management Worksheets**. Describe your non-management employee needs. Include job descriptions. Discuss where and how you will find new employees, and what screening processes you will use in hiring. Discuss whether you think you'll have trouble finding qualified employees for your business. Also, explain how you'll train employees (both new employees and ongoing training).*



Writing Your Business Plan—continued

B. Operations Plan

Site and Equipment

*Review the **Business Site Worksheet**. Describe your site and explain why it's appropriate for your business. Describe positive features of your location as they relate to your business, and note any expected changes (e.g., new business growth) that will affect your operations. Describe any drawbacks of your location and explain how you'll address them. Then, review the **Equipment Needs Worksheet** and list the tools and equipment your business requires. Note which ones you have, and specify whether you will buy or lease the ones you don't. If possible, get maps, photos and blueprints of the location and include them in the **Attachments** section of your business plan.*

Purchasing and Inventory

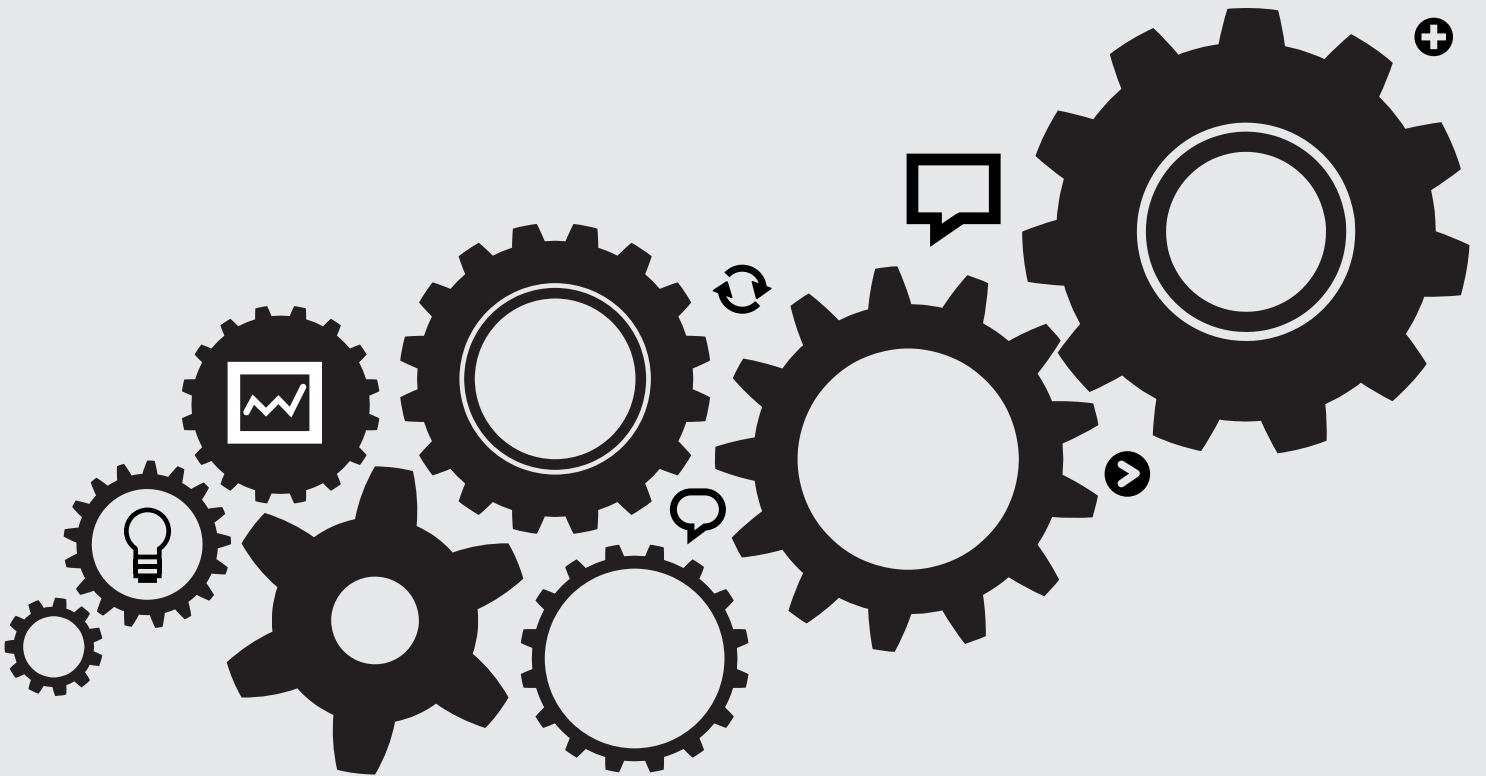
*Review the **Purchasing and Inventory Worksheet**. Explain who your suppliers are, where they are and why you chose them. Detail your plans for ordering, storing and managing inventory and other supplies. Explain why these operational decisions will benefit your business.*

Risk Management

*Review the **Insurance Needs Worksheet**, **Other Risks Worksheet** and **Continuity Planning Worksheet**. Explain how you'll manage risk. Include the types of insurance you need and the anticipated costs. Also, write about other inside and outside risks your business faces, and explain how your management policies and procedures will help you manage these risks.*

Note: The financial/cost information you're gathering throughout these early sessions will be used in later sessions. As you continue making decisions, be sure to review worksheets that ask for costs to see if they need revising along the way.

TEXT



SESSION 7

Analyzing Your Market

CHART IT BEFORE YOU START IT!

HIGHLIGHTS

Introduction to Marketingpage 2

Expanding Your
Market Researchpage 3

Describing Your Product.....page 4

Understanding
Your Marketpage 6

“If you plan to profit, learn to please.”

—Winston Churchill

”

About This Session

Markets are affected by economic conditions, consumer trends, government regulations, technology and the number and quality of competitors. Understanding market conditions helps you avoid obstacles and take advantage of opportunities.

This session looks at the following topics:

Introduction to marketing.

Marketing is everything your business does to get its products

to customers and earn a profit. It includes creating a business concept, describing your product, choosing a target customer and deciding where, how, when and at what price to sell your product.

Expanding your market research.

You started your market research in Sessions 2 through 4. Now, it's time to look in greater detail at your customers and markets.

Describing your product.

Knowing what you're *really* selling

is a central part of marketing. Suppose your product is cosmetics. Are you selling powder and lipstick? Or are you selling the concepts of beauty, self-esteem and looking your best? Your product description must fit your customers' needs.

Understanding your market.

Market analysis is the process of looking at your marketing data and drawing conclusions about your customers, your competitors and your market potential.



Anything that affects your customers affects your bottom line.

Introduction to Marketing

Marketing includes all the actions you take to design your product, and manufacture it, and promote it, and sell it, and deliver it and service it.

In other words, marketing is everything you do that affects your customers. And of course, anything that affects your customers affects your bottom line.

There are three basic types of marketing:

- **Consumer products marketing** includes designing colorful, eye-catching labels; choosing the best radio station to air a catchy commercial jingle; and fighting to get shelf space in a grocery store for a “new and improved” laundry detergent.
- **Business-to-business marketing** usually means selling parts, materials or niche services to other businesses. Business-to-business marketing has a larger annual sales volume than that of consumer products.
- **Service marketing** is one of the fastest-growing sectors of the U.S. economy. It involves the sale of services like babysitting, gardening and cleaning. You can market services to individuals or businesses.

In a well-run company, every team member understands the importance of marketing and treats every interaction with customers as an opportunity to communicate the company’s message.

Your website designer makes your site attractive and easy to use. This communicates your sense of style, your efficiency and your commitment to making life easier for your customers. The person who answers your phone communicates

your friendliness, your knowledge and your eagerness to solve problems. The shipping clerks who package your merchandise communicate the value you place on it, and on customer satisfaction.

Let’s look at that last example a little more closely, because it says a lot about how important little details are to your company’s identity. Think what a difference it makes to receive an item that’s nicely packaged in clean protective material, versus an item that’s been tossed into a stained, flimsy box full of old newspaper.

As you can see, the image of your company can depend as much on a part-time shipping clerk as it does on your larger marketing efforts.

And it doesn’t stop there. Are your customers concerned about the environment? If so, should you package your merchandise in Styrofoam or lots of excess plastic, or would it be better to spend a little extra money on biodegradable or recycled packaging?

When it comes to marketing your microbusiness, every little detail counts. That’s why it’s necessary to create a marketing plan that explains how all the different parts of your business work together to communicate your company’s message consistently.

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We didn’t know what to do when the plant closed down. Like most people in town, it hit us hard. Most of our dads had worked there, and we all grew up believing that opportunity was going to be there for our generation, too.

But things didn’t turn out that way. When the plant closed, it didn’t leave us with many choices. We didn’t want to move out of town. It’s our home, for one thing. Our families are here. And besides that, Mike and I were both engaged to our high-school sweethearts.

A few years ago, George Starkey graduated from a small high school in a little town in the Blue Ridge foothills of North Carolina. Along with his friends Roger Bacon and Michael Maier, he started working at the Vautour furniture company, as their fathers had done before them.

A year later, Vautour closed down its plant and outsourced its jobs to China.

For a small, tightly knit town whose economy depended on the company, this was a disaster. Some workers got jobs in nearby cities and ended up commuting for more than an hour each day. Others left town in search of greener pastures. And a few—like George, Roger and Michael—decided that the only way they could get back on their feet was to start their own business.

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Expanding Your Market Research

In Session 4, you learned how to collect primary and secondary data. You also researched your industry and completed the *Industry Analysis Worksheet*.

Now, we'll focus on researching your customers and competitors. The first step is to set clear research objectives. Begin by writing down the information you need to fill the gaps in your knowledge.

As you define your research objectives, try the following:

- Rephrase questions about your market to get a new perspective.
- Test your objectives by creating sample data about your market. Do they help to answer questions and inspire strategy?
- Identify the most and least important

issues, and prioritize your research.

- Start out with an open mind, and expose yourself to plenty of viewpoints that differ from your own.

At every step of this process, you should approach your data—and your opinions—with a healthy dose of skepticism. Instead of trying to confirm your beliefs, try to disprove them.

That way, you'll learn what you *need* to know, instead of what you want to know. If you don't learn things that surprise you and challenge your assumptions, there's a good chance that your research wasn't thorough enough.

When defining your objectives, be sure to create a realistic budget and a timetable for each of them. If you don't place firm financial and time boundaries on this process, it can easily spiral out of control. Setting realistic goals requires clear thinking, and clear thinking requires putting preconceptions aside.

Preconceptions are ideas we have about things or people before we learn more about them. When new information doesn't fit our preconceptions, we sometimes reject it. It often seems easier to go on believing what we're used to believing—or would like to believe—than to adapt to new facts. In some cases, a fact may even challenge our deepest feelings about who we are and what we value. Given the choice between rejecting a fact or questioning our personal identity, we sometimes take the easier, more comfortable path of not listening to things we don't want to hear.

This is a luxury microbusiness owners can't afford. If you think you know what your customers want before you research them, you may end up trying to make the facts fit your beliefs. This is very dangerous. In most cases, market research will reveal

Clear thinking requires putting preconceptions aside.

things you didn't know or expect. That's why it's so important to keep an open mind. Your goal is not to confirm your beliefs, but to find out the truth even if

it's not what you want it to be. Wishful thinking often leads to poor planning, and poor planning often leads to failure.

Describing Your Product

Before you try to research your customers and competitors, it's important to define the features and benefits of your product from your customer's point of view. Otherwise, you may not identify your likeliest customers or your strongest competitors.

Here's an example. Joe owns a pizza restaurant. His pizzas are made from organic ingredients. A large two-topping pizza is 14"; it has 10 slices (two more than most large pizzas) and costs less than competing pizzas. His restaurant is open 24 hours a day, and it offers 25-minute delivery anywhere in town. If the delivery is late, the pizza is free. Consider the benefits of these features:

Features	Benefits
Organic ingredients	Perceived as healthy and environmentally friendly
14" size and 10 slices	Customers get more for their money
Open 24 hours	Convenience
25-minute delivery	Time savings
Free delivery if pizza is late	Trust; reliability

As you can see, Joe isn't simply selling a pizza. Instead, he's set himself apart from other local pizzerias by offering unique features and benefits. If you want an extra-large organic pizza at 3 a.m., delivered within 25 minutes, you have to call Joe.

Where to Find Market Data

- **Surveys** gather information by interviewing groups or individuals by mail, online, in person or on the telephone.
- **Government publications and statistics.** The U.S. government tracks and publishes a wide variety of useful business and demographic data, which you can access online through sites like FedStats (<http://www.fedstats.gov>) and the Economics and Statistics Administration's Economic Indicators (<http://www.economicindicators.gov>). Your state's government websites may have additional data.
- **Libraries.** Information from libraries is usually free, except for the cost of printing or copying documents. In some cases, you may have to pay for specialized research that you order through the library.
- **Internet.** If you don't have Internet access at home, most public libraries offer fast, free Internet. Even if you do have an Internet connection, you may need to go to the library to access subscription-based industry sites and journals.
- **Universities or technical schools** may provide free or low-cost information.
- **Census banks.** These "banks" store information rather than money. To find them, check at the library or visit <http://www.census.gov>.
- **Trade associations and publications.** These industry groups offer members a variety of information, publication and support.



It's also important to determine what stage of the **product life cycle** your product is currently in:

- **Introduction.** The product is new and entering the market for the first time. Customers are generally unaware of the product. Sales are low and there is little competition.
- **Growth.** Sales and profits begin to increase as public awareness increases. New competitors take note of the product's growing popularity and enter the market.
- **Maturity.** Many competing products are on the market. Businesses increasingly vie for market share through branding, redesign, packaging improvements, new colors or flavors and other marketing strategies. Sales and prices tend to peak or decline.
- **Decline.** The market is saturated. Sales, profits and prices are low enough that many businesses are forced to discontinue the product.

Your product's stage in this cycle indicates its potential for sales, profit and growth. It can also affect the cost, message and effectiveness of your marketing strategies, as we'll see in the next session.

The *Product Description Worksheet* will help you communicate this and other important aspects of your product.

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Roger and Mike and me all come from woodworking families, so that's where our hearts are. And that's why we decided to start a partnership called Catawba Woodworks.

Of course, we were looking to support ourselves. But we had way bigger goals than that. Our dream was, we'd get big enough someday to hire some of the other folks who

were out of work, and maybe bring our town back to life a little bit.

That was a pretty big dream for three guys with a high-school education and no money. But it gave us a lot of motivation...the idea that we were doing it not just for ourselves, but also for our community. It kept us going through times when we were tempted to give up.

The main thing we couldn't figure out was, how could we compete with companies like Vautour? They had dirt-cheap materials, dirt-cheap foreign labor and the best equipment in the business. How on earth could we go up against that?

After a lot of discussion and debate, the partners decided the best way to compete was not to compete head-on. Vautour's line was mass-produced, so Catawba's would be handcrafted. Vautour's wood came from clearcut forests, so Catawba's would be reclaimed or recycled. Vautour targeted price-sensitive customers looking for the lowest price they could get, so Catawba would target value-conscious businesses and consumers who made a point of buying high-quality, sustainable products.

They didn't know much about marketing. But they knew they had to find a niche market, and this one looked promising. In a furniture industry magazine, they'd read that sales of green furniture had totaled \$2 billion that year—a 30 percent increase over the previous year's sales. Better yet, industry growth projections looked strong over the next three years.

They researched nontoxic stains and varnishes, underwater logging and certification from the Forest Stewardship Council. They looked into institutions and businesses they could target on the basis of their buying practices, and they also researched early American woodworking techniques.

...

Your product's stage in its life cycle indicates its potential for sales, profit and growth.

Understanding Your Market

As we learned in Session 4, the *Market Analysis* section of your business plan defines and explains the following aspects of your market:

- **Customer analysis.** Who are your customers, where do they live, what problems do they have and how will your business solve them?
- **Competitive analysis.** What makes your product better than or different from those of competitors?
- **Market potential.** How many customers in your target market will actually buy from you?

Customer Analysis

Learning about the wants, needs, motivations, demographics, psychographics and expectations of your customers is the key to understanding your target market. Let's take a look at each of these categories.

Needs

Here are some basic human needs, along with some no-frills products that meet them:

- Transportation (a cheap subcompact car)
- Shoes (rubber thongs)
- Nutrition (fast-food burgers)

Wants

What do consumers want, beyond the basic needs listed above?

- A high-performance sports car
- Nike running shoes
- A steak dinner

Motivations

Why do customers want more than they need?

- **Self-image.** They believe the product will make them feel more attractive, fashionable, caring or powerful.
- **Health, comfort and security.** They believe the product is better for them, either because it does something good for them, or *doesn't* do something bad to them.
- **Rewards.** On a special occasion, they want to treat themselves or someone else to the very best.
- **Social concerns.** They believe the product helps people, the environment, animals or the nation as a whole.

Demographics

What statistical information describes your target customers?

- Income level
- Age
- Occupation
- Education level
- Family status (married, single, divorced, children at home)
- Home owner vs. renter
- Ethnic origin

Psychographics

Psychographic data describe your customers' worldview, opinions and preferences. Things to consider include:

- Beliefs (cultural, religious, political)
- Values (spiritual, environmental, traditional, progressive)

Learning about your customers is the key to understanding your target market.

- Behavior (spending patterns, buying behavior, social activities)
- Interests (hobbies, pastimes, group affiliations)
- Media preferences (TV, magazines, radio, Internet)
- Recreational preferences (parks, beach, mountains, hiking, camping, sports)
- Transportation choices (car, bicycle, bus, train, motorcycle, SUV, RV)
- Entertainment choices (music, books, movies, nightclubs)

Customer expectations

Once you've identified your target customers, there's one more important question to consider: What do your customers expect from you and your product?

When thinking about this question, remember that your end user may not be the person who buys your products. Suppose you make cookie dough to sell to a bakery. The bakery then sells the baked cookies to a restaurant, and the restaurant sells them to its customers.

You need to think about the needs, wants and expectations of each link in this chain. In other words, your cookie dough must satisfy the bakers, the restaurant and the restaurant's customers.

Conducting Customer Research

In Session 4, you probably relied heavily on secondary research—that is, research gathered by other people—to research your industry. Secondary research is also essential when researching your customers. However, it's no substitute for collecting primary data.

For a startup microbusiness, few things

are more important than getting feedback directly from potential customers. Knowing what your customers want, and how much they'll pay for it, is a basic requirement of doing business.

Talking directly to target customers is the easiest, fastest way to get this information. And yet, far too many microbusiness owners overlook this essential step.

Two of the best—and easiest—research methods are observing and asking. When dealing with customers (or potential customers), ask them for information and opinions.

- If you have something to eat, ask people to taste it.
- If you have a service, ask people to try it.
- If you have something to wear, ask people to try it on.
- If you have something to sit on, ask people to sit down on it.

You can also set up a blindfold test, where customers sample your product and a rival product without knowing which is which.

After they've tested your product, ask them what they think. Ask for honest comments and listen to them carefully. Pay attention to their body language, too. When people love your product, ask for specifics. Then, ask them more questions about themselves. These are your true target customers.

If someone doesn't like your product, don't be defensive. Remember, you're looking for honest feedback. Try to get enough information about the person to decide if you should change your product to meet her needs. If you make strawberry jam, and the person doesn't really like strawberries, there's no reason to take her opinion to heart.



Knowing what your customers want is a basic requirement of doing business.

But if the person absolutely *loves* strawberry jam, and says “that was the worst strawberry jam I’ve ever had,” you may have a problem. And if you hear this again and again from people who love strawberry jam, you *definitely* have a problem.

Remember to ask questions that won’t simply get a yes or no answer. Don’t ask “Did you like this jam?” Instead, ask questions like “What did you think about this jam? What did you like best—and least—about it?” The idea is to get as much information as you can from as few questions as possible. Keep in mind that you aren’t selling your product. Ask unbiased questions, so that you won’t influence respondents with a sales pitch.

Be aware that in some cases, there’s a disconnect between what customers say they want and what they actually buy. For example, customers routinely claim to want green products, but studies of their buying behavior show that they don’t always put their money where their mouth is. If the results of a survey seem too good to be true, try comparing them with studies of actual buying behavior from your secondary sources.

Online surveys

Online surveys are usually free or low-cost, and can generate a lot of valuable data in a very short time. Although the response rate is often low, the cost of conducting the survey is low enough to make it worthwhile.

Be aware, however, that Internet surveys target people who have a certain level of technological know-how. If you’re targeting older people in a rural area, your online respondents may be very different from your target customers.

If you do use online surveys, be sure to include a space for the subject to add

additional comments; this can bring in information you don’t expect. You can use sites like SurveyMonkey.com to create free surveys.

Survey Tips

- Keep questions short, simple and clear.
- Make it very easy for the respondent to complete.
- Use a rating scale of 1-5 (1 = strongly disagree; 5 = strongly agree).
- Surveys should take no longer than 5 to 10 minutes to complete.
- Be careful not to bias the answers with your questions.
- Try out your survey on your mentor, family and friends first, and get their feedback.
- Offer respondents some reward for completing the survey (coupon, discount, simple gift, prize).
- Say thank you!

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We wanted to keep things simple by starting out with three product lines. First, we’d make an early American pine rocker in three sizes: two for adults and one for kids. They’d all have heavy steam-bent oak runners and the sturdiest arms and backs we could make.

Then, I had the idea of making benches in different sizes. You could use one size out on your porch. You could put another around the dinner table, or in a kid’s room or whatever. They also had a unique design: two trestles that tightened with just a couple of light taps.

Last, we decided to make fireplace mantelpieces. But instead of selling them out of a warehouse or a store, we’d make them to order for each customer.

Try to get as much information as you can from as few questions as possible.

How did they decide which products to offer? By studying their industry, their customers, their competitors and their market potential.

Their SBDC advisor encouraged them to do a thorough market research and analysis, so they divided up the work. George had a computer, so he started on industry research. Roger started calling competitors. Mike went out to do personal survey work.

George had his work cut out for him. The furniture industry is huge, with firms specializing in Modern, French provincial, Scandinavian, Asian Bamboo, English, Italian and many other styles. Looking at the big picture, the competitive situation seemed hopeless.

But George knew he could limit his focus to his company's style and manufacturing technique. By looking at trade association materials online, he found that there was a hole in the market for eco-friendly early American furniture. In particular, he found a study that indicated an unmet demand for exactly the type of furniture they wanted to make. There were only two U.S. companies that made this kind of furniture.

Posing as a customer, Roger phoned both competitors and asked for their brochures and price lists. After looking through their literature, he discovered that neither company made rocking chairs or benches. George had been working on benches all of his life, while Mike had been in charge of Vautour's chair division. Clearly, they were well equipped to compete in this market.

It was George who came up with the idea of "green" mantelpieces, which his research had shown no one else was making. While they might not sell many mantelpieces in a given year, the jobs they did do would be very profitable and were likely to raise awareness among wealthier customers. George felt this could be a stepping stone

to other kinds of custom woodworking and remodeling jobs.

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Using what you've learned

After gathering primary and secondary data on your customers, you should be able to answer the following questions:

- Who are your target customers?
- Where do they live?
- What are their numbers by city, county and state?
- How much do they earn?
- What are their spending patterns?
- What do they spend monthly and annually on products like yours?
- What amount of your product do they buy annually/per sale?
- Do they buy online, offline or both?
- During what time of year do they buy?
- What motivates them to buy?
- What are their saving patterns?
- What's their family structure?
- What's their educational level?
- What are their leisure activities?
- What media do they read, watch or listen to?
- Who are your best prospects?
- Should you emphasize yourself, your quality offerings, your selection, your price or merely the existence of your business?



Look back at the *Customer Profile Worksheet* from Session 2 and see if your thoughts about your primary and secondary customers have changed since you filled it out.

In this session, you'll work on the *Individual Customer Analysis Worksheet*. This will help you sort out this information for two target customer groups. (If you sell to other businesses, the *Business Customer Analysis Worksheet* will help you identify your primary business customers.)

Competitive Analysis

There are two types of competition: **direct competition** and **indirect competition**.

The difference is easy to explain. Suppose you sell cookies. Your most obvious direct competition would be other people who make cookies. That could mean other microbusinesses like yours or larger regional bakeries.

You also face direct competition from stores that sell factory-made cookies, like supermarkets and convenience stores. And of course, there are many online and mail-order businesses that sell cookies. If you make traditional Danish butter cookies, you may be competing with cookie companies actually located in Denmark!

When you look at indirect competition, things get more complicated. In the case of cookies, you need to think about things people might eat *instead* of cookies, such as brownies, chocolate bars and ice cream. Each of these products competes with yours for the attention of people who are looking for sweets.

It's very important to look at online competitors when you're thinking about direct and indirect competition. Just as the Internet allows you to compete in markets across the nation and around the world, it

allows competitors from across the nation and around the world to compete in *your* market. It's essential to consider how this affects your business.

What should you know about your competition?

As with customers, it's dangerous to rely on preconceptions about your competitors. In order to compete effectively, you must know who and what you're competing against. Remember to look not just at products, but also at features and benefits. You and a competitor may be selling the same product, but with very different features and benefits.

Here are some of the main factors to look at when researching competitors:

- **Names of competitors.** List all of your current competitors and research any that might enter the market during the next year.
- **Customers.** Who are their customers? You can't just assume they're the same as yours. Two companies selling the same basic product can have very different target markets.
- **Product.** What do they *really* sell? What features and benefits make their product unique? What's their niche? How do they back their products up with customer service?
- **Price.** Are their prices in line with customer expectations and value? How do they compare with competing brands?
- **Placement.** Where and how do they sell their product? Do they sell online, offline or both?
- **Promotion.** What type of promotions do they run? In what media, and to

Always consider online competitors when researching your direct and indirect competition.

what audience? Do they seem to be effective?

- **Location.** Are they local, regional, national or international? Is their location convenient for their customers? Is it convenient for yours? Can you offer greater convenience?
- **Company image.** What's their reputation? What are people saying about them online? Do they have lots of goodwill, or are people looking for an alternative?
- **Weaknesses and strengths.** What things do they do best? In what ways are they weak? Compare the way they represent their service to the service you actually get as a customer. How will you take advantage of their weaknesses? How will you compete with their strengths?
- **Goals.** What are their stated goals? What are their long-term plans? What strategies and tactics are they using to achieve those goals? Online "About Us" and "FAQ" pages can be good sources for this information, as can interviews, articles and annual reports.
- **Differentiators.** What features, benefits and messages make the competitor stand out in the marketplace? What aspects of their business do they emphasize most strongly?

The best way to assess competing businesses is to think like a customer. Therefore, the *Competitive Analysis Worksheet* asks you to rate three direct competitors as you think their customers would rate them.

Ideas for Gathering Competitive Information

- Visit your competitors' business as a customer. Note the appearance of their space; the range, price and quality of their products; and the behavior and attitude of their employees. Read online reviews on Yelp, Google Places and similar sites to see what customers are saying about them.
- Keep tabs on their social media messages. Follow them on Twitter, become a fan of their Facebook page and read their blog. Note how many followers they have, and the number and type of comments they get.
- Sign up for their mailing or email list.
- Use Google Alerts to track online mentions of them.
- Look at their print and online ads. How do they portray themselves? What selling points do they emphasize? What kind of customers do they target?
- Are they reviewed or profiled in business publications or newspapers? Search online and in the library to learn more.
- Visit their website. Whose site has the best features? Whose is easiest to use? What are their shipping and return policies? What security features do they offer? Was the site updated recently, or is most of the content six months or more out of date?
- Ask friends, neighbors, family members and potential customers if they've done business with the competitor. Find out how they felt about location, convenience, price, quality and so forth.

The best way to assess competing businesses is to think like a customer.



Your competitive advantage

Your business's **competitive advantage** comes from offering your customers more value than your competitors do. Value can come from a higher quality product, lower prices or more convenient distribution.

If you are able to provide more innovative and personalized customer service, this could also give you a competitive advantage over your larger competitors. Therefore, you might position your business accordingly (provided that you know your customers value this service, and you actually have the ability to deliver it).

Other examples of competitive advantage include:

- Unique distribution channels
- Production advantages due to better sourcing, location or processes
- A stronger base of financial resources, which equals cheaper debt, which in turn equals lower prices
- Employee expertise or training
- Access to new or emerging technology
- A strong brand identity
- Environmental or social commitments (e.g., running the business on solar power)

Stay connected

Competitive analysis isn't a one-time-only event. Once your business is up and running, it's just as important to keep tabs on your current and emerging competitors. In addition to following your known competitors' social media channels and promotional mailings, you should survey the competitive landscape every quarter.

- What are your current competitors up to? Have they improved their products or packaging? Changed their messaging? Expanded or reduced a product line? Offered a new service? Reached out to a new market, or turned away from an old one? Raised or lowered their prices?
- What new competitors are on the scene? Are they direct or indirect? Are they tiny startups or large, established businesses? What are their strengths and weaknesses? What is their marketing mix? How does their online presence compare to yours? How will you maintain your position against them?

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Roger had been doing focus groups all this time, and he was learning some really interesting things about customers for green furniture. We'd assumed they were mostly people in big cities who have lots of money to spend.

That was true up to a point, but it wasn't the whole story. There were a lot of people who wouldn't call themselves "green," but give them a choice between a green early American rocker and a regular one, and they buy the green one every time. As our SBDC counselor said, part of that came from people following the lead of the trendsetters. But also, for the kind of old-fashioned furniture we were making, there was this sense that we were more authentic. People felt our furniture was more like the furniture of 150 years ago. And they liked that.

There was also a sense that if we were concerned about how we harvested and stained our wood, it said something about our overall workmanship. When Roger started doing surveys, we expected people to say that to them, "green" meant healthy, or natural, or safe or things like that.

But we found out there was this whole other response having to do with business values. He'd get words like "well made," "sturdy" and

You should always keep tabs on your current and emerging competitors.

“honest.” People seemed to think that taking care in one part of your business meant you were more likely to take care in other parts. That was really exciting news for us, and it was totally unexpected.

Next, George and Mike looked at their market potential to decide if there were enough customers out there to keep them afloat. After looking at each product line separately, they found that the rockers and benches were definitely viable.

It was a little harder to assess the market potential for green mantelpieces. On the other hand, they had no competitors, so they felt it wouldn't hurt to offer this product. After all, it was a special-order item, and they could make it with existing tools and supplies.

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Market Potential

Once you've identified your target customers, you need to find out if there are enough of them to make your business idea viable.

Suppose high-income homeowners with children are your target customers. Do you know how many of them live in your area? Do you know where they live? If only 30 percent of these people are likely to buy from you, is that enough to support your business? What about 20 percent? Census data, maps and assessor office statistics can help you answer these questions.

Here's an example of what we're talking about. Andy Rush wanted to start an on-call transportation service for the elderly. Through his job at the fire department, he often saw older women and men waiting for the bus after hospital visits or doctor appointments. Sometimes they waited for an hour or more. Andy thought he could offer these people safer, more reliable service.

After doing some research, Andy learned that there was indeed a need for this type of business.

Next, he needed to figure out how to find his customers and promote his service. He didn't have a lot of money, so he chose to focus on a small part of the city.

Andy used census data to identify parts of the city where a lot of elderly people lived. He drew these areas onto a city map. Then, he circled all of the hospitals and large medical offices on the map. Last, he traced the city bus routes onto his map.

Common sense told him he should start by promoting his business in areas with a high percentage of elderly people, limited bus service and long distances to medical offices and hospitals. In these areas, it was likely that elderly people on fixed incomes would need affordable, reliable transportation.

As this story shows, many factors affect your market potential, from the total population of your targeted geographic area to the number and quality of your competitors. General economic conditions, and regional population and income trends, can also influence your market potential.

Calculating your market potential

Calculating your market potential takes three steps:

1. Estimate how many potential customers you have.
2. Estimate how much they spend on your type of product in a year.
3. Multiply the number of potential customers by the average amount they spend each year. This is your total market potential.



Once you know your total market potential, the next step is to figure out how many customers will actually choose your business. To do this, you must consider your direct and indirect competition.

Let's look at how one entrepreneur figured out his market potential.

John Posada wants to open a bicycle and skateboard shop in a community of 50,000 people. He knows that roughly 1,000 people are potential customers, and that they typically replace their equipment every three years. The average cost for replacement equipment is about \$300 per person, so John could theoretically sell about \$300,000 worth of equipment over three years (1,000 people x \$300 per person).

However, not everybody buys new equipment at the same time. John predicts that his community will spend about \$100,000 per year on his product. In other words, he's assuming that a third of his potential customers will need to replace their equipment each year.

There's one other bike and skate shop in town, and they have gross annual sales of \$75,000. They carry only a few brands and have very few accessories. John assumes that the other \$25,000 of sales goes to online businesses and other out-of-town retailers.

What's John's market potential? He thinks he can lure about half of the existing business away from the other local shop by offering a bigger selection at competitive prices. Therefore, he estimates his market potential at \$37,500 (half of \$75,000).

According to his industry information, he should be able to sell an additional 30 percent in accessories. That gives him another \$11,250 in accessory sales, for a total of \$48,750 in retail sales (\$37,500 + \$11,250).

John's inventory cost is \$24,375 (half of the retail price). Rent on his building is another \$1,000 per month, or \$12,000 per year. Also, John needs to pay himself a minimum monthly salary of \$1,500, which comes to \$18,000 per year.

Looking at these very basic costs, is there enough market potential for John to consider this business? Let's find out.

Inventory	\$24,375
Rent	12,000
John's salary	<u>18,000</u>
Basic costs	\$54,375

Anticipated sales	48,750
Basic costs	<u>\$54,375</u>
Shortfall	(\$5,625)

John hasn't looked at his other business costs yet—or his taxes—but he already knows that he doesn't have enough market potential to launch his business. As you can imagine, he's very glad to find this out *before* putting a deposit on a retail space or buying inventory!

We'll use the *Market Potential Worksheet* to figure out a projected annual sales volume for your business, so don't worry about understanding the math right now. The main concept to remember is that you need to learn everything you can about your customers and competitors.

Barriers to entry

When considering your market potential, think about **barriers to entry** that may prevent you from competing in this market. Typical barriers include high startup costs, a need for skilled labor or special technology, lack of distribution channels, and strict regulatory requirements. If your research identified such barriers, list them in the *Market Potential Worksheet* and explain your plan to overcome them and compete successfully in this market.

You need to learn everything you can about your customers and competitors.

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By the end of our first year, we were close to meeting our sales forecast for individual buyers. Benches mostly, with the kid-sized rockers in second place. But we also got calls from a couple of local bed-and-breakfasts that wanted a full line of matching furniture, which was a market we'd never thought of looking into. It was good timing, too, because we were realizing that we'd never be able to grow enough to hire folks from Vautour with just three types of furniture in our product line.

We'd just started working on a new round of market research to figure out the market potential for a few new product lines. It was a lot trickier this time, because we'd be dealing with a lot more direct competition if we made things like tables and beds.

Then we met Barbara, and everything changed pretty much overnight.

One day, a young designer named Barbara Cummings stopped by to visit Catawba Woodworks. She owned one of their rocking chairs and was interested in seeing how their furniture was made.

While talking to Mike and Roger, she explained her idea for a set of standardized wooden components that would fit together in a variety of ways to form end tables, dining tables, chairs, desks and day beds. There was no glue, nails or screws. She'd gotten the idea from watching her nephew playing with Tinkertoys. Now, she wanted to find a small company to handcraft the parts under her supervision.

Roger saw right away that if her design really worked, it would have wide appeal to consumers, as well as schools and other institutions. He thought they should go for it.

George was more cautious. So far, their two competitors in early American green furniture had decided not to produce any of the same products as Catawba. But

if Catawba decided to take on Barbara's product line extension, they'd be in direct competition.

Roger and Mike saw his point. They realized that they needed to identify their customers for the new product line and define their market potential. They needed to come up with appropriate prices. And most important, they had to make sure they could find and maintain a competitive edge. With all that in mind, they decided to start yet another market research project.

Their research suggested that the novelty of Barbara's designs gave them an edge over their competitors, so they decided to move forward. They negotiated a licensing deal with Barbara, updated their business plan and started producing the interlocking pieces according to her design.

Today, they produce a limited amount of handmade furniture for the high-end market, and hundreds of building blocks for Barbara's popular modular furniture (the local elementary schools love it). They now have 18 full-time employees and three part-timers. They're still dreaming of building a local factory that will employ 100 workers or more, and that dream seems a lot less ambitious than it used to.

Part of our success has been skill. There's no doubt that we're good at what we do. And part of it has been luck, for sure. But I think the single biggest factor in our success is that we learned early on to study our market and make sure the potential for long-term profit was there. You can make a terrific product and have no competition from anyone. But if the market's not there, you won't succeed.

So to me, the most important thing we learned from our SBDC counselor was to always look before you leap. That's how we got where we are today, and that's how we're fixing to get where we want to be tomorrow.

...



What You've Learned

The first step in marketing is understanding what you sell. Good marketers define the features and benefits of their products, because they know that customers buy benefits.

Once you've figured out what you sell, you can think about the people you'll sell to (your customers), and who else sells the same thing, or a similar thing (your competitors).

In this session, you also learned to expand your market research to include customer analysis, competitive analysis and market potential. Let's quickly recap the essential steps of market research:

1. Determine your customer profile. This is critical to figuring out your target market. Don't be afraid to use all methods of research when identifying your customer, including observation, interviews and surveys.
2. Study the competition. Identify your direct, indirect and future competition. Look for competitive factors you can use to your advantage. What does your competition do well? What could you do better? What is your niche, given the existing competition?
3. Calculate your market potential. Given your customer profile and the existing competition, is there a stable or growing market for your product?

As you prepare to launch your new business, understanding market research and analysis gives you a huge advantage over most startups. As your business grows, ongoing market research will keep you on track by preventing you from basing your decisions on outdated information or wishful thinking.

WORKSHEETS



SESSION 7

SESSION 7: ANALYZING YOUR MARKET

Chart It Before You Start It!

Product Description Worksheet

In earlier sessions, you sketched a rough outline of your product. Now, you should know enough to describe your product more clearly and in greater detail, with a stronger emphasis on how it satisfies customer wants and needs. (Remember: The term “products” refers to services, too.)

Answer the following questions about your product. You may not have all the answers at this point, but that’s OK. The aim of these questions is to identify what you do and don’t know, so that you can seek additional information.

If you have multiple products, make multiple copies of these worksheets. When you’ve filled out the worksheets for each product, compare your descriptions and consider grouping similar products into **product lines**.

1. Briefly, what is your product?

2. What is your product’s stage of development (concept, prototype or currently in production)?

3. What problem does your product solve for customers? How does it help or benefit them?

Product Description Worksheet—continued

4. What makes your product unique or special?

5. How does your product compare to competing products (consider price, quality, materials, availability, etc.)?

6. What stage of the product life cycle is your product currently in (introduction, growth, maturity, decline)? Is it likely to remain in this stage over the next three years, or move to the next?

7. Will you make the product yourself, buy it wholesale or have someone else make it? Will you make products for inventory or per order? -OR- How will you deliver your service? Will you do all the work yourself, or assign some of it to employees or subcontractors?

- 8. What enhancements, warranties or customer service features will you offer along with your product? How do they distinguish you from your competitors?**

- 9. (*For services only*) Can you deliver on your promises to your customers? Are your qualifications and skills equal to, or better than, those of your competition? Explain.**

- 10. List any intellectual property rights (patents, trade secrets, copyrights) that add value to your product.**

- 11. Are you planning to offer other products or services in the future? If so, what are they? When do you plan to add them?**

Features and Benefits Worksheet

Answer the questions below for each product or service you plan to offer.

1. List the features of your product, and then list the benefits of each feature. (You can identify features and benefits for individual products or for a product line.)

PRODUCT:	
Features (quality, materials, etc.)	Benefits (what does the feature do?)

2. How do you know that your target customers value these benefits?

Customer Analysis Worksheet

The *Market Analysis* section of your plan analyzes your customers and competitors in detail. This allows you to make a realistic estimate of your market potential, based on your current trade area, market size, market trends and projected sales volume.

It's critical to analyze who your customers are, how much and how often they buy from you, and why they will do business with you rather than your competitors.

Individual Customers

Personal characteristics of your customers are called **demographics**. Common demographics include:

<i>Gender</i>	Men and women have different buying habits.
<i>Age</i>	Different age ranges have different buying habits.
<i>Income</i>	Income level tells you whether a customer or household has the financial ability to buy your product, especially if it's a nonessential item (e.g., jewelry).
<i>Occupation</i>	Occupation relates to age, income and education, and may indicate customers' ability to buy.
<i>Location</i>	This includes how near the customer is to your business, as well as regional or national location, geography, climate and weather.
<i>Marital status</i>	Customers' needs and desires vary based on whether they're single or married.
<i>Children</i>	Households with children have very different buying habits than those with no children.
<i>Education</i>	Education may be an indicator of reading comprehension, use of technology, income, etc.
<i>Ethnic Origin</i>	People from different cultures may have different values and needs that influence buying habits.

Values, lifestyles and attitudes that motivate people to buy are called **psychographics**. These include:

<i>Beliefs / values</i>	Cultural, religious and political beliefs and values have a strong influence on buying decisions.
<i>Behavior</i>	What are your target customers' spending patterns and buying behavior?
<i>Interests</i>	How do your customers' hobbies, pastimes and social causes affect their buying behavior?
<i>Media choices</i>	Media choices not only provide a clue to buying decisions, income and education, but they also tell you what kind of promotions are most likely to succeed.
<i>Recreation</i>	People who like outdoor activities such as camping or hiking may have different needs than people who prefer indoor activities such as videogames or scrapbooking.
<i>Transportation</i>	People who have a car, bicycle, motorcycle, RV or boat may have very different buying habits.
<i>Entertainment</i>	Music, movie, book and art preferences tell marketers a lot about lifestyles and attitudes, and help them make the right advertising decisions.

Customer Analysis Worksheet—continued

Use this worksheet to profile at least two customer segments. Customer Group A should be the one you think is the strongest market for your product. This is your *primary* customer group.

Individual Customer Analysis Worksheet

Demographics	Group A Primary Customers	Group B Secondary Customers
Gender (male, female, both)		
Age (range)		
Income level (range)		
Occupation (blue collar, professional)		
Location (local, national, international)		
Marital status (single, married)		
Children		
Education level		
Ethnic origin		
Other:		
Psychographics		
Where do they shop (malls, boutiques, farmers' markets, online)?		
When do they shop (a.m., p.m., holidays, weekends, summer, winter)?		
Why do they buy (wants, needs)?		
How do they shop (in person, over the phone, online)?		
What beliefs, attitudes and values influence their buying decisions?		
Which media do they prefer?		
What are their interests and hobbies?		
What entertainment do they prefer?		
Other:		
Expectations		
What do buyers expect from products like yours?		

If you will market your product to other businesses, use the following worksheet to research your customers. Otherwise, skip ahead to Question 1.

Business Customer Analysis Worksheet

Characteristics	Wholesale Customers			Retail Customers		
	A	B	C	A	B	C
Annual sales						
Number of employees						
Location (town, region, country)						
One site, or multiple branches?						
Who handles purchasing?						
Where do they get product information?						
Procedures for buying?						
What do they expect from your product?						
Prequalification requirements						
Other:						
Other:						

1. Where did you get the above information about your customers? Explain your research methods and cite your sources.

2. Based on this research, which of the features and benefits you identified in the previous exercises are most important to your target customers? Explain.

Competitive Analysis Worksheet

Use the worksheet on the next page to compare your business to at least three major competitors. Be honest; look for competitors' strengths as well as their weaknesses. Consider the following issues:

- | | |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Product</i> | How well do their products solve customer problems and meet customer needs? Do they personalize their products and services for individual customers? |
| <i>Quality</i> | How high is their quality? Where do they source raw materials? |
| <i>Selection</i> | How many choices do they offer? How wide and deep is their product line? |
| <i>Price</i> | Do their prices match customers' expectations and assessment of value? |
| <i>Selling</i> | Are sales methods effective, polite, ethical, efficient and informative? |
| <i>Credit policy</i> | Do customers have various ways to pay for purchases (e.g., store credit, credit card, layaway)? |
| <i>Availability</i> | How quickly do customers get products? Do they have to wait? How long? |
| <i>Distribution</i> | How does the business deliver products to customers? Does it sell to retailers and distributors? What delivery options are available? What's the cost? |
| <i>Service</i> | How well do they meet customers' need for attention and knowledgeable assistance? Are customer problems fixed quickly and to the customer's satisfaction? Is the staff well trained? What are their hours of operation? |
| <i>Expertise</i> | Are owners and staff knowledgeable about their products? Do they answer questions well? What special skills and qualifications do they have? |
| <i>Reliability</i> | How dependable are their products? Do they require frequent repair or replacement? Does the business keep its promises? |
| <i>Reputation</i> | What is the business's reputation in the area? In the region? Nationally? Online? |
| <i>Location</i> | Where is the business? Are there multiple locations? How well does the accessibility, visibility, signage and convenience of the competitor's location meet customer needs? |
| <i>Merchandising</i> | Is merchandise stocked in a manner that makes shopping easy and convenient? Are products displayed attractively and in an organized way? |
| <i>Technology</i> | How do they use technology to promote, sell and deliver products and services? |
| <i>Web presence</i> | Does the business have a strong online presence? Is their website easy to find, navigate and use? Do they get good online reviews from customers? Do they have a social media following? |
| <i>Brand</i> | Do they have a strong brand? How well does the appearance of their product, store, website, vehicles and personnel match customer expectations? What is their brand image? |
| <i>Advertising</i> | Where, how often and to whom does the business advertise? Is it effective? |
| <i>Green features</i> | Do they promote themselves as a green business? Do they have green certification or eco-labels? |
| <i>Stability</i> | Has this business been open long enough to prove it has staying power? |
| <i>Sales volume</i> | What's the business's estimated sales volume? |

Identify your three major competitors and write their names in the spaces below. Rank yourself and your competitors honestly for each factor on a scale of 1 to 4, where 1 is best and 4 is worst. Write “NA” (not applicable) if the factor doesn’t apply to your business or your competitor. This process may require you to visit or call competitors and ask the questions that a normal customer would.

Last, estimate how much of a priority each factor is to your target customers. Write *high*, *moderate* or *low* for the level of priority based on your understanding of your target customers.

Factors	You	Competitor A _____	Competitor B _____	Competitor C _____	Priority
Product					
Quality					
Selection					
Price					
Selling					
Credit policy					
Availability					
Distribution					
Service					
Expertise					
Reliability					
Reputation					
Location					
Merchandising					
Technology					
Web presence					
Brand					
Advertising					
Green features					
Sales volume					
Other:					

Competitive Analysis Worksheet—continued

Answer the following questions based on your worksheet research.

- 1. Who are your strongest competitors, and where are they located? (Close to your business? In another state?) Is their location a strength or a weakness?**

- 2. How well do your strongest competitors' products meet consumer needs? What other strengths and weaknesses do they have? How do you know this?**

- 3. What technological advantages and disadvantages do your competitors have?**

- 4. How do their prices compare to yours? Are they lower or higher? Why?**

5. Go back to the chart on page 7-9, and look at the areas where you ranked 1 or 2. What are your key competitive advantages? How will your products better meet the needs and wants of your customers? What can you do better than your competitors?

6. Now, note any factors with “high” and “moderate” priority where you ranked 3 or 4. List changes you can make to improve your competitive position.

7. Looking again at the worksheet, did you identify any customer priorities your competitors aren’t meeting? If so, how will you meet these needs?



Market Potential Worksheet

Once you've identified your target customers, you need to find out if there are enough of them to make your business idea viable. Census data, maps and assessor office statistics can help you.

As you work through this worksheet, refer to our example on page 8-10 of the text.

- 1. What is the geographic territory of your trade area?** List all cities, ZIP codes, states and counties. (Consider including a map of the area in the *Attachments* section of your business plan.)

- 2. How many people (or businesses) in this geographic area are in your target market?** (See the *Customer Profile Worksheet*. You'll probably have to do some more research, using census data or other resources.)

- 3. Is the size of your target market growing, staying the same or getting smaller? Why?** (Discuss the trend.)

- 4. How many members of your target market do you expect to buy your product per year?** (You'll need to calculate a percentage from your response to Question 2.) **How did you estimate this amount?**

- 5. What is the average dollar amount each customer will spend per year on your products? How did you estimate this amount?**

6. What are some of the largest basic expenses for your business per year?

Rent/utilities	_____
Inventory/raw materials	_____
Equipment	_____
Employees' salary	_____
Owners' draw (salary)	_____
Vehicle/gas	_____
Office supplies/postage	_____
Other	_____
Total per year	_____

7. How many products can you produce—or units of service can you deliver—per year? How did you estimate this amount?

8. What barriers to entry affect your ability to compete in this market? How will you overcome them?

9. Now, you're ready to estimate your annual sales amount. This will give you a first look at whether your business can generate enough sales to be worth pursuing. Use the *Annual Sales Volume Projection Worksheet* below, and remember to be realistic in your estimates.

A.	Number of customers who will buy from you each year (answer from question 4):	
B.	Average amount they will spend each year (answer from question 5):	
C.	Total estimated sales amount each year (multiply A x B)	
D.	Estimated basic expenses each year (answer from question 6)	
E.	Difference between sales and expenses (subtract C - D)	

Is Line E a positive number or a negative one? It should be positive, because your estimated sales should exceed your estimated expenses. If it's negative, what can you do (if anything) to fix this? Are you satisfied with these initial findings? Do you think it's worthwhile to move forward?

If not, do you have another idea that seems worthwhile? If so, repeat the analysis above with your new business idea.

Worksheet Assignment for Session 8



You will need to research, complete and review all of the Session 7 Worksheets before trying to write the *Products and Services* and *Market Analysis* sections of your business plan.

Writing Your Business Plan



Use the information from this session to write the sections of the business plan listed below. Start with the headings and subheadings just as they're shown here. Then, follow the instructions under each subheading to write that section of your business plan.

Section IV. Marketing Plan

A. Products and Services

Product Description

Review the Product Description Worksheet. Write this section as if the reader knows nothing about your business or your products. Describe the types of products you sell, and identify their stage in the product life cycle. Include everything a first-time reader needs to know about what your product offers to your customers and why it's better for them than similar products.

Features and Benefits

Review the Features and Benefits Worksheet. Summarize the features and benefits of your products. Explain what features make them unique and special. Then, describe the benefits of each feature.

B. Market Analysis

Customer Analysis

Based on the Customer Analysis Worksheet—and your Customer Profile Worksheet from Session 2—describe your target markets and their key characteristics. Include demographic and psychographic characteristics and motivation for buying (values; interests; preferences; lifestyle; where, how and when they choose to buy; and expectations). If you're targeting more than one customer group, explain why you chose each one.

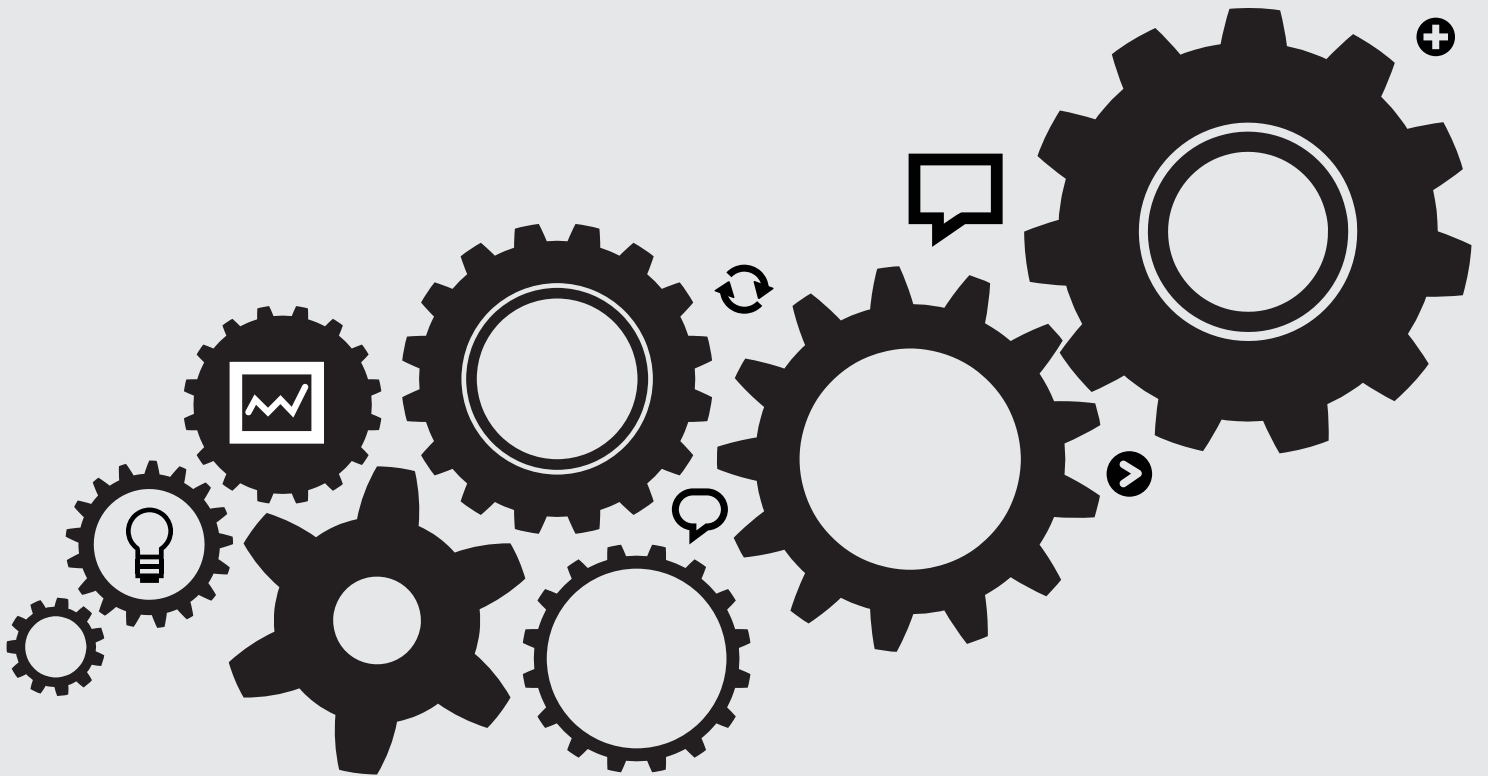
Competitive Analysis

Based on the Competitive Analysis Worksheet, identify and briefly describe your major competitors. State where they are located and explain whether their location is a strength or weakness. Summarize your competitors' other strengths and weaknesses. Last, explain your competitive advantage by describing the aspects of your business or products that are superior to the competition.

Market Potential

Based on the Market Potential Worksheet, describe your geographic trade area and explain why customers within it will do business with you. Describe the size of your market in terms of the number of potential customers. Summarize the trends for this market, including whether the market is growing, stable or declining. Identify any barriers to entry. Then, present your sales forecast for your first year of business, as calculated in Question 9.

TEXT



SESSION 8

Product & Price

RIGHT PRODUCT, RIGHT PRICE, RIGHT ON!



HIGHLIGHTS

Overview of Marketing Strategies	page 2
Product Strategies	page 4
Setting the Right Price	page 11

“The aim of marketing is to understand the customer so well, the product and price fit him.”
—Peter Drucker

About This Session

In Session 7, you learned about researching and analyzing your market. You started by identifying your product’s features and benefits. Next, you identified your customers. After that, you compared your competition’s strengths and weaknesses to your own. And finally, you took a first look at your product’s market potential and estimated how much of that market you can capture.

Now, the marketing objectives, strategies and tactics you develop in

your marketing plan will help you accomplish your overall business goals.

Overview of marketing strategies. The marketing mix consists of the Four Ps: Product, Price, Placement and Promotion. These are the basic elements around which marketing strategies are built. This session discusses product and pricing. The next session will discuss placement and promotion.

Product strategies. How should you position your products compared to competing brands? How should you package them? What sort of brand identity do you want? These are the sorts of questions this section will help you answer.

Setting the right price. Your products must be priced high enough to make a healthy profit and low enough to generate ongoing sales. Your market research data is vital to setting the right price.

Overview of Marketing Strategies

As we learned in Session 4, **objectives** are your business's goals within chosen markets. This could mean controlling 20 percent of the market, increasing sales by 50 percent in the next six months, or having 100 new customers by the end of the year.

Strategies are your plans for achieving your objectives. These may include going after customers who are between 24 and 40 years old, or targeting a niche market for environmentally safe cleaning products. Your marketing strategies show how you've segmented your customers into target groups, and how you'll position your business to show off your competitive advantages to those groups.

Tactics are the actions dictated by your strategies. Marketing tactics might include repackaging heavy products in smaller, easier-to-lift containers; offering a two-for-one promotion; creating a classified ad that emphasizes your customized service; or distributing your products through specialty boutiques. You can look at strategies as the "thinking" part

of achieving your goals and tactics as the "doing" part. The Green Thumb Plant Care example below shows how marketing objectives, strategies and tactics fit together.

The Marketing Mix

Strategies guide each element of the **marketing mix**, which comprises the **Four Ps**:

- **Product** is what you sell, whether it's goods, services or a mixture of the two.
- **Price** is the amount you charge for a given product.
- **Placement** is the method you use to make your product available to your target market. It could mean selling in a retail store, selling wholesale to a distributor or selling over the Internet.
- **Promotion** is everything you do to communicate with customers about your product, price and placement.

The Four Ps look at these activities from the seller's point of view. By contrast, marketing experts Chekitan Dev and Don Schultz created the SIVA model, which

Marketing strategies show how you've segmented your customers into target groups.

Green Thumb Plant Care

Objectives	Strategies	Tactics
Manage the weekly plant care for 20 offices by the end of the year.	1. Become the area's premier plant care provider by maintaining healthy, attractive plants in the best place for office beautification.	1a. Develop plan/review with office manager based on traffic patterns, office color scheme and natural and artificial light. 1b. Schedule plant care (four offices per day)
	2. Offer highly personalized customer service	2a. Develop and use an online tool to gather customer feedback and measure satisfaction. 2b. Conduct quarterly meetings with office manager.

considers the Four Ps from the customer's point of view.

- **Solution.** A product is a *solution* for the customer's problem. This underscores the importance of understanding consumer needs when designing and defining your product.
- **Information.** Promotion *informs* consumers about your solution.
- **Value.** What customers will pay depends on how much they *value* your solution.
- **Access.** Placement decisions determine how and when customers have *access* to your solution. The best strategy is one that delivers access when, where and how customers want it.

As you can see, the Four Ps and SIVA are two sides of the same coin. Although this book uses the Four Ps model, you should always keep the SIVA model in mind. The goal of your marketing strategy is to find the ideal balance of these elements.

Market Segmentation

Before we discuss each of these elements in more detail, let's take another look at two crucial aspects of marketing strategy: market segmentation and target markets.

In Session 7, you defined market segments by identifying customers with similar demographics and psychographics. The goal was to identify your target market, which is the customer group that's most likely to buy from you. You may have more than one target market, and each may require different marketing strategies.

As you develop your marketing strategies, think hard about the target markets you want to reach. Although it's possible to target several customer groups at once,

microbusinesses usually find it easier and more profitable to focus on a primary target.

Recognizing Your Target Market

- Is it clearly defined?
- Are there unmet or underserved needs your product will fill?
- Is it large enough to generate the level of profit you need?
- Does it have growth potential?
- Does the cost of going after this market exceed its profit potential?

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I'm a hard worker. Reliable, too. But people around here acted like I was begging or something.

They figured they could just hire me whenever they felt like it. But that doesn't work for me. I'm like anyone else. I need to know what day I'm supposed to work and what day I'm supposed to get paid. I don't want to wander door to door, not knowing whether I'm going to be working that day or not.

For them, it's no big deal. They can have me come in and clean the office today, or they can let it go for another week. But for me, having steady work is a very big deal. It's the difference between paying the rent on time or getting into trouble with my landlord.

That's why I decided I'd had enough. I want to work according to a schedule. I come on this day, you pay me on that day. We do it like that every week, or every couple of weeks. I want some stability in my life, like I used to have.

For 11 years, John Mette worked at a paper mill in Brewer, Maine, right on the Penobscot River. When the mill closed down, John made ends meet by cleaning

You may have more than one target market, and each may require different marketing strategies.

offices across the river in downtown Bangor. Nine clients routinely hired him, but only when they felt like it.

This was hard on John, because he couldn't count on getting his money when he needed it. If the people he worked for were in a bad mood or busy, they'd often tell him to come back the following week. Sometimes, when the person he usually dealt with was away, the person left in charge would refuse to let John clean. Other times, he'd clean the office and then find out he couldn't get paid until the person who hired him got back from vacation.

John did his best to be flexible. But unfortunately, the people John owed money to—like the phone company and the electric company and the landlord—weren't very flexible at all.

John wanted to have a formal deal with his clients. That way, he'd know exactly how much money he'd make each month and exactly when it would come in. He wanted to clean on a set schedule and get paid when he was done. And he wanted to be factored into the operations of each business, so that when the owners were away, everyone would understand that John would be cleaning on the usual day and needed to get paid, just like any other vendor.

He knew that he did a careful, thorough job, and he knew that this made him valuable. He was sure that if he explained this to his clients, they'd see things his way.

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Product Strategies

Once you've identified your product, target customers and competitors, you need to create product strategies to ensure that your product is competitive.

This requires determining what stage of its life cycle your product is in, positioning it

properly in the marketplace, and making shrewd branding and packaging decisions. The *Product Strategies Worksheet* addresses these topics.

Product Life Cycle

To choose the best marketing strategies for your product, you need to consider which stage of the **product life cycle** it's in.

- **Introduction.** If you're launching a new product, your primary goal is to make your target market aware of it and get them to try it. Because new products often face high startup and marketing costs, poor distribution, and sluggish sales, this tends to be the costliest stage for product marketing. On the other hand, competition is usually at a minimum. Typical strategies for products in the introduction stage include offering samples, coupons or limited-time offers. Getting the product reviewed online or in a magazine can also be very helpful.
- **Growth.** Once a product has been accepted by its target market, the goal is to encourage loyalty while reaching new customers and defeating new competitors. Building a brand that capitalizes on the goodwill of existing customers and distribution partners is a common strategy during the growth stage. In this stage, it may also be necessary to increase the product's availability by choosing new distribution channels.
- **Maturity.** At this stage, you're likely to face widespread competition and slower sales. Features, benefits and branding become even more important as consumers look for reasons to choose your product over competing brands. Therefore, businesses often

“improve” the ingredients or packaging of mature products to attract new customers, recapture old ones and outflank competitors. Giving an old product a facelift—or finding a new application for it—is also a way to resist the price-cutting trend that is common at this stage.

- **Decline.** In this stage, the goal of promotion is to keep the product selling while it remains acceptably profitable. Other options include discontinuing it, cutting production levels, or selling or leasing the rights to another business. By this time, most promotional efforts will be expended on newer products.

As your product moves through these stages, you must update your marketing strategies accordingly.

Your Product Line

A **product line** is a group of products or services offered by a single company. For example, a landscaping business might offer lawn mowing, weed pulling, planting, trimming and tree cutting. These services make up the company’s product line.

A beauty salon’s line might be haircuts, perms, manicures and pedicures. A jeweler’s might be bracelets, rings, necklaces and pendants.

All businesses must decide how many products to offer, whether to add new products, how to position the entire product line, and so forth.

They must also make sure their product lines make sense together. Would it be appropriate for a fine jewelry store to sell comic books? Probably not.

The **depth** and **width** of your product line is another important decision. If a bakery decides to offer additional flavors and types of donuts (maple, jelly and glazed), it’s expanding the depth of its product line. If it branches out to other items (soup, salad and sandwiches), it’s expanding the width of its product line.

As a microbusiness, it’s important to keep your product line manageable. Adding too many new products can cause problems for a new business. The lesson? Always revisit your goals before making product strategy decisions.

The chart below illustrates some product strategies and tactics for Green Thumb Plant Care. You’ll see that after developing a marketing plan, they decided to extend their product line beyond the sale and care of office plants.

Always revisit your goals before making product strategy decisions.

Green Thumb Plant Care

Objectives	Strategies	Tactics
Increase profits by 10 percent each year over the next three years.	1. Sell, deliver and creatively place profitable plant accessories.	1a. Develop a partnership with a reliable supplier of decorative pots and vases. 1b. Display new pots and make recommendations to office manager at quarterly meetings.
	2. Offer profitable fresh-cut flower arrangements and centerpieces for corporate events.	2a. Develop a partnership with a reliable, creative florist. 2b. Provide clients with a photo brochure of available arrangements.



Marketing services

Although we treat services as products throughout this book, they differ in several important ways from consumer goods such as bicycles and baby carriages.

The biggest difference is that services are intangible. This makes it harder, in many cases, to judge their quality. If you sell sandwiches, people know right away whether it's a good sandwich. But if you sell your services as a house painter or accountant, it may be a while before it's clear that you're doing a good job. Services may take days, weeks or months to prove their value. For this reason, references and experience are usually very important when marketing services.

Positioning Your Product

After identifying your ideal market segments, you must decide how to position your product within each of those segments. This means deciding how to portray it to customers, and how to make it stand out from your competitors' products.

Look back at your *Competitive Analysis Worksheet* from Session 7, and think about where you want to position your products. Do you want to offer better quality? Lower prices? Safer ingredients? Faster turnaround time?

Positioning is affected by marketing decisions such as packaging and pricing, as well as the product's stage in its life cycle.

To guide your efforts, write a **positioning statement** for each market segment you target. A positioning statement consists of a couple of sentences that explain what you offer that your competitors don't. Once you've explained this clearly, you can use it as the basis for your marketing messages.

Of course, you can't write an effective positioning statement until you know what your customers' needs are and how your competitors are meeting them.

Your market research collected raw information about who your customers are, where they live, how much they spend, who else sells to them and why they buy. Now, you must use this information to identify the most compelling reason for customers to do business with you.

Your positioning statement should also provide evidence that you can deliver the benefits you promise, by highlighting your main **differentiator** (such as skills, experience, awards, materials, quality and other objective facts that make your claim believable).

Your positioning statement explains how you'll meet the needs of that market segment by focusing on the following elements:

- **Primary target customer.** As identified by your market research, these are the people who are most likely to buy your product.
- **Product.** This is what you're selling, in the broadest sense. It's not just your product, but all the services that go along with it.
- **Key benefit.** This is the primary benefit—as perceived by your primary target market—that sets you apart from your competitors.
- **Differentiator.** This is the major factor that makes your key benefit better than your competitors' and motivates customers to buy.

Your positioning statement explains how you'll meet the needs of your target market.

Here's an example:

[Your company] has the only [product type] that provides [your target customer] in [your area] with [your primary benefit], because unlike [your competitor], [your company] offers [your differentiator].

You may need to talk with friends, family members, and current and prospective customers to create your positioning statement. You should also research your competitors' positioning, if possible; understanding how they position themselves will help you arrive at your own positioning strategy.

Good positioning doesn't come easily, so don't settle on the first or even the second statement you come up with. Keep working at it until you're completely satisfied. The better you understand your market and your customers, the closer you'll come to the perfect positioning statement.

The *Positioning Statement Worksheet* will help you write a strong positioning statement.

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I didn't know much about contracts and things like that. I needed some help with those issues, so I could make sense when I talked to people. I knew what I wanted was fair, but I also knew I had to explain it in a way where they'd agree with me.

A guy I knew from the mill said he'd gotten help with his own business from SCORE. He put me in touch with a counselor named Gary, who taught me a lot. He made me look at two big questions: What do I offer people, and how much is it worth? Lots of people can clean an office, so why would they want me instead of someone else?

All I could really come up with is that I do a good job. I'm not one of those guys just pushing the dirt around from one place to another. I do deep cleaning. And like I say, I'm reliable. If I

tell you I'll be there, I'll be there.

That was a start, but we needed more. Gary brought in a professor to talk to me—a guy who volunteers to help out small businesses with advice. He said I needed to offer something different, and I definitely needed to sign contracts with my clients so I'd have a set work and payment schedule.

Ted Falconi was a Husson College professor specializing in small-business management. He told John that there were no green janitorial services in Bangor, and that this could be a good way to stand out from the crowd. He explained that federal and state offices had been switching over to GS-37 certification, which requires the use of eco-friendly cleaning products. Larger private companies were starting to follow suit.

He also told John about studies showing that these products resulted in less absenteeism and unhappiness among workers, who often complained about the use of strong-smelling cleaners like ammonia and bleach. That meant that John could position himself not just as a janitor, but also as someone who could increase employee morale and productivity.

Because John would be offering a service that most people didn't know much about, he'd have to be able to explain why it was worthwhile. The first thing people were likely to say was that it would be too expensive. However, Professor Falconi had a chart showing that the cost was actually the same for most products.

And there was more to this business opportunity than using different chemicals. John could also change the way he did things. Instead of sweeping floors, he could damp-mop them. He could dust surfaces with a wet cloth, too. Studies had shown that these methods reduced the levels of germs and dust that make workers feel sick. He could also use a vacuum with a dust-trapping filter.

Understanding how competitors position themselves will help you arrive at your own positioning strategy.

Branding means telling the “story” of your business and your product in a compelling and colorful way.

Professor Falconi thought that by positioning himself as someone who was maintaining a healthy work environment, John could charge more than an ordinary janitor. Better yet, he could make a strong case that maintaining indoor air quality required him to come in once a week.

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Positioning Statement Tips

- **State real, lasting benefits.** Vague benefits like “great taste,” and variable ones like “low prices,” aren’t adequate. Lots of businesses can legitimately offer “great taste,” and lots of businesses with low prices are forced to raise them. Your positioning statement must get at the heart of your product’s specific value to customers. As a rule of thumb, try putting your competitor’s product name into your positioning statement. If it’s just as accurate, your statement needs more work.
- **Pinpoint your differentiator.** Businesses often throw terms like “unique” around, but these words don’t mean anything unless there’s a real difference. And if there is a real difference, you should describe it clearly instead of using buzzwords. In other words, don’t say you’re unique; explain *why* you’re unique.
- **Keep your customers’ needs in mind.** If your statement doesn’t give them a strong, obvious reason to buy from you instead of a competitor, you need to go back to the drawing board.
- **Keep it simple!** A good positioning statement is easy to understand and remember. Once you’ve found the selling point that matters most to your target market, stick with it. Don’t dilute your message by adding extra details.

Creating Your Brand

Branding means telling the “story” of your business and your product in a compelling and colorful way—one that will give people reasons to buy your product instead of someone else’s.

In a sense, branding is like running a radio station. If you think of yourself as a radio transmitter, and your customers as receivers, then branding is like getting your signal through loud and clear, without any static.

Some small businesses make the mistake of thinking they don’t need a branding strategy. The fact is, your business will naturally generate a brand image, whether you want it to or not. We don’t believe that something so important should be left to chance. Or worse yet, to your competitors!

A good way to begin creating a brand is to figure out what’s at the core of your business. One possibility is to come up with a list of words that come to mind when you think about your business or your product.

Try to come up with 10 such words off the top of your head. Then, try to narrow them down to one or two words that mean the most to you.

If this doesn’t work for you, try something else. Think of colors, textures, attitudes... anything that strikes a chord with you. What matters is that you pinpoint your strongest emotions about what makes your product special. Once you’ve done this, you have something you can try to express to other people.

At the same time, you have to know what your customers want. Your brand identity has to be one that your target customers value, so a big part of building a brand is understanding where customers’ desires and your abilities meet. It’s not enough to make a promise; the customer has to value

it and you have to be able to keep it.

Consider these questions:

- What makes people buy a product like yours? Is it a luxury or a necessity?
- What motivates your target customers? Are they looking for security? Are they price-conscious? Are they trying to save time?
- What features do they value? Does your product's price, quality, story or ease of use attract them?

Choosing a brand name

The first step in establishing a brand is choosing a name for your company and product. What makes a good name?

- It should be eligible for trademark protection.
- It should be easy to spell, remember and pronounce.
- It should set you apart from your competitors.
- It should suggest product benefits (e.g., Mr. Clean, Krispy Kreme or Beautyrest mattresses).
- It should fit the brand identity and attitude: Nissan Pathfinder (adventure and excitement); Round Table Pizza (cozy dining for friends and families); Slurpee (fun snack food for kids).
- It shouldn't limit your ability to grow, change or sell your business. If your brand name is tied to a specific product—or to your own name—it may complicate things when you wish to grow or sell the business.

- It should reflect the scope of your business. If you offer services in Tucson, Arizona, you might want to include "Tucson" in the name. If you sell a product worldwide, it makes less sense to emphasize your location (unless it's relevant to your product, like "Tucson Chile Company").

Choosing a logo

A **logo** is the graphic symbol of your brand. You can choose a logo that reflects or depicts your product, but you don't have to. Many firms use an abstract logo and let their reputation assign a meaning to it over time. The Nike "Swoosh" is a classic example.

That said, the logo must fit your type of business. For example, a child care business might choose pastel or primary colors, and use building blocks, teddy bears or children in its logo. If they used dark colors, and images like skulls or lightning bolts, they'd be sending the wrong message to their customers.

Here are some characteristics of a good logo:

- Simple and instantly recognizable.
- Reproduces well in black and white, and in different sizes.
- Looks equally good on business cards, packaging, mailing labels, T-shirts, billboards, and computer and cell phone screens.
- Includes your company name.

Get lots of feedback on your logo before you commit to it. Get as many outside opinions as you can, and make changes where necessary.

Get lots of feedback on your logo before you commit to it.

Your branding statement

Once you've thought about what your brand's promise is, and why your customers will value it, it's time to write your **branding statement**. For Green Thumb Plant Care, this might be *Green Thumb makes a day at the office like a walk in the park.*

Once you come up with a branding statement, make sure that this statement guides everything your company does, so that your brand identity is clear, consistent and obvious to your customers. Your company logo, company colors, packaging, labels, business cards, retail space, customer service policies, slogans, promotions, employees and website should communicate your brand in precisely the same way at all times.

Mission, positioning and branding statements

Earlier, you came up with a mission statement and a positioning statement. To avoid confusion, let's take a quick look at the difference between these statements and a branding statement. Your mission statement explains in broad terms what your business hopes to be and do. Your positioning statement explains how and why your specific product meets the needs of a specific type of customer. Your branding statement communicates your brand's identity in the marketplace.

Brand Management Tips

- Make sure your brand is promising something customers want.
- Keep it simple! Focus on a few essential points.
- Remember that every interaction with a customer or client is an opportunity to communicate your brand identity.
- Whatever your brand promises, exceed it!



Attractive packaging can spell the difference between making or losing a sale.

Packaging Your Product

Because packaging communicates your product's benefits, position and brand, your packaging decisions must be guided by your positioning and branding statements. If you sell a product, what brand identity do you want your packaging to communicate? What kind of packaging does your target customer expect?

Will your chocolate chip cookies come in plain plastic bags or professionally printed wrappers? Attractive packaging can often spell the difference between making or losing a sale.

Packaging isn't just for products. For a service business, "packaging" might include things like website design, business cards, work uniforms and printed materials such as business cards and invoices. Perhaps most important, it includes the personal appearance and professional behavior of you and your employees. In effect, this is the "wrapper" your services come in.

Your location is also a form of packaging. If you have a retail store in a dingy, dirty part of town, how will this affect customers' feelings about your product? Garbage, broken signs, inadequate lighting—all of these things can make your business seem shoddy or unwelcoming. By contrast, if your business is the only clean, attractive store in the neighborhood, where do you think people will prefer to shop?

Of course, the same goes for your online presence. For instance, a website with strange fonts and colors and lots of misspellings may not be taken seriously.

Wise packaging choices can also free your business from regulatory oversight, reduce your shipping costs, earn goodwill, and—in the case of biodegradable or otherwise eco-friendly packaging—improve your competitiveness in international markets. The *Packaging Ideas Worksheet* will help

you describe your business's packaging requirements and goals.

Service Enhancements

Customer service is one of the best ways for microbusinesses to compete with larger businesses, because they enjoy much closer customer contact than larger competitors. Customers would rather be treated like a valued friend than a number, and they're usually willing to pay a little extra for the experience.

Even manufacturers of the simplest, lowest-priced goods can find ways to make their offerings more appealing with excellent customer service. We'll discuss this in more detail in Session 11 *Selling Success*.

Setting the Right Price

Setting the right price for your products is one of your most important—and most difficult—marketing decisions. To choose a price that makes sense for your business, you must consider your costs, your competitors, your customers and the economy.

Let's start by defining our basic terms:

- **Cost** is what you spend to produce your product.
- **Price** is the amount you charge customers for the product.
- **Value** is what your customer believes the product is worth.
- **Revenue** is the amount of money your business receives from sales over a specific period.
- **Profit** is what's left over after you subtract costs from revenue.

In pricing, cost is often called the "floor." You can't go below it, or you'll be charging

less than your product costs to deliver.

That makes value the "ceiling." It's the maximum amount your customers will pay, based on what they think your product is worth. Note that the highest price for a product in your market may not be the ceiling price. Your costs should be as low as your branding and positioning allow, and your value should be as high as possible.

The goal is to find a price where the seller and the buyer both feel like they got a good deal. For a seller, a good deal means covering costs and making a profit that can sustain long-term operations and—ideally—enable growth. For a buyer, a good deal is an affordable price that matches up with perceived value. Prices that are too high discourage buyers; prices that are too low won't keep your business afloat.

You can also look at price in terms of **sales units**. In a bookstore, a sales unit would be one book or one magazine. In a service business, a sales unit might be the amount you charge per hour for gardening or carpentry.

Or it might be a flat rate for a specific job. For example, if you charge \$50 to clean a four-bedroom house, you'll be paid that amount no matter how long it takes you to do the work. If you're a fast worker, this will be very much to your benefit. If you're a slow worker, your hourly rate will go down. But either way, your price needs to earn you a profit, which means it must be higher than your cost.

Although pricing is important, competing on the basis of price may not be the best option for a microbusiness. Globalized competition, e-commerce and the growth of "big box" stores like Walmart have lowered prices for many goods to a point where many microbusinesses are unable to compete.

The seller and the buyer should both feel like they got a good deal.



Your goal is to make a product that consumers will want to pay for.

Fortunately, you have many other competitive advantages. One-of-a-kind goods, high quality, experience and excellent customer service can make price less of an issue for your customers. In fact, underpricing your goods and services can actually make customers less likely to buy. The old saying “you get what you pay for” holds a lot of truth; in cases where consumers want to feel sure that they’re getting a good product, spending a little more often helps them to feel positive about their decision.

Remember: Your goal is not to set a price that will make consumers want to buy, but to make a product that consumers will want to pay for. Once you find this balance, you will achieve a win-win situation where customers gladly buy at a price that provides your target profit margin.

Demand

“Demand” refers to the amount of your product that customers are willing and able to buy at a specific price. For example, a customer who has \$10 to spend might be willing to buy two pillows if your price is \$5 per pillow, but only one if your price is \$7 per pillow. Being able to afford the product is an essential part of demand; just wanting the product doesn’t count.

Many factors affect demand, including personal income, and the cost and availability of competing brands (direct competition) and substitute products (indirect competition).

These factors vary from segment to segment. But as a general rule, higher prices lead to less demand, while lower prices lead to more demand. Ultimately, though, most customers are looking for the best value rather than the lowest price.

Explaining Pricing Decisions

When you set a price that makes sense, you’ll be comfortable explaining why it’s fair. Apologizing for your price, or sounding defensive, will make customers skittish.

For example, if someone challenges the price of your organic jam, you shouldn’t say, “Berries are really expensive right now. We have to charge enough to cover our costs.” It’s much better to focus on positives: “We use local, organic berries from Creekside Farm, and we make our jam by hand in small batches. That’s why it tastes so much better than other brands.” The former explanation may be true, but reminding consumers about the high cost of living probably won’t inspire them to open their wallets. When you explain your price, never apologize; always focus on the real value and benefits it reflects.

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When Professor Falconi said people don’t like to smell ammonia at work, that made sense to me. I don’t like the smell any better than they do. Matter of fact, that was the part of the job I was always in a hurry to get done. I figured if I wasn’t dealing with those fumes, I could take a longer time and do an even better job. So that sounded good so far.

Changing things around would take some work, though, so Gary and me came up with an action plan. I had to make a list of the products I used, and then figure out what I could use instead. I had to describe everything I did to clean an office, and then figure out how to do it better. And I had to use the best method for each room. One approach might be good for the hallway, but not so good for the boss’s office.

Probably the biggest change was that I had to start being a real salesman. I had to explain why my services are different, and why they’re worthwhile to my customers at the prices I’m planning to charge.

Before deciding how much to charge for his cleaning service, John needed to know how much it would cost to provide it. After he made a list of every product he used, Gary told him to go to Greenseal.org, where he found a list of GS-37 and GS-40 cleaners and janitorial products. From there, he was able to research prices and availability.

On a tip from Professor Falconi, he also looked at how much of each product he needed to use. If it took 2 ounces of ammonia to clean a bathroom, compared to 4 ounces of a citrus-based cleaner, then John would only get half as much use out of a bottle of the citrus-based cleaner.

Also, because some green disinfectants took longer to work, John needed to think about how this would affect his overall cleaning time. Would he have to slow down, or could he simply switch over to another task until the disinfectant had done its job? In the end, John decided that he could damp-wipe office surfaces while waiting for the disinfectant to work.

For the most part, John found that the new cleaning products would cost about the same as the old ones. Some were a little more, but others were a little less. His biggest expense would be a vacuum with a dust filter. A 16-gallon wet/dry vacuum with a top-rated HEPA dust filter cost about \$450. That was a lot of money, but it was also central to his new brand identity. It was one of the most obvious things he could point to while trying to market his service to clients.

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Pricing Objectives

Setting the right price begins with considering your pricing objectives. These objectives depend on your business and financial goals, including your production costs, competitive environment and plans for growth.

Here are some common pricing objectives for microbusinesses:

- **Maximizing profits.** This objective leads you to pursue high short-term profits. It may result in lower long-term profits, and it may also attract competition.
- **Maximizing sales volume.** This objective may lead you to give up a certain level of short-term profits in order to build a strong customer base, gain market share or meet sales targets.
- **Return on investment.** This objective requires you to set prices that ensure a targeted return on investment.
- **Meeting or beating the competition.** This objective requires you to set a price that matches or undercuts those of existing competitors, or discourages new ones from entering the market.
- **Status quo.** This objective matches competitor prices in order to maintain steady profits and avoid destructive price wars. Typically, this approach requires strict control of costs.
- **Quality leadership.** Price often implies quality, so a premium price may support your business's brand image as the quality leader in a given market.

Calculating Your Costs

Before you make any decisions about what to charge your customers, you need to know how much it costs to produce and deliver your product.

Basic cost concepts

- **Fixed costs** stay the same no matter how many units you produce. For example, the cost of a commercial oven is

Before deciding what to charge your customers, you need to know how much it costs to produce and deliver your product.

the same no matter how many cookies you bake over the lifetime of the oven.

- **Variable costs** change with the amount of product you produce. For example, the amount you spend on sugar, flour and electricity increases with the number of cookies you make.
- **Total costs** are the sum of total fixed costs and total variable costs.

The Four Cs of Pricing

The marketing approach to pricing is based on these Four Cs:

- **Customers.** Knowing your target customers' income level, lifestyle and concept of value is central to setting a realistic price.
- **Competition.** In the last session, you identified your direct and indirect competition, and you compared their prices, features, benefits, strengths and weaknesses to yours. You must take all these things into account when setting your price.
- **Company position.** If you provide better service and higher quality than your competitors, that means you offer greater value. This appeals to customers who place a higher importance on service and quality.
- **Costs.** To set a price that will earn a profit, you must know your total variable and fixed costs (including taxes).



Break-even analysis pinpoints the sales level at which total revenue equals total cost.

Break-even analysis

Break-even analysis pinpoints the sales level at which total revenue equals total cost. As the volume of units sold increases beyond this **break-even point**, a business begins to earn profits.

To identify your break-even point, you

must first calculate your costs and revenue:

$$\text{Total revenue} = \text{Price} \times \text{Quantity}$$

$$\text{Total cost} = (\text{Total fixed costs} + \text{Average variable cost per unit}) \times \text{Quantity}$$

The break-even point occurs when:

$$\text{Price} \times \text{Quantity} = (\text{Total fixed costs} + \text{Average variable costs}) \times \text{Quantity}$$

Looking at the same equation in a different way, the quantity needed to break even is:

$$\frac{\text{Total fixed costs}}{(\text{Price} - \text{Average variable costs})}$$

The number that remains when you subtract average variable costs from price is called the **contribution margin**. So here's another way to look at this equation:

$$\frac{\text{Total fixed costs}}{\text{Contribution margin}}$$

What does all this mean in the real world? Well, let's assume you sell T-shirts at a price of \$10 per shirt.

Your per-unit variable cost is \$5.50. When you subtract that amount from the \$10 price, you end up with a contribution margin of \$4.50 (Price - Average variable costs = contribution margin).

How many T-shirts must you sell to break even, supposing you have monthly operating costs (fixed costs) of \$1,350? To find out, divide your total fixed costs by your contribution margin:

$$\frac{\$1,350 \text{ (total fixed costs)}}{\$4.50 \text{ (contribution margin)}}$$

\$1,350 divided by \$4.50 is 300, so you must sell 300 shirts this month to break even.

The break-even point doesn't include any profit, so selling 300 shirts only covers your fixed and variable costs. After you reach that break-even point, every additional unit you sell results in a profit of \$4.50. Remember: \$4.50 is your contribution margin. It's the amount of money left

after paying variable costs of \$5.50 per unit, which still have to be paid for every unit sold.

Now let's find out what would happen if you lowered the price of your shirts to \$9.00. First, determine the contribution margin:

$$\begin{aligned} \$9.00 \text{ (price)} - \$5.50 \text{ (variable costs)} \\ = \$3.50 \text{ (contribution margin)} \end{aligned}$$

Next, determine how many units you must sell to break even:

$$\begin{aligned} \$1,350 \text{ (total fixed costs)} \\ \$3.50 \text{ (contribution margin)} \end{aligned}$$

\$1,350 divided by \$3.50 is 386, so you'd have to sell 386 shirts this month to break even. Can you sell an additional 86 shirts at this lower price? Note that a lower price often leads to higher demand.

Of course, you could also raise the price. How many units must you sell to break even if your shirts are \$11.00 each?

$$\begin{aligned} \$11.00 \text{ (price)} - \$5.50 \text{ (variable costs)} \\ = \$5.50 \text{ (contribution margin)} \\ \$1,350 \text{ (total fixed costs)} \\ \$5.50 \text{ (contribution margin)} \\ = 245 \end{aligned}$$

As you can see, breaking even takes fewer sales. However, you run the risk of lowering demand and selling fewer shirts when you raise your price.

Perhaps you can reduce your costs to lower your break-even point. Can you think of ways to lower costs in the T-shirt example? How about less expensive shirt material, fewer ink colors or lower labor costs? All of these are possibilities, but you need to take your brand identity into account when making these decisions. For example, if one of your selling points is that you offer high-quality shirts, using cheaper material would probably conflict with your brand and positioning.

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Researching my costs wasn't easy. I had to look up all the details, all the costs. I had to think about the total time I spent cleaning, and how many times you can mop with one bottle of cleaner compared to another. I never knew how much work actually went into cleaning an office! Looking up one thing made me think of another, and I started to think I had the most complicated job in the world.

There was another big headache, too. It used to be I could go and buy a big bottle of ammonia from any store in town. Now, I had to find all these other cleaners. Some of them you could get in town, but only at one place. That meant I had to think ahead, or else buy a lot all at once.

Some cleaners you couldn't get anywhere in town, so I had to decide if it would work to get them shipped to me. How reliable are the companies? And how much does it cost to ship a big bottle of cleaner? For some products, shipping charges could add a lot to my price.

Those were the kind of things I had to think about, and they were all new to me. Like I say, it wasn't easy. But I learned a lot.

When John was done adding up his costs, he decided he'd need a loan of \$1,800. That would cover the vacuum, promotions and a few cases of green cleaning supplies. The next step was to do some market research to find out how many businesses would be willing to pay for his service.

Gary and Professor Falconi both said that once John switched over, he could charge a little more than he used to. After all, the most likely people to sign a contract with him were those who were interested in a healthier workplace. John's service would have a high value for them. Between that, the new vacuum and the extra time involved in maintaining indoor air quality, Gary thought John could add about 10 percent to his price.



Take your brand identity into account when making pricing decisions!

But when John started researching what other green cleaning services were charging, he found that companies in Boston, Philadelphia, New York and San Francisco were charging—on average—16 percent more for their services. And unlike John, they had direct competition!

John saw no reason why he couldn't charge the same amount...or even round it up to 20 percent, seeing as he had no competition. Everything he read in the newspapers and online said that environmental services were booming, and he was lucky enough to be ahead of the curve in his own town. Why should he settle for just getting by, when he had a chance to earn some real money?

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Planning for Profit

So far, we've been talking about pricing mainly from the standpoint of meeting costs. But to run a viable business, you have to earn a profit.

You can do this by setting a specific profit goal and figuring out the price and sales units it will take to meet that goal. Or you can set a sales volume goal and then calculate the profits. This type of goal-setting is exactly what you need to think about as you move into the financial sections of the business planning process. A sales forecast is a vital planning tool and a central element of your business plan.

Profit goals

Returning to our T-shirt example, let's say that in addition to covering your fixed costs of \$1,350, you want to make a profit of \$900. You know that at \$10 per shirt, you must sell 300 shirts to break even. How many more shirts must you sell to make \$900?

You can calculate this the same way you calculated your break-even point:

$$\begin{array}{r} \$1,350 \text{ (total fixed costs)} \\ \$4.50 \text{ (contribution margin)} \\ \hline = 300 \end{array}$$

But this time, you substitute profits for fixed costs:

$$\begin{array}{r} \$900 \text{ (profit goal)} \\ \$4.50 \text{ (contribution margin)} \\ \hline = 200 \end{array}$$

Thus, you must sell an additional 200 shirts to make \$900 in profit. That means you have to sell a total of 500 shirts to cover your costs *and* reach your profit goal.

Volume goals

The second way to plan for profits is to forecast an attainable sales volume goal.

Getting back to our T-shirt business, let's say that selling 500 shirts is a little too ambitious at this stage in your business. Perhaps your market research has shown that a sales volume of 400 is more realistic. What effect will this have on your profits?

At a sales volume of 400, you'd calculate profits like this:

$$\text{Profit} = (\text{Sales volume} \times \text{Contribution margin}) - \text{Operating costs}$$

Or:

$$\text{Profit} = (400 \text{ T-shirts} \times \$4.50) - \$1,350.00$$

Or:

$$\text{Profit} = \$1,800.00 - \$1,350.00$$

Or:

$$\text{Profit} = \$450.00$$

Pricing Strategies

Your pricing strategies should be guided by your pricing objectives, which in turn should be guided by your financial goals, industry analysis, customer analysis and competitive analysis.

Each of these elements can change, so



it's important to review your pricing strategies frequently. Like any other part of your business, your pricing policies must respond and adapt to evolving market conditions.

Competitive pricing

This strategy involves basing your price on your competitors' price for the same product. Typically, you would choose this strategy in cases where it's hard to differentiate your product from competing products. For example, if you make handprinted greeting cards, and most competitors sell similar cards for \$2.50 to \$3.50, you might price your cards at \$3. Instead of competing on price, you're competing primarily on the quality of your designs and materials. This strategy goes with the status quo pricing objective.

Loss leader

In this strategy, you offer one product at a low price in order to attract customers who will then buy additional products. This is a common strategy for retail stores; customers figure that as long as they are buying one product, they may as well pick up a few other items they need. Some websites also favor this strategy. For example, a site may tempt customers with a low price on one item, and then suggest add-ons that complement the product. As with a traditional store, the goal is to get customers to buy additional goods that earn the retailer higher profits.

Multiple pricing

Multiple pricing offers a discount for buying more than one of an item. A single-item price is contrasted with a two-for-one price. For example, you might offer one Christmas card for \$3 or two for \$5. In some cases, this is an actual discount. In others, the multiple price is the desired price and the single-item price is inflated.

In other words, your goal is to sell your cards at \$2.50 each, so you boost the price of single cards to \$3. This strategy is appropriate for the profit maximization objective.

Penetration pricing

Penetration pricing means setting an artificially low price in order to enter a new market and encourage customers to try your wares. After achieving your goals, you gradually raise your price to a level that delivers higher profits.

Penetration pricing is a method of revenue maximization; it increases sales, but delivers very little profit per sale. This can be a better strategy than maximizing short-term profits, assuming you can sustain it long enough to reap the benefits.

Penetration pricing can create goodwill among new customers, which may lead to word-of-mouth sales. It can also act as a barrier to entry for your competitors. Therefore, it's a good strategy for the introduction stage of the product life cycle.

The downside is that your customers may reject your product when you raise your prices. Also, you run the risk that competitors will follow your lead by lowering their prices, which could lead to a price war. And price wars are usually not good for anyone but buyers!

Premium pricing

Studies show that customers tend to be more willing to pay more when they feel that the higher price is an indicator of quality or exclusivity. Premium pricing takes advantage of this tendency, which makes it a good strategy for unique products that are likely to sell in smaller amounts, such as a hand-knit scarf or a specialty food product.

You can use premium pricing to maximize profit or to stand out as a quality leader.

Your pricing policies must respond and adapt to evolving market conditions.

Consumers will often buy a higher-priced brand because they assume it's better.

Here are some of the reasons customers will pay a premium price:

- Social status or distinction. People who see themselves as premium customers are more likely to pay premium prices for goods that reinforce their self-image.
- They believe that they'll get a lower-quality product if they pay less. As an example, consider car tires. Although the lowest-priced tire may offer good value, consumers will often buy a higher-priced brand because they assume the more expensive tire is safer, likely to last longer or both.
- The product is handmade, one-of-a-kind or otherwise rare and exclusive.

As a contrast, let's consider a product for which people probably wouldn't pay a premium price: wooden pencils. Generally speaking, pencils are inexpensive. Some are probably better than others—maybe they stay sharp longer or have a better eraser—but most consumers aren't going to make a detailed comparison. Their major concern is going to be price, not quality.

Would it be possible to sell handcrafted pencils, or pencils made from reclaimed wood? Maybe, but you'd probably have to keep the price very similar to that of standard pencils. Studies show that customers are more price-sensitive the higher a price is compared to easily available alternatives.

In other words, offering a fancy pencil might make consumers switch brands, but it probably won't justify premium pricing, because pencils are short-lived goods that are widely available at a low price.

Price skimming

Skimming maximizes your profit margin by setting a higher price in the short term, and tailoring it to the price sensitivity of your market segments. This strategy may be useful when your new product is unique or innovative enough to have little direct competition, and buyers will pay top dollar to get it right away.

As demand from these buyers drops (and competition increases), prices are gradually reduced. This is what distinguishes skimming from premium pricing, where a high price is consistently maintained.

Here are some of the benefits of skimming for firms that are offering something new or unique:

- Innovative products typically have high development and promotional costs. Skimming may help you to recoup these costs before competitors enter the market.
- When you start out with a higher price, you can respond to competition by reducing it. If you start with a lower cost, you'll limit your ability to raise prices if needs be.
- Skimming can be adjusted to a variety of market segments, so that you earn the maximum revenue from each segment.

Cost-plus pricing

Cost-plus pricing means totaling your fixed and variable costs and adding a **target return** percentage to arrive at your sale price. This is the easiest and most common pricing strategy.

Because cost-plus pricing ignores the impact of consumer demand, brand identity and positioning, it can lead to a

price that's out of sync with your market or your branding objectives. Also, it's very easy to miss hidden costs. Therefore, cost-plus pricing works best in industries where demand and competition are stable.

Competition-based pricing

Businesses often alter their prices in response to competitors' prices. This is very common in large, highly competitive industries such as airline travel, soda pop and crude oil. Similar pricing is important because the price sensitivity of buyers increases when a product of this type is higher than the industry norm.

The main problem with this strategy is that your competitors' costs or brand identity may be very different from yours.

- **Follow-the-leader pricing** sets prices at the level of an industry's price leader.
- **Pegged pricing** puts prices in line with industry-wide norms; it tends to occur in industries with no clear price leader. A business using this method might use the industry norm as a starting point, and then offer a slightly higher (premium) or lower (economy) price to establish its position within the industry. Going back to our \$10 T-shirt example, suppose your competitors charge \$8 to \$13 for shirts like yours. The lower price is found in discount stores, while stores targeting higher-income buyers charge the higher price. Thus, if you were trying to reach customers in the middle income bracket, you'd probably charge \$9 to \$11.

However, you also need to compare your shirt to other shirts sold in the same market. If your shirt is superior in quality, image or appearance to a \$9 one, you can justify a higher price.

Next, suppose you can't find anything that makes your shirt better than the one that sells for \$11. If the \$11 shirt sells well, you might want to set your price at \$11 too and compete for the same customers. You could also set your price slightly lower to give buyers an incentive to choose your product.

How do you know which is the right decision? Again, it goes back to knowing your costs, your desired profit, your break-even point and your customers' desires.

Value-based pricing

In this strategy, you base your price on your customers' perception of its value. The goal is to charge an above-average price while leaving customers with the feeling that they've gotten a good deal.

Here are some reasons why consumers may pay more for your product:

- They like and trust you.
- You were recommended by someone they like and trust.
- You offer convenience or faster service.
- You offer security or reduced risk.
- Buying from you aids a cause or supports a philosophy.
- Your products have features and benefits that competing brands lack.

Branding is central to creating perceived value, and perceived value is at the heart of value-based pricing. Every branding choice you make affects the perceived value of your product, which in turn affects your ceiling price.

Think about the headache tablets at your local drugstore. A name-brand tablet sits right next to a generic tablet that costs half as much, and yet the name brand often sells

Every branding choice affects perceived value, which in turn affects your ceiling price.



Name brands offer security and confidence, so people are willing to pay extra for them.

as well as—or better than—the generic. The two tablets have the same ingredients in the same dosage. But the name brand is familiar; it offers security and confidence, so people are willing to pay extra for it. These brands' perceived value allows them to withstand intense competitive pressure, even though the product is in the mature stage of its life cycle.

When dealing with certain customers, it's necessary to communicate your product's **value in use**. This refers to the overall savings a customer will realize by paying a little more for your product. Does your product last longer or require less maintenance than a less-expensive competing product? Does it save customers time or trouble? If so, show your customers how paying a little extra up front can save a lot down the road.

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I guess Gary said something about how Bangor wasn't Boston or New York, but I just tuned it out. In my mind, I was already spending the money. I didn't want to hear about what was realistic. I figured everyone would be so grateful to have this new green cleaning service in town, they'd all just fall at my feet.

But you know what? They didn't. I mentioned I was thinking of switching over to green, and most people seemed interested until I got to the price. At that point, all but one of the nine companies I worked for said they wouldn't think of paying that much.

So I decided I'd try some other businesses. Same story on both sides of the river. No one was willing to pay an extra 20 percent, environment or no environment.

I felt pretty bad. And pretty angry, too. I'd done all this work, gone to all these meetings, listened to all this talk. And the payoff was, I had one company willing to give me a three-month trial with no contract. That wasn't going

to pay for the vacuum and the other stuff I needed, so I was back to square one.

Gary explained to him that "premium price" doesn't mean you get to charge whatever you want. A premium price can only be as high as the customer's perception of the product's value. Most people are willing to pay a little extra to feel like they're making a difference, but if the price is too high, it outweighs the perceived value and they decide not to pay.

"Why didn't you tell me that in the first place?" John demanded.

"I did," said Gary. "But you didn't want to listen to me."

John started to feel angry, but then he realized that Gary was right. He'd gotten greedy and stopped listening to things he didn't want to hear. He had no one but himself to blame.

Now, he'd have to try again with a new price and a better sales pitch.

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Retail pricing

Retail pricing applies when merchandise is purchased from a manufacturer or wholesaler and then sold again to the end user.

Although retailers don't produce the goods they sell, they still have overhead costs (rent, wages, utilities and advertising). Their price must cover the cost of doing business and offer an acceptable level of profit.

Some service businesses also sell retail products. For example, hair salons sell hair products and mechanics sell automobile accessories. These businesses typically use retail pricing for these products.

To get a retail price, you multiply the wholesale price by a certain percentage

(called a **markup**), and add that to the wholesale price. A retailer using a 25-percent markup would buy a T-shirt for \$8 and sell it for \$10 (\$8 + \$2). Many retailers double or triple the wholesale price.

Your markup is the difference between the price you pay for the product and your final selling price. This difference can either be a percentage of the cost or of the retail price.

For example, if your company sells T-shirts, you can find your markup percentage by adding a percentage of the cost to the total cost of the goods:

Cost of shirt	\$5.00
x 50% markup	.50
= Markup amount	\$2.50
+ Cost of shirt	\$5.00
= Selling price	\$7.50

To base your price on a percentage of the retail price, divide the cost of the product by the markup percentage:

Cost of shirt	\$5.00
50% markup	.50
= Selling price	\$10.00

The most common retail pricing strategy is to take a percentage of the retail price. However, you should understand how your competitors price their products, so you can be competitive.

Many retailers base their selling price on the manufacturer's suggested retail price. This is an easy way to determine prices. But the simplest retail pricing technique is called **keystoning**. This means doubling all your costs to arrive at your selling price.

Cost of shirt	\$5.00
Keystone	x 2
= Selling price	\$10.00

The key to retail pricing is to make sure your pricing method covers your overhead, expenses, taxes and profit. If your price doesn't earn a profit, you'll either need to raise it or lower your costs.

Price adjustments

List price is the "official" price that businesses charge, from which they subtract any discounts. List price is seldom the actual selling price; adjustments are usually made for trade or distribution channel partners, and for the final customer. This is common in the auto industry, where car manufacturers set a list price that the dealer and the buyer negotiate to arrive at a final sales price.

Businesses usually offer discounts to buyers who meet criteria that reduce selling costs. Here are the most common discounts:

- **Quantity discounts** are given to customers who buy in bulk. This can be a powerful way to increase the amount of units you sell.
- **Trade discounts** are given to distributors or reps who perform marketing functions such as advertising, promotions or technical support.
- **Seasonal discounts** encourage customers to make purchases during off-peak selling times, which lowers inventory levels when demand is down.
- **Cash discounts** are given to customers who buy with cash instead of credit. This encourages speedy payment of bills and minimizes accounts receivable, which can improve your cash flow.

Quantity discounts can be a powerful way to increase the amount of units you sell.

Pricing Errors to Avoid

- Don't base your prices on current, artificially low overhead costs. Instead, always anticipate how your overhead might rise over time.
- Don't assume that because you are the newest competitor on the block, you must have the lowest prices. Instead, always try to offer higher quality or better customer service.
- Don't base prices solely on cost. Always consider the value of your product to consumers, and look for ways to maximize it.
- Don't base your price solely on your impression of what the market will bear. Always do your homework!

Your pricing strategy should match the other elements of your marketing mix.

Making Price Fit Your Marketing Mix

No matter which pricing strategy you use, it should match the other elements of your marketing mix. Here are the main points to consider when completing the *Pricing Worksheets*.

- **Product strategy.** Is your price in line with your customers' perception of quality? If not, consider lowering your prices, improving your quality or educating your customers.
- **Placement strategy.** Is your product's price in line with the image of your distribution channels? High-priced, premium products should be distributed selectively, while economy products should be widely available. Are you using discounts as an incentive for your distributors?
- **Promotional strategy.** Does your advertising message suit your product's price? If yours is a premium product, is your image one of quality and service? If it's an economy product, is your image one of value and convenience? Are your sales promotions undercutting your pricing strategy and profitability? Are coupons or price discounts encouraging only short-term business by fickle customers?

You should also review your pricing strategies regularly to make sure they still fit your costs, customers, competition, positioning and product life cycle.

Testing prices online

Selling online through your own website or a hosted e-commerce site allows you to experiment with pricing to see how it affects sales.

For example, you might consider how the following factors affect customer demand:

- Unit price
- Discounts for complementary or bundled items
- Discounts for buying a certain number of items
- Discounts for spending a certain amount
- Free or reduced-price shipping
- Limited-time offers
- Payment options (credit card, phone orders, one-click buying)
- Shipping options (USPS, UPS, FedEx)
- Return policies and warranties

By tracing how customers respond to different prices and sales promotions, you can arrive at a price structure that meets your sales and profit goals.

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When I looked back over my sales pitch, it wasn't hard to see why it failed. My business had plenty of selling points, but I'd ignored most of them. I was trying to make things easy, so my pitch was simple: Pay me 20 percent more and you'll save the world. All the other stuff about employee morale and fewer regulations, I never bothered to explain. It was mostly just "Hey, I'm green! Sign me up!"

So Gary had to take me through the whole thing again. What was my product, and why was it different? What were its features and benefits? Who were my customers, and what did they value? How could I show them I had the right product, at the right price, for the right reasons? What benefits would my features give to my clients?

John started by going back to each of the nine companies he worked for. This time, he explained that he was switching over to less-toxic cleaning supplies, filtered vacuuming and other cleaning methods that would reduce indoor air pollution.

He cited studies that suggested this would have a positive effect on employee health and morale. He also pointed out that hiring a green janitorial service could help the firm's branding and promotional efforts, especially given Downtown's changing image as redevelopment efforts progressed.

Granted, the price for his green cleaning services would be 10 percent higher than other cleaners in town, but he'd offer a three-month introductory period at the old price. His conditions were that he'd get a formal, signed contract for weekly cleaning, and he'd be paid once a month if they were completed satisfied with his work.

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Pricing for Service Businesses

It's often hard to estimate the costs for service businesses. Some service businesses—such as child care and catering—have significant variable and fixed costs to consider. For other businesses, the biggest expense is the owner's time (e.g., dog walking or housecleaning). Doing a break-even analysis is tricky in these situations.

Service businesses must focus their pricing strategies on the ability and capacity of the owner, the requirements of the customer, and the competition. One limitation of a sole-proprietor service business is the owner's available time. How many hours can you work in a day? How many hours are you *willing* to work?

Another limitation is your level of self-confidence. Microbusiness owners often undervalue themselves and their time, which leads them to set artificially low prices.

Everyone likes a bargain, but people also tend to believe that you get what you pay for. If you don't seem to value your time, neither will your clients.

When a microbusiness prices its services too low, customers may worry that they're trading price for quality. Even if they don't have this reaction, businesses usually find that it's easier to make a profit by setting the right price than by setting a low one and trying to make up the difference in volume.

Even if your low bid gets the job, what happens if you can't reach your profit goals at that price? If you have to raise your prices after a few months, you run the risk of losing customers. Therefore, just as with products, it's best to communicate the value you offer instead of trying to compete on price. Make yourself the selling point, rather than your price.



If you don't value your time, neither will your clients.

Treat price objections as an opportunity to explain the benefits you deliver.

When negotiating prices, always remember that you are the expert on your work, your costs and the value you provide. Don't treat price objections as a cue to offer steep discounts, to defend yourself or to complain about your high costs; all of these strategies will make you seem weak. Instead, treat price objections as an opportunity to explain the benefits you deliver.

This doesn't mean that you should never negotiate a lower price. It's good to be flexible, but you should always receive something in return.

For example, you might reduce your price by 10 percent provided the customer signs a six-month contract. Knowing your costs is essential when negotiating deals like these, as is understanding what your customers value.

Before approaching any customers, list the benefits your service provides. At the same time, take a hard look at your costs. It's easy to overlook things like travel time, transportation costs, phone consultation and so forth. Understanding everything that goes into your service, and listing all the benefits it provides, is essential to setting a realistic price and getting clients to accept it.

When considering the benefits you offer, don't forget time savings. Many microbusiness owners undervalue their clients' time as well as their own.

Consider window cleaning. This is a task that just about anyone can do, and yet businesses and homeowners often hire people to do it for them. Why don't they just do it themselves for free?

Because they value their time, and know there's no such thing as "free" labor.

Suppose a small-business owner normally earns \$40 an hour, and it would take her three hours to clean her company's

windows. If you charge \$50 to do the job in two hours, your service will save her \$70. And if you do a better job because you have specialized tools and experience, you also offer her better value for less money.

If you offer a discount for a monthly contract, you not only offer a price break, but you're also giving the business owner peace of mind: You're thinking about the windows so that she can focus on more important tasks.

Never underestimate the importance of these factors! In some cases, they will be the client's main issues, even if she never mentions them.

Tracking your time

Tracking the time spent on jobs is one of the most important things a microbusiness owner can do.

One good way to do this is to get a timer or a computer program that lets you "clock in" every time you work on a job.

Start by estimating how long a given job will take. Then, track every minute of time you spend on it, including phone calls, emails, buying supplies and so forth.

If you're like most microbusiness owners, you'll find that you underestimated the amount of time you spend on each job. People who do this usually end up working long hours without ever seeming to get ahead.

You should also track your costs, of course. Always keep an eye out for costs that arise during the course of a job. Ignoring problems like these will eat into your profits, at the very least.

Service Pricing Considerations

Here are some questions to consider when approaching a new client:

- What is the scope of the work? What is and isn't your responsibility? At what point is the job finished?
- What is the minimum amount of time the job will take? What is the maximum amount?
- What are the tangible benefits for your customer of completing the work (cleaner windows, more sunlight)? What are the intangible benefits (time savings, stress reduction, improved morale, peace of mind)? Which features sell which benefits?
- What standards will your client use to judge the work? Do you measure success in the same way? Note that conflicts often arise because parties to a contract don't define the job in the same way.
- Is this a one-time job, or are you building a long-term relationship with this client?
- What do competitors charge? What's their turnaround time? What level of quality and service do they offer? What makes you a better choice? Can you match their speed and quality and still make a profit?
- What value can you add to the transaction? Consider free tests or estimates, discount coupons for future work, consultation, maintenance, documentation and so on.

Service pricing example

To illustrate service pricing, let's go back to the example of Green Thumb Plant Care. After researching the plant care market, they found two primary competitors in their area. Both competitors used monthly pricing and billing for their services. *Competitor A* has been in business for 10 years; it charges \$265 per month for weekly

plant care. *Competitor B* gets most of the business on the north side of town, has been in business two years and charges \$240 per month. Therefore, Green Thumb planned to focus on the underserved south side of town and charge \$240 per month for weekly service.

Just as in the T-shirt example, you must make sure your pricing will cover your variable and fixed costs and profit goals.

Green Thumb Plant Care Proposed Pricing	
Office Startup: Customer makes initial payment of \$200 for plant purchase, delivery and placement.	
Monthly Maintenance: \$240 per month x 20 customers = \$4,800 per month	
Monthly Revenue:	\$4,800
Variable Costs	
Plants / Food	\$200
Promotion	\$200
Gas	\$400
Misc. Supplies	\$100
Telephone	\$100
Total Variable Costs	\$1,000
Fixed Costs	
Greenhouse Rent	\$800
Truck Lease	\$400
Accounting Expense	\$100
Insurance	\$200
Loan Payment	\$300
Total Fixed Costs	\$1,800
Revenue	\$4,800.00
- Variable Costs	-\$1,000
- Fixed Costs	-\$1,800
Monthly pre-tax profit	\$2,000

If Green Thumb meets its projections of 20 customers paying \$240 per month, the monthly pre-tax income for the owner is \$2,000 before taxes. If this isn't enough, the owner can revise the projected numbers. Can the business add enough value to warrant charging \$260 per month? Can



it earn a higher profit margin by reducing its variable or fixed costs? Is it possible to increase the number of offices being serviced to five or six per day?

As you can see, there are several ways to meet income requirements. The first step is to create a projection based on the most likely scenario.

Everyone else was pretty much on board. A couple of them wanted to know if the green cleaning products really worked. But I was ready for that. I asked the people who make the cleaners to send me their brochures showing what kind of germs they kill compared to the normal products. So I had the answers, and I could tell that made a good impression.

At the end, I made deals with seven companies. That meant I'd make about \$2,000 a month to start. The best thing was having the contracts; that meant this was money I could rely on. I'd know when it was coming in, and I could make plans around it. And once I found other companies, I'd make even more. So things were definitely looking up for me.

Once he finished his business plan, John was able to get a microloan through ACCION. He bought his HEPA vacuum and stocked up on enough cleaning supplies for his first three months of operations.

Since then, John's done well. He currently has cleaning contracts with 16 area businesses, which gives him just about as much work as he can handle by himself. Sometimes, he ends up hiring a couple of local kids to help him out on certain jobs.

I do think a lot about growing my business... maybe even getting a partner and buying a second truck. Right now, I mostly just want to pay off my debts and put some money into savings. But I do like the idea of having people working for me, instead of doing everything myself. I got this far, you know, so why not? The planning and paperwork were a headache at the beginning, but now that I've been through it, it doesn't seem so bad. I'm excited to see how much farther I can go.



Never underprice your services to develop a client base. Always charge what your service is worth!

Pricing Tips for Service Businesses

- Prices are most often based on an hourly rate or a project rate. Consider studying individual customer requirements before making pricing decisions.
- Know the going rate for your type of service.
- Never underprice your services to develop a client base. Always charge what your service is worth!
- Most new customers come through word of mouth, so budget time for networking and promotional activities.
- Service providers are often paid an hourly rate. Breaking down and studying the individual components of your tasks will help you set the right price.
- Not all hours of the workday are billable to your customers. Some hours are needed for your general administrative, promotional or bookkeeping work. Will you have enough billable hours in the day to make the amount of money you need?

...

Once I showed people the benefits I offered, the response was good. A few businesses still weren't interested. But you know what? Those were the companies where I had the most trouble getting paid before. So I wasn't sorry to say goodbye to them.

...

What You've Learned

In this session, you learned how to base marketing strategies on your earlier market research and analysis, and you explored specific strategies for products and pricing.

Here are the main concepts you should understand after completing this session:

1. Packaging includes all the things that present your business to the public, from business cards and letterhead to the way you look and act when dealing with customers.
2. To position your business, you must look at your competition and your customers, and consider issues like price, quality and brand identity.
3. Your branding choices affect how customers perceive the value of your product.
4. Your business will develop a brand image, whether you want it to or not! That's why you should plan and execute your branding strategy carefully.
5. Fixed costs stay the same no matter how much of a product you produce. Variable costs change depending on how much of a product you produce.
6. Break-even analysis can help you choose correct prices and set realistic sales goals.
7. Successful businesses build an adequate profit margin into their prices.
8. Startup businesses usually can't compete on sales volume alone.

WORKSHEETS



SESSION 8

SESSION 8: PRODUCT AND PRICE

Right Product, Right Price, Right On!

Product Strategies Worksheet

In Session 7, you analyzed your customers and competitors and estimated your market potential. Now, you will use this information to develop product strategies that will make your target customers more likely to buy.

1. **Which stage of the product life cycle is your product in (introduction, growth, maturity, decline)?** Explain how this will affect your product and pricing strategies.

2. **Describe your product line.** If you're planning to sell only one product, explain why you made that choice and describe any service enhancements that will complement the product. If you're selling more than one product, describe how they fit together in your product line, and why you believe this mix of products is a good one for your target market.

Positioning Statement Worksheet

Look back at the *Competitive Analysis Worksheet* from Session 7, and think about where you want to position your products relative to your competitors. For example: Is your quality high, but your price moderate? Is your quality moderate, but your price low? Or are your quality and price high?

Next, write a **positioning statement** for each market segment you target. A positioning statement consists of a couple of sentences that explain what you offer that your competitors don't. Once you've explained this to yourself, you can use it to guide your marketing messages. Based on your previous worksheets, briefly answer the following questions.

1. Who is your target audience? Where are they? What problem or need do they have?

2. What product will you offer to solve their problems or meet their needs?

3. Who are your primary competitors? What solutions do they offer?

Right Product, Right Price, Right On

WORKSHEET SESSION 8

SESSION 8

4. What is the primary benefit of the solution you offer?

5. What is the differentiator that makes your primary benefit better than what your competitors offer? What evidence can you cite to support this claim?

[illegible]

6. Use your answers to Questions 1 through 5 to write a simple, clear positioning statement. Here's a template:

[Your company] has the only [product type] that provides [your target customer] in [your area] with [your primary benefit], because unlike [your competitors], [your company] offers [your differentiator].

[illegible]

Branding Worksheet

A **brand** is a name or symbol—or some combination of the two—that represents your product. Your **brand identity** is how you present your product to the world. Your **brand image** is how your product looks to your customers. In other words, brand identity is how you *want* to be seen, while brand image is how you *are* seen.

1. If you've already chosen business and product names, explain how they communicate your brand identity. If you haven't, make a list of words or emotions that describe the kind of brand identity you want. Explain why this brand identity will appeal to your target market.

2. What kind of logo is appropriate for your business? Something humorous? Classy? Down to earth? Professional? What kind of message do you want it to send?

3. Now, write your branding statement. A branding statement is a short, clever or humorous sentence that gives customers a simple, memorable concept of your business. Example: *Green Thumb Plant Care makes a day at the office like a walk in the park.*

Packaging Ideas Worksheet

Your packaging decisions should fit your positioning statement and brand identity. If you are a green business, does your packaging demonstrate your commitment to environmental health? If you sell locally made goods, are your packaging materials local? If you sell toys, is the packaging child-safe?

Use this worksheet to describe packaging ideas for your business. Explain how the idea will help to create the brand identity you want.

[illegible]

Pricing Strategy Worksheet

Pricing is critical to the success of your business. Customers will evaluate your products by some combination of price, value and quality. Pricing strategy involves figuring out how much it costs you to make and deliver your product, adding your cost of doing business (including taxes), and then adding your desired profit margin.

Price is partly determined by the things you looked at in your market research: who your customers are, how much they will pay, how much your competition charges, your positioning statement, and your desired level of profit.

Businesses must price their products between the **ceiling** (the highest price a customer will pay, based on perceived value) and the **floor** (the total cost of producing and delivering your product). Underpricing can cause a business to fail. Overpricing can drive customers to lower-priced competitors, which can also cause a business to fail.

1. Which pricing objective makes the most sense for your product? Why?

2. Which pricing strategy makes the most sense for your product? Why?

3. How will you set the price of your product?

- 4. Will your price be high, average or low compared to the competition? How does this fit your brand identity and positioning?**

- 5. Explain how your pricing strategy fits in with the other parts of your marketing mix. Why is it right for your product? How will it affect promotion and placement?**

- 6. Explain how your pricing strategy fits your financial goals. How will it affect your business's break-even point and profitability?**

- 7. What factors will influence your decision to change your pricing (e.g., recession, new competitors)? Explain your plans to review your pricing strategies over the next three years.**

Worksheets Assignment for Session 9



You will need to complete all of the worksheets for this session before trying to write the *Marketing Objectives, Strategies and Tactics* section of your business plan. It's also a good idea to complete and understand the *Pricing and Break-Even Example* on the next page, which will help you create a shrewd pricing strategy. As you learn more over the following sessions, you may need to revise your product and pricing strategies. Writing them down now will make this process easier.

Writing Your Business Plan



Use the information from this session to write the sections of the business plan listed below. Start with the headings and subheadings just as they're shown here. Then, follow the instructions under each subheading to write that section of your business plan.

Section IV. Marketing Plan C. Marketing Objectives, Strategies and Tactics

Product Strategy

*Review the **Product Strategies Worksheet** and describe your mix of products and services. If you're planning to sell only one product, explain why you made that choice and describe any service enhancements that will complement the product. If you're selling more than one product, describe how they fit together in your product line, and explain why this mix of products is a good one for your target market.*

Product Positioning

*Review the **Positioning Statement Worksheet** and describe how you want to position your product within your target market. Include your positioning statement, and explain why you think this is a good marketing strategy given your customers and competitors.*

Packaging and Branding

*Look back at the **Branding Worksheet** and the **Packaging Ideas Worksheet**. Explain your brand identity and include your branding statement, if you have one. Explain why your brand identity will appeal to your target customers. Describe how you'll package your product, and how you'll "package" your business as a whole. Explain how your packaging reinforces your brand identity and positioning.*

Pricing Strategy

*Review the **Pricing Strategy Worksheet**. What pricing strategies will you use? Describe how you want your prices to compare with the competition. Also, explain how your pricing strategy fits in with the rest of your marketing mix, your product's stage in its life cycle, and your branding strategy.*

Pricing and Break-Even Example

You make personalized T-shirts. Your competitors sell a similar shirt for between \$8 and \$11. Therefore, you decide to price your T-shirt at \$10. Let's see how many T-shirts you must sell to cover your fixed and variable expenses, and thus to break even.

Here's a list of your expenses:

<i>T-shirt</i>	\$3.00	<i>Insurance per month</i>	\$50.00
<i>Rent per month</i>	\$800.00	<i>Shipping expense</i>	\$ 0.50
<i>Hourly labor</i>	\$1.00	<i>Bookkeeping per month</i>	\$100.00
<i>Sales commission</i>	\$1.00	<i>Loan payment per month</i>	\$300.00
<i>Telephone</i>	\$100.00		

Now, sort these expenses into variable expenses and fixed expenses:

<i>Variable Expenses</i>		<i>Fixed Expenses</i>	
	\$ _____		\$ _____
	\$ _____		\$ _____
	\$ _____		\$ _____
	\$ _____		\$ _____
	\$ _____		\$ _____
<i>Total Variable Expenses</i> (per unit)	\$ _____	<i>Total Fixed Expenses</i> (per month)	\$ _____

The **contribution margin** is the selling price per unit, minus variable expenses per unit. It represents the amount that each unit of sale contributes toward fixed expenses and profits.

What is the selling price of a T-shirt? \$ _____

What are the variable expenses of a T-shirt? (-) \$ _____

What is the contribution margin? (=) \$ _____

How much does each T-shirt you sell contribute toward your fixed expenses? \$ _____

What are your total fixed expenses for a month? \$ _____ per month

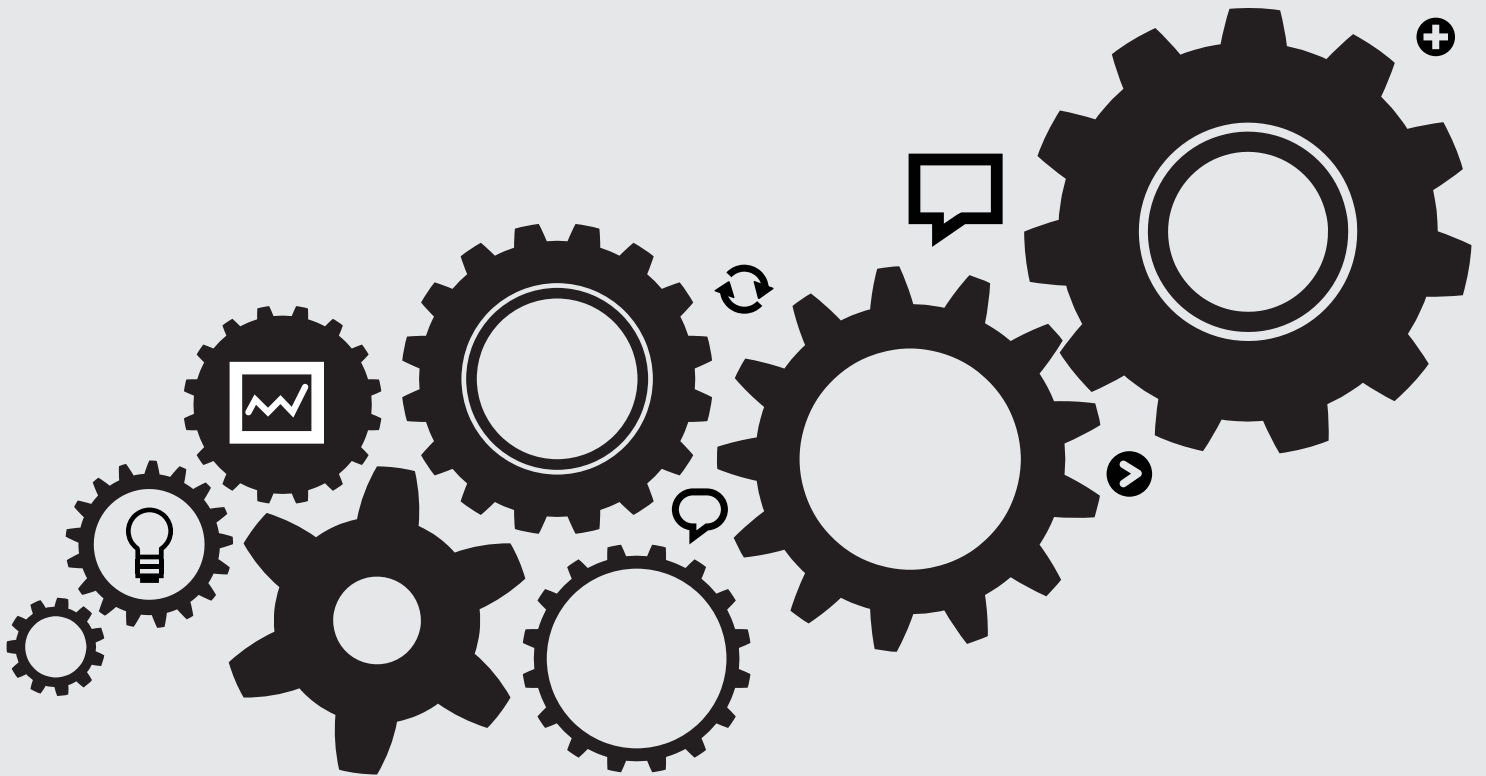
What is your contribution margin per T-shirt sold? \$ _____ per shirt

How many T-shirt sales will it take to pay for your monthly fixed expenses? _____ shirts

(Fixed Expenses ÷ Contribution Margin = Number of shirts you must sell to break even.)

What happens to the break-even number if you decide to lower the price to \$9?

TEXT



SESSION 9

Placement & Promotion

RECIPES FOR SUCCESS!

HIGHLIGHTS

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The Marketing Plan.....	page 19

“Give them quality. That's the best kind of advertising.

—Milton Hershey

”

About This Session

We looked at product and pricing strategies in Session 8. Now, it's time to learn about placement and promotion.

Placement strategies. In simple terms, placement, or distribution, is the method you use to get your product to your customer. Will you sell directly to customers at a retail location? Will you sell to wholesalers who then sell to the end user? If you provide a service, will you perform that service at a

home office? At the client's office? Online?

Placement also includes delivery options, such as UPS, personal delivery or U.S. mail. Comparing the cost and efficiency of these options is an important part of your placement strategy. This section explains the basics of distribution to help you choose the right strategy for your product.

Promotional strategies. Promotion is everything you do to

let people know your business exists and persuade them to buy your product. Promotional strategies are built around advertising, public relations, networking and other tools.

The marketing plan. You've developed the pieces of your marketing plan throughout the last several sessions. Now, you will fit all these pieces together to create a clear, compelling plan that makes sense for your business.



Placement

Placement means choosing the best way to give your customers access to your product. You can take care of distribution yourself, work with **intermediaries** such as wholesalers or distributors, or use some combination of the two.

Of course, your placement strategy must fit your product, price and promotion strategies. Imagine trying to place premium handcrafted jewelry at 7-11, or offering maple syrup through an auto parts catalog, or selling staplers at a farmers' market. It wouldn't be long before you were out of business!

It's important to choose the right type of distribution from the start, because distribution strategies can be hard to change once they're in place.

Earlier, we explained that every interaction with a customer communicates something about your business. This remains true when you're choosing distribution channels and partners. How does the channel fit your brand identity? How do your partner's policies affect your customer service? You need to strike a balance between moving product out the door efficiently and maintaining control of your brand and customer service.

Service businesses also need a distribution strategy. For instance, some bookkeepers work from home, some rent an office space and some do most of their work at their clients' homes and offices. If you're offering a service, you must give customers the amount of access and convenience they expect.

Distribution Partners

Often, small businesses don't have the time, money or expertise to deliver products directly to customers. Instead, they outsource certain distribution tasks.

This leaves them free to focus on customer service, product design and promotion.

Of course, the Internet has made it much more common for small businesses to sell directly to customers around the world.

We'll discuss e-commerce at length in the next session. For now, we'll focus on common distribution partners.

- **Retailers** buy products from manufacturers, distributors and wholesalers, and then mark up the price to cover their costs and make a profit.
- **Wholesalers** buy products and sell them to other wholesalers or retailers. They never sell directly to the public. Their expertise lies in repackaging, storing and reselling.
- **Distributors** buy merchandise from manufacturers and resell it to wholesalers, retailers or end users.
- **Agents and brokers.** Agents charge a commission to enable sales between manufacturers and their final customers. Brokers unite buyers with sellers and have only short-term relationships with each. Agents work on commission, while brokers sometimes take title to the goods.

...

I grew up on a little farm near Paducah, Kentucky. When I was little, Mama always told me busy hands are happy hands. And I sure kept my hands busy and happy ever since then.

I was maybe 5 years old when Mama learned me to make string quilts. That's a quilt made of all sorts of fabric that you cut into strips and sew together. From there, you cut them into blocks and make your quilt. That goes way back to the Civil War, at least. Back then you made do with what you had, so the women used scraps of any old cloth they had lying around.

That's mostly a lost art today. Most all the quilts you see these days get made by patterns or by a machine. You look at a string quilt and you can see right away how it's different.

Adelmira Hawkins is a quilter. As far back as she can remember, she's been collecting material to make quilts. She has boxes full of scraps, old clothes and feed sacks. She also has lots of vintage quilts, of all kinds and patterns.

In addition to string quilts, she makes variations on traditional quilt patterns, like Pine Cone, Flying Geese, Ship's Wheel, Wedding Ring, World Without End and Job's Tears.

No matter which pattern she uses, she includes a Humility Block in the lower right corner of every quilt. This is a block that she makes wrong on purpose to express the traditional belief that because only God is perfect, mortals must not produce a perfect quilt.

...

Selecting a Distribution Strategy

Like any business strategy, distribution strategies require you to know your objectives, your customers, your time and budgetary constraints, your brand, and the pros and cons of your alternatives.

In some cases, traditional distribution channels might not be feasible, and you will have to seek more entrepreneurial methods. Here are some things to consider when choosing distribution channels:

- **Product.** Perishable or fragile products may require direct sales to avoid spoilage or breakage. Also, there may be shipping restrictions on certain products, based on weight, size, materials, destination or purpose.

- **Profit.** Which strategy will allow you to meet your profit goals? The more intermediaries you have, the more units you must sell to make a profit. But if you sell direct, you have to do everything yourself. That can be expensive, too. And it can also take time away from things that are equally critical to your success, like making your product or keeping your books.
- **Customers.** Your distribution strategies must reflect your customers' lifestyle. If your target customers don't shop at malls, there's no sense in selling to a mall-based retailer. If your customers don't buy online, e-commerce won't be an option. If your customers are rural, they're much less likely to visit an urban pop-up retail outlet.
- **Competition.** How do your competitors sell? Are they regional, local, national or international? Will your products be handled by the same stores, wholesalers, distributors or agents? If so, will you get equal treatment? What about online competition? If an online retailer offers lower prices and free shipping, what can you offer to outweigh those advantages? Faster service? More personal service? Locally made goods that tell a compelling story?
- **Confidence.** Can you trust your intermediaries? Remember: The way they display and deliver your product reflects on you, not them. Also, they may have some control over your cash flow. Can you afford to have all your eggs in one basket?
- **Technology.** Your distribution methods must reflect your customers' access to and attitude toward current technology. If your distribution channel

Your distribution strategies must reflect your customers' lifestyle.

requires some sort of technological know-how or equipment, you must make sure your customers have it and are willing to use it. The Internet is the most obvious example, but the same logic applies to many other products. People who don't use cell phones probably won't buy a knitted cell phone holder, and people who use dishwashers may not be interested in handmade dish-drying racks.

Your distribution strategy also depends on whether you offer goods or services. The next section reviews the basics of each.

No matter which strategy you choose, you must research its cost and effectiveness. The *Placement Strategies Worksheet* will get you started.

Intensive versus selective distribution

The goal of **intensive distribution** is to get a product into as many outlets as possible. This strategy makes sense when customers have an immediate need for a product and make little or no distinction between one brand and another (e.g., ballpoint pens or shoelaces).

In **selective distribution**, the product is offered at a limited number of outlets. Consumers must work a little harder to find it, either because they're willing to seek out a favorite brand, or because the product is unique or innovative. This is a common distribution strategy for microbusinesses, because they tend to target niche markets.

Also, certain types of products require selective distribution. Consider the cost to a retailer of offering 10 packages of shoelaces, versus the cost of offering 10 cement birdbaths weighing 50 pounds each. When inventory costs are higher, businesses often limit their offerings in a

given market so that retailers will be more likely to earn a profit.

The most limiting form of selective distribution is **exclusive distribution**. In this arrangement, a specific wholesaler, retailer or distributor is granted the sole legal right to offer a product within a specific geographic area. Exclusive distribution can be great if you have the right partner, who in turn has the right customers for your product. Otherwise, it can be disastrous! Do plenty of research before agreeing to an exclusive distribution deal.

Distributing consumer goods

Consumer goods include everything we buy in the supermarket, as well as things like bicycles, running shoes, kites, firewood and tinsel. Here are some common ways of distributing consumer goods:

- **Direct sales.** Most microbusinesses avoid intermediaries altogether by selling their products directly to their customers through a catalog, street market, website or their own retail outlet. When you sell directly, you can control how your products are presented and respond quickly to customer needs. Direct selling may also be faster and less expensive than other distribution methods. However, it can take up a lot of your time. If you don't have enough time to make, promote and sell your products, you may need to hire someone to sell for you, which will cut into your profits.
- **Retailers.** Retailers with a strong customer base for your type of product can sell a lot of merchandise. A good retailer will promote your product and be knowledgeable enough to answer customer questions about it. On the



other hand, some stores will ask you not to sell to local competitors, which can limit your ability to earn the income you need. Also, retailers who insist on consignment sales will tie up your merchandise and money, but may not make a serious effort to sell your goods.

- **Wholesalers.** Wholesalers are often very helpful to businesses introducing new products, because they can use their leverage and expertise to push the product into stores. Also, wholesalers often buy in bulk, which can reduce your storage and inventory costs. However, you'll get a lower per-unit price from a wholesaler than you would from a retailer or a direct sale.
- **Distributors** are helpful when your customers are scattered across the country and require speedy, small-quantity deliveries.
- **Agents and brokers** can be a good alternative to an in-house sales team. They can present a line of products professionally, coordinate in-store promotions and share expert knowledge of markets and customers. Of course, they charge for these services, which will affect your pricing strategy.

Using sales representatives

A professional representative can be the best friend a microbusiness has. They're easy on a business's cash flow, because they add no fixed costs to the business. They're usually paid on commission, or when they make a sale; some reps may even pay for products in advance.

As specialists in their product category and geographic area, they're likely to know the industry and market better

than you do. Outside reps may be able to offer better technical support or service than you can. They can also help shoulder the responsibility of promotions and advertising.

That said, some representatives need plenty of support to sell effectively. They can also be hard to train, monitor and motivate. It may take a lot of effort to get your money's worth.

Working With Sales Reps

- Make sure the rep's personality suits your business.
- Review his or her track record and get references.
- Clearly define your sales expectations, base fee, expense reimbursements and commission arrangements.
- Prepare and sign a written contract.
- Hire the rep for a three-month trial and assess results.

Once you hire a rep, your rep should:

- Give you weekly or monthly updates on prospects and sales efforts.
- Prepare regular expense reports and receipts.
- Stay current on industry and market trends.
- Let you know about customer problems or complaints.
- Be honest and reliable.

Finding and recruiting reps

Trade journals, websites and representative associations can tell you who the major reps are and what types of customers they serve. Local and state chambers of commerce may also maintain lists of reps.

Business-oriented social networking sites



A professional sales rep can be the best friend a microbusiness has.



Your marketing plan should clearly describe how and where your customers will receive your services.

like LinkedIn can help you find qualified reps in your area. Also, noncompeting businesses that deal in similar products might be able to recommend a good rep.

Distribution strategies for service businesses

Your marketing plan should clearly describe how and where your customers will receive your services:

- At your home or office
- At the customer's home or office
- At a retail outlet, such as a shop, cart, mall or kiosk
- Via email or Internet
- Over the telephone
- By mail or overnight service

Consider the costs associated with each option. If you will go to your customer, your price must cover the cost of travel. If customers will come to you, your price must cover the cost of maintaining and insuring an office or workspace. You should also consider what your competitors are doing. If your main local competitor requires customers to come into an office, you may be able to compete by making house calls.

Creative placement strategies

Unconventional distribution methods can be both effective and inexpensive. You may find that your best placement ideas come from rethinking how your product is used. Maybe it has another use you haven't thought of yet, or maybe it could easily be adapted to some other purpose or combined with some other product or service. In either case, identifying a new use may lead to new placement opportunities.

Another possibility is redesign. Can you make changes that will give your product a wider appeal? Can you make it meet more needs by giving it additional functions? Can you replace a cheap plastic shell with highly polished bamboo or stainless steel? If so, your product may be one step away from acceptance by a prestigious retailer or distributor.

The more competition you face, the wiser it is to find ways of differentiating your product. The demand for clever reworkings of existing products is getting stronger all the time. Catering to this trend can earn you profitable placement opportunities, especially online.

...

I believe my quilts have old clothes in them from every house in Paducah. I've been going to the flea markets, church sales and thrift stores for I don't know how long. And that's not counting what folks around here bring to me. Most days I never know what's going to be out on my porch. People leave me bags of old dresses, shirts and tablecloths, baby blankets... whatever they don't need anymore, once it's too worn out for anyone else.

Now, some pieces just naturally go together. Others, you have to play around with them. You can try different pieces next to each other, or maybe sew them different ways. When I started out, I was making traditional bed quilts and scarves. But I had too many ideas to stick with that. Any time I was working on one thing, I had 10 more things I was planning out in my head. You have to keep busy in this life.

A few years ago, I was over to my nephew's house and they'd hung up the quilt I gave them in the front room. They said it was too pretty to hide away on the bed. To me, that was a funny thing to do. But I didn't give it much thought, at the time.

For most of her life, Adelmira had simply

given her work to friends and family. But one summer, she took some of her quilts to the Fourth of July church social. Everyone loved them and told her she should go into business.

Not long after that, she arranged to display her work at the LowerTown Arts and Music Festival. She sold a good number of pieces. But what she didn't realize was that most people were looking at the things she made as everyday household items. She didn't realize that she was selling not just a blanket, but a form of art.

...

Promotions

A good promotional strategy lets consumers know what your product is, what it does, why it's better than anyone else's and how they can buy it.

A great promotional strategy does much more than that. It communicates your brand and your values. It doesn't just tell consumers why they need your product; it inspires their goodwill, trust, admiration, respect and loyalty.

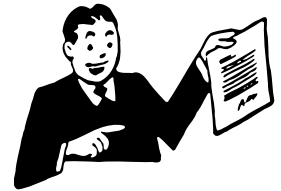
Promotional strategies are built around such tools as advertising, public relations and networking. TV ads and large promo campaigns can be expensive, but more creative approaches don't have to be. With a little entrepreneurial creativity, you can plan inexpensive, powerful promotions. The *Promotional Strategies Worksheet* will help you with this. Also, making sure your promotional strategies complement each other will help you get better results for your money and time.

Here are the goals of your promotional plan:

1. Reach your target customer with your promotional message.

2. Make your message appealing and easy to understand.
3. Use a message that gets your customer excited to buy your product.
4. Choose the lowest-cost methods that produce the best results.
5. Review your plan quarterly.

Start by evaluating all your promotional options to determine which ones are most likely to reach and motivate your target customers. Then, estimate and compare the cost of these options. It's unlikely that a startup microbusiness will be able to afford TV advertising or flashy four-color brochures. You'll probably rely on less expensive methods, like word of mouth, networking, signage and fliers. Still, it's good to have a working knowledge of the tools available to you. They'll become more important as your business grows.



Advertising

Advertising is a promotional message aimed at your target market. Its purpose is to inform, persuade and motivate buyers.

You can use advertising to:

- Introduce a new product.
- Increase sales (e.g., through special promotions).
- Differentiate the product through features and benefits.
- Change attitudes about your brand (e.g., explain why your more expensive product offers better long-term value).
- Make an emotional connection (e.g., link your product to something or someone else about which the consumer has a good feeling).



- Communicate company values (e.g., donation to charities, schools, or disease research; use of environmentally safe or American-made materials).

Shrewd advertisers often pursue several of these goals at once. However, they don't do it at random. They know which messages are appropriate in which markets.

Customer engagement

In the Internet era, many businesses are moving toward a customer engagement model that gives customers an incentive to receive promotional messages and share them with other consumers. In effect, they allow consumers to tailor their own promotional messages. Here are some good arguments for this approach:

- Consumers increasingly control when, how and whether they will pay attention to promotional messages. They can already block ads on digital TV, digital radio and on the Internet, and they are more likely to ignore or mistrust the ads they do see. The obvious solution is to create promotional messages that offer some sort of reward for the customer's attention.
- Company-sponsored advertising is the least-trusted source of product information, according to a study by Forrester Research. Online reviews from customers, and recommendations from friends and family, are much more credible to most consumers.
- Consumers trust other consumers. Engaged customers offer highly credible promotional messages for little expense. They can also offer valuable suggestions for improving your design, quality and service.

Consumers increasingly control when, how and whether they will pay attention to promotional messages.

The main point to remember is that where traditional advertising focuses on one-way communication, customer engagement requires a dialogue. This is an important point to consider when choosing a promotional strategy.

Planning advertisements

Once you've decided to advertise, you must decide which medium to use, what message to convey, which image to project, how often to run your message and how much to spend.

To get the most out of your advertising dollars, you should:

- **Target the right audience.** Your market research should guide the content, style and placement of your advertising.
- **Set the right objectives.** Typical advertising objectives include reaching a certain percentage of the target market, increasing the target customer's awareness of your brand or achieving a certain level of sales. Setting clear goals helps you gauge whether you've gotten your money's worth.
- **Set your advertising budget.** How much you decide to spend depends on your goals, and on what you can afford.
- **Design your advertising strategy.** This is the most creative part of advertising, and it relates directly to your positioning strategy. How will you encourage your customers to buy? What message will appeal to them and motivate them?

Types of advertising

For most microbusinesses, the main issues in selecting an advertising medium are cost, reach, frequency and effectiveness.

- **Reach** describes the percentage of your target market that sees your message.
- **Frequency** describes the number of times people in your target market see your message during your campaign.

Newspaper advertising

Newspapers are good for running short-term promotions to a wide audience in a specific geographic region, or for keeping your business in the public eye. By placing different coupon ads in various local papers, you can measure which ones are most effective. Newspaper salespeople can advise you on the best placement, day, size, and length of run for your ad.

The main problem with newspaper ads is that so many big businesses place large, eye-catching ads that the smaller ones may get overlooked.

Smaller local newspapers cost less than big papers, and may do a better job of reaching your target customers.

Magazine advertising

Magazines are a very effective way to reach a narrow target audience. There are magazines for just about any interest you can name, and they are often read more than once by more than one person.

Small businesses can sometimes negotiate to use lower-cost “remnant” space in magazines. That said, lead times for placing ads in magazines are generally long. Also, ad production may be expensive.

Broadcast advertising (radio and TV)

Radio and TV commercials are called “spots.” A typical spot is exactly 30 or 60 seconds in length. Some stations will accept shorter or longer spots, depending on their availability. Radio and TV spots are ideal when you want to contact your target customer during a specific part of the day.

Facts About Newspaper Advertising

- Most newspapers can tell you their circulation and readership figures for weekdays and weekends. They can also give you demographic information about their readers, which you can compare to your target customer profile.
- The cost of your ad depends on its size, its position and the days on which it runs. All newspapers have a **rate sheet** that lists these prices.
- Print ads are usually measured in **standard advertising units (SAUs)**. The normal SAU is 3 x 7, which means the ad is 3 columns wide and 7 inches long. To calculate the cost of the ad, multiply the cost per inch by the number of column inches. If an ad costs \$20 per inch, multiply $\$20 \times 3 \times 7 = \420 .
- The newspaper should provide you with a **proof sheet**, which is a sample showing how your ad will look in print. Check it carefully! If you don’t check your ad before it runs, and there’s a mistake in it, you’ll probably have to pay for the ad no matter whose fault the mistake is.
- All papers should provide you with a **tearsheet** (your ad as it appeared in the paper, to show the date on which it ran), along with an invoice. Check the tearsheet and invoice against your order to verify you got what you paid for. If the ad ran on the wrong day, contained incorrect information or ran in the wrong section, contact your salesperson immediately.





- **Cable TV ads** can reach viewers with very specific interests for a relatively low cost.
- **Radio** provides flexible coverage of a wide range of audiences. You can choose the best time, day and station to reach your target audience, and then hit them with multiple ads. Radio stations can help you produce ad spots, but be sure to write your own message; you don't want to sound just like everyone else.

Radio and TV ad rates depend on the number of spots you buy, their length and the day and time on which they run. You may be able to negotiate bargain rates with some stations. Such deals must be documented in writing.

Online advertising

Online advertising includes advertisements on websites, local business directories and social media. It's popular because of its low cost, its ability to target customers in niche markets, its potential for viral marketing and its ability to create customer engagement. Even if you don't sell online, the growth of location-based searching makes online advertising important. To learn more, see Session 10 *E-Commerce*.

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When I was over at the LowerTown fair, a woman came by from one of the downtown stores. Her name was Annie, and she told me what I was doing was "wearable art." She said I should be charging more, and selling it at art galleries and places like that.

I didn't know anything about any of that, so I just told her I reckoned I was charging people plenty for a scarf made of old worn-out scraps. Well, she picked up a scarf I had for \$30, and she asked how long it took me to make one like that. I said it took me maybe 10 hours, all told.

So she said, "Adelmira, that means your time and your skill are worth about \$3 an hour. Does that sound right to you?"

Now, I had to admit that when she put it that way, it didn't sound right. I've earned more money working jobs where you don't even need to have a brain, let alone a heart. But I hadn't ever looked at it like that. I was just doing what I loved, you see.

Annie explained to her that it was this love for quilting that made her work so valuable. There were plenty of companies that turned out quilts with machines, and they spent a lot of money trying to create the image that Adelmira already had.

"People like handmade things," Annie explained. "And they like the idea of having a quilt or a scarf that no one else has, because you made it that way only once. That makes it special, and people will pay more for something special."

The question was, how could Adelmira get her work into galleries and boutiques? With Annie's help, she came up with a plan. She'd work hard on her quilt art in fall and winter, and sell at regional arts and crafts fairs in spring and summer.

When she went to fairs in different cities, she'd call on local boutiques and galleries and sell to them as well, and take special orders and requests. Once she got home, she'd make those pieces and mail them out.

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Signage

Signage is one of the most cost-effective and powerful ways to attract customers and promote your brand. Even the most elaborate sign is cheaper over its lifetime than any other advertising medium.

Signage isn't just for retail stores and restaurants. If you run a manufacturing operation, suppliers and clients need to be

Even if you don't sell online, Internet advertising is important!

able to find your business. It's also possible that a distributor might drive past your sign and decide to give you a call. And if you have a sign on your truck or car, think of how many people will see it as you drive around town!

Effective Sign Design

- **Easy to see.** To be effective, your sign must be easy to see. Will it be hidden during the day by a supermarket's delivery truck? Is it blocked by other signs, power poles, street furniture or overhangs? Does it show up at night when the lights are mostly behind it? Does it give drivers enough time to see, read and react safely?
- **Easy to read.** Simple, easy-to-read fonts make for the most effective signs. You should also choose solid, bold colors, and have plenty of contrast between the background and the text. Last, make absolutely certain that the words on your signs are spelled and punctuated properly. Do you know the difference between "complementary" (given away free with a product or service) and "complimentary" (offering kind words)? How about the difference between "every day" (every 24 hours) and "everyday" (ordinary and dull)? These are a couple of the most common mistakes you'll find on signs. You may want to look each word up in the dictionary, just to be on the safe side.
- **Lighting.** LED lighting is a boon to microbusinesses. It's very bright, and it can reduce your electricity consumption by as much as 90 percent. With energy costs on the rise, it's smart to look into LED lighting for your nighttime signage needs.
For more information, consult:
The International Sign Association (<http://www.signs.org>);
The Signage Foundation for Communication Excellence (<http://www.signagefoundation.org>); and
Signs of the Times (<http://www.signweb.com>).

Here are the ABCs of effective signage:

- **Attracting new customers.** Because a certain number of your customers will move out of the area, change their buying habits or switch to competitors, your business must constantly restock its customers, just like it restocks its inventory.
- **Branding your business.** A sign that's visible every day may do more to communicate your brand identity than all your other marketing efforts combined.
- **Creating impulse sales.** Studies show that 68 percent of all U.S. sales are impulse sales. Your job is to attract your share of these impulse buyers and turn them into regular customers.

A sign may do more to communicate your brand identity than all your other marketing efforts combined!

There are a few basic standards for effective signs. They must be in a place where your target customers can see them, they must stand out enough to gain the customer's attention and they must communicate your message at a glance. It does no good to have a visible sign that doesn't attract attention, and there's no benefit in attracting attention if you don't communicate a clear message.

Business cards

Business cards are an excellent, inexpensive way to promote your business. All of your printed materials should be consistent, so use the same logo, fonts and colors on your business cards that you use elsewhere.

Fliers

Fliers are a very economical way to spread the word about your business to people in your area. Select a basic idea, combine it with an appropriate photo or image, and then explain more fully what you offer and how it benefits your target customer.



Newsletters

Even businesses on small budgets can use software templates to create an inexpensive, attractive newsletter. In order to be effective, newsletters should be published regularly and consistently, contain important information and up-to-the-minute news, be easy and enjoyable to read, communicate your brand identity and provide solutions for your customers' problems.

Newsletters can be printed or distributed electronically. The second option is much cheaper, and it also saves paper, time and resources. Of course, it won't work unless your target customers are online.

Brochures

People expect detailed information in brochures, so be sure to deliver it in a compelling way. You should also:

- Include color photos of your products, or of jobs you've completed.
- Explain your product's features and sell their benefits.
- State your team's experience, skills and training.
- Describe anything that makes your business special, such as locally sourced materials, an old family recipe, a charitable aim or a compelling personal story.
- Include your telephone and fax number, physical address, business hours, website and email.

Printing a simple one-color brochure is fairly inexpensive. Costs go up as you add colors and improve paper quality. If you plan to produce your own brochure, have several people review it before you invest money in printing it.

Like newsletters, brochures can either be printed, or offered for download as an environmentally friendly alternative.

Classified ads

Classified ads are less expensive than traditional ads and can contain more information. Classified ads are often offered at a discount to advertisers who buy frequent listings. If you often see classified ads for your type of business in your local paper or favorite magazine, you should consider placing your own ads there.

Yellow Pages

Advertisers are increasingly favoring online Yellow Pages over print editions. However, the printed version may still be a good choice, depending on your business, your location and the technological level of your target customers. One advantage of this medium is that small businesses can appear to be as big as their larger competitors.

Cooperative advertising

This means sharing the cost of advertising with your suppliers, who may have funds available to help promote your products. Usually, you pay for the advertising up front, and the suppliers reimburse you for a portion of the cost upon proof of advertising. As an example, a paint company might pay a painting contractor to mention its brand in his or her brochure. There are many ways to use co-op funding, so talk to your suppliers about your options.

Specialty advertising

This refers to giveaway items—like pens, balloons, coffee mugs and hats—on which you print your business name, logo, address, phone number, email and website. Specialty advertising is a great way to increase the visibility of your business, as long as you target the right customer and make sure the specialty item is something the customer will actually use.

Speciality advertising should also fit your brand. For instance, if you offer 100-percent American-made goods, you won't want to give customers keychains made in China. And if you have a green brand, you won't want to hand out plastic trinkets. This advice may seem obvious, but a number of big businesses have made mistakes like these in recent years.

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I decided to call my business "Busy Hands." Annie said I needed to tell my story, so people would know how long I'd been quilting and how I'd learned to do it right. Me and my grandson made up a little card that we put on everything I made. It had a little picture of me. It said some things about my life, and told how the quilt was made. We attached that card with a red, white and blue ribbon, because this work has a long, long history in America.

To me, it was an honor if people wanted to own something I made, or give it as a gift. So when it came to money, I felt like I was already getting satisfaction just from that. But I had bills to pay and medicine to buy like everybody else, and between Annie and me, we figured I needed to make no less than \$25 an hour for my work.

I said, "That's a sight more than anyone else is asking for quilts in these parts." But she told me, "No one else is doing your work, so you can't compare it." That was her attitude, you see. She wasn't setting a price for any old quilts. This was a price for my quilts. If you don't want them, you needn't worry about the price. But if you do, no one's got them but me.

With Annie's help, Adelmira developed a couple of promotions to get better placement and increase add-on sales in boutiques and galleries. If a boutique agreed to put one of her quilts on a display bed in the window for a minimum of one month, she'd give them 35 percent off the price of that quilt.

And if a customer bought a quilt, she'd offer a 25-percent discount on two pillows. She also made up brochures with descriptions of her quilted art, a list of wholesale prices and an order form with her address. She wanted to make it as easy as possible for stores to reorder.

These promotions worked well. Soon, she was selling her work as fast as she could make it. In fact, it wasn't long before she had a waiting list. She felt like she'd never be able to catch up, so she hired a couple of helpers to keep up with the demand.

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Direct marketing

Direct marketing is one of the least expensive (per sale generated), most flexible, and fastest-growing advertising methods. It includes direct mail, door-to-door sales, telemarketing, mobile coupons and online marketing. These methods allow businesses not just to reach specific market segments, but also to tailor the message for each target market.

Telemarketing

Marketing over the phone is generally unpopular, and it also raises legal questions. In March of 2003, the Do-Not-Call Implementation Act was signed into law, which created a National Do-Not-Call Registry. Under this Act, firms engaged in telemarketing must remove consumers from their call lists when asked to do so, whether or not that consumer is listed in the Do-Not-Call Registry. There may also be stringent state laws regulating "do not call" lists. Get legal advice before engaging in telemarketing!

Email marketing

Most people who have email accounts are overwhelmed with junk mail, or spam. Those who aren't usually have filtering

Get legal advice before engaging in telemarketing!

software that blocks mail from unknown senders.

Still, the low cost of email, and the ability to target niche markets, makes it a valuable promotional tool, especially when it comes to reaching existing customers. Your best bet is to offer regular updates on your company, or a subscription to an online newsletter. Your website should have an icon that customers can click to be added to your mailing list; this enables you to reach thousands of customers at a fraction of the cost of traditional direct mailing.

The key to successful email promotions is to target prospects as narrowly as possible and give them the choice of opting in to receive updates, bulletins and special promotions.

Your opt-in rate will be much higher if you offer consumers something valuable in return for their attention. Discounts and free shipping are obvious choices.

But beyond that, think about your own situation: As an entrepreneur, you're a busy person with a limited amount of time. What kind of attraction or reward would convince you to add your email address to a promotional mailing list?

Last, always offer customers the opportunity to get off your mailing list. When people ask to be removed, do it right away. As noted in Session 5, you must also follow the provisions of the CAN-SPAM Act.

Other promotional tools

Sales promotions

There are two types of sales promotions. **Consumer promotions** are short-term incentives that gather customer data, or increase consumer demand or product availability. **Trade promotions** are incentives that businesses offer to retailers and wholesalers for stocking their products,

such as discounts for ordering in bulk. The *Sales Promotions Worksheet* will help you decide which promotions make sense for your microbusiness.

Typical consumer promotions include:

- Coupon mailings or booklets
- Online or mobile coupons
- Discounts, sales and 2-for-1 offers
- Rebates
- Contests and giveaways
- Frequent shopper cards

Mobile coupons—which are sent directly to the customer's cell phone—are an interesting type of consumer promotion. Studies show that redemption rates for mobile coupons are much higher than those for traditional coupons. And because cell phones are equipped with geolocation technology, companies are able to send coupons based on the customer's location. We discuss this trend further in Session 10 *E-Commerce*.

Word of mouth

The best form of promotion is when your customers say wonderful things about you and your business. Products that perfectly satisfy your customers' needs make a lasting impression that your customers will gladly pass on to others. This is also known as **viral marketing**.

Word of mouth can be strongly amplified by blog comments, social media sites and online customer reviews. As we've seen, user-generated promotional messages like these are also more credible to consumers than traditional forms of advertising.

Of course, word of mouth isn't always positive. If you disappoint your customers, they may not tell you—but they *will*

Offer consumers something valuable in return for their attention.

tell their family, friends, coworkers and acquaintances!

Quality control and outstanding customer service are the two greatest tools for maintaining positive word of mouth, and minimizing the effects of negative word of mouth.

Networking

Networking can be a very effective and inexpensive way to promote your business. As we've said before, you should keep widening your circle of contacts to include customers, investors, vendors, distributors and other entrepreneurs.

Thanks to social networking sites like LinkedIn, Twitter and Facebook, this is easier than ever before, and your potential access to prospects and partners is much wider.

Think about what you can do for the people you meet, and what they can do for you. You never know if they'll become customers, or refer customers to you.

You can also develop a network of partners who refer people to each other's businesses. For instance, a gardener could refer a customer to someone who hauls yard waste, or a drycleaner could refer a customer to someone who cleans carpets.

To be an effective networker, you need to be able to tell new contacts exactly what your business is and how it helps customers. Use the *Business Commercial Worksheet* to create a brief description that will impress and interest the people you meet.

Always have lots of business cards with you, and collect lots of business cards from others. Follow up on new contacts with a brief note or phone call. Set aside some time to work on these things every week, using the *Public Relations and Networking Strategies Worksheet* as your

guide. Over time, this process will pay off with increased sales and opportunities.

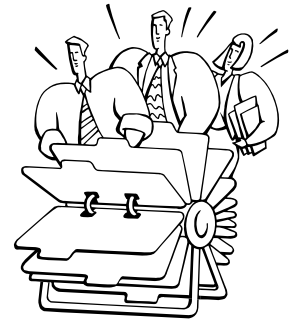
Public relations and publicity

Public relations are organized efforts by business owners to present themselves in a positive way to the public.

Publicity is unpaid promotion of a business by the mass media. Because it's unpaid, it's one of the most credible sources of promotion. Good publicity is a great promotional tool for microbusinesses.

You can generate publicity by preparing a press release for radio, newspapers, magazines or local TV stations. Join your local trade associations, chamber of commerce and community clubs, and find opportunities to speak in public or write articles for newsletters. Other great ways of generating publicity include:

- Donating money or time to clean up highways, parks or beaches.
- Hiring local students as interns.
- Installing a clean energy system (e.g., solar, wind power, geothermal) and offering public tours or demonstrations.
- Remodeling a building or improving a piece of land.
- Giving lectures to a local trade organization or chamber of commerce.
- Sending your business story to your local newspaper or trade association.
- Writing or contributing to a blog or some other industry-related website.
- Cosponsoring local sporting or charity events.
- Donating prizes or time to local fundraisers.



Good publicity is a great promotional tool for microbusinesses.

The easier you make it for people to help you promote your business, the more likely you are to get good publicity.

Low-Cost Promotional Tools

Here are a few tips to help you think creatively about unusual ways to promote your business.

- **Barter.** Can you trade a product or service for advertising space in a local newspaper?
- **Personal letters** are a great way to introduce yourself to carefully researched prospects. Write a customized letter for each of your prospects, and include specific information about what you can do for them. Follow up with a telephone call or visit.
- **Offer to be a guest speaker on a local radio show** to discuss elements of your business. If you're a landscaper, you can talk about garden design ideas. If you're a dog trainer, you can explain the best way to train a dog to fetch the paper.
- **Use the back of your business cards to offer incentives**, like a 10-percent discount on your product.
- **Start a frequent buyer program.** If you sell fruit drinks, give out a card that gives the customer a free drink after buying nine.
- **Team up with other businesses** to refer customers, swap fliers to give to customers and share ads. Example: A grocer could team up with a business that provides grocery delivery.
- **Give potential customers a trial size with a coupon.** If you sell BBQ sauce or salsa, give out a small trial size with a coupon for a larger bottle.
- **Offer product samples at high-traffic places** where your target customer goes. Or set out samples at your location.
- **Sponsor offbeat, memorable events** like a pie-eating contest. If the event relates to your business in some way, that's even better!

Press releases

You might prepare a press release to announce an event in which you're participating or a change at your business. Moving to a bigger space, hiring new people, offering a new service, donating to charity or holding a contest are all good reasons to write a press release and send it to local media.

The easier you make it for people to help you promote your business, the more likely you are to get publicity. When preparing a press release, double-space it and keep it simple and short (one page is ideal).

Mail, email or hand-deliver your press release to your local newspaper, radio and TV stations. Be sure it gets sent to the correct section editor, or to the news editor. Don't overlook weekly community or college papers and public radio stations. If you have a good photo, include it in mailings to key newspapers.

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After a time, I was doing well enough that I decided I'd buy a booth at the American Craft Council Show in Charlotte. Me and my helpers had to work around the clock to get enough stuff together to make it worth our while. I still don't know how we did it. To me, quilting is something relaxing. But I'll tell you, there was nothing relaxing about it that time! I guess you could say we were doing speed quilting.

They asked me to give a quilting demonstration at the ACC Show, too. They had a special class set up on the art of quilting, and asked would I like to do it. I said, "Of course I would." I was going to be quilting most of the time anyway, and I wanted to keep this work alive with the younger people and maybe even inspire them to go down that same path.

After Adelmira gave her quilting demonstration, many people came by the booth and asked questions. Naturally, some of them also bought her pieces.

One of the buyers was Bruce Calderwood, an art broker who owned his own company. He promoted several lines of arts and craft products to fairs, gift marts and customers. He specialized in high-quality products, and he loved Adelmira's work.

Bruce wanted to represent Busy Hands and sell Adelmira's quilted art all around the world. He said he'd be able to get it into boutiques and galleries in the big cities, where there'd be a bigger market for upscale handmade art. He offered to do this for 15 percent of the sales. He also said he could sell her work for 20 to 30 percent more in Europe and Asia.

Adelmira was tempted by this offer. True, 15 percent was a lot of money, and she had workers to pay. But then again, she'd be selling consistently all year long. And turning over the sales to Bruce would let her spend more time on quilting.

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Managing Your Promotions

Because microbusinesses have less money to spend on promotions, they must get the most out of what they *do* spend.

You should judge media by the amount of access they give you to your target customer. As we said earlier, **reach** describes the percentage of your target market that sees your message. **Frequency** describes the number of times individuals in your target market see your message.

Different media have different effects depending on your audience and advertising content. By using reach and frequency information, you can estimate how much it costs to advertise per customer you contact. This gives you a standard for comparing your advertising choices.

Once you've picked your advertising tools, you need to decide when to use each one.

If you offer a seasonal product, coordinate your message with your customers' purchase cycles. You can air advertising messages in a few large bursts at scheduled intervals, or spread them over a period of time to maintain awareness.

For businesses that wish to introduce a new product, frequency is more important than reach. It takes several exposures to a message before people absorb it, let alone act on it. Thus, businesses use a "burst" strategy when they want to create an early, intense impact. Seasonal businesses and short-term sales promotions often rely on this strategy.

The *Advertising Tools Worksheet* will help you research the cost and effectiveness of each tool you're considering.

Now, let's look at the necessary steps in managing promotions.

Set a promotional budget

You should always plan carefully before spending your hard-earned cash, and that's especially true when you're planning promotions.

You need to set aside funds for each part of your promotional strategy. You can either decide on your total budget, and then divide it among each of your promotional tools; or you can set spending levels for each element, and then total them to arrive at your promotional budget.

First, add up the total cost of your ideal promotional budget. Next, decide which of these promotional elements are most important, and estimate how much money you can afford to spend on each. If the amount seems too low, don't give up. Chances are, you can make your money go farther than you think.

Determine your budget at least 12 months in advance. This will help to ensure that

Always judge media by the amount of access they give you to your target customer.

Measure the results of your promotions, and change them as needed.

you have funds available for promoting important holidays or events.

Remember to measure the results of your promotions and change them as needed. If you hand out 1,000 fliers but you don't see an increase in business, it's time to try another strategy.

Create a promotional calendar

Usually, a promotional calendar lists when promotions and events will occur, how long each will last and what its purpose is, and the total budget for each event. This enables you to use your budget more efficiently and to avoid gaps in your promotional efforts.

Measure the effectiveness of your methods

Evaluating the impact of advertising on sales isn't always easy, but it's an absolute necessity.

Here's one way to proceed. Let's say your goal is to sell 45 flower arrangements at \$25 each. To accomplish that goal, you decide to advertise in the local paper.

To measure the effect of that ad, the first thing you need to do is establish your baseline sales. What's the average weekly number of flower arrangements you sold during the previous two weeks?

Next, you must track your sales over the time your ad was running.

Last, you should track your sales for two to four weeks after the ad, to see if there's any delayed effect.

Having analyzed your sales before, during and after your ad campaign, you can determine how many extra flower arrangements you sold. Compare your sales during and after your promotion to your baseline sales. Divide the cost of running the ad by the extra number of flower arrangements you sold, and you'll know if

the ad was effective. If it cost you more to run the ad than you received from sales, the ad was not effective.

Once you know how to calculate advertising effectiveness, you must decide what part of your business to measure. Do you want to measure the increase in overall sales? Or just the increase for the items you advertised? Or maybe you want to measure whether there was an increase in foot traffic (the number of customers coming in your door, whether they buy or not).

The best way to know what worked and what didn't is to ask customers how they heard of you. You can also gather information about effectiveness by counting coupons, measuring the number of participants in contests or sweepstakes, and computing sales levels during short-term promotions.

Having done so, consider these questions:

- Did your promotion communicate the right message?
- Did the message fit your product positioning strategy?
- Did the message reinforce your brand identity?
- Did you reach your target customers? If so, how did they feel about your message?
- How did each element of your promotional mix affect sales?
- How can you do better next time? What should be in your next promotional plan?

The Marketing Plan

In the last two sessions, you learned about the Four Ps: Product, Price, Placement and Promotion. Now, you'll use this information to develop your marketing strategies and prepare your marketing plan.

A clear marketing plan helps you to communicate a consistent message about who you are and what matters to you. It can be your most compelling argument for the viability of your business.

Once your marketing plan is finished, you should revisit it regularly and update it when necessary. This will help you identify and adapt to market changes and prepare for growth.

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Things just kept right on growing and growing, to the point where I couldn't find much time for myself and my family anymore. Truth is, I didn't have much time for quilting, either. Seemed like I was always on the telephone, or packing up things to mail, or telling other people what to do and how to do it.

None of that was my style. I'm a quiet person. I confess it was a thrill at the beginning, but it was such a wild time running up to the ACC show that I was ready to say "Stop! Let me off!" I just wanted some time to breathe.

So it seemed like Bruce came along at exactly the right time for both of us. It seemed like with him doing the selling, I could have a business and a life of my own.

Bruce Calderwood was offering Adelmira an opportunity to grow her business while having time to create new things. She needed to think it over, though. She decided to interview other agents, so she could see what kind of terms they offered. In the end, she agreed to work with Bruce, mainly because of the warm relationship they'd developed at the ACC.

It turned out to be a good choice. Bruce had connections all over the country, and he also had a website that brought in orders from all over the world. He even managed to get her some writeups in local newspapers and crafts magazines. It was a good deal for him, too; Adelmira's quilts soon became his most profitable product.

The only thing that was bothering Adelmira was that her success was taking time away from the community work that had been so important to her. She decided to hold an old-fashioned quilting bee on National Quilt Day, which takes place on March 18. She invited all the women in town to come together at a meeting room in the town hall, and asked them to bring their rags, ribbons and thread. The special quilts they made would go to patients in community assisted-living facilities.

This annual community event allowed Adelmira to give back to her community, provided a fun day for women who also wanted to give back, and let people in assisted-living facilities know that the community hadn't forgotten them.

Nearly three years after starting her business, Adelmira has sold more than 800 quilted art pieces in boutiques, galleries and art shows. And two of her pieces were shown in the American Folk Art Museum in New York City.

But the thing that makes Adelmira happiest is meeting a young person who was inspired by her example to make string quilts.

I'm grateful my hands and eyes can still do this work, and I'm grateful that people like it enough to pay me for it. The money was never what I was aiming for, but I won't deny it's made a big difference to me and my family. But of all these blessings, the best one is knowing that I'm keeping a lovely old tradition alive.

...

A clear marketing plan can be your most compelling argument for the viability of your business.

What You've Learned

Two key elements of marketing were covered in this session—placement (distribution) and promotion. The most important points to remember are:

1. Choose the distribution strategy that gets your product to your customer in the most efficient and cost-effective way. Anywhere from 15 to 50 percent of your total product price is likely to be spent on distribution efforts, so choose wisely!
2. Promotion is everything you do to let your target customers and the general public know about your business. Promotion includes advertising, public relations, networking and a variety of other promotional tools.
3. Promotion can be expensive, so it's important to prepare a promotional plan before you spend any money.
4. When businesses take the time and energy to create the right mix of strategies for the Four Ps, they save time and money. More important, they meet their target customers' needs by positioning their product in the right place at the right time for the right price.

WORKSHEETS



SESSION 9

SESSION 9: PLACEMENT AND PROMOTION

Recipes for Success!

Placement Strategies Worksheet

Placement, or distribution, is the process of getting your products to your customers. There are two basic methods. **Direct sales** means distributing your products directly to the customer, either in person, through your own retail location, by mail order, or online. **Indirect sales** means using intermediaries, such as agents, sales reps, distributors or wholesalers. Intermediaries take a percentage of each sale; however, they may achieve a higher sales volume or save you time and money.

1. How will you make your products available to potential customers in your startup phase? (Consider direct sales, distributors, sales reps, mail order, Internet, etc.)

2. Why did you choose the distribution strategy described above? What are the costs and benefits of this strategy? Why is it right for your customers and business location?

3. Explain how your placement strategy fits in with the other parts of your marketing mix. Why is it right for the product? How will it affect your pricing and promotion?

Promotional Strategies Worksheet

Promotion is everything you do to let people know that your product exists. Promotional strategies are built around advertising, public relations, networking and other tools discussed in this session. We'll start with some general promotional possibilities for your business. Then, we'll research specific advertising tools and develop other promotional strategies.

Your Business:		Example: <i>Small restaurant.</i>	
Who is the target customer group? (basic description)			
		<i>Busy working people.</i>	
What are the characteristics and needs of this group?			
		<i>About 60 percent women, 40 percent men.</i>	
		<i>Average income is \$40,000 per year.</i>	
		<i>They only have an hour for lunch.</i>	
		<i>They work at or near the local university.</i>	
		<i>They're surrounded by fast food restaurants.</i>	
What are their needs?			
		<i>They need lunch for \$4 to \$8.</i>	
		<i>They need fast service.</i>	
		<i>They need to stay near the university.</i>	
Which features and benefits will you promote to attract customers?			
Features	Benefits	Features <i>Healthy \$4.99 lunch Served within 7 minutes Near university Made to order</i>	Benefits <i>Cheap, healthy food Customers won't be late Saves time Personalized; healthier</i>
What promotional methods can you use?			
		<i>Signs on the outside of my building and by the road (they drive by on the way to work).</i>	
		<i>Radio ads during drive time (morning) and just before lunch (10:30 a.m. to 1 p.m.).</i>	
		<i>Weekly business card drawing for free lunch (to get repeat business).</i>	
		<i>Fliers at surrounding businesses and at the university.</i>	

Advertising Tools Worksheet

Here are the basic considerations when choosing advertising media:

Quality. Does this medium reach your target customers, and do they pay attention to it?

Cost. How much does it cost (per time used, or per contract) compared to other media?

Effectiveness. Does it increase customer traffic and sales?

1. What does your industry research say businesses like yours should be spending on advertising per month or per year (i.e., what percentage of gross sales)?

2. For each advertising tool you're considering, research the number of target customers it is likely to reach in your trade area. Research the monthly cost of each tool. To find out the cost per customer, divide *Cost* by *Estimated Reach*. Last, total the costs and decide which tools to use.

Tool	Estimated reach	Monthly cost	Cost per customer	Will I use it?
Newspaper ads				
Classified ads				
Magazine ads				
Online ads				
Online directories				
Social media				
Signage				
Yellow Pages				
Radio				
Network TV				
Cable TV				
Newsletters				
Brochures				
Novelties (caps, pens, mugs, etc.)				
Street corner ads / sign spinning				
Other:				
Estimated Total Cost				

Advertising Tools Worksheet—continued

3. What percentage of your annual gross sales does the estimated total cost in Step 2 represent? How does that percentage compare to the industry standard you identified in Step 1? Is it too much or too little? If so, consider making changes to conform with industry standards.

4. What advertising tools do you plan to use? Explain why you chose these tools.

5. How will you track the effectiveness of these tools? How often will you do this?

6. After you've been in business for a year or two, are there other advertising tools you want to use? Which ones, and why?

7. Explain what other low-cost or no-cost promotional tools you might use, and why.
(Remember: This is an area where it pays to be creative!)

Sales Promotions Worksheet

Sales promotions are tactics you can take to attract customers, move sluggish inventory, motivate intermediaries, or increase sales or profit margins. **Consumer promotions** target customers directly, while **trade promotions** target wholesalers, retailers and other intermediaries.

Common sales promotions include:

- Coupons
- Discounts and sales
- 2-for-1 offers
- Frequent buyer cards
- In-store events (tastings, free samples, demonstrations, classes)
- Contests, games and prize drawings
- Bundling complementary products
- Gifts and rewards
- Geosocial promotions (e.g., Foursquare)
- Donating a percentage of each sale to a social cause

1. Which sales promotions will you use? Why?

2. How will you measure the effectiveness of your promotions? How often will you do this?

You'll meet many new people as you launch your microbusiness, so you should decide in advance how to explain who you are and what your business does to solve customer problems. Preparing a short "business commercial" will help you come across as a professional.

“Hello, my name is Joe Smitty. I’m the owner of Smitty’s Hand Car Wash. We specialize in hand-detailing luxury vehicles, whenever and wherever it’s convenient for our clients.”

Use the space below to write a business commercial you can use the next time you meet a new network contact. Explain what you do, how you do it and how you help your customers. Practice your commercial in front of a mirror, and try it out on friends and family.

This image shows a full page of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page, providing a template for writing. There are no margins, text, or other markings on the page.

Public Relations and Networking Strategies Worksheet

Public relations is a planned effort to influence public opinion through honest, unpaid publicity efforts. Common events that present public relations opportunities include:

- Company anniversary
- New employee hired
- Employee promotion
- Change of location
- Introduction of new products
- Change of ownership
- Awards received
- Event sponsored
- Charitable activities
- Human interest stories

Once you choose an event, you can issue press releases, call the media, create brochures or other advertising tools, and talk about the activities in public. Here are a few low-cost or no-cost activities that can help promote public relations events:

- Community education seminars
- TV or radio talk shows
- Community bulletin boards
- Enclosures in monthly statements
- Sponsorship of community athletic events
- Meeting presentations
- Briefings with news editors
- Participation in fundraising events
- Articles in magazines and journals
- Displays

1. **List three possible public relations activities for your business. How can you make these activities newsworthy?** (For example, could a press release get you an interview on local radio or TV?)

2. **What service or community clubs in your area offer good networking opportunities?** (List the service organization or club name, as well as the key contact person. Also, explain why you chose these clubs.)

3. Will you choose a charitable organization or a cause to support? If so, which one? How much time or money will you donate? How will you inform and involve the public? How will this aid your networking strategy?

- Public relations activity for my business:**

Now write a short press release to give to the media about the activity. Make sure it tells people *Who, What, When, Where, Why* and *How*.

Press Release for [your business]

Contact: [your name]

For Immediate Release

Telephone: [your phone number]

Date: *[today's date]*[illegible]

Worksheets Assignment for Session 10



Complete and review the following worksheets before trying to write the business plan section:

- *Placement Strategies Worksheet*
- *Promotional Strategies Worksheet*
- *Advertising Tools Worksheet* (finish and research costs)
- *Sales Promotions Worksheet*
- *Public Relations and Networking Strategies Worksheet*

Writing Your Business Plan



Use the information you've gathered, and the worksheets in this session, to write the following sections of your business plan. Follow the headings and subheadings just as they are shown here.

Section IV. Marketing Plan C. Marketing Objectives, Strategies and Tactics

Placement Strategy

Review the Placement Strategies Worksheet. Then, discuss the distribution strategies you've chosen. Explain why you picked these strategies, how they fit with the other elements of the marketing mix and how they will get your products to your customers.

Promotional Strategy

Advertising

Review the Promotional Strategies Worksheet and the Advertising Tools Worksheet. Describe the advertising tools you'll use, and explain why you chose them. State the size of your advertising budget, and explain how you determined it. Explain how you plan to measure the effectiveness of the tools you chose. If you have specific advertising events in mind for the first year, describe them. Also, review your answers to the Sales Promotions Worksheet and describe any sales promotions you plan to use.

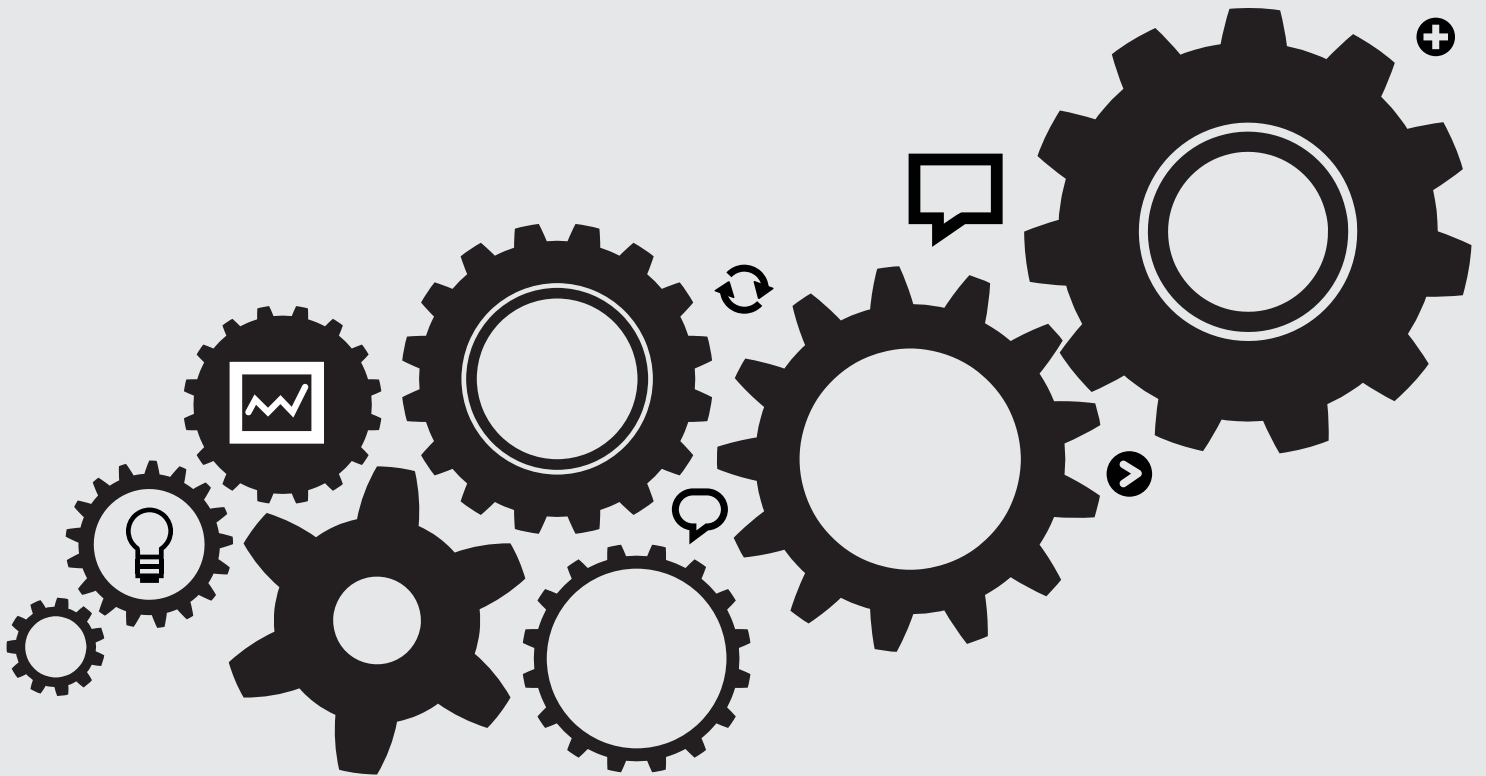
Public Relations and Networking

Review the Public Relations and Networking Strategies Worksheet. Discuss how public relations and networking will help your business. Describe any public relations events you will plan. Then, discuss any plans for community involvement and networking (clubs or organizations you may seek membership in, or participation in club/organization events).

Other Promotional Tools

Look at Question 7 on the Advertising Tools Worksheet. What sales promotions and other promotional tools might you use besides advertising and public relations? You're limited only by your imagination, so get creative! Explain why you think these promotional ideas would be good for your business.

TEXT



SESSION 10

E-Commerce

BUSINESS WITHOUT BOUNDARIES

HIGHLIGHTS

Introduction to the Internet.....	page 2
Introduction to E-Commerce	page 8
Building or Buying a Website.....	page 11
Customer Service Online	page 17
Online Marketing Strategies	page 17

“

*Nothing is stronger than an idea
whose time has come.*

—Victor Hugo

”

About This Session

On the Internet, a tiny startup can sell to customers all over the world, most of whom it would be unlikely to reach by any other means. One microbusiness in rural Oklahoma sells homemade sand plum butter to customers in Canada. Another microbusiness in South Central Los Angeles sells hand-knit caps to buyers in France. The opportunities are as wide as the world itself! And even if you don't sell online, your customers may use the Internet to find your business or read consumer

reviews of your product.

Introduction to the Internet. Everyone talks about the Internet, but surprisingly few people understand what it is and how it works. This section explains the basics.

Introduction to e-commerce. To most people, e-commerce simply means buying and selling products over the Internet. But that concept is too limiting. In reality, e-commerce includes online

customer service, marketing, distribution and all other business functions that support buying and selling.

Building or buying a website. This section explains the basics of creating a website so that you can decide whether to build a site yourself, hire a designer or sell through an e-commerce host.

Customer service online. Online customers want the same attention, courtesy, respect and efficiency

they get from brick-and-mortar retailers. As with every other aspect of customer service, professionalism is key.

Online marketing strategies. The Internet is very, very crowded. How will you get noticed? This section offers some effective, low-cost ideas.

Introduction to the Internet

When you link two or more computers so that they can share information, you have a **network**. When you link two or more networks so that they can share information, you have an **internet**.

What we call *the* Internet links countless computer networks into a global internet. Although most people use the terms “Internet” and “Web” interchangeably, they have different meanings. To put it simply, the World Wide Web (WWW) is a collection of graphical pages presented over the Internet. Each of these pages has its own unique address, which is known as a **uniform resource locator (URL)**. You view these pages with a **browser**, which is a software application that locates and displays Web pages. When you type a page’s URL into a browser such as Google Chrome, Firefox or Safari, it fetches that page and displays it for you.

Although hundreds of millions of websites exist, **search engines** make it easy to find the site you need. As of this writing, Google is the most popular search engine, followed by Bing and Yahoo. As the Internet evolves, searches are increasingly local and personalized. For example, if you search for “bicycle shop,” most search engines can look at the geographical location of your computer and give you results for bicycle shops in your town or region. Your search engine results may also

be influenced by searches you’ve made in the past.

Where to Learn More

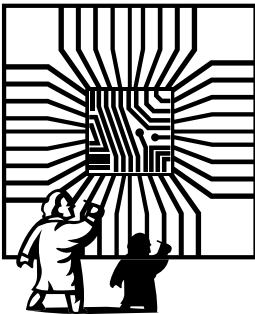
- **Search Engine Watch** offers search engine tips, reviews, ratings, trends and much more (<http://www.searchenginewatch.com>).
- **Learn the Net** provides detailed, user-friendly information on search engines, e-commerce, social media and many other topics. It also has a number of tutorials and a helpful glossary of Internet terms (<http://www.learnthenet.com>).

Getting Online

If you’re not online yet, you need to research local **Internet service providers (ISPs)**. In addition to the equipment you need to get online, most ISPs provide an email account and free space for hosting a small website. Most telephone and cable companies offer package deals that include Internet service. However, such deals may limit your ability to choose the best provider for each service.

Research ISPs carefully before signing up, because many ISPs charge a penalty for early cancellation. In particular, find out what level of service the ISP can deliver at your actual location. Depending on where you live, you may get less than the advertised speed and reliability.

Even if you already have an ISP, consider whether it will meet your current and future business needs. Site hosting, email, tech support and other features offered in consumer plans may not be adequate for e-commerce. Most ISPs offer different service levels for businesses, so research your options with growth in mind.



Completing the *Internet Needs Worksheet* will help you compare the pros and cons of your local ISPs.

Choose Your ISP Carefully!

Consider these issues when choosing an ISP:

- Do they have different service packages based on usage needs (number of email boxes, speed of connection, size of website)? Is there room to grow if your business takes off, or will you need to switch providers?
- How much bandwidth do you get? What fees do you have to pay if you go over the limit?
- Can you use your existing phone or cable line, or will they have to install a new one?
- How fast and reliable is their technical support team? When is support available? How quickly do they respond? Do they have a chat room or users' forum that offers help?
- What are their email policies? How do they address spam and other threats? What are their policies on email marketing?
- How reliable is the connection? What is its percentage of uptime? In other words, how much of the time is the Internet accessible? If it fails to meet the promised uptime, will you get a discount or refund?
- How stable is the ISP? Does it have adequate backup servers? Has it been in business for more than three years? Does it have good customer reviews and references?
- What security measures are in place, both for Web hosting and for e-commerce?
- What special features do they offer business customers?
- How do their costs compare to competitors? Are there fees for equipment, setup, extra email accounts or certain levels of website traffic?
- Are there fees for early cancellation? If so, do they offer a trial period?

Internet connections

The “speed” of an Internet connection depends on the amount of data (or bits) transmitted per second. Dialup modem connections travel over phone lines and range from 28K to 56K bits per second (“K” being shorthand for “thousand”) This is too slow to access many online features and services, but it may be the only affordable service in some rural areas.

U.S. broadband speeds typically range from 768K to 5Mbps (million bits per second). As of this writing, the following types of broadband account for roughly 90 percent of U.S. residential Internet connections:

- **Digital subscriber lines (DSL)** use a “splitter” to connect to the Internet over an existing telephone line. This is normally much faster and more reliable than dialup service.
- **Cable modems** connect to the Internet over cable TV lines. Because many homes have existing cable service, this has been a popular choice for high-speed Internet. Cable companies often bundle telephone service as well.
- **Wireless Internet service providers** use wireless networks; customers access the signal with an antenna or dish. They are common in remote rural areas that lack access to DSL and cable.

Choose your Internet service provider carefully!

Access issues

Although the U.S. government invented the Internet, the United States currently lags behind most other developed countries in providing nationwide access to high-speed Internet connections. In many rural and urban areas, high-speed Internet tends to be unavailable or unaffordable. Because this reduces national competitiveness and innovation, many private and public



agencies are working to bridge this “digital divide.”

For example, the American Recovery and Reinvestment Act of 2009 (also known as the “Stimulus Bill”) aims to improve rural broadband access by providing \$2.5 billion to the USDA’s Rural Utilities Service to fund new public-private partnerships. For more information, visit Broadband USA (<http://www.broadbandusa.gov/>).

As of this writing, the Federal Communications Commission is piloting a program called Connect 2 Compete, which offers underserved populations low-cost computers and high-speed Internet connections, as well as free digital literacy training. Go to <http://www.connect2compete.org/> to learn more, or visit <http://www2.ntia.doc.gov/awards> to find out about broadband grants in your area.

Nonprofits such as One Economy (<http://www.one-economy.com>) are also taking steps to extend broadband service to rural and urban low-income families. And Comcast’s Internet Essentials (<http://www.internetessentials.com>) offers discounted computers and broadband Internet to parents whose children qualify for free or reduced-price school lunches.

Even in areas where high-speed service is available, low-income and minority entrepreneurs may lack access to computers, modems and other hardware. Therefore, various businesses, nonprofits and government agencies offer computers and training to microbusinesses in disadvantaged areas. Examples include:

- Computer Recycling Center (<http://www.crc.org>)
- PCs for People (<http://www.pcsforpeople.com>)

- Latino Tech-Net (<http://latinotechnet.org/faqs/>)

To learn about similar programs in your area, contact your local SBDC, community college, chamber of commerce or office of economic development.

Email and Email Clients

Email clients are software applications that allow you to send, receive, filter and organize email. They access your mail from a server and download it onto your computer. Many of the best email clients are free, so you can experiment and find one that works for you. Popular clients include Microsoft Outlook, Mozilla Thunderbird, Apple Mail and Pegasus.

You can also use browser-based email programs—like Gmail and Yahoo—without installing an email client on your computer. However, you must be online to use them. By contrast, email clients allow you to access stored messages while offline. Also, from a professionalism and branding standpoint, it’s usually best not to use free, Web-based email accounts.

Email security

It’s a good idea to think of your emails as postcards rather than sealed letters. Most email messages can be intercepted and read by third parties. Also, most ISPs store backup copies of your messages for a few months, even if you delete them from your mailbox. And no law prevents ISP employees from reading your emails.

In some types of legal conflicts, your email may be used as evidence. Therefore, you should back up your company’s email archive regularly.

For more information on email and privacy issues, visit the Electronic Frontier Foundation (<http://www.eff.org>).

Think of your emails as postcards rather than sealed letters.

...

I don't have many relatives here in St. Louis anymore, so when my husband Pete died suddenly, I needed to do something. It wasn't that I was terribly poor. We had some savings, even though I knew they wouldn't last forever. But I was lost, if you know what I mean.

Monica Wittig, 57, lives in a working-class area of St. Louis, not far from Highland Park. When she found herself alone with a small fixed income and no work experience, she enrolled at a community college in hopes of getting some training that would improve her chances in the job market.

By the middle of her first semester, she was feeling discouraged by her age and lack of experience.

I had to be honest with myself. I was sitting in computer classes with kids who were really good. They'd grown up knowing this stuff, and I was still struggling to learn how to turn my computer on and off. I couldn't compete with them for data entry jobs, or Web design or programming. It just wasn't realistic.

It dawned on me that if I couldn't find a way to make myself the center of a business idea, I was going to be in trouble. My business instructor said I should do a survey of my skills, and that turned out to be a great idea.

Monica sat down to write a list of things she was good at, or even just familiar with. She wrote down everything that came to mind, no matter how silly it seemed. She was a great cook. She was pretty good at math. She knew how to rollerskate. She could drive a standard transmission. She volunteered once a week with an adult literacy project. She had a high-school diploma. She knew CPR. She knew how to dance the tango. She could whistle.

No business ideas there! But while she was thinking, she happened to glance over at the wall and see a bread-dough ornament

she'd made for Christmas one year. It was an angel in flowing robes, blowing on a trumpet.

She added a line at the bottom of her list:
I know how to make dolls out of bread dough.

...

Online Trends

Online trends change constantly, and it would take an entire book to describe them. Here's a brief introduction to some current trends, which we hope will inspire you to do your own research.

Cloud computing

Cloud computing refers to any method of delivering a service (like an accounting program or data storage) through a Web browser. It's called cloud computing because it comprises a "cloud" of Web servers that are available to customers on demand. Instead of buying expensive computer hardware or software, you pay only for the amount of storage or time you actually use. This levels the playing field by giving microbusinesses access to the same computing power as larger competitors.

Backup and storage

The cloud is a low-cost way to back up documents, accounting data and so forth. Unlike external storage devices, which may be destroyed by local disasters, data stored in the cloud are protected by their remote location and the storage company's own backup systems. Mozy, CrashPlan, DropBox and Carbonite are well-known examples, but there are many others.

When you sign up for cloud computing, you're basically outsourcing the security of your data. Your provider should have strong security measures in place, and you should feel confident that it's a stable company that will be around for a while. Always opt for



Cloud computing gives microbusinesses access to the same computing power as larger competitors.

Always opt for a free trial before committing to an online backup system.

a free trial before committing so that you can see how easy the interface is and how long backup takes. Some backup systems can slow your computer to a crawl.

And of course, always study the fine print in the contract. Is the provider liable for any business losses you suffer if their system fails? Can they prevent you from accessing your data if you don't pay your bill? How much backup space do they have for their own servers? Do they charge by the month, or per gigabyte of storage space? Can you access PC files from a Mac, and vice versa? Does the service support smartphones and other mobile devices?

Don't overlook these questions; check the terms of your service contract carefully.

User-generated content

The rise of user-generated content, such as customer reviews, has made it easier than ever for businesses to understand and respond to consumer needs.

Many online retailers allow customer reviews on their websites. This is partly because customers are more likely to trust fellow consumers than advertisers, and partly because allowing reviews demonstrates transparency, honesty and self-confidence. Also, businesses can learn a lot by listening to their customers.

Third-party providers like PowerReviews (<http://www.powerreviews.com>) offer low-cost reviewing systems you can add to your website. This can be a great way to build loyalty and promote your products. However, it can also cause problems for microbusinesses that don't have the time or staff to manage comments.

Personalization

Most current Internet trends revolve around the concept of **personalization**. Examples include online radio stations that tailor playlists to your taste, websites that

recommend products based on your likes and dislikes, and search engines that base their results on your browsing habits and location. Some businesses allow users to personalize the ingredients of foods and beauty products, while others are even experimenting with personalized prices. As online and offline businesses gather and analyze ever-increasing amounts of consumer data, this trend will intensify.

Mobile computing and smartphones

As Internet-equipped smartphones become more common, large and small businesses are increasingly focusing on marketing, selling and delivering products and services through these devices. From the standpoint of microbusiness, one of the most important developments is the ability to process credit and debit cards through smartphones; this means that if you sell at a food cart, a street market or a small hair salon, you can take cards as well as cash. In coming years, smartphones are likely to be usable as debit cards; to transfer money, you will simply touch two phones together.

Smartphones are also helping to bridge the digital divide. Populations that lack home Internet access increasingly use smartphones to shop online for bargains, get valuable coupons and take advantage of personalized and location-based services. For many of these users, the economic benefits of getting online outweigh the cost of smartphone service. In fact, a study by the Internet Innovation Alliance found that consumers with Internet access can save almost \$8,000 per year on the cost of goods and services.

As cloud computing makes more processing power, applications and storage available to mobile device users, smartphones will become increasingly important to microbusinesses and their customers.

Online Security

Understanding online security is crucial to protecting your business data and financial information, as well as your customers.

For current information on security threats—along with links to free security checkups—visit the National Cyber Security Alliance (<http://staysafeonline.org>).

Spyware and other malware

Spyware refers to software programs that some websites download onto people's computers without their knowledge. These programs gather information about what users do online. In addition to violating your privacy, these programs can slow your computer down or stop it from working at all. Such programs are known as **malware**.

Some types of malware include **keylogging** programs that record everything you type, including passwords and credit card information.

Dealing with malware

One of the most basic protections against malware is to use the latest versions of browsers, PDF readers and other programs, and update them regularly with security patches that address new online threats. It may also be wise to use one browser for financial purposes, and another for all other online activities.

You can protect yourself from malware with one of the following free programs.

- AVG Anti-Virus (<http://free.avg.com>)
- ZoneAlarm Free Firewall (<http://www.zonelabs.com>)
- Avast Free Anti-Virus (<http://www.avast.com/>)

For stronger protection, consider subscribing to a full Internet security program such as Norton One (<http://one.norton.com>). Be sure to install all updates that allow these programs to address new threats. Too many businesses buy Internet security products and then fail to update them regularly. Malware evolves quickly, so your protection needs to evolve with it.

Scareware

To make matters worse, the Internet offers lots of phony anti-spyware programs. Some of these programs are themselves spyware, while others cause problems that they then charge a hefty fee to solve. These “scareware” programs are often advertised to victims by means of banner ads or pop-up windows that claim to have detected a virus or spyware on the user's computer. Do not click on these links!

Phishing

One of the most dangerous forms of online crime is known as **phishing**. Some phishers send out emails that claim to be from legitimate online businesses—like PayPal, Amazon or your bank—and threaten you with account suspension unless you submit your credit card number or password. Others will direct you to a fraudulent website that looks like a trusted site, but is designed to steal your personal data.

The best way to avoid phishers is to avoid clicking on links in emails. If you get an email from a known company that tells you to click on a link—or demands your password or account number—always call the company to make sure the email is real.

To learn more, visit the Anti-Phishing Working Group (<http://www.antiphishing.org/>). To subscribe to email bulletins on new security threats from the United States Computer Emergency Readiness Team (US-CERT), visit <http://www.us-cert.gov/cas/signup.html>.

Avoid clicking on links in emails!

Internet Security Tips

- Use anti-virus programs regularly.
- Use a different password for each online account, and change each password every few months.
- Keep your business files completely separate from your personal files. You can do this by creating multiple user profiles on your computer, and requiring password access to your business data.
- Don't click on links in emails, and don't download attached files unless you're expecting one from someone you know.
- Install a firewall program to block unauthorized access to your computer.
- Back up your personal and business data at least once a week.
- Don't send credit card numbers or other private information by email.

For more tips on avoiding Internet fraud, visit the FBI's Internet Crime Complaint Center (<http://www.ic3.gov/>).

These are all examples of how the Internet is simultaneously a powerful business platform, marketing tool and information resource for entrepreneurs of all sizes.

Planning Your Website

For many customers, your website will provide a first impression of your company. Therefore, it must be welcoming, professional and easy to use. Of course, it should also match the other aspects of your business. Consider these questions:

- Are your target customers the same people you're trying to reach offline, or are you reaching out to a new audience?
- What technology, skills and knowledge do your target customers have? Will they need to buy new equipment or learn new things to use your site?
- What colors, fonts and design elements make sense for your brand? Will your site be playful or straightforward? Colorful or not? What do your target customers expect from a site like yours?
- How much time and money can you afford to spend on your site? Remember to consider maintenance and upgrades.
- How often will you need to change the information on your site?
- What do visitors need to do on your site (search for products, download catalogs, look at pictures, get directions, watch videos, share information, rate products, redeem coupons, ask questions, place orders, track shipments)?
- How old are your target customers? Sites targeting older consumers should have larger, high-contrast body text (i.e., 14 point or greater), larger buttons and photos, and simpler navigation.

Introduction to E-Commerce



On the Internet, a tiny microbusiness can compete effectively with much larger businesses and sell to customers all over the world.

For little or no cost, startups can use simple online stores to test pricing and product strategies without a brick-and-mortar retail space. Discussion boards and blogs are perfect forums for testing ideas, and for getting support and feedback from other entrepreneurs.

And even if you decide not to sell online, a promotional website can be a terrific marketing tool, providing pre- or post-sale information to consumers.

- How quickly do you need to get your site online? Can you start small and add features as you go? Or do you want to build a site that will still meet your needs three years from now? What are the advantages of each approach?

Researching sites online

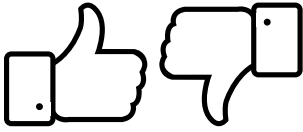
Spending time online is the most important thing you can do when planning your site. Which online stores are easy to use, and why? How do site features benefit users? Which websites are visually appealing? Which ones load fastest? How do sites deal with international sales?

The *Website Research Worksheet* will help you answer these questions.

While comparing sites, keep these issues in mind:

- **Hosting.** Will you host the site on your own server or pay a hosting firm? Most microbusinesses prefer to pay for hosting. Either way, you need to estimate your monthly traffic, choose a backup and recovery system, and consider the expertise required to maintain the site.
- **Branding.** Having a different online and offline identity may confuse your customers. How will you make sure your online and offline colors, graphics, logos, communication and customer service match?
- **Promotions.** How will you attract customers and convince them to buy? How can you use the Web to add value to your transactions?
- **Merchandising.** How will you display your products? Will you have photos? Text descriptions? Videos? How will you handle customer questions?
- **Shopping and checkout.** If customers can buy multiple products, they need a shopping cart that tracks selections and keeps a running total.
- **Payment processing.** How will you get paid? How will you calculate taxes and shipping costs? How will you handle international orders?
- **Security.** Online customers want to feel secure, but they don't want to jump through too many hoops. How will you balance security and convenience?
- **Inventory and order fulfillment.** Will you pack and ship orders yourself, or will you use a fulfillment center or have the actual manufacturer ship goods for you? Either way, how quickly will you process orders? Will you offer expedited shipping? How will you notify customers that items are out of stock, and what options will you give them (back order, refund, credit)? How will you notify customers when an order ships? Will they be able to track shipments online, or will they have to ask you to do it for them?
- **Customer service.** Will you provide technical support? If so, will it be available online (e.g., a downloadable manual), via phone and email, or both? What's your return policy, and how will you explain it? How will you resolve problems?
- **Legal considerations.** How will you handle contracts, disclaimers and warranties? How will you communicate your privacy and return policies?
- **Market research and analysis.** What data will you gather on site usage and statistics? How will you use them? What customer information will you

Spending time online is the most important thing you can do when planning your site.



- gather? How will you use it in your marketing efforts? What laws apply?
- **Customer input.** Will you allow customer ratings and reviews? If so, what are the terms of use? Can users be anonymous, or will they have to create an account? How will you moderate comments? What counts as a ban-nable offense (bad language, slander, off-topic posting)?

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Of all the things I wrote down on the list, the only thing that really stood out was the bread-dough ornaments. I'd been making them for years and years, and sending them every Christmas to friends and family.

People liked them and said they were different. And they were! A lot of bread dolls are kind of thick and chunky. I had my own recipe, and I'd figured out how to do fine detail for hair and clothing and faces. It was more like the kind of work you'd do in clay. And I painted them with watercolors, which had a nice effect.

It just made sense, the more I thought about it. What could be cheaper to make? It took flour, water, salt, gas for the oven and a little bit of paint. At Christmas, I usually made 20 dolls and it only cost about \$5. I'd been making them for so long, it didn't take any time at all to whip up a batch of them.

And my financial needs weren't that pressing. I needed to cover another six years of mortgage payments and pay my bills. That came to about \$900 a month. If I could sell 550 ornaments at \$20 a piece during the holiday season, I'd cover my basic costs for the year.

Monica was confident that she could make 550 ornaments in a month. But could she really sell that many? It was possible that 10 stores in the area would take 55 each, but it didn't seem like a safe bet. Besides, they'd get a cut of the selling price, which

meant she'd need to make additional ornaments to earn her desired profit. No, if she wanted to sell that many ornaments, she'd probably need to sign on with a holiday craft fair.

Once she researched that option, she found out they'd take a large up-front registration fee, as well as a healthy cut of her sales. Again, she'd have to make enough additional pieces to cover those costs.

The whole thing was starting to seem unrealistic, and she began to feel a little silly for thinking she could cover her mortgage for a year with a few pounds of bread dough. If making money were that easy, everyone would be doing it!

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Registering your domain name

A **domain name** is the "personal" part of a website's URL. For example, www.nxlevel.org is a domain name, and <http://www.nxlevel.org/about-us.htm> is the URL for a page on that domain.

A domain name can be up to 67 characters long, but short names are easier to remember and type. The only allowable characters are letters, numbers, hyphens, slashes and periods; it may not contain spaces.

Ideally, your domain name should include your business or product name. However, this may not be possible because so many domain names have already been taken.

When choosing a domain name, watch out for double meanings. A site called Experts Exchange learned this lesson the hard way after realizing there was more than one way to read www.expertsexchange.com. Today, their domain name is www.experts-exchange.com.

You should also do a Google search to make sure that no one else is using your

name, and that it doesn't have inappropriate meanings in English or another language. This is especially important if you use an acronym, such as "BDSM." Searching for your acronym on InternetSlang.com (<http://www.internetslang.com/>) will help you avoid misunderstandings.

Once you've created a list of possible domain names, and made sure that none of them is already online, you're ready to register the one you like best. Most ISPs can register domain names for their customers. You may also want to register the .biz and .net versions of your name, so that competitors can't get them.

If you're seriously considering launching your own website, register your domain name as soon as possible. If you don't register the name you want today, it may not be available tomorrow.

Building or Buying a Website

Once you've done enough research to describe the features you want, prioritize them. Make lists of the features you must have, the ones you should have, and the ones you'd like to have.

The *Site Planning Worksheet* will help you think about the following options.

Building Your Own Site

If you use a free or low-cost site-building tool, you can probably have a site up and running in just a few hours. These tools let you create your site by dragging and dropping your preferred features into a template. These sites usually either include e-commerce features, or work well with third-party shopping carts and payment systems.

Some sites also support smartphones and other mobile devices, which are increasingly

important for microbusinesses. Many site-building tools offer multiple levels of service, so you may be able to keep your site as you grow.

Website Design Tips

These basic guidelines will help you project a professional image online:

- Avoid site features that are distracting, irritating or hard to use, such as animation, soundtrack music or horizontal scrolling. Always aim for ease of use. The less work visitors have to do, the better.
- Don't clutter your site with slow-loading images. Every second your customer must wait for content increases the likelihood that she will give up and go elsewhere.
- Display your contact information clearly on every page. Give customers as many ways as possible to reach you.
- Answer questions and concerns. Features that build customer trust include a "Frequently Asked Questions" page, video explanations or tutorials, and a clearly stated return policy.
- Don't ask users for personal information, or require them to log in to your site, unless you're making a sale or giving them something in return (e.g., newsletters, coupons or commenting privileges).
- Check your site regularly to ensure that links and other features work properly.
- Support your promotional messaging with facts anyone can understand and verify, like reviews and awards from credible sources.
- Ensure consumer privacy with **secure socket layer (SSL)** protection. To implement SSL, you'll need an **authentication certificate** from a certificate authority such as VeriSign (<http://www.verisign.com>). Studies show that sites with SSL get more sales.



Give online customers as many ways as possible to reach you.

On the negative side, you may need features the site builder doesn't offer. Also, if you don't have good design and organizational skills, this may not be the best option for you. In addition to chasing away customers, a poorly designed site may get lower rankings in search engine results. Although Web designers cost more, they tend to do things right the first time. This can save you a lot of money—and frustration—in the long run.

Always consider the value of your time when deciding whether to take the do-it-yourself path. If designing a site takes you 100 hours, that would be \$1,000 of labor even if you assumed your time was only worth \$10 an hour. And that doesn't include the opportunity cost: In other words, what else could you have done with those 100 hours? What if you could've sold \$1,000 worth of products in that time, or completed a \$1,000 service contract?

Don't make the mistake of thinking do-it-yourself projects are free; your time is always worth money, and spending time on one business project always means postponing or abandoning another. If paying someone else to design your site will be faster, deliver better results and leave you free to accomplish tasks you're good at, it may be a bargain.

Selling Through an E-Commerce Host

This is another easy way to start selling online. You simply register with a host site, choose a site layout and upload your product information. This can be a great way to put your toes in the water; many hosts offer upgrades when you're ready to grow.

FastSpring (<http://www.fastspring.com>) and Shopify (<http://www.shopify.com>) are popular examples.

Always consider the value of your time when deciding whether to build your own website.

Simple Site-Building Tools

- **WordPress** is a popular blogging platform that integrates easily with e-commerce plugins such as shopping carts. Its flexibility has attracted microbusiness owners who want a professional-looking site in a hurry. Templates are easy to modify, and support is available from WordPress user forums as well as video tutorials (<http://wordpress.org/>).
- **Webs** is an easy-to-use site builder and host with a large library of customizable site templates. Free sites have limited features; premium packages give you access to robust business applications, as well as a custom domain name (<http://www.webs.com/>).
- **Yola.com** features a Site Creation Wizard that makes it easy to design an attractive ad-free site in 30 minutes or less. You can flesh the site out with a wide range of third-party applications and services. Various service levels are available, including professionally designed custom sites (<https://www.yola.com/>).
- **Weebly** has a widget-based "drag and drop" interface that lets you choose and arrange site features in real time. Free accounts are allowed to use custom domain names and do not have advertisements. Paid accounts get additional features and storage space (<http://www.weebly.com/>).
- **Homestead** offers e-commerce stores for \$30 to \$60 per month. Thousands of customizable templates are available, and you can add tax and shipping tables from FedEx, UPS and other carriers. The "Enterprise" service level includes helpful inventory management and marketing features (<http://www.homestead.com/>).

E-commerce hosts usually charge a monthly fee to maintain your online store, but some of them also take a cut of each sale, so research terms and fees carefully.

Also, make sure the service you choose allows you to meet local legal requirements for sellers (e.g., sales tax).

The best thing about this approach is that you get a strong e-commerce capability right away with a minimum of effort. However, it may be hard to create a professional-looking site that meets all your business needs. Also, you may end up paying a significant percentage of your sales to your host; whether this is worthwhile depends on the level of service you get, the amount of time you save and the number of sales you generate.

Selling Through an E-Commerce Portal

An even simpler method is to join an online marketplace like eBay Stores or Etsy. In addition to being easy to set up and use, these sites allow you to test-market products with likely buyers. You can try selling at various prices, offering various discounts and shipping options, and see what approach generates the best sales.

The downside is that these sites usually don't allow much customization, which makes it hard to differentiate your business and build your brand. That might not be a huge problem when you're starting out. But once your business reaches a certain level of success, you'll probably want to launch your own site. Again, monthly charges and transaction fees can be significant.

Hiring a Web Designer

Web designers are usually the most expensive option, but they give you the most control over the appearance and function of your site. As we mentioned earlier, they can also free up time that you might otherwise waste trying to build a do-it-yourself site. Always consider your time pressures, budget and learning curve when evaluating site-building options.

Once you've decided which features you'd like to have, get quotes from three or four Web designers who have experience with business sites. Consider their skills, their costs and your budget. Visit sites they designed and ask for customer references. Also, describe your target customer and ask the designer to explain how he will meet their specific needs.

If you decide to outsource the project, you should learn how to maintain and update your site in order to keep it current. Your maintenance costs will be much lower—and your turnaround time much faster—if you can update your site yourself.

Site Design

No matter who's going to build your site, the first step is to draw up a basic blueprint that shows how your pages relate to one another. The *Site Design Worksheets* will help you complete this important task.

Page design

Once you've drawn up a site diagram, you must decide which elements will appear on each page (e.g., navigation bar, company name and logo) and how they'll work with the rest of the site.

Navigation

Users should understand at a glance how to navigate your site to find what they need. Your search window, shopping cart and "Frequently Asked Questions" page should be impossible for users to miss.

An "About Us" page is also essential. It tells customers who you are, where you are and why they can trust you. These features should be accessible from every page.

Visitors will naturally direct their gaze to the upper left corner, so that's where your logo belongs. Clicking the logo should take users back to your home page.

Your site maintenance costs will be lower if you can update your site yourself.

Breadcrumb navigation helps users find their way through your site. It usually comprises a row of links that trace the user's trail from the home page to the current page.

Home > Jewelry > Rings > Gold

This way, users who want to go back two pages can simply click on the desired link, instead of hitting the browser's "back" button twice.

Content

Good content is one of the factors search engines use to rate website quality. Better content leads to better search engine results, which in turn leads to higher site traffic. Consistently delivering useful, clearly written content is a great way to keep your visibility high and your customers engaged.

Generally, online content should highlight your expertise. For example, if you repair guitars, you could offer troubleshooting guides, tips on dating vintage instruments and an "Ask the Expert" column. If you make birdfeeders, your site could feature migration maps, bird song samples and identification guides for regional birds.

If you run a cleaning business, you could create videos or slideshows that explain how to remove stains from upholstery or delicate clothes. Whatever your business is, let your skills, personality and knowledge drive your content creation.

Interactivity

How will users interact with your site? Will they place orders, leave comments, take surveys or check shipping costs? Will they search a catalog or access a database? Will they watch videos or download instructions? Each of these features requires careful planning. Describe the features you want, and explain what happens when a customer uses them.

Basic E-Commerce Capabilities

In this section, we'll take a closer look at three basic stages of online selling: merchandising, making the sale and getting paid.

Merchandising

Many sites assume that high-tech wizardry is the secret to attracting online customers. In reality, most people would rather see clear information than dazzling graphics.

Here are a few suggestions:

- Use professional, high-resolution photography to display products.
- Use a cross-selling application to suggest products that go with whatever product the customer is looking at. For example, a customer who looks at a winter scarf would get information on matching gloves. To make the offer more attractive, consider bundling the products. For instance, if the scarf is \$100 and the gloves are \$75, offer them both for \$150.
- Include helpful tools where needed (e.g., rulers, charts and calculators).
- Include all relevant product information (e.g., height, weight, color, size, ingredients, sourcing). As always, use these features to sell benefits.
- Include customer reviews and recommendations. As we've said before, consumers trust other consumers more than they trust businesses.

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I didn't put the ornaments completely out of my mind, but I did feel I needed to sell something a little more worthwhile. Yes, my family and friends said they loved them. But when someone gives you a handmade present, you're not just going to throw it on the ground and say, "That is the ugliest thing I've ever seen!"



Let your skills, personality and knowledge drive your content creation.

Still, I looked at the angel I made every day. And I liked it. I liked how I did the robes and the hair. I looked at it and I thought, "I'd buy that." So I couldn't completely give up on the idea.

When school started up again, Monica signed up for a ceramics course. Her instructor was very encouraging, and asked to see her ornaments. When she brought them in, he suggested that she try doing similar work in porcelain.

With his help, she found she could transfer much of the detail and charm of her bread-dough work into durable porcelain. Now, she had another microbusiness option!

The ceramics class was a huge help, not just because of what I learned, but also because it made me feel much more confident. Complete strangers were telling me my work was good. I can't tell you how much I needed to hear that.

Of course, it cost a lot more to work in porcelain than bread dough, and I needed a lot more practice before I could offer any porcelain work for sale. But I was thinking I could use the bread-dough work as a stepping stone. I'd get some practice selling the low-cost ornaments—and maybe even develop a clientele—and then switch over to porcelain when I was ready.

It seemed smart to me, and my teacher agreed. I mentioned that I'd been thinking of signing on with a crafts fair, but he asked why I didn't just sell online.

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Making the sale

In this stage, the customer must be able to put items in a shopping cart, choose from different shipping options, get a price that includes shipping and tax, and enter billing and shipping addresses.

Here are some features all e-commerce sites should have:

- The shopping cart should be accessible from any page. When customers change the number of items in the cart, price totals—including sales tax and shipping charges—should be recalculated immediately. Third-party services offer shopping carts you can easily add to your site. Popular brands include FoxyCart (<http://www.foxcart.com/>), Zen Cart (<http://www.zen-cart.com>) and osCommerce (<http://www.oscommerce.com>).
- There should be as few checkout pages as possible, and they should load quickly. Studies show that increasing your page-loading speed can boost sales by as much as 20 percent.
- Every checkout page should include a phone number in case the customer has questions.
- Offer multiple shipping options, including overnight service. Show shipping charges early in the checkout process so they don't come as a surprise.
- Highlight security measures, encryption standards, anti-fraud measures, return policies and any third-party guarantees of security.
- If you accept foreign orders, make sure your shipping charges are accurate and your site can handle foreign addresses.
- Tracking information should be available as soon as the order ships. Providing this information to the customer up front will reduce the number of calls and emails you need to answer.

Every checkout page should include a phone number in case the customer has questions.

Getting paid

Credit cards are the most popular method of paying for goods online. According to SCORE, online sellers who don't accept credit cards lose 60 to 80 percent of their potential sales.

If you want to sell online, you should set up an **Internet merchant account (IMA)** with your bank so that you can accept credit cards. Research all terms, fees and conditions before signing the merchant agreement.

You'll also need to choose a **payment services provider (PSP)**—also known as a **payment gateway**—to handle the actual processing of your credit-card payments. Basically, PSPs manage communications between your website and the banks that process online payments. Authorize.net (<http://www.authorize.net/>) is a widely used PSP.

When choosing a PSP, pay close attention to security issues. Strong security measures are important not just to protect your finances, but also to encourage customers to buy. Find out what steps the PSP has taken—online and off—to prevent phishing, identity theft and other types of fraud. Some PSPs will automatically flag suspicious orders.

A good PSP should have reasonable fees, strong references and excellent customer service. And of course, it should integrate smoothly with your site. Again, read the fine print and look out for hidden fees.

Alternatively, you can accept electronic payments through a third-party service like PayPal (<https://www.paypal.com>). If you're a merchant who uses PayPal, your customers can click on a "Pay" button that brings them to a checkout form. PayPal collects the money and credits it to your PayPal account (minus a transaction fee).

You can then transfer the money in this account to your business bank account, or access it with an debit card issued by PayPal. Similar services include Google Checkout (<https://checkout.google.com>) and ProPay (<http://www.propay.com>).

Shipping options

High shipping costs can chase online shoppers away. In most cases, you should avoid calculating shipping and handling fees as a percentage of the total price of the order. Should the shopper be socked with a higher shipping cost for spending more money at your online store? Of course not. If anything, the shopper should be rewarded with free, discounted or upgraded shipping.

Offer a variety of shipping options

You can reduce abandoned carts and increase revenues by properly handling three pieces of information: the shipper's ZIP code, the customer's ZIP code and the package weight.

With the right software or third-party service, you can use this information to calculate multiple shipping alternatives, such as UPS ground or FedEx next-day air. Standardizing your packing materials will help to avoid weight fluctuations.

Most shippers offer software plugins you can add to your site to calculate shipping options. Visit their sites for more information.

Pay close attention to security issues when choosing a payment services provider..

Customer Service Online

Studies show that customer service is the main factor that determines whether a customer returns to an online seller. One of the biggest complaints customers have with e-commerce is that they can't easily get in touch with online businesses.

To show customers your company is for real, include your phone number and make sure someone is available to answer it during your official business hours. Many customers call simply to make sure that the company really exists. These calls present a good opportunity to promote your product. Also, answer all customer emails promptly, clearly and professionally.

Customer service is also very important when shipping goods. You should always tell customers when an item ships and include an estimated delivery date and—if possible—tracking information. Your return policy should be clear and obvious, and it should always give customers the confidence they need to buy. When returns are necessary, process them quickly and graciously.

When interacting with customers online or off, you should always thank them for their business. This is just as important when designing a site that carries out automated tasks. In other words, if your site takes orders, allows customers to sign up for an email list, or provides any other customer service, it should always say “thank you” at the completion of the task. This is important not just for politeness, but also to show customers that the site has registered their action.

Last, good customer service means knowing when to leave people alone. Don't send customers unnecessary emails, and don't add them to mailing lists without

their permission. As always, think about your own time pressures and preferences. If an unnecessary email would annoy you, it will probably annoy your customers.

Online Marketing Strategies

Most experts agree that traditional interruption-based advertising doesn't work well on the Web, but there's not much agreement about what *does* work. The *Site Promotion Worksheet* will help you work through your options.

Local Business Directories

Local business directories are examples of **vertical search engines**, which limit their results to a specific topic, location or form of content. For example, YouTube lets you search videos, and Yelp lets you search for businesses by location and type.

These directories are crucial for microbusinesses, partly because consumers who conduct them are usually in the area and ready to buy, and partly because they often allow customers to rate and review listed businesses.

There are hundreds of local directories, but here are a few of the most popular:

- **Google Places for Business.** This is the largest local business directory. It lets you give customers instant access to a wide variety of business information, including driving directions, hours of operation and coupons. When you list your business on Google Places, it also appears on Google Maps (<https://www.google.com/local/add>).
- **Bing Business Portal** lets you publish coupons and other deals through Facebook (<http://www.bing.com/businessportal>).

Answer all customer emails promptly, clearly and professionally.



Customers who take the time to promote your business should be rewarded.

- **Yahoo Local** “is a comprehensive local business directory complete with ratings and reviews, maps, events, and more” (<http://listings.local.yahoo.com/>).
- **CitySearch** contains listings for more than 75,000 locations nationwide. Submission is free, but registration is required (<http://www.citysearch.com/>).
- **MerchantCircle** combines “social networking features with customizable Web listings that allow local merchants to attract new customers” (<http://www.merchantcircle.com>).
- **Yelp** is a consumer-generated review site with more than 60 million monthly visitors as of 2012 (<http://www.yelp.com/>).

Most local directories offer free listings. However, some charge a fee for premium listings or business services.

Listing your business on these sites usually allows you to add photos, edit descriptions and interact with users. You might offer deals for new customers, a 2-for-1 coupon, or information on your daily lunch special. It’s important to have good reviews, so consider asking satisfied customers to review you.

When adding a business listing, spell and punctuate your information in exactly the same way. Don’t enter “35th Street” in one directory, “35th St.” on another and “N.E. 35th” on a third. Your company name, address, ZIP code, phone number, email and all other data should be identical. One easy way to do this is to use an online form-filling and password-tracking service like RoboForm (<http://www.roboform.com/>). Also, remember to update all your listings if you change your address or hours of operation.

Customer Engagement Online

Engaged customers are more likely to view and share marketing communications. The following techniques can encourage customer engagement:

- **Create a community.** Provide a forum (e.g., a blog or discussion group) for your customers. Allow them to post reviews, answer each other’s questions and chat. Don’t roll these features out until you’re ready, though. And be sure to prepare yourself mentally for negative comments and constructive criticism.
- **Reward loyalty.** Customers who take the time to promote your business should be rewarded. Gifts and discounts are obvious choices. But don’t overlook online status symbols, like the colored stars used by eBay to signify the user’s degree of involvement with the eBay community. These symbols can be a strong incentive for good online behavior.
- **Ask customers** for suggestions and advice on designing new products or improving old ones. For example, if you run a bakery, you might have customers vote on a special pie flavor or suggest items for a new lunch menu.

Online Coupons

Various online coupon companies offer daily specials to subscribers. These specials can be bought online or—in the case of mobile coupons—redeemed at the point of purchase by using a smartphone. To use this service, businesses sign up with a provider such as Groupon or LivingSocial and make offers to subscribers (e.g., 50 percent off on dinner). Subscribers usually have a short time to accept the offer.

This can be a great way to lure new customers to your business or reward existing customers for their loyalty. However, it's important not to offer more than you can afford to give.

For example, if you wash windows, what will you do if 1,000 people buy your half-off coupon? If each job takes an hour, you will have to do 1,000 hours of work, which amounts to 125 eight-hour days. Most coupon-holders won't want to wait four months to be served, and your regular customers won't want to wait four months for you to finish serving coupon customers. To avoid this problem, always limit coupons to an amount you know is manageable given your existing workload, equipment and staff.

Here are the main things to consider when planning an online coupon campaign:

- Does your business have the capacity to meet the spike in demand? Do you have enough merchandise, raw materials, personnel and time to serve coupon holders as well as existing customers? Can you meet this new demand without compromising on quality or customer service? If your goal is to attract new customers, it's important to impress them. Will you be able to put your best foot forward if you're suddenly overrun with coupon holders?
- Can you afford the discount you're offering? Not only will you be asking for less money per sale, but you may also have to pay 50 percent of each sale to the coupon company. If you only get 25 percent of the coupon price, will you still make enough to cover your costs? (Always consider the increased cost of serving new customers. For example, if you run a hair salon, will you have to hire additional stylists or work longer

hours to meet demand? If you sell from a food cart, will you have to buy extra ingredients, plates and utensils?)

- Why are you launching the campaign? If you have excess inventory, or an item you plan to discontinue, a Groupon offer can be a good way to get rid of it. If you want to get old customers to try a new product, or new customers to try an old one, coupons can do wonders. But if you're trying to boost sales because your business is in a slump, the combination of low profits and high demand may do more harm than good.

Another important point: Don't offer online coupons too often. If you're constantly offering deep discounts, customers may start thinking your regular price is too high, which could end up hurting sales.

Consumer Reviews

Websites like Yelp and Epinions.com allow consumers to rate businesses and products. Users can search for a specific type of business in a specific area (e.g., auto mechanics in Milwaukee), and read what customers have to say about businesses that fit this description.

In theory, this is great. Not only does it provide a way to monitor customer satisfaction, but it can also amplify good word of mouth and attract a steady stream of new customers.

However, reviewers are often anonymous, which means you don't always know who is rating your business. It could be a bored teenager, or even a competitor. In most cases, there's not much you can do about an unfair review. The best policy is to learn from constructive criticism and ignore the rest. If you've made a real commitment to quality and service, positive comments are likely to outnumber negative ones.

Learn from constructive criticism and ignore the rest.

Anything you say or do in the heat of anger may end up being online forever!

If someone said something completely untrue, you may want to set the record straight. If that happens, wait until you're no longer feeling angry and then answer the criticism calmly and respectfully. Remember: Anything you say or do in the heat of anger may end up being online forever!

Also, note that we said "completely untrue." If there's any fault on your side, it's better to admit it than to dig in your heels. When criticism is accurate, consider improving your product or policies. This is usually cheaper than trying to fight bad press, and it's much more likely to be successful. Always try to make the most of a bad situation by learning more about customer needs, creating better products or enhancing your service.

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I didn't know the first thing about e-commerce, but most of the kids in my class did. To them, selling online was as natural as breathing. One girl, named Carol, had her own eBay store. We worked out a trade: I'd show her some of my clay techniques and she'd set up a store for me.

It wasn't an even trade in terms of time. I taught her for about two hours. She had my store up and running in about 15 minutes. But I think I got the better end of the deal!

Carol helped Monica create an account and choose a site design. Moments later, Monica had an online store. Carol also took some photos of Monica's bread-dough work and showed her how to upload them.

Afterward, Carol mentioned that having a blog had really boosted her sales. Monica had no idea what this meant, so Carol filled her in.

"A blog is like an online diary," she said. "You can write anything you want and post pictures of your work or anything else. I

started doing mine just for fun, to show off pieces I was proud of. But as more people started reading it, I started getting a lot more sales. One time, I mentioned on the blog that I was going to auction off a piece that meant a lot to me. It ended up going for almost \$500 on eBay."

As she listened, Monica thought she might want to set up her own blog, not just to promote her work, but also to keep in touch with her far-flung family members. "Is it complicated?" she asked. "Could you show me how to do it?"

Five minutes later, Monica's blog was up and running.

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Social Media Marketing

The term **social media** refers to any online platform that lets users create and share their own content, including images, video, audio, links and text.

Although they vary in their purpose, design, audience, content and policies, the most popular social media share these basic features:

- They offer user-generated content.
- They let users make connections and build communities.
- They encourage dialogue, sharing and collaboration.

For microbusinesses, social media can be an inexpensive way to communicate with customers, employees, partners, suppliers and fellow entrepreneurs. Social media can also be useful for customer relationship management. Once customers opt in, you can tell them about new products, answer questions and offer promotional coupons. "Opt in" is the operative phrase. Social

media users prefer to decide when and where to pay attention to marketing messages. Business owners who join an online community to advertise to its members almost always make people angry and often get banned. Business owners who use social media to create a dialogue with their customers and share expertise are much more likely to benefit.

Social Networking

Social networking sites help users get re-acquainted with old friends and make new ones. When used correctly, social networking sites can drive business to your site, help you deliver customer service, and build loyalty and trust. You can also use sites like LinkedIn to find employees, advisors and mentors. Best of all, you can communicate instantly with all of your contacts at once.

- **Social networking** sites like Facebook and LinkedIn allow users to post profiles and connect with people who share personal or professional interests.
- **Geosocial networking** platforms let users interact with individuals and businesses in a specific location (e.g., by organizing events, “checking in” to businesses or providing reviews of area retailers). As an example, a coffee shop might offer a free drink to a smartphone user in the next block. Geosocial networking channels include Foursquare (<https://foursquare.com/>) and Facebook Places (accessible through <http://www.facebook.com/>).

Social media channels

Blogs

Blogs are online diaries that are usually devoted to a particular subject or point of view. Although they were originally intended for text, many people use them to

share photos, audio and video content. As of this writing, the most popular blogging platforms are WordPress and Blogger.

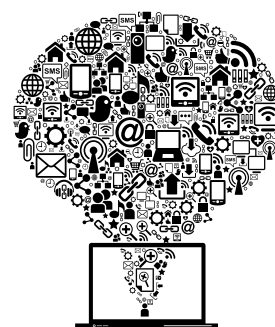
There are blogs devoted to virtually every topic under the sun. If you can find a well-trafficked one that fits your brand identity, you might want to consider advertising on it. For instance, if you make birdfeeders, you might want to advertise on one of the more popular birdwatching blogs. Blog readers are a loyal community, and they tend to support advertisers who support their favorite sites.

You can also start a company blog that will keep customers and partners informed about your business, your view of industry trends and similar topics. But bear in mind that this is a serious commitment. It takes time and talent to come up with interesting, original written content on a daily or even weekly basis. While it’s true that an engaging, informative blog can do wonders for your business, it’s also true that a pointless, over-opinionated or poorly written one can hurt it.

You also have to consider how you’ll deal with commenters. If you maintain too little control of your comment section, you may be swamped in offensive comments and spam. If you maintain too much control, you may scare commenters away and give people the impression that your business can’t handle criticism. How much time can you or an employee realistically spend to find the proper balance, given all your other responsibilities?

Twitter

Twitter (<http://twitter.com>) lets users share information through short posts known as Tweets, which have a maximum of 140 characters. You can use it to stay in touch with suppliers, reps, customers, fellow business owners, industry experts, mentors and many other types of users.





One of the best uses of Twitter is to answer customer questions quickly. You've probably seen supermarket bulletin boards that post the store's responses to consumer questions and suggestions. Twitter streamlines this process, making it easier to resolve customer problems; a quick response to complaints and questions on Twitter may prevent a customer from giving your business a bad review elsewhere online.

You can use Twitter to alert customers to sale items and promotions, contests and special events. This can be especially helpful for food carts and pop-up retail businesses; if you'll be selling at a particular spot next Saturday, you can tweet about it to all your customers at once, and offer them a coupon or other incentive to visit.

Twitter can also be a great market research tool. For example, you might ask a "question of the week" in order to get data you need. Don't simply send promotional messages and ask questions, though. You should also provide useful information, interesting links and anything else your customers will value.

Although plenty of "experts" will tell you how to gain a huge Twitter following (for a fee), there are really only a few reliable ways to attract and retain followers:

- Include a "Follow me on Twitter" link on your website.
- Follow other people, and post interesting responses to them.
- Provide interesting or helpful content that other people will re-tweet.
- Re-tweet interesting or helpful content that other people provide.
- Monitor your "@Mentions" list for people who respond to you, or mention you, and tweet back to them.

As with other social media, it's unwise to jump straight in. As you gain experience with useful and not-so-useful Tweets, and see people's reactions to each, you'll find it easier to participate. To avoid getting confused by slang, visit the Twitter Glossary (<http://support.twitter.com/entries/166337-the-twitter-glossary>).

Facebook

Facebook was launched in 2004 to help college students stay in contact. As of this writing, it has more than 500 million users. In addition, more than 1.5 million businesses have active Facebook pages.

When you set up a business page, visitors can sign up as fans. Common business uses of Facebook include sending out mass announcements, organizing events, and getting feedback from polls and customer comments. Here are some tips for getting the most out of Facebook:

- Include your Facebook address in all communications, including emails and business cards. If you have an email list or newsletter subscribers, invite them to become Facebook fans.
- Link to interesting news and stories about your product or industry. Include videos and photos where possible, but be respectful of copyrighted material.
- Don't be pushy. Aggressive marketing is one of the major reasons Facebook users "unlike" business pages.
- Offer a discount to all fans when the number of fans reaches a specified milestone. For instance, when you get 2,500 fans, everyone on your fan list gets 25 percent off. (Note: Facebook has strict rules on promotions. See https://www.facebook.com/promotions_guidelines.php for more information.)

To create a business page, you can either sign up for a business account or create a business page from within a personal account. The name of your page should be the name of your business. You can't change this name once you enter it, so doublecheck spelling, capitalization and punctuation before submitting.

You can link to your Facebook page from your home page, your blog and related sites. You can't sell on Facebook, but you can post product links that lead to your own website.

YouTube

YouTube's wide selection of videos and music has made it the most searched site on the Internet among 14- to 27-year-olds, and the second most popular search engine in the world.

The ability to embed videos, create searchable tags, send email alerts, and form networks and groups makes YouTube an ideal tool for viral marketing.

To post videos on YouTube, you must register your business name. When setting up your account, be sure to include a link to your website.

Uploading videos to YouTube is easy, as is embedding them on other sites. The site's tutorials explain the steps in detail.

Promotional videos should be short (two to five minutes) and informative. And of course, they should inspire people to visit your site and learn more.

Humor can be an effective tool, as can how-to demonstrations. For example, if you run a landscaping business, you might show viewers how to prune a rose bush.

With millions of videos online, standing out from the pack takes talent, effort and persistence. Video marketing is only as good as you can make it. You don't need to have Hollywood production values,

but images should be in focus, the camera should be steady and the audio should be easy to understand.

You may want to add music to your video. If so, all the warnings from our section on copyright apply. The fact that you bought a CD or downloaded a song doesn't mean you can legally use it to promote your business. Using music without permission may cause YouTube to delete your video.

Foursquare

As Foursquare users travel, their mobile devices automatically notify friends, contacts and businesses of their location. Retailers can sign up to offer rewards to Foursquare users, which the user receives when she arrives at that location. In addition to attracting new customers and rewarding loyal ones, this lets you track visitors to your retail location. For more information, go to <https://foursquare.com/business/>.

Foursquare also lets users upload photos and reviews of places they visit, including businesses. Positive mentions can drive traffic to your door. Negative mentions can have the opposite effect.

Although Foursquare has relatively few users as of this writing, microbusinesses can't afford to ignore the trend it represents. It used to be that an unhappy customer might complain to a few friends, family members and coworkers. Today, she can complain to hundreds of followers with the push of a button. This is one more good reason to design an excellent customer service plan and stick to it.

Choosing social media channels

If you don't claim your brand on the major social media channels, you have two problems. First, you're not taking advantage of a powerful tool for serving customers and growing your business.

Design an excellent customer service plan and stick to it.

The longer you wait to set up a social media account, the less likely it is that your business name will be available.

Second, you're giving someone else the opportunity to take your brand name.

The solution? Visit each of the major sites and set up an account for your business. Even if you're not yet ready to use a specific channel, the time to stake your claim is now. The longer you wait, the less likely it is that your name will be available.

When choosing social media, consider these questions:

- Which ones do your customers use?
- Are you marketing to businesses, organizations or individuals? Each may use social media in different ways.
- What sort of content do you have the time and skill to produce? Can you create videos? Or do you need to stick to written content and photos?
- How much time and patience do you have for online interaction? Can you hold up your end of an ongoing conversation? Can you stay calm even if users insist on being wrong? How much freedom of speech can you handle?

Staking Your Claim

A number of online services let you register your name on multiple social media channels at once. This can save a lot of time and help you maintain a consistent identity.

- **KnowEm** is a paid service that "allows you to check for the use of your brand, product, personal name or username instantly on over 550 popular and emerging social media websites" (<http://knowem.com/>)
- **Claim.io** secures your brand name and vanity URLs on 100 to 300 social media platforms (<http://claim.io/>).

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I really enjoyed having the blog. I told my sister and a couple of cousins about it, and they dropped by and left comments. It turned out a lot of their kids had blogs too, so I was able to keep up on everyone's lives. I felt a lot more connected than I had in years.

Of course, I also put pictures of my work up. I talked about the tools I used and asked people for comments and constructive criticism. Some of the kids from my ceramics class linked to my blog, and we'd share advice and ideas. They even helped me do a YouTube video that showed some of my techniques. All of a sudden, I belonged to a community!

This community was a huge help to Monica; all their knowledge, experience and creativity was at her fingertips. They steered her away from craft fairs that were poorly attended and badly run. They gave her ideas for pieces she could sell year-round, instead of limiting herself to seasonal holiday work. They also steered her to Etsy.com, an e-commerce site for makers of handmade goods, which let her set up another online store for free. Her work did especially well there; this drew the attention and respect of local crafts retailers, which became increasingly willing to handle her ornaments.

Monica was feeling exhilarated. She was learning to do things she'd thought were beyond her. She was selling more of her bread-dough dolls than she'd thought possible, and the advice and guidance of her online friends was consistently helping her porcelain work to improve. And not only had she started to make real money, but she had also found many new friends and reconnected with family members.

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Using social media

Don't get into social media simply because everyone else is doing it. Instead, treat it like any other business activity. Before getting involved, ask yourself these questions:

- What skills and resources do I need?
- Does my microbusiness have them? If not, can it develop them?
- Is social media the best way to use these skills and resources?

Before creating a social media presence, consider what you can offer your customers. A bakery might post daily specials, offer recipes and ask for suggestions. A graphic designer might link to sources of inspiration, such as online museums and image archives. Such messages are likely to be seen as valuable.

If you're a locksmith, your Twitter followers probably won't want to hear about every car door you open and every deadbolt you install. But safety tips and reminders, along with expert reviews of new locks and security systems, could be helpful.

The most important thing to understand is that social networking is not advertising. A print, TV or radio ad is a monologue; social networking is a dialogue. You can't simply bombard an online community with your promotional message. Instead, you must participate and contribute in ways that may have little or nothing to do with your business. You need to be part of the conversation, rather than an interruption.

Don't assume that because this type of messaging is virtually free there's no downside to exploiting it; that's the logic that has made spammers some of the most hated people on earth. Instead, give people a good reason to opt in to your messages.

Earning trust

There are many ways of earning trust on social media, from using your real name and highlighting your expertise, to getting links from credible people or sites, to consistently sharing valuable content, links and comments.

The most important element in trust-building is sincere participation. This doesn't mean showing up on a blog's comment thread once a day to promote your product; it means consistent, ongoing, conversational engagement with a community. This is *not* something you can fake; marketing goals must be secondary to a sincere desire to participate.

Always spend plenty of time visiting and reading social media sites before you contribute, and plenty of time contributing before you mention your business.

This is especially important when you're commenting on other sites. Posting links on other people's blogs is known as comment spam, and it's very likely to annoy the site host and other commenters. Just as you wouldn't erect a billboard on your neighbor's lawn without permission, you shouldn't clutter other people's online real estate with self-serving links.

Never overlook the "social" in social media. Check for comments often, and respond as necessary. This isn't just a matter of politeness. Social media users can be an invaluable source of information, insight, advice and market data, so it pays to engage with them as thoughtfully and helpfully as you'd like them to engage with you.

Scheduling social media messages

It's common for social media beginners to bite off more than they can chew. They start out with 10 blog posts a day, but three weeks later, they're updating once a week or have given up entirely.

Always spend plenty of time visiting and reading social media sites before you contribute!

Consider what's involved in creating online content, and don't commit to more than you can handle.

To avoid this problem, pace yourself. Commit to a small number of posts that you know you can handle. If you can produce more later, great. If not, at least you can maintain the pace you started with. Each form of social media has its own rhythm. Twitter and Facebook tend to favor frequent, short comments each day. Blogs are more flexible; they may have several short posts each day or longer posts every few days. Whichever channel you choose, the same advice applies: Consider what's involved in creating the content, and don't commit to more than you can handle.

Promotions

Discounts, coupons and other promotions are good ways to reward attention on social media. Different channels have different rules for promotions, contests and giveaways, so make sure your promotional tactics comply with each channel's guidelines. And again, make sure your business has the capacity to handle the increased demand.

Managing comments

If you decide to let users comment, chat or review your products on your site, set strict commenting guidelines. Generally, you should not tolerate offensive language, insults and slanderous comments about your company, your competitors or other users. Having a strict commenting policy in place ahead of time is much easier than trying to deal with offensive comments as they come up. Also, commenters may get upset if you try to enforce rules on a case-by-case basis. If you make your policy clear from the start, commenters will usually help you enforce it.

Section 230 of Title 47 of the United States Code generally protects website owners from being held responsible for libelous comments by site visitors. However, it still makes sense to delete potentially

defamatory comments such as "Karl's Restaurant has a filthy kitchen and sells spoiled meat." Also, note that Section 230 does not protect comments you make on your site or someone else's. The Electronic Frontier Foundation can help you understand and comply with these and other online laws (<https://www.eff.org/>).

Social Media Tips

- Different social media have different demographics. Research channels to make sure they reach your target customers.
- Keep your content fresh and current. Post regularly, even if it's just a link to someone else's interesting article.
- Don't launch a specific channel until you've prepared content and created a posting schedule. Directing users to undeveloped social media sites is a common mistake.
- Don't make promises you can't keep. Don't promote upcoming content and features unless they're actually ready to launch.
- Maintain your brand. Whenever possible, use the same name, colors, images and other elements in each account.
- Don't introduce rating or voting features until you have at least 50 regular visitors.
- Don't let your ego run away with you, even—or especially—if your channel becomes popular. Friendliness, humility, and a sense of humor are great assets in social media, just as they are offline.
- Track results. How many Twitter followers do you have? How many "likes" did you get this week on Facebook? How many people redeemed the coupon you offered? How many people took the survey on your blog? Are the numbers going up or down from quarter to quarter? When you track data like these, you'll be better able to respond to changing trends and customer needs.
- Have fun! The more you enjoy what you're doing, the more likely you are to earn loyal friends and followers.

Staying safe

Social media sites are a focus for malware attacks, so be very careful when posting personal or business information on these sites. Review each site's security features and learn how to use them. Also, remember that the explosion in user-created content presents countless opportunities for spamming, phishing, malware installation, merchant fraud and identity theft. Use caution when downloading files, watching videos and launching browser-based applications. When in doubt, don't click the link.

Search Engine Optimization

The higher a site ranks in a search engine's results list, the more visitors it usually gets. Studies show that only 1 percent of Google users look at the top listing on the second page of search results. For this reason, **search engine optimization (SEO)** techniques are in great demand.

A shrewd SEO strategy has four basic components, each of which can improve your site's visibility.

1. A well-organized website that is easy for search engines to find and index. If your pages aren't correctly structured, or your links are broken, search engines may not be able to "see" important content, which means it won't turn up in searches.
2. Relevant **keywords** that will bring the customers targeted in your marketing plan to your website.
3. High-quality content that establishes you as a trusted authority in your market, and earns valuable incoming links.
4. Site functionality that makes it easy for users to browse and buy.

The following design choices can increase your site's chances of being placed among the top 20 sites by search engines.

- A domain name that describes your brand, products or business (e.g., nx-level.org, fireworks.com).
- Flat site architecture. Web designers generally divide site architecture into **flat sites** and **deep sites**. On a deep site, pages are at an ever-increasing distance from the home page, and users may have to click four or more times to get where they want to go. On a flat site, users can access all the pages through one to three clicks. This is good for sales as well as SEO. The fewer clicks a visitor has to make, the more likely you are to convert that visit to a sale.
- A descriptive title for each page of your site (e.g., "Jane Hindson's Stained-Glass Workshop in Bloomington, Indiana"). The title tag for each page should be unique to that page; using the same title on multiple pages will undercut your efforts. Titles usually need to be 70 characters or shorter to display properly in search results.
- Descriptive keywords in your site headlines, body copy and links (do not repeat keywords more than four or five times on a page). Your keywords should accurately describe your business and product, attract buyers rather than visitors and be unique enough that you can rank highly for them.
- Alternative text tags for graphics. This is descriptive text that appears if an image doesn't display. These tags can include your keywords, as long as they provide an accurate description of the missing image.

The higher a site ranks in a search engine's results list, the more visitors it usually gets.

It's also wise to use descriptive file names for .jpgs and other images. In other words, your photo should be called *wooden-birdfeeder.jpg* instead of *IMG0099.jpg*.

- Fast loading time. Pages that load slowly or incorrectly are hard for search engines to index, and frustrating for human users, so they tend to get a lower page rank. Whether your site is new or old, monitor its performance regularly. Google's Page Speed tools (<http://code.google.com/speed/page-speed/>) can conduct this analysis for you and suggest improvements.

Pages that load slowly or incorrectly are hard for search engines to index.

Above all, building useful, creative and consistent content around customer needs is a crucial SEO technique. If you have expertise in a particular field or subject, show it off. If possible, create a resource list or a guide that people will frequently cite and use. If you often find yourself explaining certain concepts or practices to customers, consider writing this information up for online users.

Your content should always be *personalized* (it relates directly to your customer) or *professionalized* (it relates directly to your industry). Even if a story is about you, it has to be geared toward the reader; you might write about experiences you've had with clients, or business lessons you learned the hard way, and offer advice based on them. Your headline and opening sentence need to grab and hold the reader's attention. You can learn a lot by looking at successful sites in your field. You can also learn from reading online newspaper and magazine articles with a critical eye. Which headlines to you feel compelled to click on, and which do you pass by without a second thought?

Online Advertising

Most online ads are based on **contextual advertising**, which serves consumers with targeted messages based on site content or search terms. For instance, if you're looking at a hiking site, the system might deliver ads for camping gear. The ads that appear when you do a Google search are the classic example of contextual advertising.

- **Pay per click (PPC)** is the most common sales model for online advertising. Advertisers place an ad link on a host site and pay the host only when users click on it. The **cost per click (CPC)** can be a flat rate, or it can be the result of a bidding process for relevant keywords such as "camping gear." Your CPC depends on your maximum bid, the amount of competition for the keywords and the relevance of your page.
- **Cost per impression (CPI)** is similar to radio and TV advertising, in that advertisers pay to expose their message to a specific audience. An "impression" occurs every time an advertisement loads onto the user's screen. CPI costs are usually calculated per thousand impressions. For this reason, they are often referred to as CPM (where "M" signifies 1,000).
- **Cost per action (CPA)** means that the advertiser pays when the user completes an action such as filling out a questionnaire, requesting a brochure or buying a product. The benefit of this method over PPC is that you're paying for a positive result.

Clickthrough and conversion

Clickthrough rate refers to the number of people who clicked an ad, divided by the number of impressions. If 500 people view

your ad, and eight people click on it, your clickthrough rate for that ad is 1.5 percent.

Generally, a high clickthrough rate isn't positive unless a healthy percentage of those clicks convert to sales. To calculate your **conversion rate**, you must divide the number of conversions by the number of visitors, and multiply the result by 100.

If your ad attracted 2,500 people, and 25 of them bought your product, your conversion rate for that ad would be:

$$25 \div 2,500 = 0.001$$

$$0.001 \times 100 = 0.1, \text{ or } 1 \text{ percent}$$

This means that to generate one sale, you had to pay for 100 clicks.

Suppose you know that you need to earn \$24 per sale to break even (i.e., to cover your fixed and variable expenses). You also know that your conversion rate is 1 percent.

In this case, to find the maximum affordable CPC, you'd simply divide the break-even amount by the number of clicks required to make one sale, like this:

$$\$24.00 / 100 = .24, \text{ or } 24 \text{ cents}$$

If you pay for 2,500 clicks at 24 cents each, you will spend \$600. If you sell 25 items at \$24 each, you will earn \$600.

This means that if you pay more than 24 cents per click to generate a sale, you will lose money. To earn a profit, you must either lower your CPC, increase your conversion rate or raise your price.

Making these decisions is easier than it sounds, because all major search engines offer tools that help advertisers track conversions.

Targeting Local Customers

PPC ads that target residents of a specific city, state or neighborhood are a great way to make your advertising dollars go further.

Start by identifying the geographic area in which your ads will run. You can do this by picking a state or city, entering a ZIP code or specifying a distance from your retail store.

If you're a national business, focus on cities or regions where your target customers live, as revealed by your marketing plan.

If you're a small local business, it makes sense to target your immediate area, so that people five states away aren't clicking on your ads.

Think carefully about what "local" means in your area, however. In high-density cities like New York or Chicago, "local" may mean "within the city limits"; it could even mean a specific neighborhood. In a rural area, customers may be willing to drive for an hour or more to get what they need.

Offline Site Promotion

All of your packaging, letterhead and other business materials should include your URL. Company vehicles and workshirts are another good place to post your URL. Word of mouth is a powerful tool, too; tell your customers and friends that your website is live, and explain what service or incentive it offers.

All of your packaging, letterhead and other business materials should include your URL.

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I was doing well on eBay, and even better on Etsy. But I was frustrated by the limitations of those sites. I wanted my own site. I just thought it would make me look more serious, and that was important if I wanted to move from crafts to a more fine-art approach using porcelain.

My other sites were great for what they did, but they didn't really present my work in a formal, no-nonsense way. I just felt like I was ready to move to the next level. Luckily, lots of people were there to help me. Carol was an absolute pro by then, and she set up my site so

that it got lots of extra attention.

Today, Monica's moving away from bread dough and beginning to have some success with porcelain. Although her holiday ornaments continue to bring in the most money—a wealthy woman in California hangs nothing else on her Christmas tree!—her other designs provide a small but steady income the rest of the year. She even gets online orders from Japan, France, Canada and the UK.

Monica's website is simple and down to earth. It has a small biography and some attractive pictures of her porcelain work. If you want to place an order or ask a question, you can click on her email address. She also added a PayPal button so that customers can pay online.

Monica's long-term goal is to build a relationship with an upscale chain store; she's currently gathering the information she needs in order to approach buyers.

I've accomplished so much that I didn't think was possible, I feel like I may as well aim a little higher and see where it gets me. If I get into a big store, great. But my future doesn't depend on it. My work brings in good money online and off. Paying the mortgage isn't a problem these days. In fact, I'm thinking about buying a bigger house, so I can set up a real studio and maybe even buy a kiln.

But of all the great things that have happened to me since I started selling online, the thing that means the most to me is that I'm part of a community of kind, talented people who care about me and are always there for me. I'm very grateful for that!

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Stay On Top of Online Trends

- **E-Commerce Times** offers up-to-the-minute information on online buying and selling trends, as well as in-depth features on new technology and legal issues (<http://www.ecommercetimes.com>).
- **eMarketer** provides statistics and information about e-commerce, from Internet advertising and marketing, to upcoming trends, to the secrets of Web design. The "eStats" database is helpful for the planning stages of your business; it has online statistics for ad costs, Internet usage patterns, market size and demographics (<http://www.emarketer.com>).
- **ZDNet** offers glimpses of upcoming technologies and the business opportunities they're likely to create. Their review section is a terrific resource for assessing new software packages and other products (<http://www.zdnet.com>).

Market Research Online

When customers and visitors visit your site, their actions are recorded in **log files**. The data in these files can tell you where your customers come from, what browsers they use, what led them to your site, how long they stayed and so forth.

Many hosting services offer a built-in Web analytics feature that tracks these data. If you need a more powerful or customizable system, you can choose from a wide variety of free and commercial programs, including Google Analytics, Yahoo Web Analyzer, StatCounter and Webalizer.

Most microbusinesses should look at major trends—like the number of unique visitors—monthly or quarterly. However, a clear picture of seasonal trends may only emerge after you've collected a full year of data.

Be aware that to identify trends, you must allow enough time to eliminate day-to-day “noise.” As an example, climate scientists look at 30-year periods to avoid being misled by the noisy signal of daily and seasonal weather patterns. For the same reason, you should avoid having your hopes lifted or dashed every time your traffic rises or falls. Monthly statistics provide a better picture of trends than daily ones, and annual statistics provide a better picture than monthly ones.

Getting lots of data is easy. It may even be *too* easy. The hard part is understanding and using the information. And unfortunately, there’s no single way to do this. Which data you need to track, and what they mean to you, often depends on factors that are unique to your business.

It pays to experiment with a variety of analytics tools. A good one will collect the data you need and have a simple interface. It should also generate charts that are easy to read and print, and allow one-click downloads of data for use in Excel and similar programs.

Other metrics you may want to consider tracking include:

- Customer feedback (e.g., likes, favorites, blog comments)
- Mentions on social media channels
- Number of participants in chats, forums and offline meetups
- Sales leads
- Number of downloads

As you continue to interact with customers online, you’ll get a better sense of which metrics are most useful.

E-Commerce Checklist

- Find a host / ISP that meets the needs of your business.
- Register your domain name.
- Decide what you want your site to do. Will you sell products online? Or will you simply use the site to promote your business?
- Choose features and functions.
- Consider how often the site will need to be updated and who will be responsible.
- Decide whether to build a site, hire a designer or sell through an e-commerce site.
- Set up business email accounts. Consider having different emails for sales, technical support and so on.
- If you will accept online payments, look into a shopping cart, merchant account, a payment gateway, a security certificate, mobile credit card processing and other payment processing options. Consider fees as well as customer convenience.
- Decide on shipping options and tax charges, and make sure your site can process them.
- Come up with customer service and privacy policies to display on your site.
- Decide what kind of content to include (product descriptions, tutorials, advice, videos, bios, FAQ, blog, etc.).
- Choose photos and other images. Get professional photos taken, if possible.
- Claim your business name on the major social media channels, even if you’re not ready to use them right now.
- List your site on local business directories.
- Promote your site by putting your URL on business cards, invoices, vehicles, product labels, work clothing, etc.

Claim your business name on the major social media channels, even if you’re not ready to use them.

What You've Learned

No matter how small your business is, and no matter what it offers, you can improve its sales and visibility by going online. Even if you're not yet ready to set up a fancy e-commerce site that accepts credit cards, a website can attract customers you'd never reach otherwise, as well as suppliers, distributors, investors, employees and even buyout offers.

Some experts say that most businesses will be unable to succeed and grow without expanding into e-commerce. Whether or not this is true, there's no doubt that staying offline in coming years will make it increasingly difficult to compete. Why not start right now to make the most of this powerful tool?

In this session, you learned:

1. You should choose your ISP and website design with business needs—including growth—in mind.
2. Spending time online is the most important thing you can do while planning your website. The best way to know what works and what doesn't is to visit a lot of sites.
3. Your website must fit with every other aspect of your business.
4. Online customers expect the same level of customer service they receive offline—if not more.
5. Strong security measures are important not just to protect your finances, but also to encourage customers to buy.
6. Social media can be an inexpensive way to create and maintain strong relationships with customers, employees, partners, suppliers and fellow entrepreneurs.
7. Make sure your social media efforts fit your marketing objectives, strategies and tactics. Research sites to make sure they reach your target customers.

WORKSHEETS



SESSION 10

SESSION 10: E-COMMERCE

Business Without Borders

Internet Needs Worksheet

1. How will your business use the Internet (e.g., sales, market research, promotion, finding suppliers or distributors)? Make sure that your answer fits the goals, strategies and objectives set forth in your marketing plan.

2. Write down your Internet needs—as you currently understand them—and rank them in order of importance on a scale of 1 to 4 (1 is most important, and 4 is least important).

Internet Needs	Rank
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Internet Needs Worksheet—continued

3. Make several copies of the chart on the next page to research the Internet service options available in your area.
 - a. Look up a couple of big Internet service providers such as AT&T or Comcast, and then look for local ISPs.
 - b. Call each company and get detailed information about their features (e.g., how many email addresses you get; whether you have unlimited monthly usage; how much Web hosting space is available; any special e-commerce packages; and so on).
 - c. Ask for the ISP's uptime, or the amount of time the Internet service is available per year. The connection should be available at least 99 percent of the time.
 - d. Check the connection speed and the cost (remember to ask about setup and installation fees, modem fees and early cancellation fees).

ISP NAME:	
Connection type (e.g., dialup, DSL, cable modem):	
How many connections can you have?	Trial period offered?
Advertised connection speed:	Actual connection speed:
Hardware needed:	Hardware fees:
Installation charges:	Estimated uptime (e.g., 99 percent):
How long has the ISP been in business?	Are customer reviews mostly positive?
How many websites can you have?	Maximum website size:
Maximum bandwidth:	Maximum site traffic:
Fee for exceeding bandwidth or traffic:	SSL support for security?
Number of free email addresses:	Cost of additional email addresses:
Can your email address include your domain name?	
Does the ISP offer an e-commerce package? If so, list the features:	
What other business services does the ISP offer (if any)?	
What "Acceptable Use" restrictions apply to residential and business accounts?	
What security measures are in place?	
Will they stay online in the event of a power outage or natural disaster? If not, how quickly will they restore service?	
Add-on features and service enhancements:	
How and when are tech support services available?	
What restrictions and costs apply to tech support?	
Average wait when calling tech support number:	
Total monthly cost:	Length of contract:
Fee for early termination?	

Website Research Worksheet

When it comes to website design, the best way to find out what works and what doesn't is to visit as many sites as possible. Browse the sites listed below and answer the questions for each. Add three sites from your own research, and answer the same questions for those sites. (You'll need to make six copies of these pages before you start.)

1. Blue Moon Camera and Machine (<http://www.bluemooncamera.com/>)
2. Phantom Fireworks (<http://www.fireworks.com>)
3. Flicker Alley (<http://www.flickeralley.biz/>)
4. _____
5. _____
6. _____

1. Is the site visually appealing? Why, or why not?

2. Is the type of business clear as soon as you visit the homepage? Why, or why not?

3. Are menu choices easy to read and understand? If not, what's wrong?

4. Is it easy to move from page to page? If not, what's wrong?

5. Does the site contain current, relevant, useful information?

6. How easily can you look at the products the business offers? Is it clear what they do, how they look and how much they cost?

7. Does the site offer visitors alternative ways to contact the company (phone, fax, email, social media, physical address)? What are its office hours?

8. Is there an FAQ section? If so, do you think it meets customer needs?

9. Do you think the site gives enough information about the company? Explain.

10. If the business has a retail location or office, does the site provide good directions on how to get there?

11. Does the site have a “what’s new?” section, or any other clear way of providing updates on the business’s products? If so, what do you think of the method the site uses?

Website Research Worksheet—continued

12. Can you order products from the site? If so, how? Can you order customized products? Does ordering seem easy, or is it complicated? What payment methods are accepted? What shipping methods are available?

13. What security features does the site have? How does it protect customer data? What are the return and refund policies? Would you feel safe ordering from this company?

14. What's the best feature of this site? What's the worst feature?

15. Now that you've looked at all six sites, what features have you seen that you'd like to have on your site? Why will these features appeal to your customers?

Site Planning Worksheet

1. Will your site be strictly informational, or will it have e-commerce capabilities?

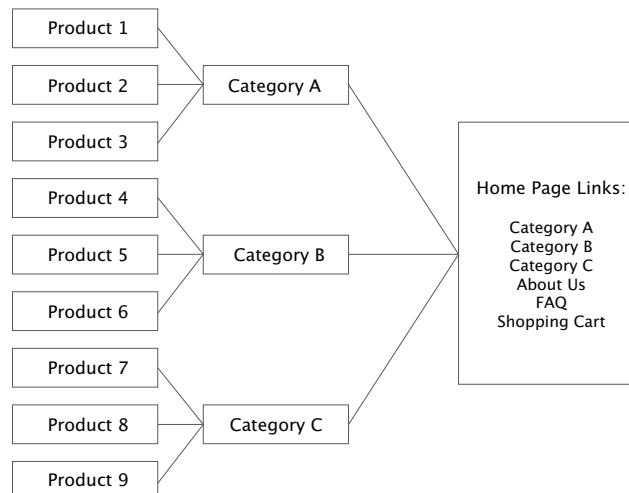
2. Should you hire a website design professional, design the site yourself or sell through an e-commerce host or portal? Why? What are the benefits and drawbacks of designing your own site? How much does each option cost? (When comparing costs, remember to research the amount that host sites, portal sites and payment-processing services will take of each sale.)

3. How does your choice help you reach your target customers?

4. How does your choice prepare you for growth?

5. How often will you need to update your website? Who will be in charge of updates?

In this section, you will create a site structure that starts with your individual products, and then works upward to your home page. Here's an example:



First, list each of your products or page subjects. Then, identify the product or subject category. Last, create a descriptive page name.

[illegible]

What do visitors need to be able to do on your site? Note that some actions may require multiple features. Use this list when consulting with a Web designer, or when comparing the features of site-building tools and e-commerce hosts.

WORKSHEET SESSION 10

Social Media Worksheet

1. Which social media channels will you use to promote your business, and why?

2. What type of content will you create? What value or benefit will it offer your customers?

3. How many people at your business will have access to social media accounts? What steps will you take to ensure unified voice and messaging?

4. Social media functions, capabilities and add-ons change frequently. Who will be in charge of monitoring and adapting to these changes?

5. Use the following worksheet to identify the type, frequency and purpose of your social media messaging. If you intend to drive traffic to your website, specify the target keywords and the landing page (i.e., the page on your site that you will link to in your social media message).

Channel	Type of content	Frequency	Creator	Other promotion	Target keywords	Landing page
<i>Blog</i>	<i>Article with photo</i>	<i>3 per week</i>	<i>Joe E.</i>	<i>Twitter, Facebook</i>	<i>Weasels, Stoats</i>	<i>Rodentia.com</i>

Worksheets Assignment for Session 11



Complete the following Session 10 worksheets. Make sure to research and document all costs!

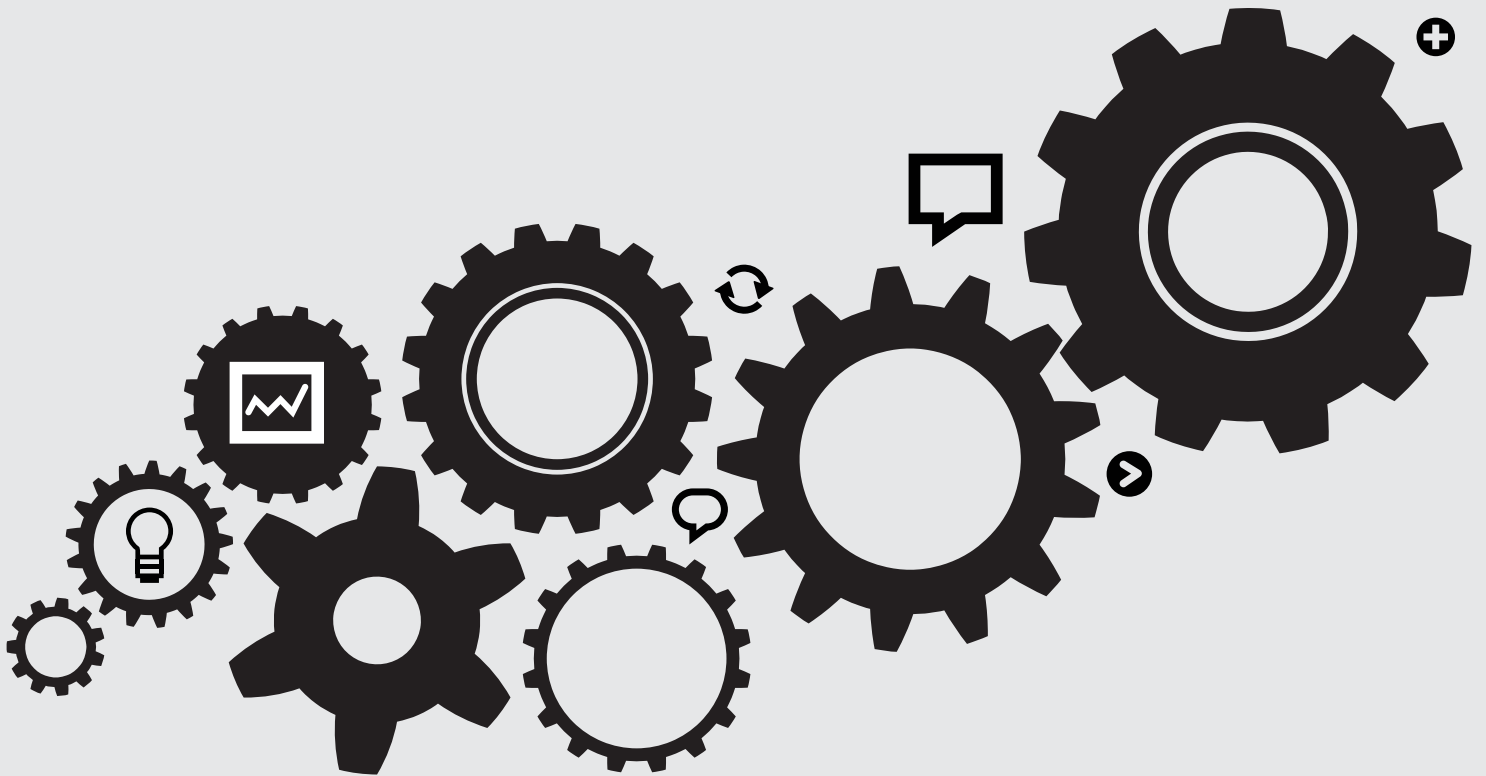
- *Internet Needs Worksheet*
- *Website Research Worksheet*
- *Site Planning Worksheet*
- *Site Design Worksheets*
- *Site Promotion Worksheet*
- *Social Media Worksheet*

Writing Your Business Plan



After you research Internet options and costs, you may need to change some of your financial projections and marketing strategies. Go through your business plan section by section, and update it—where necessary—to reflect what you’ve learned about e-commerce and the Internet. Again, remember to consider all startup and operational costs!

TEXT



SESSION 11

Selling Success

ATTITUDE IS EVERYTHING!



HIGHLIGHTS

The Art of Selling	page 2
Eight Steps to Sales Success	page 4
Earning Customer Loyalty.....	page 9
Resolving Customer Complaints	page 13

“

Successful salesmanship is 90 percent preparation and 10 percent presentation.

—Bertrand Canfield

”

About This Session

In the last few sessions, you learned how to identify your target market. You also learned about promoting your product’s features and benefits. These skills will get customers to notice your business, but not necessarily to buy from you. To get customers to buy, you need to understand the art of selling.

It’s not enough to get customers to buy, however. You need to keep them coming back by providing service that consistently meets or exceeds their expectations.

The art of selling. No matter who you are, you can become a confident, effective salesperson and develop a personal selling style that distinguishes you from your competitors. This section presents proven sales techniques for entrepreneurs.

Eight steps to sales success. This section takes you through the selling process, from prioritizing prospects to following up with customers.

Earning customer loyalty. It costs six times more to attract a new customer than it does to keep an old one. Obviously, once you’ve gone to all the time and trouble of getting customers, you’ll want to keep them. You can provide outstanding customer service through open communication, a positive attitude and a willingness to serve.

Resolving customer complaints. Listening to, learning from and resolving customer complaints isn’t

just a way to earn loyal customers. It's also a way to improve your products, streamline your policies and weed out inefficiency.

• • •

I was born in Cowboy Country. Prescott, Arizona—home of the world's oldest rodeo. I worked with leather for pretty near all my life. I got started helping my dad in his shop, and I kept at it all the way through high school.

After high school, I wanted to see the world, so I joined the Navy. Part of that time, I was stationed in Italy. What I liked most about that, besides the food, was the leatherwork—the belts and the shoes, especially. Incredible design and craftsmanship, like I'd never seen before.



Benny Norsby comes from a long line of Norwegian shoemakers. His grandfather and great-grandfather made sturdy shoes and belts for working people in Oslo. His dad came to America as a young man, opened a shoe-repair shop in Prescott and worked there for more than 40 years.

Once I got out of the Navy, I kind of drifted. Next thing I knew, I'd drifted through 10 years and at least as many jobs.

I had kind of a temper, too, which didn't help me stay employed. All in all, I guess you could say I was not a nine-to-five kind of guy.

When my dad died, I inherited his tools and a little RV with room for a workspace in it. I started making hand-tooled belts, wallets and purses, using techniques I'd picked up in different places over the years. People seemed to like them. A lot of people said it was basically Western style, but with European influences that really made them stand out. So I reckon I must've learned something in Italy!

• • •

The Art of Selling

Selling techniques have changed a lot over the last century, and so have our perceptions of salespeople. Consider the popular image of a used-car salesman: A shifty, sneaky guy who uses lies and flattery to sell you a piece of junk that barely runs.

There really are salespeople like that, but they're a lot less common than they used to be. Today's salespeople are less interested in making a sale at all costs and more interested in building a long-term relationship. They know that lasting success means keeping customers satisfied after the sale, because it costs more to get a new customer—or to win an unhappy customer back—than it does to sell to a loyal customer.

Traits of Successful Sellers

No matter who you are, you can learn to be a confident, effective salesperson. With practice, you can develop an approach that fits your personality, your expertise and your customer's needs. But regardless of your personal style, or the type of business you're in, certain traits are fundamental to successful selling:

- **Empathy.** Good sellers can relate emotionally to each customer's unique situation. They don't try to force a one-size-fits-all solution on them, or pressure them to spend more than they can afford. They know when to give customers a little breathing room. Empathy also helps them identify and overcome obstacles to making a deal.
- **Personal drive.** This is an ego-driven desire to make the sale and succeed in satisfying customers' needs.
- **Persistence.** Effective sellers don't give up easily. They look for the positive side

of problems, and they know that challenges create opportunities.

- **Confidence.** Good sellers believe in their products and know how to get other people excited about them. They're not afraid to ask the customer to buy when the time is right. They also know when it's best to walk away and pursue other opportunities.
- **Flexibility.** You may have to deal with many different people to close a deal, each of whom may have different demands, concerns and negotiating styles. The ability to adapt to different buying styles is essential.
- **Quick thinking.** When selling, you will hear objections you didn't expect and offers you need time to consider. Therefore, you need to be able to think on your feet, whether you're answering an objection or explaining why you can't make a decision on the spot.
- **Excellent listening skills.** Smart sellers ask relevant questions and listen respectfully while customers answer.
- **Technical knowledge.** Sellers should understand everything about their product. If there's a question they can't answer on the spot, they must quickly get the information they need.
- **Good communication skills.** The best sellers make their points clearly, briefly and respectfully. Their words and body language communicate their confidence, their empathy and their willingness to listen to and learn from their customers. Rather than confusing prospects or bullying them, they guide them toward a win-win decision.

- **Respect for the customer.** No matter what plans you have for your business, they won't work unless you keep your customers coming back. Want to grow? Want to hire employees? It won't happen unless customers need your product and like doing business with you. You don't have to love every customer who walks in the door, but you do need to remember that without customers, your business can't survive.

You probably have a number of these traits already. The others, you'll need to learn and practice. Fortunately, developing one will help you develop others. For example, if you *really* believe you're offering a great product, you'll naturally feel confident about selling it. And if you *really* respect the customer, you'll naturally be honest and a good listener.

Understanding Buyers

If selling were a simple matter of listing features and benefits to help buyers make an informed decision, there'd be nothing to it. But in reality, buyers tend to make emotional decisions and then look for "facts" that support their choice.

Usually, buyers who haven't bought into a product emotionally can't be swayed with facts and figures. But once buyers have bought in, explaining features and benefits can help them feel that they made a smart choice.

How do you get people to buy in? Here are some points to consider:

- **Most buyers respond to stories.** Instead of listing a bunch of features, describe how those features solved a problem for a previous customer. Be prepared to back up your stories with references.



If you really believe you're offering a great product, you'll naturally feel confident about selling it.

- **Most buyers like to talk about themselves.** Being a curious, engaged listener is vital to building a relationship, and building a relationship is vital to earning loyal customers.
- **Business buyers are usually more cautious than everyday consumers.** They typically want to see strong evidence of value, technical expertise, reliability and professionalism. It's important to show that you understand the buyer's pressures and concerns before explaining why your product meets her needs.
- **Behind every buying decision, there's a desire or a fear.** As we've said before, you need to know what you're really selling, whether it's fun, beauty, youth, security, happiness, power, status, health or self-respect. Unless you understand the hidden motivations that guide buying decisions, you'll find it hard to get customers to buy in.

Behind every buying decision, there's a desire or a fear.

Eight Steps to Sales Success

You should already have identified:

- Your target customers' location, needs, problems, goals (market research and analysis).
- The unique benefits your product offers these customers (positioning statement).
- How your offerings are better than competitors' (competitive analysis).
- The resources you have to encourage consumers to buy (marketing plan).

Now, you will use this information to sell effectively.

Step 1: Prioritize Prospects

A **sales prospect** is someone who has the demographic and psychographic traits you're looking for in a customer.

Think about your local, regional, national and international sales prospects (including online buyers). Also, use your network of friends, family members, advisors, customers and business contacts to help identify sales prospects. Asking for referrals is one of your best sales techniques. As we learned in Session 1, the key is to network in a respectful, professional, genuine and mutually beneficial manner.

Once you've made a list of prospects, sort them into the following categories:

- **Short-term and long-term prospects.** Short-term prospects are available immediately. To sell to long-term prospects, you may need time to build relationships, increase production or improve products. Creating a timeline that outlines each step of the selling process can keep your sales efforts for long-term prospects on track.
- **Most profitable/least profitable.** Analyze each prospect's profitability. You may find that larger accounts offer less profit per sale, but more profit in total. Small accounts may provide more profit per sale, but less profit over time. Always balance the amount of time it takes to make the sale against the revenue it will provide.

Next, develop your sales targeting strategy. Which accounts should you target first? Which are critical to your long-range goals, and which are the bread-and-butter accounts?

Another good technique is to use computer files to organize your prospecting and account information. Inexpensive software

designed for small businesses can help you keep track of new prospects and existing customers.

If you don't have a computer, you can track your sales prospects with index cards and a calendar. Most of us can't remember exactly what we learned six months or a year ago, so whenever you learn something about your customers, document it. This will lead to better relationships and more sales.

• • •

Benny usually sold his belts during the Prescott Frontier Days Rodeo, when there were lots of tourists in town. He'd rent a small booth and lay out his best pieces for browsers to look at and handle.

Although most people loved his work, he wasn't a very good salesman. In fact, it seemed like the less he talked, the more he sold! He often got frustrated when people had price objections or asked silly questions. Sometimes, it seemed like he was almost daring people to buy his work. When they did buy, it was usually despite his attitude, not because of it.

I knew I wasn't a good salesman. But I didn't know just how bad I was until my friend Allen stopped by the booth. He sold farm and ranch equipment over at the John Deere dealership, and after hearing me talk to a couple of customers, he pulled me aside and said, "Benny, if you don't learn how to sell you're going to be out of business within the year."

He told me he'd just come back from a four-day selling class over in Phoenix. He'd learned a lot from it, and he thought it could help me, too. I told him flat out, "We both know I'm not cut out for selling. You can't teach a pig to sing, and they're not going to teach me to sell."

But Allen bet me they would, and I said I'd try anything once. So I signed up and headed on over to Phoenix.

• • •

Step 2: Prepare to Sell

Planning ahead helps you get the most out of your time with buyers by asking them the right questions and giving them the right answers.

In retail sales, the best way to prepare for selling is by knowing your products inside and out. Suppose a customer enters your store and asks for help. She's looking for a special item you don't carry. Does she absolutely need that brand or type of item? Or do you have another item in stock that will work just as well?

When selling a service, planning lets you anticipate the customers' needs, wants and questions. Here, the goal might be to explain why you offer more value than a competitor. This means you need to know how your competitors operate, what they're charging and why you deliver more value.

If you're a manufacturer, you might stress the quality of your materials or workmanship, or the fact that only you offer your product (in the case of a family recipe or a handcrafted item). Again, the key is to know what else is on the market and be ready to explain why your product is better.

The best way to prepare for selling is by knowing your products inside and out.

Step 3: First Contact

Your first contact with target customers should make a positive impression, attract their interest and gather information that will help you make the sale:

- **New information.** Use new information questions to find out what the customer needs and values. (*What will you be using this for? How many do you go through in an average year?*)
- **Unmet needs.** What features and benefits do competing products lack? What are your competitors failing to do, be or offer? (*If you could change one thing about the product you're using now, what would it be?*)

- **Feelings.** Uncover desires, values and beliefs relating to your product. (*Do you prefer American-made goods?*)
- **Confirmation.** Use confirming questions to verify that you've made the right assumptions or drawn the right conclusions. (*It seems like your main concern is turnaround time. Is that right?*)

No matter what kind of questions you ask, give the other person plenty of time and encouragement to respond. Inexperienced salespeople often get nervous and tend to talk too much. Avoid this mistake by concentrating on listening.

It's usually wise to adapt your personality to that of your counterpart. If the person you're talking to is cheerful and friendly, you should be, too. If he or she is quiet and serious, you should attempt to project the same image.

Again, this isn't a matter of putting on an act or being deceitful. It's a matter of showing respect for the other party.

Step 4: Make the Presentation

After listening carefully to your customers' needs and problems, begin by framing a concept of your product.

Remember: Buyers often buy the concept of a product, rather than the product itself. For example, a man who buys a brand-new sports car is not buying transportation; he's buying status. If all he wanted was transportation, he'd buy an economy car like millions of other car buyers.

You should also present information about your product's features and benefits. Again, features describe how the product looks and performs, and benefits describe how the product meets a need or solves a problem. People buy benefits, not features!

What should a professional presentation look and sound like? Here are some basics:

- **Attitude counts.** A professional, sincere and engaged approach is best.
- **Your first comment counts.** Begin with a direct question or strong statement—based on your research—that shows your client how your product will solve his problems.
- **Benefits count.** Show your clients what's in it for them. The more you know about their concerns, the easier it will be to make the sale.
- **Creativity counts.** Canned sales pitches don't go far with today's buyers. Use your creativity and empathy to tailor your presentation to each buyer.
- **Honesty counts.** Don't improvise answers to tough or unexpected questions. Your answers should always be clear and honest; that includes saying "I don't know." Taking guesses or trying to bluff will backfire, especially in cases where a customer is trying to test your knowledge.

• • •

I lost my bet with Allen, because the selling class did me a lot of good. Before I took it, I figured some folks were just born to sell. The people who weren't—like me—were out of luck. But after the class, I felt different. I started thinking maybe I could do it too, once I had a little practice.

Thanks to my teacher down in Phoenix, I realized something else. I realized I didn't have to stand in some booth at the rodeo, answering a hundred dumb questions an hour. I could make my pitch to stores, instead. I could talk to professional buyers who actually knew something about leather—people who'd see

Buyers often buy the concept of a product, rather than the product itself.

right away what made my work different—and let them deal with the customers.

Benny decided to put his theory to the test. He started planning a sales trip through Sedona, Flagstaff, Taos, Santa Fe, Park City, Telluride, Vail and Lake Tahoe. He knew these towns were full of wealthy tourists looking for Western gear, as well as locals who'd admire his unusual style.

He looked up stores in each city, called them up and got their buyers' names. Once he had his trip planned out, he started working up a real sales presentation. His selling class had taught him that he needed to describe the features and sell the benefits for each of his products, and that's what he intended to do.

He'd also learned that a professional sales person is friendly, and that appearance counts for a lot. He started to smile a lot more when he talked to people, and he also decided to wear some of his leather goods on his sales calls.

Before I left Prescott, I must've practiced my sales pitch about a thousand times. Once I felt OK about it, I tried it out on my buddies and my mom. They gave me some advice on how I could improve. Then, I went back and practiced all over again. I kept smiling, too. I had to force it at first, but after a while it was natural. I don't know if smiling made me feel better, or feeling better made me smile. But whatever it was, people noticed the difference. And so did I.

The next time I tried my pitch out on people, they thought I had it down pretty good. And I guess I did, considering that I sold a bunch of belts!

...

Step 5: Overcome Objections

A good salesperson expects customer objections and is ready to respond to them calmly and honestly.

Some typical objections are:

- Your price is too high.
- Your company is too new.
- I'm satisfied with my current supplier and don't want to change.
- Your competitor does it faster.

There are four steps to overcoming such objections.

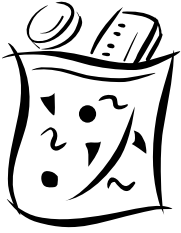
1. Listen carefully to gather information on the problem. If possible, change a prospect's "I'll think it over" to a specific objection. Point out that the prospect obviously wouldn't spend time thinking it over unless she were seriously interested. If that's confirmed, say "Just to clarify my thinking, what part of the decision do you want to think over? What's holding you back?" Then, probe until you identify the objection.
2. Acknowledge the objection to show you understand the customer's issues.
3. Explore the problem with questions.
4. Respond to the objection by recommending a solution.

Step 6: Close the Deal

Believe it or not, the biggest reason for lost sales is that the seller doesn't ask for the order. This is often due to fear of rejection. And that's understandable. No one wants to be rejected or to feel like a failure.

But chances are, your client isn't rejecting you personally, nor have you failed personally. There are lots of reasons why clients don't buy, especially on the first try. They may not have the authority to sign a purchase order. They may have bought a month's supply of your product the week

The biggest reason for lost sales is that the seller doesn't ask for the order.



If you offer a good product at a good price, you have no reason to fear the buyer's reaction.

before. Or they may want to get to know you better before doing business with you. There are almost as many reasons as there are customers.

The fact is, if you offer a good product at a good price, you have no reason to fear the buyer's reaction.

Here are some common closing methods:

- **Basic close by using a sales form.** Begin by asking the customer a question from the form. Write in the answer. Proceed to the next item. As long as the customer doesn't stop you, you've made a sale.
- **Close by offering choices.** "Do you prefer green or blue?" "Will you need two of these, or three?" When a prospect makes a minor decision, the major decision is near.
- **Close by making a balance sheet.** Take a sheet of paper, draw a line down the center and help the prospect list the reasons for and against buying your product.
- **Close by asking questions.** If you have a prospect who seems interested but won't commit, ask questions: "Is there anything I didn't make clear about my product?"
- **Close with a question.** If a prospect asks whether it's possible to get what you're selling in a particular size, format or color, don't answer "yes." Instead, ask the prospect if that's the way he wants it. If the answer is "yes," the prospect has bought.
- **Close by setting a date to do the work.** If you run a lawn care business, for example, you might offer to cut their lawn and trim their hedges next Thursday.

Step 7: Reflect and Adapt

After talking to a customer, always go back over the discussion and think about what worked and what didn't. What did you expect? What questions or objections came out of the blue? Reflecting on the positives and negatives of each selling experience is crucial to improving your abilities.

Step 8: Follow Up

A couple of days after you've made a sale, get back to your customer and say, "Thanks for your business!" Ask whether there are any problems; if there are, address them right away. A satisfied customer is your best source for new business. It takes a lot less effort to get a reorder or an add-on than it does to get a new customer.

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I wasn't so worried about my temper anymore. I learned how to take price objections in stride, including the really rude ones like "I could buy the same belt at the discount store for 10 bucks." I even learned to shrug off the weird things people ask, like "Do you have that in vinyl?"

That kind of talk used to drive me crazy. I didn't want to stand there and have my work insulted. I didn't want to talk to people who didn't understand—or care—anything about the work my family has been doing for generations.

But like I said, I learned not to take it personally. I learned that when people don't understand what I do, it's my job to explain it. And I found out that when I explained things to them with a smile on my face, they actually listened instead of going away mad.

While researching his sales trip, Benny had zeroed in on the top five specialty retailers in Taos. He decided to approach Great Southwest first. It was a small specialty store, and he felt more comfortable starting

there and working his way up. That way, he'd get to practice on some of the smaller retailers before approaching the high-end customers he really wanted.

While researching stores, Benny tried to dig up some personal information on each buyer. One of the things he found out was that Tony Alvarez, the owner of Great Southwest, was a travel nut who spent three months out of every year traveling all over the world. Benny had done a lot of traveling himself, so he felt pretty sure he could use that information in his pitch.

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Earning Customer Loyalty

Businesses can't be healthy without loyal customers, and they can't grow without new customers. That's why it's so important to deliver great customer service. Friendly, personal, honest, flexible customer service can be a microbusiness's biggest advantage.

Researchers have studied how customers react to good and bad service. A customer who gets good service usually talks about it to several people. But as you recall from Session 9, people go out of their way to talk about bad service. They tell everyone they know just how poorly they were treated, and will go on talking about it for weeks.

It's easy to see why this happens. Someone who had a good shoe-repair experience probably won't mention it unless she runs into someone else who needs to get a shoe repaired. Otherwise, the subject's not likely to come up.

But someone who had a bad experience will talk about it to blow off steam or earn sympathy: "You'll never believe what happened to me!"

Sales Tips

- 1. Be honest.** Tell the truth about your product. Don't hype attributes or downplay problems.
- 2. Don't procrastinate.** Take on tough clients now, not later.
- 3. Practice active listening.** Work to improve listening skills and develop interactive sales presentations.
- 4. Be patient.** Building long-term relationships takes time and care.
- 5. Keep learning.** Become an expert in your field so that customers see you as a valuable resource.
- 6. Stay in touch.** Check in with customers regularly and always bring something of value to the conversation.
- 7. Study your competitors.** Knowing their strengths and weaknesses will help your sales presentation.
- 8. Referrals build sales.** Always ask for referrals. Satisfied customers will usually be happy to help.
- 9. Be positive and have fun!** A positive attitude will help you get through tough times.

Check in with customers regularly and always bring something of value to the conversation.

Some people will even make the experience sound worse than it was. It's not fair, but it's human nature. As negative stories travel from one person to another, they often get worse and worse. When this happens, it can be very hard for a business to clear its name.

That's why you should stop these problems before they start, by being friendly, fair and organized.

Always deliver the things your customers expect:

- A clean and organized place of business
- Clean, well-groomed and polite employees
- Immediate attention
- Eye contact
- Respect
- Knowledge
- Value
- Privacy

Customer Loyalty and Profits

After all the time, effort and expense you put into getting a customer, it makes sense to continue the relationship as long as possible.

It's a basic fact of business that loyal customers are more profitable than new ones. This is known as the **80/20 Rule**: 80 percent of your sales come from 20 percent of your customers.

Furthermore, studies show that loyal customers:

- Show less sensitivity to price changes
- Generate referrals and word of mouth
- Buy add-ons more often
- Make it harder for competitors to enter your market
- Need less handling, education and selling time

80 percent of your sales come from 20 percent of your customers.

What Customers Want

- **Availability.** In the Internet era, customers expect to be able to reach you instantly through phone and email. They also expect you to be responsive and engaged at every stage of the selling process.
- **Consistency.** Customers want the same level of service every time they deal with you. If they feel like your rules, quality standards and behavior are always changing, they may get frustrated and go elsewhere. They also expect you to keep your promises, so don't promise more than you know you can deliver. In fact, it's a good policy to under-promise and over-deliver. That way, you'll exceed expectations if things go well, and be more likely to meet them if problems arise.
- **Confidence.** Customers want to feel they can trust you. They don't necessarily expect perfection, but they do expect you to make things right when they go wrong. If they recommend your business to someone else, they expect that person to get equally good service.
- **Attention.** This isn't a simple matter of saying "hello" and "goodbye." Customers want to feel that you're alert, interested and ready to help.
- **Understanding.** Customers want to feel that you are listening to them and making an effort to understand and satisfy their needs.
- **Comfort.** Customers want to feel comfortable, welcome and secure. They don't want to feel rushed or pressured. And they prefer businesses to be clean, attractive and organized.

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I was kind of surprised how nervous I was, heading over to see Tony Alvarez. I mean, he was the guy I'd picked first, because I figured I could take his business or leave it. But I was still nervous!

That was OK, though. If I learned one thing in the military, it's that there comes a point where you're as ready as you're gonna get. After that point, the line between preparing for a tough job and avoiding it gets blurred.

I was at that point. Another 10 days or 10 months or 10 years of rehearsal wasn't going to make any real difference. I knew my work, I knew it was good and I knew I could explain why it was good. If one person didn't want it, fine. Someone else would. That's what I kept telling myself, anyway.

Benny arrived right on time for his appointment with Tony. He started their meeting by making some small talk about his travels in the Navy. Tony responded well to that; he'd been to a lot of the same places, so they spent a pleasant few minutes talking about things they'd seen and done overseas.

Then, Benny launched into the opening of his pitch. "I've been working with leather most of my life. And looking around your store, I'd say you've got a good eye for it. You've got a lot of handmade work here, and all of it's quality."

Tony looked pleased. "Well, you can get the cheap tourist stuff anywhere, so I always try to aim a little higher."

"I'm glad to hear that," Benny said, "because I aim high myself. The kind of work you sell is exactly the kind of work I do. Right now, I've got some hand-tooled belts I think would go with the lines you carry. Would you like to have a look?"

"Sure," Tony said. "Let's see what you've got."

While Tony looked over the belts, Benny decided to see if he could get some new information out of him. "If you don't mind my asking, how do you decide what goes into your store? What makes you choose one belt over another?"

Tony thought for a moment. "Well, first of all, there's quality, like you said. But after that, a lot of it comes down to gut feeling. I can look at two pieces with the exact same craftsmanship, but one means something to me and the other doesn't. It's hard to put it in words, but I guess I like work that has a story to tell. And I think my customers do, too."

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Customer Service Strategies

A clear strategy is essential to providing good customer service, and it can also stimulate ideas for improvement. Here are some customer service basics:

- **Keep the customers you get.** Repeat customers represent an ongoing revenue stream that is essential to your business. Suppose a woman goes to a deli and pays \$1 for a bagel. If she doesn't return, her business is worth exactly \$1 to the deli. But if she returns three times a week for a year, her business is worth \$156.
- **Communicate with your customers.** Critical feedback from customers can direct your attention to things that need improvement. Nobody likes bad news, but gathering bad news is often more valuable than collecting pats on the back. Use every contact with your customers to learn to serve them better.
- **Don't be afraid to educate your customers.** Contrary to the old saying, the customer is not always right. But

Use every contact with your customers to learn to serve them better.

when a customer doesn't understand one of your policies or decisions, it's always your job to explain it clearly and respectfully.

- **Pretend the world is watching you.** It used to be that an unhappy customer might tell a few friends to avoid your business. Now, thanks to online business review sites like Yelp (<http://www.yelp.com>), that customer can complain to the whole world. Also, lots of people have video cameras in their phones, which means that filmed arguments can easily wind up on the Internet.

Be friendly and helpful

Always project confidence, enthusiasm and friendliness when dealing with the public. Give out positive feelings, and you're likely to get them in return. Naturally, that's also true of negative feelings. If you treat customers as opponents or burdens, they'll live up to that role. In other words, good customer service can make your job—and your life—a lot easier.

The very first thing your business should offer is a pleasant experience, free of charge. Even people who don't buy from you will take away a positive or negative impression of your business, just like paying customers do. This impression affects your reputation in your market. Whether they're browsing, buying or simply asking for directions, people want to feel comfortable, welcome and respected when they visit your business.

It's especially important to be cheerful and friendly when customers arrive and leave. Studies show that greetings and goodbyes tend to make the strongest impression on customers.

Of course, this isn't always easy for an overworked microbusiness owner. That's

why you should be especially careful about maintaining good customer service when you're feeling overwhelmed and stressed out. You don't want to chase customers away by snapping at them, ignoring them or not taking their phone calls.

Know your product

To meet your customers' needs, you need to know all about the products you offer. This means knowing their limitations and weaknesses as well as their features and benefits. An important part of knowing your product is knowing what it *can't* do.

Be honest about your inability to meet your customers' needs. If you tell a customer that your product isn't what he or she needs, you'll lose a sale, but you'll earn respect. And that customer may later come back for some other product, or recommend your business to someone who *does* need what you sell. Look at every interaction with the public as a promotional opportunity. Even a person who doesn't want or need your product can send valuable business your way.

Get personal

Now more than ever, businesses need to build personal relationships with their customers. Good approaches include greeting regular customers by name; remembering their preferences; adding them to a mailing list (with their permission, of course); learning their birthdays and sending them a card or discount coupon; and chatting casually to learn more about them. As we discussed earlier, learning about your customers, and writing down what you learned, is an important part of prospecting and selling.

You should also make a point of rewarding loyalty. It used to be that a business earned a certain amount of regular business by being the only game in town. Now that



The very first thing your business should offer is a pleasant experience, free of charge!

customers can buy online from all over the world, customer loyalty is more meaningful than ever. Show your best customers you appreciate them with frequent buyer cards, discount coupons, special deals and a willingness to bend the rules to keep them happy.

Also, don't overlook the impact of simply saying "thank you for your business." Customers hear this phrase often. But if you're as grateful for good customers as you should be, they'll know you mean it.

Never argue with the customer

Whether a customer is right or wrong, always keep your cool. Remember: No one ever wins an argument with a customer.

If a customer is really being unreasonable, it's natural to feel angry. Still, it's best not to show it. In many cases, people who are being unreasonable *want* you to get upset, because they came in looking for a conflict.

When you refuse to get sucked into a fight, you show strength and character. The person who remains calm in a conflict *always* has the advantage. Even if you decide you're better off losing a difficult customer, it's best if you reach that decision without visibly losing your temper.

That said, part of the art of good service is knowing when to be flexible. You don't want customers to feel like you're insisting on a rule that doesn't make sense. This is especially true for long-time customers, who tend to expect special treatment.

Monitor customer satisfaction

If possible, have customers fill out a comment card. You could also call customers who recently received goods, and ask them about the condition the goods arrived in and whether the shipping speed was acceptable.

Many businesses ask customers to fill out survey cards or questionnaires, or participate in online surveys.

Customer Service Essentials

- Greet customers immediately and pleasantly.
- Always make an extra effort to help customers find what they need.
- When you make a mistake, fix it!
- Follow up on all customer contacts.
Always record the customer's name, phone number and order type. When customers call for product information or service assistance, follow up within two days to check on satisfaction.
- Memorize the names of frequent customers.
- Always answer the phone within three rings. Don't automatically dump customers on hold. If you must, ask if you can put them on hold, or call them back within five minutes.
- Answer emails promptly and proofread them before you hit "send."

Follow up on all customer contacts.

Resolving Customer Complaints

At some point, you'll face a customer who has a problem with you or your product. Whether this ends in a good or bad outcome is usually up to you.

Look at it this way: Customers who take the time to complain aren't attacking or insulting you; they're giving you a second chance to get it right. People express things in different ways, and some customers may be pretty nasty. But don't take it personally; no matter how angry the customer sounds,

all he's really saying is, "This is wrong. What are you going to do to make it right?"

Here are five steps you can take to resolve complaints.

Step 1: Listen

The first step in handling a complaint is to listen. When we say "listen," we don't mean listen to the customer's angry tone or bad language. Try to get past all that and listen to *why the customer is unhappy*. Consider how the problem has made the customer feel, and try to figure out what need your business failed to meet:

- The need for value or quality?
- The need to be respected?
- The need to save time or meet a deadline?
- The need to be understood?

When someone is very upset and you're having trouble staying calm, try to mentally separate the way the person is acting from who that person really is. We all have bad days where we don't feel like our usual selves. Any number of things could be contributing to a customer's bad mood, from a hard day at work to problems at home. So again, try not to take anger as a personal attack. It may have very little to do with you personally.

Focus on the problem, not the personality. Learn to recognize what's in your control (your reactions and decisions) and what's not (the way your customer chooses to act).

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I was glad I'd asked Tony what made him choose one product over another. His answer about products that tell a story was the perfect lead-in for the next part of my pitch.

I told him, "I like what you said about telling a story, because I think my belts do just that. My family's been working leather for at least 150 years, and I learned most of what I know from my dad. You can see all of that in my belts. And when I was stationed in Italy, I learned some new ways of doing things. You can see that in my belts, too. For instance, this contrast stitching is something I learned in Turin, from a man whose family goes back even further in this craft than mine."

Tony nodded, but it was hard to tell if he agreed with me. Maybe he was just showing me that he was listening. So I decided to ask him directly how he felt. "I think you can see that my belts are well made. But do you think they tell a story?"

Tony frowned and Benny prepared himself for the bad news. But then Tony picked up a belt, ran it through his hands and said, "Yeah, I think they do. There's definitely something about them that stands out."

"So you're saying they're special?"

Tony smiled. "I guess I am."

"OK. So, please correct me if I'm wrong, but it sounds to me like I've made a sale."

Tony laughed. "Yeah, I guess you have!"

Things had gone very well, considering it was Benny's first real sales presentation. He'd done his homework, prepared for the call and asked the right questions. He'd let Tony do most of the talking. He'd picked up on Tony's cues and responded in a friendly and professional way.

Best of all, he knew he'd get better the more he worked at it. He had four more specialty retailers to talk to while he was in New Mexico. And now, he was actually looking forward to it!

• • •

The first step in handling a complaint is to listen.

Step 2: Recognize the Customer's Feelings

It's not enough just to listen when someone is making a complaint. You must also offer a response that recognizes the customer's feelings. This doesn't always mean you should rush to apologize, or even to agree. However, remarks like "I can certainly see why this made you unhappy" or "I'd be upset too if I were in your shoes" will help the customer understand that you're listening and you care.

Such remarks are especially helpful when you're dealing with an angry or irrational customer. Earlier, we explained how important it is to be able to put yourself in your customers' shoes. It's never more important than when you need to defuse a tense situation. Even in cases where it doesn't calm the customer down right away, it will usually keep the situation from getting worse.

Step 3: Apologize

Sometimes, only an apology will satisfy the customer. For example, if the customer was treated rudely or unfairly, or if you promised a dress would be ready that day and it won't be ready until next week, you should apologize. These problems may also demand further action from you, like issuing a refund or credit, or offering a 10-percent discount on the next purchase. But that's no substitute for a heartfelt apology. Always apologize first, and then offer a discount or a refund.

Step 4: Thank the Customer for Bringing the Problem to Your Attention

A customer who complains is giving you an opportunity to improve, which means she's actually doing you a favor. Studies show that customers who complain usually

represent only 4 percent of the unhappy customers you have. The others walked away silently and vowed never to return.

It might not be pleasant to hear bad news, but in some cases, it can save your business from heading over a cliff. You don't have to enjoy hearing complaints, but you should definitely appreciate them, and thank the customer for giving you the chance to make things right.

Step 5: Explain Your Solution

Some people are happy and satisfied with nothing more than an apology. In other cases, you must find a solution you can both live with. For example, if you give the customer a full refund, you'll lose some money (and maybe a little bit of pride). But on the plus side, you may earn the customer's loyalty because you stand behind your products. In the long run, that may bring in more money than you lost through the refund. Don't fall into the trap of thinking of your customers as opponents. The future of your business depends on keeping them happy.

The future of your business depends on keeping customers happy.

Dealing With Negative Online Reviews

In a perfect world, no one would complain about your business online without first giving you a chance to make things right. In the real world, unhappy customers sometimes don't bother trying to work things out. Instead, they immediately go on the attack.

Some consumer review sites, such as Yelp, allow you to email reviewers directly to ask for more details about the reviewer's dissatisfaction, and to offer to make amends. Handled carefully, this can turn people who are skeptical about your business into true believers.

If you decide to go this route, we recommend

coming up with a polite form letter in advance and sticking to it. Introduce your business, reference the negative review and ask what you can do to resolve the problem. As the conversation progresses, remain calm and respectful, and learn whatever you can with an eye toward preventing the problem from happening again. Unless the reviewer is extremely rude and unreasonable, you should always offer some sort of reward for taking the time to answer your questions.

Your Customer Service Plan

Every business should have a customer service plan within its marketing plan. This should include:

- Customer service goals
- Customer service benchmarks (how you'll measure success or failure)
- How you will gather, store and use customer data
- After-sales service practices
- Return, exchange and customer complaint policies
- Special order or custom service policies
- How different areas of your business deliver service
- A formal system for customer feedback (e.g., questionnaires, report cards, online surveys or forums, complaint forms)



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After a couple of long years traveling around the West and selling to local stores, I got a call from a buyer at Neiman Marcus. They asked me to come on over to Dallas and show them my work. I'd never heard of them, so I just about fell out of my chair when I found out they were one of the most famous stores around.

I was a much more confident seller by then, but this was the biggest, toughest sale I'd ever have to make. If I pulled it off, I could stop traveling so much and spend most of the year back home in Prescott. And I'll tell you, I was really looking forward to that. I couldn't afford to blow it.

This time, Benny decided to prepare a written presentation to go along with his sales pitch. He made an outline of what he wanted to say, including the features and benefits he needed to talk about.

He also made a list of questions he'd need to answer. He tried to figure out every possible objection they might have. He went back over all the objections he'd heard in the last two years: *Your price is too high. Your competition can deliver faster. It's not Western, but it's not European either. There's no way to market this stuff.*

He made a list of the most difficult objections to overcome and worked very hard to develop logical answers to them. He also worked on his closing abilities, which were still a little weak.

I was determined not to take no for an answer. I'd made a balance sheet that showed all the reasons they should buy from me. This time, it wouldn't be enough just to talk about my work. I'd have to push a little harder.

Negotiating the deal took a couple of weeks, and the meetings were demanding. Neiman Marcus had very high standards, as well as lots of procedures and policies that were totally new to Benny. But in the end, he made the sale, largely by being persistent, cheerful and knowledgeable about his products.

This business worked out in a way that nothing in my life ever did before. I owe a lot of it to my selling class, but the change goes a lot deeper than just learning to sell. The fact that I was able to act on what I learned really helped me to see some of my good qualities. Once I eased

up on myself a little, I was able to ease up on other people. Now that I appreciate myself more, I'm better company.

I've even got a little workshop in Prescott with four employees, and guess what? We get along great. If I'd tried that when I was just starting out, it would never have worked.

It's good to be working, and it's good to finally be off the road and settled down at home. But most of all, it's good not to have to force myself to smile. These days, it comes naturally.

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What You've Learned

Delivering excellent service is the best way for microbusinesses to keep, attract and keep customers. Good customer service leads to loyal customers. And loyal customers are an excellent source for referrals and word of mouth.

In this session, you learned:

1. Careful planning is the biggest part of the selling process.
2. Great sellers are made, not born. Anyone can learn to sell effectively.
3. A good salesperson has a well-prepared sales presentation.
4. It's easier and cheaper to keep an existing customer than to attract a new one.
5. The person who stays calm in a conflict always has the upper hand.
6. Listen to what unhappy customers are saying, not to how they say it.
7. Every business should have a customer service plan within its marketing plan.

WORKSHEETS



SESSION 11

SESSION 11: SELLING SUCCESS

Attitude Is Everything!

Sales Prospecting Worksheet

- Step 1 Identify your short-term prospects. These are customers you can target right away.*
- Step 2 Identify your long-term prospects. These are customers you would like to target at some point.*
- Step 3 Analyze each prospect's profitability on a scale of 1 to 5, with 1 being high and 5 being low.*
- Step 4 Prioritize your prospects on a scale of 1 to 5, with 1 being high and 5 being low.*
- Step 5 Choose a contact method. This could mean calling a local retailer on the phone, posting a special offer on your company blog, or selling in person at a street fair or craft show.*
- Step 6 Set sales goals. Your sales goals should consist of a realistic number of sales within a specific timeframe. For example, you might plan to sell 500 jars of jam over the next six months.*

[illegible]

Sales Success Worksheet

Learning effective sales techniques can make the difference between just talking with customers and actually making a sale. Answer the following questions, and think about how these topics relate to your business image.

- 1. How will you make sure that you and your employees make a good first impression on customers, partners, lenders and others?**

- 2. What sales training will you seek for yourself, and where will you get it? What sales training will you offer your employees?**

- 3. What system will you use to organize your prospecting data? What data will you track? Will you use a computer database, or a manual system such as index cards?**

4. In the space below, list the features of your product as you'll describe them to customers. Organize these features in the order you will pitch them. Then, following the example in the first row, describe how each feature benefits your customers. Remember that in an effective sales presentation, you must describe the features and sell the benefits.

Features	Benefits
<i>Free installation of computer</i>	<i>Time savings Convenience Customer knows it will be done right</i>
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	

5. Write down three questions you can ask customers that will help you understand their individual needs and unique problems. Remember: Active listening is critical to sales success!

6. List the main customer objections you expect to hear (e.g., “your price is too high!”). Explain how you’ll overcome each one.

[illegible]

- [illegible]

WORKSHEET SESSION 11

8. Based on the features and benefits list you prepared in Step 1, and relevant answers to worksheet questions in other sessions, prepare a short sales pitch for your product. At a minimum, it should include a personal and business introduction, a description of your product and its features and benefits, and a close.

[illegible]

Customer Service Worksheet

Congratulations, you made the sale! Now, how do you keep that customer coming back? The answer is great customer service. A strong customer orientation is essential to microbusiness success. One of the advantages microbusinesses have over large competitors is the ability to offer personal, face-to-face service, so it's important to make the most of every opportunity to interact with customers.

- 1. Describe your overall customer service philosophy. What principles will guide your customer service policies and decisions?**

- 2. Describe your customer service policies and procedures, including returns, exchanges, special orders and so forth. Explain how these policies fit your positioning, branding and promotional strategies.**

- 3. Who will be responsible for resolving customer problems at your business?**

- 4. Explain your customer retention strategies. What will you do to create and reward loyal customers? Consider frequent buyer cards, special offers, discounts and related rewards.**

4. How will you measure customer satisfaction (surveys, personal interviews, etc.)? How often will you measure it?

- 5. How will you use technology to deliver customer service, measure customer satisfaction and reward customer loyalty?**

Technology	Customer service uses	Have	Need
Telephone			
Smartphone			
Fax			
Computer hardware/software			
Cloud services			
Email			
Website			
Social media			
Electronic payment options			
Other technology:			

6. How will new and emerging technology affect your customer service strategies in the future? How will you keep up with new technology?

[illegible]

Customer Loyalty Worksheet

It costs much less to keep an existing customer than it does to find a new one, so taking care of your existing customers is a big part of your customer service policy. Explain how you'll use the following tools to help retain existing customers.

1. Phone contact/follow-up:

2. Surveys:

3. Internet:

4. Social media campaigns and messaging:

6. Coupons, special offers, frequent buyer cards and related promotions:

7. Customer database:

Worksheets Assignment for Session 12



Review your answers to all of the worksheet questions before trying to complete the *Writing Your Business Plan* assignment for this session.

Writing Your Business Plan



Review the answers to the worksheet questions before trying to write this section of your business plan. Then, using the heading and subheadings below, write this final piece of your Marketing Plan.

Section IV. Marketing Plan D. Sales and Customer Service

Sales Strategy

Review your answers to the Sales Prospecting Worksheet and the Sales Success Worksheet. What will you do to make sure you keep getting better at selling? Will you seek sales training? Will you provide ongoing training for employees?

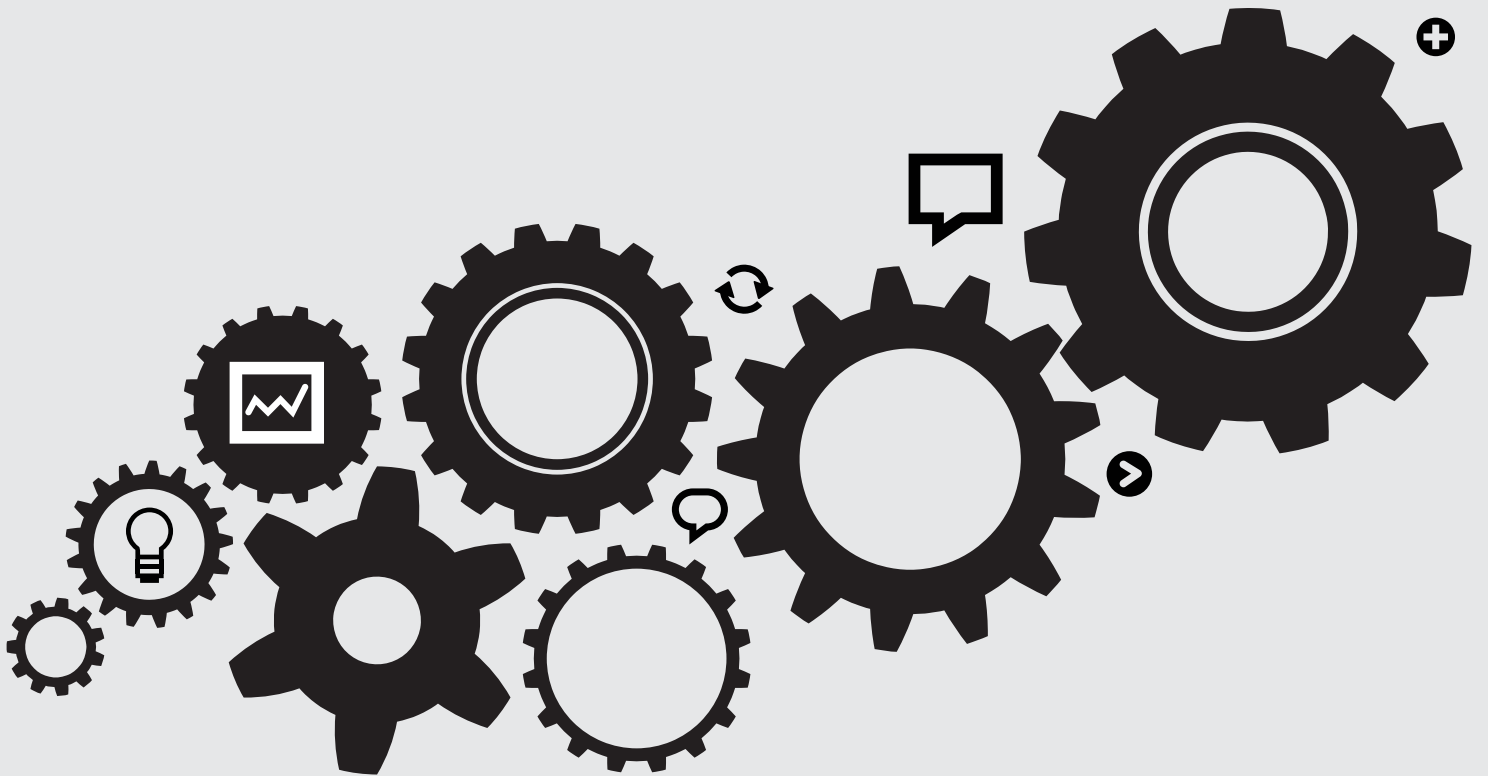
Customer Service Strategy

Review your answers to the Customer Service Worksheet and the Customer Loyalty Worksheet. Describe your customer service strategy, and explain how you, as the owner, will be the model for good customer service techniques. List specific customer service policies and technology you plan to use.

Next, discuss whether you'll offer customer service training to your employees. Will you have weekly or monthly meetings to discuss customer service issues? Will employees (including yourself) attend customer service seminars?

Finally, describe how your customer service strategy fits with your brand identity and other marketing strategies, and with the overall goals you've set for your business.

TEXT



SESSION 12

Cash Flow Management

FOLLOW THE MONEY!



HIGHLIGHTS

The Cash Flow Cycle	page 2
Cash Flow Projections.....	page 2
Using Cash Flow as a Management Tool	page 15
Financial Statements	page 17

“

*Knowledge is of no value unless
you put it into practice.*

—Anton Chekhov

”

About This Session

In good times and bad, managing your cash flow is essential to business success. This is especially true for microbusinesses, which often operate on a very tight budget—the equivalent of living from paycheck to paycheck.

The cash flow cycle. The **cash flow cycle** (also known as the **cash-to-cash cycle**) represents the length of time that cash is tied up in business operations. If the cycle is shortened, cash will be freed up

to begin the cycle again, or to be invested in other projects.

Cash flow projections. How can you predict how much money will come into and go out of your business? The answer is a **cash flow projection**. This is an essential tool for business owners, and it's also the major document lenders use to assess the viability of a business.

Using cash flow as a management tool. After developing a cash flow projection, you can use it to manage

your cash. This is one of the most useful skills you can have, because it allows you to predict the likely outcome of various options and make shrewd decisions.

Financial statements. The last part of this session introduces two very important financial statements: the **Income Statement** and the **Balance Sheet**. If you decide to seek a loan or an investor, you may need to prepare these documents to get startup capital.

The Cash Flow Cycle

The **cash flow cycle** consists of four basic steps:

1. Purchase merchandise from suppliers on account
2. Sell merchandise to customers on account
3. Collect cash from customers
4. Pay suppliers for merchandise

How long cash is tied up in this cycle depends on 1) how long your inventory sits before being sold; 2) how long your customers take to pay you; and 3) how long you take to pay your suppliers.

Managing cash flow means managing these activities. As an example, if you need to shorten the cash flow cycle, you can speed up sales, speed up collections from credit customers or slow down payments to suppliers.

Cash Flow Projections

In previous sessions, you learned the basics of personal budgeting. A cash flow projection is the business version of a personal budget. It determines the cash requirements for your business, including startup costs and operating costs.

A cash flow projection:

1. Identifies sources of cash (e.g., sales)
2. Identifies outflows of cash (e.g., variable costs, operating costs, interest, taxes)
3. Shows priority inflows and outflows (revenue and expenses)
4. Demonstrates a positive or negative cash position (profit or loss)

Understanding and managing cash flow is the most important financial skill startup entrepreneurs can learn. It tells you your cash position at specific points in time, and lets you know when your company can expect to generate a positive cash flow based on sales revenue. This is also known as your **liquidity position**; it reflects your ability to meet your business obligations and produce future positive cash flows.

A **cash flow projection** estimates the amount of revenue coming into your business. It also estimates cash flowing out of your business to pay expenses, buy equipment and so on.

Estimating income and expenses is called forecasting. The numbers you forecast in a cash flow projection are a yardstick for measuring your progress. At the end of each month, you can compare your actual income and expenses to your estimates. This will help you make better forecasts next time.

You must also consider the timing of income and expenses. Suppose you make a sale this month, but you won't get paid until next month. What money will you use to run the business while you're waiting for that payment?

If you have regular, large expenses—such as quarterly insurance payments or large inventory purchases—you must plan for them in your cash flow projections. You should also establish a reserve account to cover repairs and other emergencies. Shrewd business owners put aside enough cash to cover three to six months of operating expenses.

It's wise to adjust your projections monthly, quarterly or semi-annually to reflect changes in your business. As you gain experience, your projections will become more accurate.

A cash flow projection is the business version of a personal budget.

What Does a Cash Flow Projection Look Like?

A cash flow projection worksheet usually has 14 columns:

- One column for startup and one-time expenses
- Twelve columns for the months of the year
- One column for a yearly total

It also has five basic sections:

1. Beginning Cash Balance
2. Cash In From Operations
3. Cash From Investment or Loan Activities
4. Net Monthly Cash
5. Ending Cash Balance

Soon, we'll look at each of these sections in detail. Before we start, please note that the letters referred to in the following paragraphs (A, B, C, etc.) match the lettered sections on the *Cash Flow Projection Worksheet* on page 12-5.

...

I was born and raised in Chino, California, but I moved to Houston about six years ago. I met Lucie out here and we got married about a year later. I drove a cab for a while, but I didn't like it much. I wanted more out of my life, so I started thinking about what else I could do.

Back in California, I was involved with the Lowrider community. Airbrush artists like Wiro and Fonzy were my heroes growing up, and I was just starting to make a name for myself as an airbrush talent when I moved. So unlike a lot of people, I didn't have to sit around trying to figure out what kind of business I wanted to start.

I already had the equipment for airbrush work, and I also had the talent and the energy.

What I didn't know was, that isn't always enough.

Al Briones runs a popular airbrush shop in Houston's Second Ward. He does custom work for cars, trucks, vans and motorcycles.

When he first decided to pursue airbrush work, he never thought about running a real business out of a shop. He was just looking to make some extra money on the side, when he wasn't driving a cab around Houston. His longtime hobby seemed like a good way to go.

He had no marketing plan and kept no books or records. He didn't think he needed them, because he was working off the books. His business was all word of mouth, and he could only handle one car at a time in his small garage. He made about \$1,000 a month on average.

At first I was just doing odd jobs off the books, like most people do at some point. But then more business started coming in, and I started feeling like I wanted to be legit. I wanted to call attention to myself. Working under the table, it was like I couldn't be proud of my skills. I felt like I was hiding.

I'd drive by these other shops where the work wasn't nearly as good as mine, and they've got all the big signs out, saying "Best in the Barrio." Those guys weren't hiding themselves. They had a nice big work space, good ventilation, everything. And I thought, "If they can do it, I can do it better. If they're getting by, I'm gonna get rich."

Even after he decided to start a legitimate business, Al didn't give much thought to financial management. He figured his energy, talent and self-confidence would get him where he needed to go. Once he got there, he could easily hire someone to do the books for him.

...

A. Beginning Cash Balance

This is a statement of the cash you have at the beginning of each month or reporting period (quarterly, yearly). In the first column on the worksheet, it's the cash available to start your business (from your own funds, personal loans or whatever).

As you go through the worksheet, you will calculate the amount of startup money you need. If your beginning cash balance doesn't cover that amount, you need ask yourself some tough questions. Do you have enough cash to launch your business? If not, where will you get it? Family members? A bank loan?

The ending cash balance in the **Startup** column becomes the beginning cash balance for the **January** column. The ending cash balance for January becomes the beginning cash balance for February, and so on.

B. Cash In From Operations

This section lists the income you made by selling your product. **Accounts receivable** are the amounts customers owe you for products you already delivered, but have not yet been paid for. If your business has accounts receivable, the amount of receivables collected each month belongs here. By adding all sales categories in this section, you get **Total Operating Cash In**.

C. Operating Cash Out

This is the cash you use to run your business. It consists of **variable expenses** and **operating expenses**.

- **C1. Variable Expenses (Cost of Goods Sold).** This section lists all variable expenses related to **cost of goods sold (COGS)**. For a manufacturer, COGS includes the cost of materials, labor and so forth. For a retailer, COGS might include inventory, freight and

similar costs. Service businesses usually don't have a COGS. By adding all your variable expenses, you get **Total Variable Expenses**.

- **C2. Operating Expenses.** This section lists all operating expenses, such as rent, utilities, advertising, legal services, accounting, fees and permits, taxes and your own salary. Adding these expenses gives you **Total Operating Expenses**.

D. Net Operating Cash

This is the amount of cash left over after funding your operations. By subtracting **Total Variable Expenses** and **Total Operating Expenses** from **Total Operating Cash In**, you get **Net Operating Cash (D)**. The equation looks like this:

$$\begin{aligned} & \text{Total Operating Cash In} \\ & - \text{Total Variable Expenses (COGS)} \\ & \quad \underline{- \text{Total Operating Expenses}} \\ & \quad = \text{Net Operating Cash} \end{aligned}$$

Calculating net operating cash shows you exactly how your business made and spent its cash in a given month.

E. Cash From Investment or Loan Activities

- **E1. Other Cash In.** This is cash that didn't come from sales. It comprises business loans and any other investment in the business, including any cash you personally invested. Adding these numbers gives you **Total Other Cash In**.
- **E2. Other Cash Out.** This is cash paid out for business activities that don't relate to sales. This section forecasts the amount of cash needed for asset items, including equipment and machinery. It



MONTHLY CASH FLOW PROJECTION WORKSHEET



Months	1	2	3	4	5	6	7	8	9	10	11	12	YEAR TOTAL
START UP	January	February	March	April	May	June	July	August	September	October	November	December	
(A) BEGINNING CASH BALANCE													
(B) CASH IN FROM OPERATIONS													
Operating Cash In													
1. Product / Service #1													
2. Product / Service #2													
3. Product / Service #3													
4. Product / Service #4													
5. Product / Service #5													
Total Operating Cash In (B)													
(C) OPERATING CASH OUT													
(C1) Variable Expenses (Cost of Goods Sold)													
6. Inventory Purchases													
7. Materials													
8. Packaging/Shipping													
9. Other Direct Labor													
10. Commissions													
11. Other													
Total Variable Expenses (C1)													
(C2) Operating Expenses													
12. Advertising													
13. Bank Service Charge													
14. Credit Card Fees													
15. Delivery													
16. Health Insurance													
17. Insurance													
18. Interest													
19. Miscellaneous													
20. Office													
21. Payroll													
22. Payroll Taxes													
23. Professional Fees													
24. Rent or Lease													
25. Salary (owner draw)													
26. Subscriptions and Dues													
27. Supplies													
28. Taxes and Licenses													
29. Utilities and Telephone													
30. Other:													
Total Operating Expenses (C2)													
(D) Net Operating Cash (B - C1 - C2)													
(E) CASH FROM INVESTMENT or LOAN ACTIVITIES													
(E1) Other Cash In													
31. Investments in Business													
32. Loan Proceeds													
33. Other:													
Total Other Cash In (E1)													
(E2) Other Cash Out													
34. Capital Purchases (Assets)													
35. Loan Principal Payments													
36. Other:													
Total Other Cash Out (E2)													
(E) Net Other Cash (E1 - E2)													
(F) Net Monthly Cash (D + E)													
(G) Ending Cash Balance (A + F)													



also includes loan principal (a liability item). The sum of these payments is **Total Other Cash Out**.

- **E3. Net Other Cash.** This is the amount of cash after investment activities. By subtracting **Total Other Cash Out** from **Total Other Cash In (E1 - E2)**, you get **Net Other Cash**:

$$\begin{array}{r} \text{Total Other Cash In} \\ - \text{Total Other Cash Out} \\ \hline = \text{Net Other Cash} \end{array}$$

F. Net Monthly Cash

This section summarizes your cash position each month. By adding **Net Operating Cash** (cash left over after operations) to **Net Other Cash** (cash left over from investment activities, if any), you can calculate your **Net Monthly Cash**:

$$\begin{array}{r} \text{Net Operating Cash} \\ + \text{Net Other Cash} \\ \hline = \text{Net Monthly Cash} \end{array}$$

G. Ending Cash Balance

This section shows how much cash you have at the end of the month. Start with your **Beginning Cash Balance**, which is the amount of money you had at the beginning of the month (see section A). Add **Net Monthly Cash** (the amount of cash you made during the month). This is your **Ending Cash Balance**:

$$\begin{array}{r} \text{Beginning Cash Balance} \\ + \text{Net Monthly Cash} \\ \hline = \text{Ending Cash Balance} \end{array}$$

Again, the ending cash balance for the first month becomes the beginning cash balance for the second month, and so on.

Creating a Chart of Accounts

Before creating a cash flow projection, you must set up categories for the types of revenue and expenses that apply to your business. These categories form your **chart**

of accounts, which—as we will explain in the next session—is basically a list of all your account types. For example, *Sales* might be one of your accounts. Or you could have five sales accounts: one for each of your five main product lines.

If you set up the chart properly, it's easy to add new accounts as needed. It's also helpful to assign numbers to the account name; this makes them much easier to track, especially if you're using accounting software. An accountant or bookkeeper can help you create a chart of accounts that meets your needs.

...

A year later, Al's airbrush shop was thriving and Lucie's brother *Ciro* was keeping Al's books. *Ciro* was living with the couple while finishing up his last year of college—he was studying business and accounting—and handling Al's accounts was his way of paying rent.

Ciro often said that Al needed to get more involved in the financial side of managing the business. But Al always seemed to have something else going on. His garage was always full, for one thing, and he figured that as long he had customers, the best use of his time was to serve them.

It bothered Lucie that Al didn't take more of an interest in management issues, but she knew *Ciro* was a hard worker and she trusted him to take up the slack.

And for a while, *Ciro* did exactly that. But as time went on, he began to feel like there weren't enough hours in the day to do all the things Al expected of him. While he dealt with one crisis, three more would come up.

He tried to talk to Al about it, but Al was always dealing with customers and painting cars and trying to meet deadlines. He was the most energetic guy *Ciro* had ever

known. And he was never more energetic than when he was looking for an excuse not to talk about budgeting, accounting and cash flow.

...

Preparing the Cash Flow Projection

There are many ways to prepare a cash flow projection, but most people start either with income or expenses. Here's a simple way to do it using the chart on page 12-5.

Step 1: Beginning Cash Balance

Let's assume your beginning cash balance is the amount of startup money you can afford to invest in your business. Think of it as the amount of money in your business checking account on the day your doors open.

Step 2: Startup costs

Identify all your startup costs, including equipment purchases, deposits, licenses, inventory and so forth. Put these costs under the proper categories in the **Startup** column. Be sure to include any **Other Cash Out (E2)** expenses that qualify as startup costs (e.g., capital purchases).

Step 3. Determine the Ending Cash Balance for the Startup column

Subtract your startup costs from your beginning cash balance to see your **Net Monthly Cash (F)** requirement at startup.

Is your beginning cash balance big enough to cover all your startup costs? If not, how will you make up the difference? If you borrow for startup costs, will you need to borrow again for operating costs to keep your business running?

If you will borrow money to cover your startup costs, record the loan amount in the **Cash From Investment or Loan Activities**

(E) section of the worksheet. Then, refigure your net monthly cash and your ending cash balance.

After looking at the **Startup** column and deciding how to pay for your startup costs, copy your ending cash balance from the **Startup** column to the top of the **January** column on the worksheet. That way, your ending cash balance becomes the beginning cash balance of the following column.

Step 4: Operating Cash Out

Most people begin their projections with **Operating Expenses (C2)**. It's pretty easy to estimate operating expenses, because they usually don't change every month.

Complete this section by adding all your expenses to determine your total operating expenses for each month.

Step 5: Operating Cash In

Operating Cash In (B) requires you to forecast sales. Estimate the number of units you expect to sell, and then multiply that number by your sale price (e.g., 100 units x \$5 = \$500).

Service businesses should estimate the average number of jobs for the period. To get the sales amount, multiply that number by the average amount each job will earn. If you plan 20 jobs at an average price of \$50 per job, monthly sales would be \$1,000.

Retailers often base their sales forecasts on the amount they sold in the same month of the previous year. For example, they might take last year's January sales and increase them by 10 percent if they believe their business is on the rise. Or they might reduce last year's September sales by 25 percent because a nearby Walmart opened in August.





Startups don't have this option, because they have no past sales. To come up with a realistic forecast, try researching the average monthly sales for a competitor of roughly the same size; blogs, business journals and local newspapers may contain useful information on startups like yours. This research can also help you determine how much monthly growth is feasible for a business like yours.

Also, consult your network and seek expert advice from industry associations, your chamber of commerce or your local SBDC. Always be conservative in your estimates, and ask your mentor and other advisors for feedback on your numbers. Above all, make sure your numbers reflect your actual capacity to serve customers. For example, if your forecast says you will serve 20 customers a week, but you can realistically only serve two customers a day, it's not realistic.

When forecasting sales, never assume that you'll attract some percentage of a larger market.

When forecasting sales, never assume that you'll attract some percentage of a larger market. For example, if you run a food cart, and you know that 4,500 people in your area eat out on an average day, don't assume that you will attract, say, 1 percent of that market. This forecasting method is famously inaccurate; using it in a business plan is a red flag for lenders and investors. Once you have a realistic estimate of monthly sales, multiply that number by your price.

Although forecasting startup sales can be tricky, it becomes much easier once you launch your business. As each month goes by, your sales forecasts should become more accurate as you see where previous forecasts went right and wrong.

No matter how you forecast your sales, you must document your assumptions and be prepared to explain why they're reasonable.

Step 6: Variable Expenses (Cost Of Goods Sold)

Variable Expenses (C1) change with sales, so it's easiest to base them on your projected sales. Sometimes, your COGS also varies depending on the time of the year (this is an example of **seasonality**).

If you run a retail business, you must estimate when you will pay for new inventory. Remember: Cash flow projections reflect when cash actually goes out of the business to pay for expenses. Therefore, inventory cost is not recorded as a percentage of the sale, but by the dollar amount paid for the inventory.

Note: Service businesses have COGS if the expense is more than 5 to 10 percent of sales. Otherwise, these expenses go under **Operating Expenses (C2)**.

Step 7: Other Cash Out

Next, look at **Other Cash Out Expenses (E2)**. List purchases of equipment or machinery in this section. You can also list the principal—but not the interest—of any business loan payments.

Step 8: Other Cash In

This section (E1) is where you show other cash related to investing in your business. This includes the proceeds of loans you take out for business purposes.

Before trying to figure this out, it's a good idea to get a feel for your cash balance. Here's how to do it:

1. Add all sales to get **Total Operating Cash In (B)**.
2. Add all variable expenses to get **Total Variable Expenses (C1)**.
3. Add all operating expenses to get **Total Operating Expenses (C2)**.

4. Subtract **Total Variable Expenses** and **Total Operating Expenses** from **Total Operating Cash In** ($B - C1 - C2$).

This will give you an idea of your cash balance for that month. Will cash sales (and any accounts receivable you collect) cover your variable and operating expenses? Or will you need additional cash?

Step 9: Adjust your numbers

In this step, you can adjust your numbers based on how much cash you need to run your business. Suppose you assume that in your first month, you will build sales. But when you subtract your variable and operating expenses from your total sales, your projected business loss gets bigger.

Next, you add up all the investments you must make to operate in the early months, and your business loss increases again.

If this happens, it's not the end of the world. Many microbusinesses lose money in their first year. But you do have to ask yourself some serious questions: How much cash will your business need to get through this rough patch? Will you be able to borrow that much? From whom? Do your long-term business prospects outweigh short-term cash flow problems?

This is also a good time to check your assumptions about your costs. If your business needs a lot of cash to operate, and you can't borrow enough to cover it, can you make some adjustments? Can you put off an equipment purchase listed in the **Startup** column? Can you lease the equipment instead of buying it? Are there any expenses you can cut during the early months of operation?

You should also take a closer look at your adjustments to **Cash In From Operations (B)**. Have you projected too low? Too high? Checking your assumptions will make

next month's projection more accurate. Again, remember to document all your assumptions for future reference.

Step 10: Ending Cash Balance

After adjusting your numbers, it's time to determine your ending cash balance. Add **Net Monthly Cash (F)** to your **Beginning Cash Balance (A)**. The **Ending Cash Balance (G)** then becomes your **Beginning Cash Balance (A)** for the next month. From there, you can complete the worksheet column by column.

Although this may seem complicated, it's not as hard as it sounds. And it gets easier with practice! Many business owners put their cash flow worksheets into a computer program called a **spreadsheet**. When you change your assumptions, the program does the math so that you can instantly see the effect on your bottom line. We encourage you to use this software, because it makes accounting much easier.

...

Early in January, Al went through his mail and saw an envelope that said "Final Notice." When he opened it, he was amazed and angry to learn that one of his paint suppliers was threatening to turn him in to a collection agency!

He tore open the rest of the mail and found that almost every other bill was past due. How on earth had this happened? What was Ciro thinking?

He decided he'd worry about Ciro later. First, he needed to pay every single one of the overdue bills before any of them ended up in collections.

Unfortunately, that wasn't an option. Al looked at his bank statement and found that he didn't have enough money to pay next month's rent, let alone a dozen overdue bills.

Many microbusinesses lose money in their first year.

I felt totally betrayed. I was working so hard and doing so well. I had a lot full of cars outside every day. I was holding up my end of the business. I was working 12 hours a day. How was I supposed to do all that and take over Ciro's job, too?

As mad as I was, I kept telling myself that Ciro had just made a mistake. He was a kid. He didn't have that much experience, and he probably just made a mistake.

But at the same time, I knew deep down that anything can happen with people. A good kid can get into trouble, or even turn bad. So for all I knew, anything could've been going on with my money.

Luckily, I had some time to calm down before Ciro and Lucie got back from the supermarket. I was able to think about what I was going to say, instead of just blowing up. I was still really mad, though. This was my future at stake.

...

A Cash Flow Example: Michele's Photography Studio

Michele wants to open a one-person photography studio as a sole proprietor. To keep expenses down, she plans to run the business out of her home.

Photography has been Michele's hobby for a long time, so she already has a lot of the equipment she needs. However, she must buy a new digital camera and a few accessories.

Here's how she figures out her cash flow projection.

Step 1: Beginning Cash Balance

Michele has \$1,000 to invest in her new microbusiness. (See Michele's cash flow projection worksheet on page 12-14.)

Step 2: Startup costs

- **Inventory.** Michele will invest \$500 in inventory, including photographic paper, frames and photo albums.
- **Promotions.** In addition to her monthly advertising budget, Michele must budget for startup marketing costs. A local printer offered her 2,000 fliers for 5 cents each, or \$100. Her business cards and stationery will cost an additional \$89. Michele also wants to place a small sign outside her house to make her business easier to find. She estimates this will cost \$125.
- **Bank charges.** Michele will open a business checking account to keep her business and personal finances separate. It costs \$58 to open this account.
- **Insurance.** Michele needs property coverage for her valuable equipment. Because she will see clients at her home and at crowded events like weddings, she also needs liability insurance. Last, she needs a home business policy to protect against losses that her homeowner's policy doesn't cover. It will cost \$50 to start these policies.
- **Office supplies.** Michele estimates the initial cost of office supplies such as paper, pens and photo mailers at \$45.
- **Taxes and licenses.** Michele checked with her local zoning board and found out that the cost for a business sign permit is \$25 per year. In addition, Michele needs a state vendor's license, which costs another \$25.
- **Capital purchases.** Michele needs various backdrops for her photography business. Because she has limited studio space, she will create her own backdrops and props. Michele esti-



mates these costs at \$550. She also needs a new digital camera, which costs \$1,000.

Step 3. Determine the Ending Cash Balance for the Startup column

At this point, Michele's **Startup** column contains \$1,567 in startup costs. She has only \$1,000 in her beginning cash balance, so she needs to make up the difference. Can she borrow the additional money from friends or family? Can she go to the bank for a loan? Can she use an online peer-to-peer lending service such as Kickstarter?

Because she has only calculated startup costs, she decides to carry that number forward to her actual cash flow projection. By totaling her startup costs *and* three months of operating costs, she can seek enough financing to avoid borrowing more money a couple of months down the road.

Step 4: Operating Cash Out

This is the **Operating Expenses (C2)** portion of **Operating Cash Out (C)**.

- **Advertising and promotion.** Michele's ongoing advertising and promotion costs consist of stationery, brochures and a website. This will cost about \$50 per month.
- **Insurance.** Michele will purchase liability insurance in case a customer gets hurt while visiting her premises or trips over her tripod at a wedding. She also has insurance to cover her equipment against theft or damage. The cost is \$22 per month. Later, she plans to get errors and omissions coverage in case photos she took for a special occasion are lost or destroyed.
- **Professional fees.** Michele will have a tax professional prepare her tax return at the end of the year. This will cost

about \$300. She'll also meet quarterly with a bookkeeper who will review her recordkeeping. The quarterly fee is \$50, or \$200 per year.

- **Subscriptions and dues.** Books, magazines and online forums will keep Michele informed about new products, opportunities and trends in her industry. Michele estimates this expense at \$15 per month.
- **Telephone and utilities.** Michele will start with a basic business package from her phone company, which includes a business telephone line, high-speed Internet and voicemail. The cost is \$55 per month. Because Michele is working from home, she expects a \$15 increase in her monthly utility bills.
- **Auto/fuel.** Michele estimates the business portion of her fuel costs to be \$20 per month.
- **Owner's salary.** For the first three months, Michele will pay herself a salary of \$500 per month.

Step 5: Operating Cash In

Michele's next step is to calculate **Cash In From Operations (B)**. Because she has several product lines, she projects her sales by units of each line: family portraits, weddings and graduation pictures. She's also selling frames and albums, so that makes five accounts total.

While looking at these accounts, she notes that the demand for each type of photograph is seasonal. For example, demand for family portraits increases before the holidays, while wedding sales rise in the summer months.

Next, Michele estimates when she'll receive the cash from her sales. If people

pay cash on the day they receive their photos, she can count the cash then. If she allows them to pay within 30 days, she can't count the cash until she gets paid.

Although Michele knows she might lose some customers, she decides not to extend credit or carry any accounts receivable. In other words, her customers must pay by cash, check or credit card as soon as she delivers the photos.

Michele is now ready to start projecting her monthly sales.

Based on the standard statistics for her industry, Michele expects a 2-percent response rate from the 2,000 fliers she distributed (2 percent of 2,000 = 40). Of the 40 people who contact her, Michele assumes that 10 will offer her the following jobs:

- Three wedding packages, at an average price of \$600 each, between January and March.
- Four graduation packages, at an average price of \$275 each. Three will occur in May and one in December.
- Three general portrait packages per quarter, at an average price of \$125.

Michele believes she can create add-on sales by offering frames and albums. She expects to sell \$55 of frames during the first month and anticipates that sales will increase by 5 percent each month after that. For albums, she expects to make \$125 in January and \$155 per month in the following months.

Now, she must figure out how many sales it will take to reach her revenue goals. She also needs to know her break-even point: How many sales will it take just to cover her expenses? (Recall our discussion of pricing in Session 9.)



Finally, she must consider how many jobs she can realistically expect to complete, given her setup and delivery time. If she can only handle 10 jobs per month by herself, she can't estimate that she'll do 20 jobs.

Step 6: Variable Expenses (Cost Of Goods Sold)

Next, Michele takes a careful look at her expected sales and projects her actual payments for **Variable Expenses (C1)**. This includes making sure she has the right amount of inventory.

Here's how Michele estimates her variable expenses:

Variable expense:	Jan	Feb	Mar
Materials	50	45	60
Film processing	10	10	10

Step 7: Other Cash Out

The next part of Michele's cash flow projection represents **Other Cash Out (E2)**. Because Michele added the cost of her equipment to the **Startup** column, there's nothing to record on the worksheet for now.

Step 8: Other Cash In

This is where Michele shows **Other Cash In (E1)**, or money related to investing in her business. Again, she wants to see her ending cash balance for the first three months before deciding how much to borrow and when, so she doesn't record anything in this section yet.

Step 9: Adjust your numbers

In this step, Michele plays around with her numbers. She asks questions like "What if I don't order all the materials I need at once? Can I buy a used camera lens instead of a new one?" She decides not to change her numbers at this point. Instead, she plans to consider her options after seeing

how much she needs to borrow for her first three months of operation.

Step 10: Ending Cash Balance

Here's how Michele calculates her ending cash balance.

1. She adds cash in from operations to find **Total Operating Cash In (B)**. This is the amount she expects to earn during the month.
2. She adds her **Variable Expenses (C1)** to find her direct costs of selling (COGS). This number varies with the amount of sales.
3. She adds her operating expenses to find her **Total Operating Expenses (C2)**. This represents all the fixed costs she must pay whether she sells anything or not.
4. She subtracts **Total Variable Expenses (C1)** and **Total Operating Expenses (C2)** from **Total Operating Cash In (B)** to get **Net Operating Cash (D)** for the month.
5. Michele isn't ready to borrow any money, and she doesn't plan on buying any more equipment for her business. Therefore, she puts zeros in **Total Other Cash In (E1)**, **Total Other Cash Out (E2)** and **Net Other Cash (E)**. Because she has not adjusted her **Net Operating Cash (D)**, she can carry this figure down to **Net Monthly Cash (F)**.
6. Michele calculates her **Ending Cash Balance (G)** by adding her **Net Monthly Cash (F)** and her **Beginning Cash Balance (A)**.

7. From here, she will complete each column on the *Cash Flow Projection Worksheet* separately, carrying her **Ending Cash Balance (G)** to the start of the next column as her **Beginning Cash Balance (A)**.

Michele's cash flow

As a result of her cash flow projection, Michele learned that the \$1,000 she saved to start her business isn't enough to cover her startup costs plus her first three months of operations.

Given this shortfall, she decided to seek expert advice. She shared her cash flow projection with an expert from a nonprofit community development loan fund, who agreed that she needed to borrow \$2,000 not just to cover her startup costs, but also to provide a small cushion in case of emergencies.

First, the lender had Michele finish her cash flow projections for the entire year. Based on this projection, and the lender taking the new equipment as collateral, her loan was approved. As part of the loan agreement, Michele was required to take a financial class so that she could learn more about financial statements. She also agreed to provide regular financial statements to the lender.

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As soon as Lucie and Ciro walked in the door, Al confronted them with the stack of overdue bills.

Ciro said, "I see you finally noticed our cash flow problem." He explained that payments from customers often came in after the bills were past due. Sometimes, customer payments were as much as 90 days late.

The main problem was that Al often let people take their time to pay, without





Cash Flow Projection Worksheet—Michele's Photography Studio

Months	Startup	1 Jan	2 Feb	3 Mar	Quarter Subtotal
(A) BEGINNING CASH BALANCE	1,000	(1,567)	(849)	(361)	1,000
(B) CASH IN FROM OPERATIONS					
Operating Cash In					
1. Wedding Package		600	600	600	1,800
2. Graduation Package		550	275	275	1,100
3. Portrait Package		125	125	125	375
4. Frames		55	65	75	195
5. Albums		125	155	155	435
Total Operating Cash In (B)	0	1,455	1,220	1,230	3,905
(C) OPERATING CASH OUT					
(C1) Variable Expenses (Cost of Goods Sold)					
6. Inventory purchases	500				500
7. Materials		50	45	60	155
8. Film processing		10	10	10	30
9. Other direct labor					
10. Commissions					
11. Other					
Total Variable Expenses (C1)	500	60	55	70	685
(C2) Operating Expenses					
12. Advertising/promotion	314	50	50	50	464
13. Bank service charge	58				58
14. Credit card fees					
15. Delivery					
16. Health insurance					
17. Insurance	50	22	22	22	116
18. Interest					
19. Miscellaneous					
20. Office	45				45
21. Payroll					
22. Payroll taxes					
23. Professional fees				50	50
24. Rent or lease					
25. Salary (owner)		500	500	500	1,500
26. Subscriptions and dues		15	15	15	45
27. Supplies	550				550
28. Taxes and licenses	50				50
29. Utilities and telephone		70	70	70	210
30. Other: Auto / fuel		20	20	20	60
Total Operating Expenses (C2)	1,067	677	677	727	3,148
(D) Net Operating Cash (B – C1 – C2)	(1,567)	718	488	433	72
(E) CASH FROM INVESTMENT or LOAN ACTIVITIES					
(E1) Other Cash In					
31. Investments in business					
32. Loan proceeds					
33. Other:					
Total Other Cash In (E1)	0	0	0	0	0
(E2) Other Cash Out					
34. Capital purchases (assets)	1,000				1,000
35. Loan principal payments					
36. Other:					
Total Other Cash Out (E2)	1,000	0	0	0	1,000
(E) Net Other Cash (E1 – E2)	(1,000)	0	0	0	(1,000)
(F) Net Monthly Cash (D + E)	(2,567)	718	488	433	(928)
(G) Ending Cash Balance (A + F)	(1,567)	(849)	(361)	72	72

collecting a down payment. That meant he was burning through money for labor, rent and materials without collecting enough from his credit customers to cover his operating costs.

In the past, Ciro had always been able to keep bills from ending up in collections, but the cash flow problems had gotten a lot worse lately.

“Lately? Why didn’t you say something before now?” demanded Al.

“He’s said things to you over and over,” said Lucie. “But as soon as anyone talks about accounting and money, you just turn your ears off. You run out of the room the first chance you get.”

I wanted to argue with that, but I couldn’t. Lucie was right. I didn’t want to hear anything about books or accounting. I’m no good at the financial stuff. I never was.

The truth is, one of the things I hated about being a cab driver was having to make change. And it’s not because I’m bad at math. I wish it were that simple.

I think it’s something about the pressure of being on the spot. I just don’t trust myself to get it right the first time, and I guess that makes my brain freeze up. I don’t know what the exact reason is. All I know is, it’s never come naturally to me.

And that’s the whole reason I had Ciro doing it. If I were good at it and had the time, I’d do it myself. Instead, I hired a guy who has the skills I need, like any smart business owner would. So from my point of view, my attitude about accounting was not the issue. The issue was that we had a deal, but Ciro wasn’t holding up his end.

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Cash Management Tips

- Bill your customers promptly. The sooner they get your bill, the sooner they’ll pay.
- If certain customers must receive a bill by a certain date in order to pay within that month, be sure to send their bills on time.
- Collect a portion of the payment up front. Try to get at least enough to cover your costs, and ask for the balance when the job is due.
- Watch accounts receivable carefully. When they’re overdue, send payment reminders immediately. If possible, add late charges to overdue accounts.
- Consider a cash-only policy. Can you really afford to carry and manage accounts receivable?
- Deposit your cash receipts every day. Some forms of payment take a while to clear, so the sooner the process starts, the better.
- Never pay your bills until just before they come due, unless you get a discount or other reward for paying sooner.
- If you have inventory that moves slowly or doesn’t sell, consider lowering the price so it won’t take up space and money by sitting on the shelf.
- Don’t overpay your estimated quarterly income taxes. Get professional advice to see if you can legally defer your tax payments until the end of the year.

Watch your accounts receivable carefully!

Using Cash Flow as a Management Tool

Keeping track of your cash flow reduces your need to borrow, and it can also increase your flexibility in managing your business.

After finishing your cash flow projection, ask yourself a series of “What If” questions.

- What if sales increase faster than I expect? What happens to my bottom line?
- What if sales and accounts receivable go up at the same time? Will I have enough cash on hand to finance the growth in sales?
- What if sales drop? Will I have enough cash to cover my monthly expenses? Can I keep paying myself a salary? If so, for how long?
- What if I need to buy new equipment? Will I have to take out a loan?

You can answer questions like these by changing the numbers in your projection. For example, change your sales numbers—or perhaps your COGS percentage—and watch what happens to your ending cash balance.

In some cases, an entrepreneur will decide not to go ahead with a business idea because the cash flow projection indicates that the business will never make a profit. This is not necessarily a bad thing. It’s much better to discover cash flow problems on paper than in real life!

Financial Statements

The **income statement** and the **balance sheet** are financial statements that help you to plan your business’s future and to compare your financial health with similar businesses.

Although we treat them as optional in this book, they’re important to most lenders and investors. If you will seek a loan or an investor, you may need to prepare these documents.

Income Statement

The income statement is also called a **profit and loss statement** or an **operating statement**. It measures your business’s performance over a stated time period, and compares the expense of offering your product to the income it generates. It answers questions like “how much did I have to spend to generate this amount of business?” and “how profitable was my business?”

The income statement is based on a simple formula:

$$\text{Revenues} - \text{Expenses} = \text{Net income}$$

This information helps you find your net profit:

1. Sales - Variable expenses = Gross profit
2. Gross profit - Operating expenses = Profit before taxes
3. Profit before taxes - Taxes = Net profit

The income statement consists of the following items:

ITEM 1—Sales. This represents the total dollars from the sales of all your products and services, regardless of when you receive the payment. Revenue for retail, wholesale and manufacturing is earned mainly through sales. In the service business, it is called *Fees earned* or *Services revenue*. Notice that there is a separate category, called *Other gains and losses*, which includes earning activities other than your primary operations.

ITEM 2—Cost of Goods Sold (or Variable Expenses). This is the major expense for retailers, wholesalers and manufacturers. Although it may seem simple enough, there are many questions to consider. For example, suppose you buy some inventory items for \$5.70 each, and later you buy some more for \$5.90 each.

It’s much better to discover cash flow problems on paper than in real life!

Your Business, LLC
Income Statement
For the Year Ended December 31, 2014

①	Sales		\$ 45,000
②	Less: Cost of Goods Sold		<u>(20,000)</u>
③	Gross Profit		\$ 25,000
④	Less: Operating Expenses		
	Wages	\$ 8,000	
	Payroll tax	2,000	
	Insurance	500	
	Rent	800	
	Utilities	140	
⑤	Depreciation	<u>130</u>	<u>11,570</u>
	Net Operating Profit or Loss		\$13,430
	Other Gains and Losses		
	Interest Revenue		70
	Interest Expense		<u>(120)</u>
	Net Income Before Taxes		\$13,380
⑥	Less: Income Taxes		<u>(3,000)</u>
⑦	Net Income		\$10,380

When you make a sale, how will you calculate the cost of goods sold? Should it be \$5.70 or \$5.90? If you can identify the specific products sold, you can answer the question easily. If not, you must use one of three assumptions: 1) the first in are the first out (FIFO); 2) the last in are the first out (LIFO); or 3) an average of the two.

ITEM 3—Gross Profit. This is the amount left over after covering the cost of goods sold. When you subtract all expenses from your gross profit, the result is your net income or loss.

ITEM 4—Operating Expenses (or Fixed Costs). These are expenses you must pay even if you make no sales. Examples include rent, utilities, wages and loan payments. For microbusinesses, operating

expenses normally include all expenses except cost of goods sold, interest and income tax.

ITEM 5—Depreciation. In common usage, **depreciation** is the decrease in value of an asset over time. Accountants use depreciation to spread the cost of equipment, buildings and tools over the life of those assets. The cost of these items is an expense of doing business, just like wages or rent. But the equipment has a longer useful life, so it should not be shown as a one-time expense.

ITEM 6—Income Taxes. These taxes are an expense of doing business, but whether you can include them on your income statement depends upon the legal structure of your business. Income taxes



are not considered an expense for sole proprietorships, partnerships or LLCs because these taxes are paid by the owners rather than by the business.

ITEM 7—Net Income. We have worked our way to the bottom line. Again, for the income statement, that means:

$$\text{Revenues} - \text{Expenses} = \text{Net income}$$

Remember: As revenues go up, so does net profit. As expenses go up, net profit goes down. Therefore, selling as much as you can, while keeping expenses as low as possible, is fundamental to success.

As revenues go up, so does net profit.

• • •

Lucie's loyalties were divided. She understood Ciro's position. She knew that he'd tried to talk to Al, and that Al wouldn't listen to him. She knew how much this upset Ciro, and she felt bad about it.

But she also felt that Al had a right to be upset. He'd hired Ciro to do the work so that he wouldn't have to. That was fair, wasn't it? Shouldn't Ciro have solved the problem himself? Maybe the problem really was his inexperience.

Over a tense dinner, Ciro made a proposition. They'd make an appointment with a counselor at the local Small Business Development Center. That way, they could learn from an expert what they were doing wrong and how to fix it.

After thinking briefly about this idea, Al agreed. He wasn't happy about taking time away from work, but he also didn't want any bad feelings in his house. Lucie and Ciro were his two favorite people in the world; if going to some boring meeting with a counselor would make them feel better, he was willing to do it.

The counselor was a guy named Kevin. A nice guy, very no-nonsense. He listened to both sides. And he was polite about it, but he made it very clear I'd messed up in a big way.

That was a big surprise, and I wasn't happy to hear it. But coming from someone outside the business, it was easier to accept.

He told me I had to get personally involved with the financial stuff, at least enough to understand it. Because the thing was, my business decisions depended on knowing how our cash flow stood at a given time.

My way of doing things was to say "I'm doing two jobs this week, so that's \$1,500." If I needed to spend \$1,000 a few days later, I just did it and tossed the receipt at Ciro.

But sometimes, the money I spent wasn't really there. Some jobs could take two weeks or more to finish. And sometimes I let people pay me in installments. I didn't realize that a lot of times, any money that came in was already earmarked for a bill from last month or the month before.

I took away two things from that first meeting. First, I felt guilty. I'd put Ciro in a really bad position and made his job a lot harder than it needed to be. Second, I felt hopeful because I saw that things didn't have to be like that. My financial problems were bad, but we could fix them as long as I was willing to get involved and start doing things differently.

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Balance Sheet

The **balance sheet** is a snapshot of your business's financial situation at a certain point in time. It shows what your business owns (assets), what it owes (liabilities) and what you've put into it (equity). In short, it's the business version of the Personal Financial Statement you completed in Session 1.

Remember: Assets include cash, accounts receivable, inventory, buildings, land and equipment. Liabilities include loans, taxes and accounts payable.

Equity is what you have invested in your business, such as your own capital.

Your Business, LLC
Balance Sheet
As of December 31, 2014

ASSETS
① Current Assets

Cash	\$ 3,500	
Accounts Receivable	7,000	
Inventory	12,000	
Other	<u>1,200</u>	\$ 23,700

② Property, Plant and Equipment

Land	\$ 8,000	
Buildings	25,000	
Equipment	17,500	
③ Less: Accumulated Depreciation	<u>(10,500)</u>	40,000

④ Intangible Assets

Trademark	\$ 1,000	
⑤ Goodwill	<u>6,000</u>	<u>7,000</u>

TOTAL ASSETS **\$70,700**

LIABILITIES
⑥ Current Liabilities

Accounts Payable	\$ 4,500	
Wages Payable	3,200	
Payroll Taxes Due	<u>600</u>	\$ 8,300

⑦ Long-Term Liabilities

Notes Payable	<u>\$ 24,500</u>	
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TOTAL LIABILITIES **\$32,800**

OWNER'S EQUITY

\$ 37,900

⑧ TOTAL LIABILITIES AND EQUITY **\$ 70,700**

The formula for the balance sheet is:

$$\text{Assets} = \text{Liability} + \text{Owner's Equity}$$

To understand this formula, suppose you buy a computer system that costs \$3,500. You have \$500 in your personal checking account for a down payment, and you plan to borrow the rest.

First, you deposit your \$500 in your business

checking account. This is an investment in your business, so it increases the business's cash as well as your owner's equity. Next, you borrow \$3,000 and deposit it into your business checking account. Again, your business's cash increases. However, you also create a new liability: the loan.

Finally, you write a check out of your



business account and pick up your new computer.

$$\begin{aligned}\text{Assets (computer)} &= \text{Liabilities (loan)} + \\ &\quad \text{Owner's equity (down payment)} \\ \$3,500 &= \$3,000 + \$500\end{aligned}$$

This may seem like a complicated way of recording this purchase. However, these steps are essential because they keep your business transactions separate from your personal transactions. This helps you file your state and federal tax returns correctly. Also, keeping separate records is the only way to get an accurate picture of your business's performance.

Lenders are especially interested in the balance between liabilities and owner's equity, which shows whether the business can afford more debt. The balance sheet consists of these items:

ITEM 1—Current Assets are resources the business owns and expects to convert into cash or use within one year of the balance sheet date. This relates to the business's short-term ability to meet its financial needs.

ITEM 1—Fixed Assets have a useful life of more than one year. A fixed asset is considered an investment in the business—rather than an expense—at the time you buy it. Thus, the amount you pay for the asset appears on the balance sheet instead of the income statement. For example, if you buy a new desk for \$300, it appears on the balance sheet as a fixed asset.

ITEM 3—Again, depreciation is the process of deducting part of the cost of an asset over time as it loses value. Each year, you can deduct a percentage of the asset's original price as a depreciation expense on your income statement. This lets you accumulate tax-exempt cash to replace worn-out assets and provides an incentive to keep investing in your business.

ITEM 6—Current Liabilities are debts you must pay within the next year.

ITEM 7—Long-Term Liabilities are debts due more than one year from the balance sheet date. They often include notes payable to a bank or investor.

ITEM 8—Owner's Equity. For a sole proprietorship, the owner's share of the business is listed as a single amount, usually called "capital." A partnership follows the same format, except that it lists a capital amount for each partner.

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Over the next few weeks, Kevin helped Al and Ciro analyze the business from top to bottom. They found a lot of areas for improvement. For instance, Al's careless buying habits had kept him from taking advantage of bulk discounts, as well as discounts for paying bills early.

Al didn't want to give up his flexible payment terms, but he did agree to charge a 50-percent down payment on all jobs of \$100 or more, with the balance due when the car was picked up. He made a lot of little changes like that, and they had a positive effect on his cash flow.

When it came to getting involved with day-to-day financial management, Al was as good as his word.

To be honest, I had to force myself at first. It was mostly about keeping my promise, and not so much about the actual work. But the more I understood about the books, the more interested I got. I really liked knowing how the business was doing from day to day and month to month.

One day I was going over my financial ratios with Ciro, and I said, "I get it now. It's like when I was little, and my parents would stand me against the wall and mark how tall I was, so we could see how much I'd grown." I was proud when I grew then, and I'm proud when my business grows now.

Keeping business records separate is the only way to get an accurate picture of your business's performance.

With Kevin's help, Al and Ciro prepared a marketing plan, which included expanding beyond the Lowrider market and into promotional designs for commercial vans. This secured a loan from a local microlender that supported minority-owned businesses. The loan gave Al the funds he needed to improve his cash flow, buy more equipment and hire a couple of assistants. Soon, the business had paid off its creditors. Sales were up and morale was high.

The changes we went through were a real surprise to me. I thought if I took the time to get involved with the financial side of my business, my work would suffer and I'd fall behind. But in the real world, it was the exact opposite. Facing the problem turned out to be way less stressful than running away from it. Once Ciro and I started working like a team, we had more money available and things went more smoothly. And that gave me more time to do better work and be a happier person. That's a huge deal for my business, but it's an even bigger deal for my family.

It really proves what Kevin told us: Sometimes, a shortcut is the longest path to where you want to go.

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What You've Learned

This session described the basics of budgeting and cash flow projection, and explained how to use cash flow projection as a management tool. It also discussed the purpose of income statements and balance sheets. In this session, you learned:

1. Budgets and cash flow projections tell you how much money you need to earn and what you need to spend it on. This gives you more control over your business's financial future and shows lenders that you're good at managing money.
2. Cash flow projections let you play around with various cash flow scenarios to see how they affect your bottom line.
3. If your cash flow projections show that your business idea won't be profitable, you need to come up with a new idea.
4. Your income statement and balance sheet both help you evaluate your sales, expenses and profit. Also, lenders often use them to decide whether to give you a loan.

WORKSHEETS



SESSION 12

SESSION 12: CASH FLOW MANAGEMENT

Follow the Money!

Cash Flow Projection

Cash flow projection is a budgeting and goal-setting tool that predicts how much cash will come into your business from sales, investments and borrowing, and how much cash will flow out of your business to pay expenses, buy equipment and take care of other business costs.

As such, it's your most important financial-management tool. It will help you decide how much capital you need to cover your startup expenses, and how much capital you might need to borrow to cover your operating expenses during your first year.

It will also tell you whether your microbusiness can support loan payments during its startup phase. This is important to bankers and other lenders, who want to see that your projected revenues can cover debt payments as well as projected expenses.

These worksheets will help you calculate your projected cash receipts and cash disbursements for Year 1, including startup costs. If you are seeking a loan, you will probably also need to project your cash flow for Years 2 and 3.

If projected cash receipts (cash in) are greater than cash disbursements (cash out), you'll have a **positive cash flow**. If projected cash receipts are less than cash disbursements, you'll have a **negative cash flow**. Negative cash flows are indicated by enclosing the number in parentheses, like this: (\$1,000).

Preparing the Cash Flow Projection

There are many ways to fill out a cash flow projection, but try the following steps your first time through. You must follow these steps closely, so you may find it easier to take out the worksheet pages, and turn to these instructions as you go through the steps. Consider making enlarged copies of the worksheets.

Step 1 Beginning Cash Balance.

Fill in the amount of cash you have available to start your business under the *Startup* column on (A) **Beginning Cash Balance**.

Preparing the Cash Flow Projection—continued

Step 2 Determine your startup costs.

Startup costs include equipment purchases, deposits, licenses, fees, raw materials and any other expenses you must cover before opening your microbusiness.

Startup costs go in the **Startup** column under the proper categories. After recording your startup expenses, follow these steps:

- a. You don't have any cash in from operations yet, so put a zero (0) on the **Total Operating Cash In (B)** line under *Startup*.
- b. Add all **Variable Expenses (C1)** you recorded under *Startup* (lines 6 through 11). Put the total on the **Total Variable Expenses (C1)** line.
- c. Add all **Operating Expenses (C2)** you recorded under *Startup* (lines 12 through 30). Put the total on the **Total Operating Expenses (C2)** line.
- d. Calculate **Net Operating Cash (D)**. Start with **Total Operating Cash In (B)**—which is zero (0) in the *Startup* column—and subtract **Total Variable Expenses (C1)** and **Total Operating Expenses (C2)**. This will be a negative number, because there's no cash coming in yet, but there's cash going out for startup expenses. Indicate that it is a negative number by enclosing it in parentheses ().
- e. There's still no cash coming in, so you can put a zero (0) on the **Total Other Cash In (E1)** line under the *Startup* column.
- f. Record any Capital Purchases (Assets) expenses you're planning during startup on line 34 under the *Startup* column. Then, put that total on the **Total Other Cash Out (E2)** line.
- g. **Net Other Cash (E)** is the difference between **Total Other Cash In (E1)**—which is zero—and **Total Other Cash Out (E2)**. Your result will be a negative number again, so show it in parentheses () under *Startup*.
- h. Add **Net Operating Cash (D)** and **Net Other Cash (E)** to get **Net Monthly Cash (F)**. In the *Startup* column, this represents the total cash that must go to startup expenses before you open your doors. Because you don't have any revenue yet, this number is also negative.

Step 3 Determine your Ending Cash Balance for the *STARTUP* column.

To determine your **Ending Cash Balance (G)**, add **Beginning Cash Balance (A)** and **Net Monthly Cash (F)**. Write the result on the **(G) Ending Cash Balance** line under *Startup*.

This last part of Step 3 is critical. The **Ending Cash Balance (G)** from the *Startup* column goes at the top of the **January** column as the **Beginning Cash Balance (A)** for the first month of business. That's how this worksheet will continue to work: The ending cash balance in one column goes to the top of the next column, to start the next month as the beginning cash balance.

Now, you're at a crucial decision point. Do you have enough beginning cash to cover your anticipated startup expenses? If not, where will you get it? If you borrow to cover your startup costs, will you be able to borrow again to cover your operating costs? Just working through this first *Startup* column should help you think about what it will take to get the doors open.

Depending on whether you decide to invest or borrow money to cover your startup costs, you will record the amount as **Cash From Investment** (line 31) or **Loan Activities** (line 32). Then, you must refigure **Net Monthly Cash (F)** and **Ending Cash Balance (G)** to include the cash coming in from investments or loans.

Note: The first time you run through your cash flow projection, don't make any assumptions about borrowing. Instead, see how the whole cash flow projection works out, and then decide how much you'll need to borrow.

Step 4 Operating Cash Out—Operating Expenses.

To prepare your first cash flow statement, start with the easiest section. Most people find this to be the **Operating Expenses (C1)** portion of **Operating Cash Out (C)**. It's relatively easy to make assumptions about operating expenses, because they usually don't change every month. (Remember, these are expenses you have to pay no matter how much you sell, such as rent, telephone and salaries.) Other costs—such as utilities and advertising—may vary from month to month, but can be estimated.

Complete this section by recording your operating expenses for all 12 months across the worksheet. You can change the expense category names to suit your business. Don't total anything down the columns yet. We'll tackle this a little later.

A word of caution: You're trying to estimate when cash will actually go out of the business, so don't write in the same amount each month for costs that vary from month to month. For example, if your phone bill will be higher in the summer, don't just write in \$100 per month because you think you'll spend \$1,200 for the year. Instead, write in the actual cash amount you expect to spend each month (e.g., \$50 in January and \$200 in June).

Preparing the Cash Flow Projection—continued

Step 5 Operating Cash In.

The next section is **Cash In From Operations (B)**. Here, you need to project your sales. There are many ways to do this, but one of the best is to multiply the estimated number of units you'll sell by your anticipated sales price.

Service businesses can estimate the average number of jobs for the period. To get a sales figure, multiply that number by the *average* amount you think each job will earn. If you plan 20 jobs at an average price of \$50 each, your monthly sales would be \$1,000.

Startup retail stores often estimate sales based on research about similar stores. Use your network, and seek the advice of people who know about the type of business you're planning. Then, estimate the amount of inventory you think you can sell per month at a given price. For a service business, estimate the hours, days or projects you expect to bill per month.

The worksheet has several lines for Operating Cash In. You can change the names on those lines to match your product lines. That's a good way to keep track of the cash flowing in from each line, instead of lumping it all together. Again, estimate the sales all the way across the worksheet for the full 12 months. And don't forget to think about the seasonality of your business.

Step 6 Variable Expenses (Cost Of Goods Sold).

Variable Expenses (C1) vary with sales, so it's easiest to project them as a percentage of your projected sales. Note that COGS sometimes varies by season.

Retail businesses need to estimate when inventory will actually be purchased and paid for. Remember: The cash flow projection reflects when cash actually goes out of your business to cover expenses. You don't record inventory cost as a percentage of the sale; instead, you record it when you pay for the inventory.

Estimate your variable expenses and record them across the worksheet for all 12 months. Again, keep your business's seasonality in mind. If you're buying inventory, think about when that inventory needs to be in the store, and when you'll have to pay for it to make sure it reaches your store at the right time. Remember, you're trying to project when cash will flow out of your business.

Step 7 Other Cash Out.

Now, look at **Other Cash Out (E2)**. In this section, you record purchases of equipment or machinery; the principal portion of any business loan payments; and other cash payments that are related to the "investing" activities of your business.

Step 8 Other Cash In.

This is where you show other cash you receive that relates to investment in your business, (e.g., loan proceeds; cash you loan or give to your business as contributed capital; and interest on investments).

Before you figure your Other Cash In, try to get a feel for your cash balance; this will help you decide whether you need additional cash for that month. Starting with January, add down the column:

- Total your sales to get **Total Operating Cash In (B)**.
- Total your variable expenses to get **Total Variable Expenses (C1)**.
- Total your operating expenses to get **Total Operating Expenses (C2)**.
- Subtract **Variable Expenses (C1)** and **Operating Expenses (C2)** from **Total Operating Cash In (B)** ($B - C1 - C2 = D$). Write the answer on the **(D) Net Operating Cash** line. This will give you an idea of how your business will operate on a cash basis for that month. Will your cash sales—and any Accounts Receivable you collect—support your variable and operating expenses? Will you need cash to purchase assets or other items you listed in **Other Cash Out**?

You can do this preliminary step for each month by adding down the columns for that month. But don't make any decisions yet! This step is just a way to see how each month's cash activities are looking. Since you've estimated your fixed and variable expenses, this may also be a good time to revisit the concept of the break-even point. See the *Break-Even Worksheet* in Session 9, and—if necessary—reconsider your pricing.

Step 9 *Adjust your numbers.*

In this step, you can adjust your numbers based on how much cash you need to operate your business (and purchase equipment or other capital assets). For instance, suppose you believe that in your first month, you'll still be building sales. When you subtract your variable and operating expenses from your total sales, the loss gets bigger. Next, you add up all the investments you'll have to make to operate during those early months, and the loss grows still larger.

Don't worry—many businesses lose money during the first months of operations! The question is, how much capital will your business need to cover early losses, and do your projected sales in later months indicate that this will be a viable business idea?

Step 10 *Document your assumptions.*

Write your cash flow assumptions down on the *Notes to the Cash Flow Worksheet*, which follows the *Cash Flow Projection Worksheets*. The lines match the number lines on the *Cash Flow Projection Worksheet*. Write down your reason for the amounts you posted to each category of expense or revenue on the corresponding lines. Your reader needs to be able to tell how you decided on the amounts you put into your worksheet, so be as clear as you can.

Preparing the Cash Flow Projection—continued

Look at both the EXPENSES and CASH IN sections of your worksheet to see if you made any unrealistic assumptions. Have you projected too low? Too high? Checking your assumptions at this point—and adjusting them, if necessary—will make your projections for the next month that much more realistic.

Step 11 Ending Cash Balance.

Note: You must do this calculation one column (month) at a time.

Once you finish adjusting your numbers, add **Beginning Cash Balance (A)** to **Net Monthly Cash (F)**. This will give you the **Ending Cash Balance (G)**, which becomes your beginning cash balance for the next month.

Step 12 Year Total.

Add across the worksheet to get the yearly total for each line except **Beginning Cash Balance (A)**, and **Ending Cash Balance (G)**.

- a. Add lines 1 through 36, and record the total under the *Yearly Total* column.
- b. Add down the *Yearly Total* column to get **Total Operating Cash In (B)**, **Total Variable Expenses (C1)**, **Total Operating Expenses (C2)**, **Total Other Cash In (E1)** and **Total Other Cash Out (E2)**.
- c. Calculate **Net Operating Cash (D)** for the *Yearly Total* column by following the same formula as before: $D = B - C1 - C2$.
- d. Calculate **Net Other Cash (E)** for the *Yearly Total* column by subtracting E2 from E1.
- e. Calculate **Net Monthly Cash (F)** for the *Yearly Total* column by adding D to E.
- f. Beginning Cash at the start of the year is the same as the Beginning Cash at the beginning of the *Startup* column. Copy the number from *(A) Startup* to *(A) Yearly Total*.
- g. Finally, add (A) and (F) under the *Yearly Total* column to get your **Ending Cash Balance (G)** for the year. This should be the same as the Ending Cash Balance in December.

Forecasting Your Sales

Before filling out your *Cash Flow Projection Worksheet*, you need to think about your sales forecast.

Sales Forecast Worksheet—Products

If you're selling products, forecast the number of units of each product, and when they will be sold during the year. "Price per unit" is your selling price. It could be a retail selling price if you're selling directly to the customer, or a wholesale selling price if you are manufacturing and selling to wholesalers. Multiply the number of units by the price per unit to get the amount of sales for the month. Add the columns across to get a total for the year.

Month	1 Jan	2 Feb	3 Mar	4 Apr	5 May	6 Jun	7 Jul	8 Aug	9 Sep	10 Oct	11 Nov	12 Dec	Yearly Total
Product 1:													
Units Sold													
Price Per Unit													
Total Sales													
Product 2:													
Units Sold													
Price Per Unit													
Total Sales													
Total Product Sales													

Sales Forecast Worksheet—Services

If you're selling a service, the forecasting is much the same as for a product. The difference is that your "unit" might be one hour, one day or one job. You need to determine the price you will charge per unit of your service. Multiply the number of units by the price per unit to get the amount of sales for the month. Add the columns across to get a total for the year.

Month	1 Jan	2 Feb	3 Mar	4 Apr	5 May	6 Jun	7 Jul	8 Aug	9 Sep	10 Oct	11 Nov	12 Dec	Yearly Total
Service 1:													
Units Sold													
Price Per Unit													
Total Sales													
Service 2:													
Units Sold													
Price Per Unit													
Total Sales													
Total Product Sales													

Now, you're ready to begin the *Cash Flow Projection Worksheet* on the following pages. Use the instructions on the previous pages to start filling it out.

Cash Flow Projection Worksheet—Months 1 to 6

Month	Startup	1 Jan	2 Feb	3 Mar	4 Apr	5 May	6 June
(A) BEGINNING CASH BALANCE							
(B) CASH IN FROM OPERATIONS							
Operating Cash In							
1.	Product 1						
2.	Product 2						
3.	Product 3						
4.	Product 4						
5.	Product 5						
	Total Operating Cash In (B)						
(C) OPERATING CASH OUT							
(C1) Variable Expenses (Cost of Goods Sold)							
6.	Inventory purchases						
7.	Materials						
8.	Packaging and delivery						
9.	Other direct labor						
10.	Commissions						
11.	Other						
	Total Variable Expenses (C1)						
(C2) Operating Expenses							
12.	Advertising and promotions						
13.	Bank service charge						
14.	Credit card fees						
15.	Delivery						
16.	Health insurance						
17.	Insurance						
18.	Interest						
19.	Miscellaneous						
20.	Office						
21.	Payroll						
22.	Payroll taxes						
23.	Professional fees						
24.	Rent or lease						
25.	Salary (owner)						
26.	Subscriptions and dues						
27.	Supplies						
28.	Taxes and licenses						
29.	Utilities and telephone						
30.	Other:						
	Total Operating Expenses (C2)						
(D) Net Operating Cash (B – C1 – C2)							
(E) CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
31.	Investments in business						
32.	Loan proceeds						
33.	Other:						
	Total Other Cash In (E1)						
(E2) Other Cash Out							
34.	Capital purchases (assets)						
35.	Loan principal payments						
36.	Other:						
	Total Other Cash Out (E2)						
(E) Net Other Cash (E1 – E2)							
(F) Net Monthly Cash (D + E)							
(G) Ending Cash Balance (A + F)							

Cash Flow Projection Worksheet—Months 7 to 12 and Yearly Total

Months	Startup	7 July	8 Aug	9 Sep	10 Oct	11 Nov	12 Dec	YEARLY TOTAL
(A) BEGINNING CASH BALANCE								
(B) CASH IN FROM OPERATIONS								
Operating Cash In								
1. Product 1								
2. Product 2								
3. Product 3								
4. Product 4								
5. Product 5								
Total Operating Cash In (B)								
(C) OPERATING CASH OUT								
(C1) Variable Expenses (Cost of Goods Sold)								
6. Inventory purchases								
7. Materials								
8. Packaging/delivery								
9. Other direct labor								
10. Commissions								
11. Other								
Total Variable Expenses (C1)								
(C2) Operating Expenses								
12. Advertising/promotion								
13. Bank service charge								
14. Credit card fees								
15. Delivery								
16. Health insurance								
17. Insurance								
18. Interest								
19. Miscellaneous								
20. Office								
21. Payroll								
22. Payroll taxes								
23. Professional fees								
24. Rent or lease								
25. Salary (owner)								
26. Subscriptions and dues								
27. Supplies								
28. Taxes and licenses								
29. Utilities and telephone								
30. Other:								
Total Operating Expenses (C2)								
(D) Net Operating Cash (B – C1 – C2)								
(E) CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
31. Investments in business								
32. Loan proceeds								
33. Other:								
Total Other Cash In (E1)								
(E2) Other Cash Out								
34. Capital purchases (assets)								
35. Loan principal payments								
36. Other:								
Total Other Cash Out (E2)								
(E) Net Other Cash (E1 – E2)								
(F) Net Monthly Cash (D + E)								
(G) Ending Cash Balance (A + F)								



Monthly Cash Flow Projections—continued

Notes to Cash Flow Projections Worksheet

Line Item	Notes
1.	
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3.	
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34.	
35.	
36.	

Cash Flow Projections—Years Two and Three—Summary Worksheet (see notes on next page)

(Note: Beginning Cash Balance is Ending Cash Balance from Year 1)	ANNUAL SUMMARY
(A) BEGINNING CASH BALANCE	
(B) CASH IN FROM OPERATIONS	
Operating Cash In	
1. Product 1	
2. Product 2	
3. Product 3	
4. Product 4	
5. Product 5	
Total Operating Cash In (B)	
(C) OPERATING CASH OUT	
(C1) Variable Expenses (Cost of Goods Sold)	
6. Inventory purchases	
7. Materials	
8. Packaging/delivery	
9. Other direct labor	
10. Commissions	
11. Other	
Total Variable Expenses (C1)	
(C2) Operating Expenses	
12. Advertising/promotion	
13. Bank service charge	
14. Credit card fees	
15. Delivery	
16. Health insurance	
17. Insurance	
18. Interest	
19. Miscellaneous	
20. Office	
21. Payroll	
22. Payroll taxes	
23. Professional fees	
24. Rent or lease	
25. Salary (owner)	
26. Subscriptions and dues	
27. Supplies	
28. Taxes and licenses	
29. Utilities and telephone	
30. Other:	
Total Operating Expenses (C2)	
(D) Net Operating Cash (B - C1 - C2)	
(E) CASH FROM INVESTMENT or LOAN ACTIVITIES	
(E1) Other Cash In	
31. Investments in business	
32. Loan proceeds	
33. Other:	
Total Other Cash In (E1)	
(E2) Other Cash Out	
34. Capital purchases (assets)	
35. Loan principal payments	
36. Other:	
Total Other Cash Out (E2)	
(E) Net Other Cash (E1 - E2)	
(F) Net Monthly Cash (D + E)	
(G) Ending Cash Balance (A + F)	

(Note: Beginning Cash Balance is Ending Cash Balance from Year 2)	ANNUAL SUMMARY
(A) BEGINNING CASH BALANCE	
(B) CASH IN FROM OPERATIONS	
Operating Cash In	
1. Product 1	
2. Product 2	
3. Product 3	
4. Product 4	
5. Product 5	
Total Operating Cash In (B)	
(C) OPERATING CASH OUT	
(C1) Variable Expenses (Cost of Goods Sold)	
6. Inventory purchases	
7. Materials	
8. Packaging/delivery	
9. Other direct labor	
10. Commissions	
11. Other	
Total Variable Expenses (C1)	
(C2) Operating Expenses	
12. Advertising/promotion	
13. Bank service charge	
14. Credit card fees	
15. Delivery	
16. Health insurance	
17. Insurance	
18. Interest	
19. Miscellaneous	
20. Office	
21. Payroll	
22. Payroll taxes	
23. Professional fees	
24. Rent or lease	
25. Salary (owner)	
26. Subscriptions and dues	
27. Supplies	
28. Taxes and licenses	
29. Utilities and telephone	
30. Other:	
Total Operating Expenses (C2)	
(D) Net Operating Cash (B - C1 - C2)	
(E) CASH FROM INVESTMENT or LOAN ACTIVITIES	
(E1) Other Cash In	
31. Investments in business	
32. Loan proceeds	
33. Other:	
Total Other Cash In (E1)	
(E2) Other Cash Out	
34. Capital purchases (assets)	
35. Loan principal payments	
36. Other:	
Total Other Cash Out (E2)	
(E) Net Other Cash (E1 - E2)	
(F) Net Monthly Cash (D + E)	
(G) Ending Cash Balance (A + F)	

Cash Flow Projections—Years 2 and 3

If you're using your plan to obtain money from traditional financing sources, you should include cash flow projections for Years 2 and 3. One year may not be enough time to judge your business's financial performance. It often takes three years to give a true picture of a startup company's viability. Three-year projections are also highly recommended as a management tool.

Some lending institutions accept financial information for Years 2 and 3 in summarized annual form. Use the worksheet on the previous page to complete a cash flow projection for Years 2 and 3.

Step 1 Carry your ending cash balance from the Year 1 worksheet to the Beginning Cash Balance of Year 2. Then, repeat Steps 1 through 12 for Year 2. Use the same method for Year 3. Mark the years clearly on each worksheet. Don't forget to adjust for anticipated price increases, inflation and so on.

Step 2 Include a separate sheet of explanatory notes with the projections for Years 1 and 2.

What If...?

Now that you've put together your first cash flow projection, you should have a pretty good idea of how much startup capital you need. Based on your forecasts of sales and expenses, will you need to borrow funds? If so, how much? Can you take any steps to minimize your borrowing requirements?

A "What If" analysis lets you see what happens to your cash position if you change certain assumptions you made while doing your projections. What if sales go up faster than you projected? What if your equipment costs more than you anticipated? What if you can't sell as much as you thought?

1. **Look at your cash flow projection. Identify several "What If" scenarios you can test to see what effect they have on your cash flow.** (*Example: What if my sales go up by an extra 10 percent during the first year, or my costs go down 15 percent in the second year?*)

2. **If your "What If" analysis shows a threat, are there any steps you can take to avoid it? If it shows an opportunity, will you be able to take advantage of it?**

Worksheets Assignment for Session 13



Learning to work with a cash flow projection sheet takes time. In particular, it will take some research to decide which expenses to include in the **Operating Expenses** section. Remember to include all costs you identified in previous worksheets, and make sure to document your assumptions on the *Notes to the Cash Flow Projection*.

Writing Your Business Plan



Use the information from this session to write the sections of the business plan listed below. Start with the headings and subheadings just as they're shown here. Then, follow the instructions under each subheading to write that section of your business plan.

Section V. Financial Plan

A. Capital Requirements

Startup Costs

*Review the **Startup** column on your *Cash Flow Projection Worksheet*. Summarize the total estimated expenses required to launch your business, including what those costs are and how you estimated them.*

B. Sales Forecasts

*Make a **copy** of the Sales Forecast you completed on page 12-7, and include it in this section.*

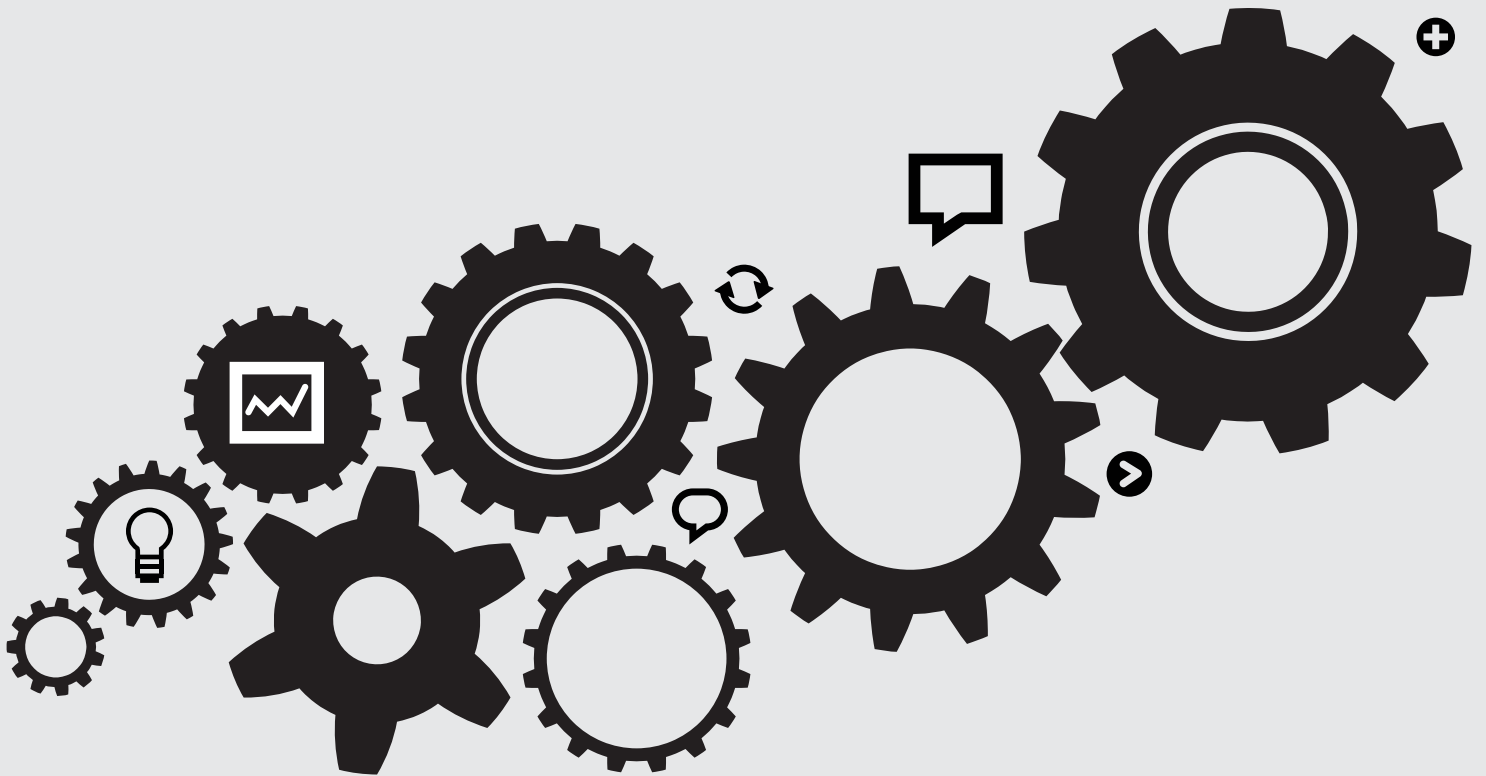
C. Cash Flow Projections

Monthly Cash Flow Projection—Year 1

*Make a **copy** of your completed *Cash Flow Projection Worksheet* for Year 1, and include it in this section. Be sure to include the *Notes to the Cash Flow Projection*.*

Note: If you're using your plan to seek startup capital from traditional financing sources, you should include cash flow projections for three years. Following the instructions in the worksheets, repeat the projection process for Years 2 and 3, and include those cash flow projections here. Explain the differences in projections for Years 1, 2 and 3, including any notes and assumptions unique to Years 2 and 3.

TEXT



SESSION 13

Keeping Books & Records

MAKE IT COUNT!

HIGHLIGHTS

Developing a Professional Mindset	page 2
Accounting Basics	page 5
Business Ownership and Tax Forms.....	page 15
Getting Professional Help	page 16

“Poorly kept records result in a poorly run business.”

—Craig Lorenz

About This Session

This session will prepare you for essential tasks like accounting, recordkeeping and paying taxes. It also introduces various types of accounting systems, as well as the professionals who can help you with accounting and tax chores.

Developing a professional mindset. You must prepare yourself mentally to manage the money flowing through your business, both by keeping it separate from

your personal funds and by setting firm ethical guidelines for business management.

Accounting basics. Why do you need to keep books and records? First, they support the numbers entered on your income tax returns. Second, bankers and lenders require you to keep financial records. Last, your accounting system gathers the financial data you need to run your business profitably.

Business ownership and tax forms. This section explains the basic tax forms required for four common microbusiness structures.

Getting professional help. What's the best way to set up your recordkeeping and bookkeeping system? This section discusses the resources available to help you make these and other important accounting decisions.

You can't achieve a goal unless you can picture it clearly.

Developing a Professional Mindset

To get yourself and your business ready for success, you must develop a professional attitude and a clear idea of what success means to you. You can't achieve a goal unless you can picture it clearly.

Most of us have heard people say, "I want to make lots of money," or "I want to invent something I can sell for millions of dollars." These goals aren't realistic or clear, which makes them hard to achieve. If you set goals like these, you're likely to be disappointed.

Instead, set realistic financial goals for your business. Your first-year goal might be, "I'm going to break even and cover my costs." That may not sound like much of a goal. But the fact is, many microbusinesses don't make a profit in their first year. If you're lucky enough to meet or exceed this first-year goal, you can aim for a larger profit in the second year.

It often takes a couple of years just to work out the kinks in a business. It also takes time to improve products, test theories, set up efficient office systems, find suppliers and locate customers. By the third year, things usually start falling into place.

Also, remember that money isn't the only measure of success. A great business year might be one in which you gained:

- Valuable contacts
- New sales prospects
- Knowledge and experience
- A better understanding of your strengths and weaknesses
- New skills and knowledge
- A new marketing channel that will pay off in the following year

Even a failed part-time business can teach you many things that will help you succeed in your next venture. It may lead you to a better idea that *will* work, or it may reveal a personal skill that encourages you to go in a new and better direction. Again, failure has a positive side. You can always learn something from it, if you try.

Going Legit

Many microbusinesses operate off the books. Not only is this illegal and unethical, but it's also self-defeating. A business can't thrive if it remains hidden. It must be visible to grow and prosper.

Running an illegal business also adds a huge, unnecessary risk to the basic uncertainty of doing business. You may think the chances are pretty good you won't get caught. But the people who *have* gotten caught thought exactly the same thing, right up until it happened to them. As we see it, running a legal microbusiness is stressful enough. It makes no sense to add lawbreaking to the business owner's list of daily worries.

Going legit also offers rewards. Self-employed business owners qualify for many tax breaks. Once you're up and running, it won't seem unusual to the IRS if you need to buy office equipment, a computer or a car to advance your business. A large percentage of such costs can immediately be offset against receipts or written off (depreciated) over a specified number of years. In fact, in the early years of your business, you may end up with a business loss that reduces your taxes (or even earns you a refund).

Why hide your income when you can have legal tax deductions? Also, if you're trying to prove your creditworthiness—to get a business loan, for instance—your gross income and net profit should be as high as possible.

Last, don't underestimate the feeling of satisfaction that comes from playing by the rules and winning. This can be a source of pride for you, and it may also inspire others.

Separating Personal and Business Accounts

The first law of money management for microbusinesses is to separate your personal finances from your business finances. Your bank accounts, credit accounts, assets, debts and records should all be separate. There are many good reasons for this:

- **Taxes.** The IRS lets you deduct expenses for a business, but not for a hobby. If you mix business and personal income, the IRS is more likely to decide that your microbusiness is a hobby. But even if it doesn't, mixing funds will make your taxes harder to calculate and pay. The cost and effort of keeping your accounts separate is minimal compared to the problems sloppy accounting can cause.
- **Loans.** If you need a business loan, you normally must show your financial records. Mixing funds makes it hard for lenders to know how profitable your business is.
- **Professionalism.** Having a separate business account shows customers, suppliers and clients that you're serious about your business.
- **Management.** If you don't separate your funds, it's harder to make good business decisions.

Business Ethics

Entrepreneurs face many ethical tests as they struggle to create a sustainable business. They may be tempted to hide their income from the government, issue

false advertisements or engage in dishonest selling practices.

Although these actions are against the law, business ethics go beyond what is legal or illegal. Ultimately, a business has the same responsibility to be honest, fair and socially responsible that an individual does. Great entrepreneurs are respectful of their obligations to customers, employees, suppliers, investors, their community and future generations.

This sense of integrity and honesty should inform the day-to-day operations of your business. The reasons are simple: Ethical business decisions earn the loyalty and respect of your customers, employees and suppliers; they protect you from serious legal problems; and they give you an strong competitive advantage.

...

I was living on the Mainland for eight years. At first, I went Stateside to visit a friend in Iowa City. But I found it hard to leave again, so for a long time I was stuck. It's a long story. The simplest way to say it is, I made some bad decisions.

When Dad died, I came back home to look after Mom. She was sick too, and I knew it was time to stop drifting and do the right thing. Guam's economy wasn't so good, though. Unemployment was higher than ever. I didn't know how I could support both of us.

Fresh off the plane, I got some library books and started reading about how to start a business. I learned some things, I guess, but it wasn't much help because I didn't have any idea for a business. And to be honest, it also didn't help that I'd always been bad with money. I spent almost all my savings on the Mainland, and I didn't have much to show for it.

When Jimmy Cruz moved back home to Guam, his situation wasn't promising. The available jobs didn't appeal to him, not least

Ethical business decisions earn the loyalty and respect of your customers, employees and suppliers.



because most of them paid only minimum wage. He wasn't looking to wait tables in chain restaurants or sell handicrafts at roadside stands. He didn't want to change sheets in tourist hotels or set traps for boonie dogs. And he *definitely* didn't want to climb power poles to unwind brown tree snakes from the wires, no matter how steady the work was!

He'd worked as a handyman in Iowa City, and he'd also worked for a water purification firm. He knew there had to be something he could do with those skills that would support him and his mom. But he couldn't imagine what it was.

...

Defining values

Most experts agree that ethical people have these traits in common:

- Fairness
- Loyalty
- Honesty
- Integrity
- Respect for others
- Responsible citizenship

You probably look for these qualities in yourself and others, so your business should naturally reflect the same values. That means choosing right over wrong and fair over unfair.

Of course, that's not always easy. Sometimes, it seems like we have to compromise one or more of our values, no matter what. When this happens, we find ourselves in an ethical dilemma.

People compromise their ethics for many reasons, including financial worries, peer pressure and deadlines. When you're

operating under stresses like these, it's important to ask yourself the following "mirror test" questions:

- Does the decision make you feel guilty, disappointed in yourself or worried about what someone else might think?
- If a child, spouse or friend were in a similar situation and came to you for advice, would you recommend the course of action you're choosing?
- Would you feel comfortable if your decision received public scrutiny or media attention?
- If someone did something bad to you and used your excuse, would you accept it?

These questions can help you pinpoint ethical dilemmas, look at them honestly and resolve them. One of the hardest tasks in ethical decision-making is to see a problem from someone else's point of view, so always ask yourself how you'd want to be treated if you were in the other person's shoes.

Treating customers ethically

Customer loyalty is the result of trust, and trust is the result of fair dealing over time. A customer sees a transaction as fair when it satisfies her expectations (e.g., an excellent product delivered on time at a reasonable price). A commitment to treating customers ethically can give you a powerful competitive advantage.

When conflicts or disagreements arise, try to see things from the customer's point of view and reach a fair agreement. Don't focus solely on money; it costs a lot more to get new customers than it does to keep current ones happy. As we learned in Session 11, losing a little money to earn a loyal customer is a bargain.

A commitment to treating customers ethically can give you a powerful competitive advantage.

Accounting Basics

Accounting means tracking and recording your business's financial data. Many first-time business owners are intimidated by accounting, so they put off learning about it for as long as they can. This is understandable. However, you must have a system for creating and maintaining business records if you hope to succeed.

As we've seen, the IRS requires businesses to track income and expenses, and to keep documents that support the numbers on their tax returns. But an even better reason to keep records is that you need this information to run your business from day to day.

Accounting also helps you understand how to make your business run better from one year to the next. For example, it lets you make financial forecasts and then track your business's actual performance. That way, you can compare your forecast to what actually happened. You can also compare this month to last month, or this year to last year. What did you do right? What did you do wrong? How can you improve? No one expects you to turn into an accountant overnight. But as a business owner, you must be involved in and knowledgeable about your accounting system.

Cash or Accrual Accounting?

The first step in organizing your business finances is to choose one of two basic accounting methods:

- **Accrual accounting** reports revenues and expenses as they occur, even if no money has changed hands yet. In other words, if you do a job in January and you get paid in March, you report that income for January.

- **Cash accounting** reports revenues when cash comes in and expenses when cash goes out. If you do a job in January and get paid in March, you report the income for March.

Accountants usually prefer the accrual method because it provides a more realistic picture of a business's performance over time. For example: If you sell \$3,000 in merchandise this month, but you won't get paid until next month, cash accounting will understate your revenue. And if you stop paying your bills and start selling off all your office furniture on the Internet, the cash accounting method will make your situation look pretty good. After all, more cash is coming in than going out!

Accrual accounting is tricky, however, so microbusiness owners usually prefer cash accounting, at least during the startup phase. If necessary, you can switch to accrual accounting as you grow.

Some businesses are required by federal income tax rules or bank loan agreements to use the accrual method. If you're not sure which method to use, get professional advice.

Calendar Year or Fiscal Year?

You must also select an accounting year for your business. Sole proprietorships must use a calendar year (January 1 to December 31), because they report their business taxes on their personal income tax return.

A **fiscal year** is an accounting year that ends on a date other than December 31. Businesses typically choose a fiscal year when their business is seasonal. For example, if you run a food cart that sells milkshakes, you will probably do most of your business in summer. If you wish to use a fiscal year, be prepared to explain this decision to the IRS. This is a good point to discuss with your tax advisor.

As a business owner, you must be involved in and knowledgeable about your accounting system.

• • •

Being away from Guam for eight years had one benefit: Jimmy was able to look at his old home with new eyes. Things he took for granted when he was growing up looked different, and he found himself paying more attention to them. That was especially true of the water vending machines up and down Marine Corps Drive.



The machines were owned by a company called Cloudburst. People brought old milk and soda containers, put in some coins, opened a clear plastic door and filled the containers with purified water.

One day, Jimmy went over to one of these machines to get a bottle filled. He put his money in, but nothing happened. It wasn't the first time he'd run across a broken machine, either.

Jimmy looked at the machine thoughtfully. It was bigger than a soda machine, but the machinery was probably pretty simple. And pretty easy to break, too. Storms, misuse, vandalism...lots of things could go wrong.

It occurred to him that Cloudburst probably needed a reliable mobile repairman to cover every machine on the island. It didn't take much skill to fix broken plastic doors and jammed coin slots. But how many people knew how to repair water purification systems? For that matter, how many people knew how to maintain and clean them so the water would stay healthy and pleasant-tasting?

That was when I started to feel like I had an idea that could pay off: repairing and maintaining the purification system in water vending machines.

That got me wondering how many water machines there actually were. To find out, I drove around the island for a whole day. I counted lots of machines outside grocery and drug stores. And Davy Flores, an old high-

school buddy, told me there were a bunch more at the Anderson and Apra Bay military bases. So it seemed at last like there was a service I could provide. Plus, I really liked the idea of working with a company like Cloudburst that was doing something to help people. What I didn't know was how I'd approach them.

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Double-Entry Bookkeeping

As we learned earlier, assets are valuable things your business owns, such as cash, accounts receivable, inventory, equipment and vehicles. Liabilities are debts that your business owes, such as utility bills, loans, accounts payable, payroll and taxes.

Your total assets depend on how many liabilities you have. For example, if you have \$1,000 cash but you owe \$500 of it, you really only have \$500. Your total assets also depend on your **owner's equity**, which is the amount you have invested in your business. Accountants use the following equation to express these relationships:

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

This equation is the basis of **double-entry bookkeeping**, which in turn is the basis of accounting.

Chart of accounts

Double-entry bookkeeping divides business transactions into different types of accounts. These accounts reflect the type of transactions your business makes. Therefore, they vary depending on the type of business you run.

As we learned in Session 12, the group of accounts that applies to your business is called its **chart of accounts**. The chart of accounts for a large business may contain dozens of accounts. But for a microbusiness, the chart of accounts will usually be fairly small.

The chart of accounts consists of balance sheet accounts (Assets, Liabilities and Owner's Equity) and income statement accounts (Income, Expenses, Gains and Losses).

Credits and debits

Suppose you take a blank sheet of paper and write *Accounts Payable* at the top. Then, you draw a vertical line down the middle to divide it in half.

Now, you can record increases to that account on one side of the paper and decreases on the other side. Accountants call amounts on the left side of the vertical line **debits**, and amounts on the right side **credits**. When you enter a number on the left side of an account, you debit it. When you enter a number on the right side, you credit it.

Accounts Payable	
Debit	Credit

Every business transaction affects at least two of your accounts, each of which has a debit column on the left and a credit column on the right. When you record a transaction, one account is debited, meaning that the transaction amount is entered on the left side of the sheet. And a corresponding account is credited, meaning that the transaction amount is entered on the right side of the sheet. For every transaction, your debits must equal your credits. In other words, if you enter a \$2,000 debit on one account, you must credit \$2,000 to the corresponding account.

To understand this, suppose your business buys a new computer for \$2,000 on account. Your assets have increased, so \$2,000 goes on the debit side of your *Computer* page. Your liabilities have increased because you

owe \$2,000, so this amount goes on the credit side of your *Accounts Payable* page. Thus, you have recorded \$2,000 on a left side and \$2,000 on a right side.

Computer		Accts. Payable	
Debit	Credit	Debit	Credit
\$2,000			\$2,000

See how the \$2,000 entry is on opposite sides of the two accounts? This ensures that when you record transactions, your debits (left sides) will equal your credits (right sides). That's why this system is called **double-entry bookkeeping**.

Now, suppose that instead of buying your computer on account, you spent \$500 of your own money and borrowed the remaining \$1,500. In this case, you would record a \$2,000 debit to *Computer*, a \$1,500 credit to *Accounts Payable* and a \$500 credit to *Owner's Equity*.

This is a good place to remember the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

And compare it to our computer example:

$$\text{Computer} = \text{Loan} + \text{Personal funds}$$

Or:

$$\$2,000 = \$1,500 + \$500$$

Or:

$$\$2,000 = \$2,000$$

As you can see, the number on each side of the "equals" sign is the same, so the equation is balanced.

For many people, the most confusing thing about the double-entry system is that "debit" and "credit" don't mean "decrease" and "increase." Whether a debit is an increase or a decrease depends on the type of account. For assets and expenses, a debit

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

is an increase and a credit is a decrease. For liabilities, equity and revenue, a debit is a decrease and a credit is an increase.

This may seem strange at first, but it makes more sense when you consider that in financial terms, an increase to a liability account is the opposite of an increase to an asset account. If we defined “credit” in the same way for both accounts, the two sides of the accounting equation wouldn’t balance.

Balancing the books

After each day’s transactions, you can check to see if your credits equal your debits. If they don’t, your books are out of balance. In other words, there’s a mistake somewhere.

For example, if you record your computer purchase with a \$1,000 debit to *Computer* and a \$100 credit to *Accounts Payable*, this mistake will show up when you try to balance the books.

However, the double-entry system won’t protect you against every type of mistake. If you mistakenly record a \$100 debit to *Computer* and a \$100 credit to *Accounts Payable*, the system won’t catch the error. The same holds true if you forget to record the transaction, or you record it twice. The only mistakes the system reveals are those that leave the books out of balance.

Debits and credits can get very complicated, especially for businesses with many different accounts. Fortunately, inexpensive accounting software can organize, calculate and report them automatically.

Recordkeeping Requirements

No matter how small your microbusiness is, keeping accurate records is crucial. Studies show that most business failures result from inadequate recordkeeping. In many cases, the business owners didn’t

know they were out of money until their checks started to bounce.

Your recordkeeping system should use an accounting method that gives you easy access to the financial information you need.

Uses of Financial Records

- Creating financial statements
- Preparing tax returns (including deductions)
- Budgeting and planning
- Applying for loans
- Managing cash flow
- Paying bills when they’re due
- Collecting payments when they’re due
- Tracking and managing costs
- Proving compliance with laws
- Supporting your case in a lawsuit
- Preventing theft
- Setting and measuring progress toward your business goals

What kinds of records should I keep?

Which records you must keep for federal tax purposes depends on your business type. Your recordkeeping system should include a summary of your business transactions—including your income—as well as your deductions. For many microbusinesses, the business checkbook is the main recordkeeping system.

Tracking gross receipts

Gross receipts are the income you receive from your business. In most cases, this is the money you get from selling your product. Supporting documents include:



No matter how small your microbusiness is, keeping accurate records is crucial.

- Cash register tapes
- Bank deposit slips
- Receipt books
- Invoices
- Credit card charge slips
- Forms 1099-MISC

Tracking expenses

At a minimum, expense records should show the amount and purpose of each expense. Supporting documents include:

- Canceled checks
- Cash register tapes
- Account statements
- Credit card sales slips
- Invoices
- Petty cash slips

A **petty cash fund** lets you make small purchases—like a box of paperclips—without having to write checks or use a bank card. Each time you make a payment from this fund, you should make out a petty cash slip and attach it to your receipt as proof of payment. Avoid making too many purchases out of petty cash. Purchases made with a company check or bank card are much easier to keep track of.

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I wasn't kidding myself. I knew it wouldn't be easy to win a contract with Cloudburst. It wasn't just a matter of getting a truck and a toolbox and showing up on their doorstep. I needed to gain enough knowledge and confidence to sell myself as an improvement over whatever system they already had in place.

To do that, I had to understand the scope of the problem, so I took a couple more trips around the island. I saw that maybe a quarter of the machines were out of order. That was a real problem. Not just for Cloudburst, but also for all the people who relied on the machines.

Jimmy knew what made the machines tick, as far as the purification system was concerned. He knew how often they needed cleaning and maintenance, and he was pretty sure he could fix them if they broke.

His biggest worry was coming up with a budget for the work, especially given his problems with managing money. He'd have to be very careful about finances and overhead, which meant researching his costs thoroughly. Tools and parts that were easy to get Stateside could be expensive and hard to find on Guam. Driving around the island could get expensive, too. And time-consuming, depending on the time of year.

The more Jimmy thought about approaching Cloudburst, the more convinced he was that he needed to have his numbers in order. Assuming they were willing to listen at all, their first question would be "how much will it cost?"

If Jimmy couldn't give them a number that made sense for them, he wouldn't get the contract. And if he didn't give them a number that made sense for *him*, he wouldn't earn enough to support himself and his mom.

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How long should I keep records?

Income tax regulations require you to keep records during the three-year period that your tax return is subject to IRS audit. Sometimes, seven years of records may be useful for tax purposes.

There isn't a complete, standard list of records and retention times that everyone

Expense records should show the amount and purpose of each expense.



follows, but here is a typical list for microbusiness. Your accountant can help you modify this list to fit your needs.

Type of Record	Retention Time
Bank statements	7 years
Business licenses	Until expired
Cash register tapes	3 years
Check registers	Permanent
Canceled checks	3 years
Deeds, titles and title insurance	While you own the property
Financial statements	Permanent
General ledger	Permanent
General journal	Permanent
Inventory records	7 years
Invoices	3 years
Property, plant and equipment records	Permanent
Purchase orders	3 years
Receipts (tax-deductible)	10 years
Receipts (high-cost buys)	Life of the asset
Receiving reports	3 years
Tax returns	Permanent
Time cards or tickets	3 years
Travel expense records	7 years
Utility bills	3 to 6 years

Common business forms

Let's take a look at some of the most common paperwork used to document business transactions. You may not need all of these forms for your business, or you may need additional paperwork; every recordkeeping system is unique. Standard business forms are available in office supply stores or online. If you use digital forms, be sure to back them up regularly.

Purchase order

A purchase order is a buyer's request for a seller's goods. It becomes a legally binding contract once the seller accepts it. When you receive a purchase order, you should

respond right away by shipping the order or sending an order confirmation that indicates when the product will ship.

Using a purchase order for your own suppliers shows that you are a serious, professional businessperson. It also helps you keep track of incoming supplies, invoices you must pay and the volume of business you are giving to each of your suppliers.

Price list

Examples include a restaurant menu, a chalkboard describing your products and prices, and a summary of products and prices printed out on your stationery.

If you also sell wholesale goods, don't put retail and wholesale prices on the same sheet. Instead, create individual price sheets for each. Your wholesale price list should state your conditions for new customers (e.g., credit references or cash on delivery), your guarantee (if applicable) and your shipping and return policies. It should also show any price breaks you offer for bulk orders.

Invoice

An invoice is a bill issued by a seller to a buyer. It lists the type and amount of goods sold, delivery information, the unit price, the total price (including shipping and sales tax, if applicable) and the payment terms. Standard invoice forms are available in multipart sets. However, many business owners prefer to create their own computer-generated invoices. Either way, an invoice should include the following information:

- Seller's name and address
- Buyer's name and address
- Shipping address (if different from buyer's address)

If you use digital forms, be sure to back them up regularly.

- Date of invoice
- Date of shipment
- Method of shipment (e.g., UPS)
- Invoice number
- Customer's purchase order number (if any)
- Terms of payment (e.g., net 30 days)
- Description of items shipped
- Quantity of items shipped
- Unit price
- Shipping charges and sales tax
- Total amount due
- Payment due date, and any penalties for late payment

Packing list

A packing list is a checklist that buyers use when they unpack a shipment to make sure the goods match the information on the invoice. It typically includes all the information on the invoice except for the price. Standard multipart invoice forms usually include a packing list.

Statement

A statement shows a customer's account balance at month's end. It lists the invoices you have sent and any payments made against open invoices.

Time sheet

A time sheet states the number of hours that employees worked during a pay period. It's usually filled out by workers and verified by a supervisor.

Payroll sheet

The payroll sheet is a summary of wages

paid and withholding per pay period for each employee. Totals for all employees can be calculated, as well as tax liabilities. This can help you avoid penalties for late or insufficient payroll tax withholdings.

What Makes a Good Accounting System?

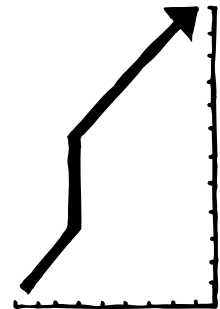
Your accounting system should help you collect data, record them, classify and summarize them, and report them in the form of financial statements. Here are some tips:

- **Keep it simple!** Simplicity is the key to a good accounting system; complicated systems may not get used. Try to eliminate duplication of effort, summarize whenever you can, and set up procedures to eliminate guesswork and uncertainty.
- **Owner involvement.** The best accounting systems are developed and operated under the watchful eye of the business owner. You don't have to do all the work yourself, but you must understand the system and its output. The more involved you are, the better your accounting system will function.
- **Flexibility.** Sometimes you need only the general picture, and sometimes you need detail. Your accounting system should offer both.

Internal controls

A good accounting system has **internal controls**. These are standard practices that protect your business assets and help you comply with laws and regulations. Internal controls vary by business, but here are some basics:

- **Authorization.** Make sure that the appropriate person authorizes purchases



The more involved you are, the better your accounting system will function.



Blank checks and other documents should be pre-numbered and locked away when not in use.

- and sales. You must clearly state to vendors, banks and other business partners what authority you have given to which employees.
- **Physical controls.** Blank checks and other documents should be pre-numbered and locked away when not in use. Cash should be deposited daily.
- **Tickler systems.** A tickler system helps you keep track of current bills and orders. This can be a red folder for current orders, or a computer program that produces a daily report of due bills.
- **Monitoring and review.** You should regularly assess whether your internal controls are effective. Are they being used? If so, do they accomplish everything they're supposed to?

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I talked to a couple of airmen and found out there were adult education courses at the base. They had a class on simple budgeting and one on financial planning. These weren't business courses, exactly. It was more about basic life skills. That was OK with me, though. When it came to me and money, starting with the basics seemed like the way to go.

The classes were really helpful. I learned that the first budget I had to create was one for my own spending. Dad had left us a little money—definitely enough for my classes and our living expenses while I came up with a proposal for Cloudburst. But if I wanted to have enough left over to get the business up and running, I'd have to set a strict budget and stick to it for the first time in my life.

Jimmy sat down and made a list of necessities—gas, food, utilities and his mom's medicine—and added up what they cost per week. Next, he listed the other, more frivolous things he spent money on, like specialty coffees and the occasional

restaurant meal or magazine. These nonessential purchases were costing him \$100 per month, on average. Clearly, he'd have to give them up for a while.

It wasn't the most ambitious budget ever, but I felt good about finishing it and committing to it. Next, I went to the SBDC at the University and read all I could find on financial planning, budgeting, sales forecasting and how to sell your ideas.

I also went over to the Flores Library to do some research. I made a list of the natural and manmade problems on Guam and explained how they affected the Cloudburst machines. Last, I estimated what parts would cost, what equipment I needed, how much gas I'd use while traveling, and how I would account for service calls.

It's funny. It seemed like a lot of work at first. But once I got into it, I was so interested that the time went fast. That's when I knew I was on the right track. This was something I really wanted to do, and I knew it was within my reach. Once I took the idea seriously, I started taking myself seriously. And that made a big difference in my life.

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Types of Accounting Systems

Which accounting system is right for your business depends on the cost of creating, learning and maintaining the system. Remember to define "cost" very broadly; take dollars, time and frustration into account.

Computerized accounting systems

Many accounting packages are available to small businesses. The best of them allow non-accountants to accomplish such chores as inventory management, payables, receivables and invoicing, while automatically taking care of entries, balances and so on.

Most accounting programs belong to one of these three groups:

- **Spreadsheets.** Microbusinesses often use spreadsheet programs because their accounting needs are minimal and the programs are affordable. Microsoft Excel is the most popular spreadsheet program, but you can also use a free program called Gnumeric (<http://projects.gnome.org/gnumeric/>).
- **General packages.** A wide variety of basic accounting packages are available for small businesses. Leading sellers include Quicken, QuickBooks and Peachtree Accounting. Popular free programs include FreshBooks and Outright. Some packages offer accounts payable, accounts receivable and payroll modules, while others are much simpler and include only a basic check register and cash receipts book. It's best to start with a simple, inexpensive system that meets your initial needs but offers room to grow.
- **Web-based accounting.** Many companies offer access to high-powered accounting software for a monthly fee. This can greatly reduce upfront and administrative costs, and give smaller companies access to the same accounting capabilities enjoyed by much larger competitors. Popular subscription-based options include QuickBooks Online and ePeachtree. You may also want to check out freeware programs like NolaPro (<http://www.nolapro.com>).

The most important thing to remember is that even the fanciest accounting software can't do your thinking or your data entry for you. To get the most out of it, you have to understand what you're putting

into it, and why. Think of it as a glorified calculator: It can speed up tasks, but it can't run your business.

Choosing accounting software

The type of accounting system you need depends on your type of business. If you sell products, you need to track inventory, shipping and so forth. If you run a service business, you will need a client or project management system of some type.

Most likely, you'll need a simple system that handles taxes, invoicing, purchasing and basic accounting. If you have employees, you'll also need a payroll module.

Here are some things to think about when choosing accounting software:

- **Compatibility.** Will your computer be able to run this program? What are its hardware requirements?
- **Ease of use.** Can you figure out how to use the program out without getting a Ph.D. in math? Always factor learning and training costs into the price of the system!
- **Range.** In addition to general ledger, accounts payable and accounts receivable, what other modules or tools does it offer? Do you actually need them? It's a bad idea to clutter up your system with features you don't need.
- **Flexibility.** Can you easily customize the program? Does it mesh with other business applications, as well as email and word processing programs?
- **Security.** Is it secure? Does it prevent unauthorized access to your data?
- **Add-ons.** Will you have to make multiple upgrades as you grow? If you're planning for a certain level of growth



Always factor learning and training costs into the price of an accounting system!



within a year or two, will the system still meet your needs?

- **Help.** What type of training is available? Does the program have a reliable help utility or online user forum? Is the manufacturer popular enough that it's likely to stay in business and offer support over the long haul?

When considering an accounting program, it's a very good idea to check online for consumer ratings and reviews. You should also seek advice from your mentor or advisor, who may be able to suggest a package that's just right for your business.

On the other hand, he or she may explain that you don't actually need a computerized system. Although software firms often market accounting packages to microbusiness owners, in most cases they haven't actually tailored their products to the needs of a one-person business. Take advertisements with a grain of salt, and ask your advisors and fellow microbusinesses about their experiences. You may find that you have no reason to buy an accounting system.

In the end, this question comes down to cost versus benefit. If the benefit of accounting software is greater than the cost of installing and using the system, then it's probably a good idea. Accounting can be frustrating at the best of times; you don't want software that makes matters worse. Watch out for cluttered screens and confusing instructions. Pick a program that's easy on your eyes, your brain and your fingers.

Also, be sure to keep recording your information manually while getting used to your new system. Otherwise, you run the risk of losing important data to a beginner's mistake.

Pick an accounting program that's easy on your eyes, your brain and your fingers.

Backing Up Accounting Data

Accounting data are very important to your business, so they need to be backed up carefully and stored somewhere safe. Many businesses use on-site backup drives, but what if the same disaster that affects your office affects your backup drive?

Because of these concerns, many websites offer online storage for your data. These services are generally inexpensive, and it's no exaggeration to say that they can save your business in the event of a disaster.

- **SOS Online Backup** backs up your data daily. It also keeps an unlimited version history that lets you roll back to any point in time (<http://www.sosonlinebackup.com>).
- **Mozy Pro** is a low-cost service that allows you to manage multiple backup schedules from a single computer. Military-grade data encryption is available to protect your privacy. It can also restore file versions up to 30 days in the past (<http://mozy.com/pro>).
- **Intronis** is another highly rated service with military-grade encryption (<http://www.intronis.com>).

Of course, much of your accounting data may be in the form of paper receipts, which must also be backed up. Several companies make inexpensive scanners that quickly digitize receipts for storage. Smartphone scanner apps can also do this.

Manual accounting systems

For some microbusinesses, the cost of buying a computer outweighs the benefits of having a computerized accounting system.

Fortunately, many small businesses can get by with manual accounting systems. Here are a couple of the most common methods

- **Check register.** This is the simplest form of manual accounting, and it's often sufficient for a microbusiness. Business check registers have columns for recording the source of cash receipts and the reason a check was written. Monthly totals allow you to prepare a simple income statement. However, it can be tricky to prepare a balance sheet from this information. You may need some help from your mentor.
- **Write-it-once systems.** These systems let you write one amount on a carbon form that updates several books at once. For example, before writing a check to a supplier, you place forms representing the cash and payable accounts below the check. When you write the check, the carbon paper transfers the amount as a reduction to those accounts. This system avoids the errors that can occur when writing amounts in more than one place.

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If I were starting up today, I'd have way more options for getting a microloan. But back then, I had no clue where to turn. I thought of approaching my bank, but I was afraid it would take more time and better credit than I had.

I was getting down to the end of my money—and starting to think that pulling snakes off power lines might not be so bad after all—when I bumped into Ben Borja. He was an older guy, a real good friend of my dad's.

Ben asked what I was up to, so I told him the whole story. I explained the situation with my mom, and talked about my Stateside experience with water purifiers. I showed him my sales forecast and budgets, too. I was proud of them, you know?

To make a long story short, Ben was impressed and offered to lend me some seed money to get

my business off the ground. Ben's family had always had money. In fact, he told me that right before I came home, he tried to get Mom to take some money, but she refused. So he saw this as a second chance to help her. And like me, he was interested in anything that would improve the drinking water situation. So it was really a good fit.

What was even better was that he offered to mentor me. That would open a lot of doors, because Ben knew just about everyone on island. For me, it was like going from 0 to 60 in a few seconds.

One thing I figured out from talking with Ben was that if I wanted to be considered as a subcontractor, I had to offer things the current maintenance workers didn't. That's when I decided one of my selling points was that I'd be available around the clock.

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Business Ownership and Tax Forms

Businesses typically have to pay sales taxes, property taxes, federal income taxes, payroll taxes, and taxes disguised as licenses and fees. It can be overwhelming to sort through all the tax requirements. It's also far too much information to present in this book, so this is another area where you will need help.

Income Taxes

As noted earlier, how your business is taxed depends on its form of ownership:

- **Sole proprietorship.** Sole proprietors record business profit and loss on Schedule C of their personal income tax return. They must also use Schedule SE to pay self-employment tax, which supports Social Security and Medicare. In addition, sole pro-

Sole proprietors record business profit and loss on Schedule C of their personal income tax return.



prietors who expect to owe more than \$1,000 in taxes must use Form 1040-ES to make quarterly estimated tax payments. At the end of the year, they will receive a refund if they overpaid.

- **Partnership.** Business income or loss is reported on each partner's personal income tax return. The business does not pay income tax. (This applies both to limited or general partnerships.) The partners list partnership income or loss on Schedule E with their personal returns. Partners may need to pay quarterly estimated income taxes and self-employment taxes. In addition, the partnership itself must use Form 1065 by April 15. to inform the IRS about the business's profit or loss. It must also issue Schedule K-1 to the IRS and to each partner. This form identifies each partner's share of the business's profits or loss.
- **S corporation.** These work very much like a partnership for income tax purposes. Business income or loss "flows through" to the individual tax returns of the corporate owners. Form 1120S must be filed by March 15 and the owner may be required to make advanced payment.
- **Corporation.** The business's income is taxed. The shareholders do not pay income tax on profits earned by the corporation, but when shareholders receive a dividend from the corporation, they pay personal income tax on that amount. The corporation files Form 1120 and pays its income tax by March 15. Corporations may be required to pay quarterly estimated income taxes.

- **Limited liability company.** LLCs are not taxed directly, so they enjoy the pass-through tax benefits of partnerships and S corporations.

Most small-business owners don't prepare their own tax returns. If you decide not to hire a tax preparer, you will either need to find a very patient advisor or mentor, or else plan to spend a lot of your spare time studying tax rules. IRS publication 334 is the main source of information for business deductions. Each state also has its own set of forms and instructions, and the process of filing a state tax return can be just as time-consuming as the federal return.

Getting Professional Help

Very few microbusinesses can get by without some professional help in the following areas:

- **Bookkeeping.** Microbusinesses often use outside services for accounts receivable, accounts payable and payroll.
- **System design.** You may need help designing your accounting system and internal controls. A consultant or mentor can help you start out on the right foot.
- **Income taxes.** Most startup microbusinesses need help planning for and preparing income tax returns. Look for an accounting professional who's familiar with your type of business.
- **Writeup.** Even if you keep your own books, you may need help creating financial statements and other reports.
- **Auditing.** An independent audit may be required by loan agreements or when selling a business.

Most small-business owners don't prepare their own tax returns.

- **Temporary services.** You may need some help getting through the year-end closing of your books or preparing your annual budget. Or maybe you have a busy season when you need extra help with accounts receivable or inventory. If so, consider using one of the temporary service agencies in your area.

The *NxLeveL Business Resource Guide* can help you find free and low-cost services targeting microbusinesses.

How to Choose a Bookkeeper or Accountant

- **Ask for referrals.** Find out who other business owners use and whether they're satisfied.
- **Check references.** Always check credentials and make sure previous clients were happy with the professional's performance.
- **Be clear** about the information you need and the work you want done.
- **Review** your financial statements carefully.
- **Trust and honesty.** You must be very open with your accountant, so be sure to find someone you like and trust.
- **Stay organized.** Most accounting professionals charge by the hour. Giving them complete, well-organized information can save you a lot of money.

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With Ben's \$7,500 loan, Jimmy went out and bought a used utility truck, a set of tools, a laptop, and accounting software that included project management and parts inventory modules. With the leftover money, he bought some nice clothes and a new pair of shoes. At last, he was ready to arrange a meeting with Cloudburst.

They were impressed with the detail and scope of his presentation. The positive references from the water purification firm in Iowa City didn't hurt, either. Jimmy had made better use of his time on the Mainland than he'd thought!

It turned out that Cloudburst had been using a makeshift maintenance crew, most of whom were part-time and not always available. Also, the crew had little training and knew nothing of mechanics beyond the standard problems. They could fix a sliding plastic door or a broken coin sorter. But they had limited skills when it came to the purification system. And they weren't on call 24/7.

After a couple more meetings, Cloudburst agreed to hire Jimmy on a six-month trial basis. If his work was satisfactory, they'd consider giving him a contract to do all their maintenance work, all over Micronesia.

So did my budgets and sales forecasts get me where I am today, or was it Ben's money? To me, there's no doubt that working through the financial side of things is what did it. It gave me confidence. I knew the numbers inside and out. I went from feeling like my idea might work to completely believing in it. And that's why I was able to spark enthusiasm in other people. I know now that if you can plan and budget intelligently, people are impressed!

I'll go even further and say that if I hadn't done that preliminary accounting work, I might not have been able to do such a good job even if they did hire me. I know it might not sound very exciting to some people, but being able to create a personal budget—and stick to it—is what gave me the self-confidence and discipline to do everything I've done since then. Understanding planning, budgeting and bookkeeping has made a huge difference in how I work, and that's made a huge difference in who I am.

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Always check references when hiring a bookkeeper or accountant!

What You've Learned

In this session, you learned:

1. The first step in financial management is to develop a mindset for business and financial success.
2. You must keep your personal finances and records completely separate from those of your business.
3. Recordkeeping may not be fun, but it's something every successful owner must do to stay in business.
4. A good accounting system is one of the best ways to gather business information.
5. Accounting systems don't run themselves. You need to understand the system and stay involved with it.
6. Data entry and review should be done on a regular schedule.
7. Help is available from bookkeepers, accountants and other professionals.

WORKSHEETS



SESSION 13

SESSION 13: KEEPING BOOKS AND RECORDS

Make It Count!

As the owner of your business, you need accurate financial information to make good decisions and measure their outcomes. A well-organized bookkeeping and recordkeeping system will ensure that this information is clear, complete and available whenever you need it.

Recordkeeping Checklist Worksheet

Use the worksheet on the following page to start thinking about this very important part of your business. Follow these four steps to fill out the chart.

Step 1 *Identify business activities that require recordkeeping.*

Several standard categories are listed on the following page, including accounts receivable, cash, accounts payable and payroll. You may wish to add other activities.

Step 2 *List the recordkeeping tasks for each activity.*

Be as specific as you can. Some standard tasks are shown under the **Financial Activities and Other Tasks** column to get you started.

Step 3 *Determine how often each task must be done.*

Should it be performed daily, weekly, monthly or quarterly? Place a checkmark in the appropriate box. You can also note a specific date or time requirement in the box, such as “April 15.”

Step 4 *Decide who should perform the task.*

Decide who has the right skills for the task, and write that person’s name in the appropriate space. Keep in mind that many microbusinesses outsource this work to a professional bookkeeper, accountant or payroll company.



Recordkeeping Checklist Worksheet–continued

Review this checklist often to make sure it includes all your recordkeeping tasks, and also to confirm that the person assigned to each task is keeping up with it.

Some financial chores have deadlines you *do not* want to miss. For example, depositing payroll taxes late can cost your business a huge amount in penalties. Skipping a payroll tax deposit entirely can put you out of business. Even if you assign recordkeeping tasks to someone else, you're still responsible for making sure these tasks get done correctly and on time.

Financial Activities and Other Recordkeeping Tasks	Frequency				Person Responsible
	Daily	Weekly	Monthly	Quarterly	
Accounts Receivable					
Send invoices or statements					
Post charges and payments					
Prepare an aging schedule					
Collect past-due accounts					
Other:					
Cash					
Deposit sales receipts					
Reconcile bank account(s)					
Balance petty cash					
Other:					
Other:					
Accounts Payable					
Maintain "Invoice Due" file					
Pay invoices					
Review missed cash discounts					
Follow up on invoice problems					
Other:					
Payroll					
Prepare paychecks					
Deposit federal payroll taxes					
Prepare state payroll reports					
Prepare federal payroll reports					
Other:					
Other					

Now that you know about some of the bookkeeping and recordkeeping tasks you need to perform, try to answer the following questions.

1. **Who will be primarily responsible for the bookkeeping and recordkeeping activities at your business? Why did you choose this person?**

2. **Will you use outside professional services to help with bookkeeping? If so, who will you use, and what will they do? What is their fee? How often will they work with you?**

3. **Will your books and records be kept on the cash basis or the accrual basis? Why did you choose that accounting method?**

4. **Will you start out with a manual bookkeeping system or a computerized system? Describe which system you'll use, and why.**

5. **What information will be most helpful to you in managing the financial affairs of your business? How often will you review this information?**

Business forms are an important part of your bookkeeping and recordkeeping functions. Use the following worksheet to think about which forms you need, whether you will make them or buy them, and how much they'll cost.

[illegible]

Internal Controls Worksheet

Internal controls are policies and procedures that safeguard your business assets. Types of internal controls include:

- **Authorization.** Make sure the appropriate person authorizes purchases and sales. You must clearly state to vendors, banks and other business partners what authority you have given to which employees.
- **Physical controls.** Blank checks and other documents should be pre-numbered and locked away when not in use. Cash should be kept under lock and key and deposited daily.
- **Tickler systems** help you keep track of current bills and orders. This could be a red folder for current orders, or a computer program that produces a daily report of due bills.
- **Monitoring and review.** You should regularly assess whether your policies are effective. Are they being used correctly? If so, do they accomplish everything they're supposed to?

Follow these steps to complete the worksheet on the next page.

Step 1 Identify business activities that require internal controls.

Step 2 Identify responsibility for maintaining internal controls.

Step 3 Briefly describe the controls in place, taking care to specify who, what, where, when, why, how and how much.

Internal Controls Worksheet

Activity	Person responsible	Controls in place	Controls needed	Cost
Banking				
Accounting				
Purchasing/Inventory				
Sales				
Payroll				
Recordkeeping				
Other				

Worksheets Assignment for Session 14



Complete and review all the worksheets in this session before writing the corresponding section of your business plan. If you need to research any costs on the *Business Forms Worksheet*, be sure to do so before the next session. Review the other worksheets that you worked on during Session 13. Write down any questions you have so that you can research them or ask for help.

If you didn't finish your *Cash Flow Projection Worksheet* from Session 12, this would be a great time to catch up on it!

Writing Your Business Plan



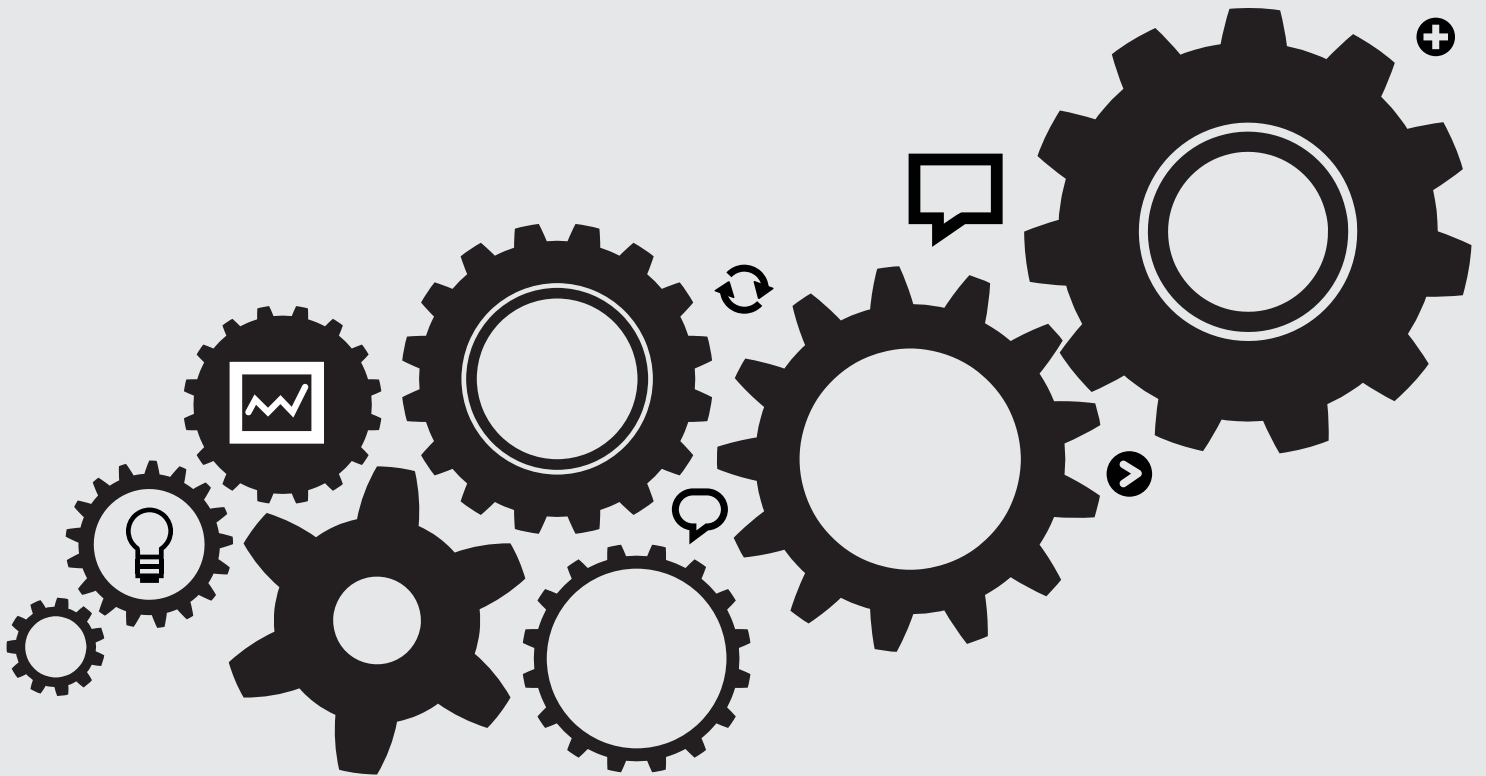
Use the information from this session to write the sections of the business plan listed below. Start with the headings and subheadings just as they're shown here. Then, follow the instructions under each subheading to write that section of your business plan.

Section III. Business Organization and Operations C. Managing Books and Records

Review the Recordkeeping Checklist Worksheet and your answers to Questions 1 through 5. Describe how you will manage your bookkeeping and recordkeeping activities. State who is responsible for key activities, and how you as the owner/manager will oversee these activities. (You may want to include a copy of your Recordkeeping Checklist Worksheet in this section.) Also, review the Internal Controls Worksheet and explain any internal controls you will use to protect your business's finances and records.

Note: This written section is part of *Section III. Business Organization and Operations* because it deals with a management activity of the business.

TEXT



SESSION 14

Financial Tips & Tools

BANK ON IT!



HIGHLIGHTS

Financing Your Business.....	page 2
Money Sources	page 5
Preparing to Seek Financing.....	page 13
Understanding Financial Ratios.....	page 17
Credit and Collections	page 19

“

If you would know the value of money, go and try to borrow some.

—Benjamin Franklin

”

About This Session

This session discusses the financing options available to microbusinesses. We'll also talk about ways of tracking and understanding your financial data, which will help you make better financial decisions.

Financing your business. This section explores the financial decisions involved in launching or growing your microbusiness. It also explains how and why you should establish a healthy working relationship with potential lenders ahead of time.

Money sources. Microbusinesses have a wide variety of flexible and unconventional financing options, from local community banks to crowdfunding.

Preparing to seek financing. In this section, we discuss the loan process and explain how to prepare a financial proposal. Seeking financing is a lot of work, and can be an emotional rollercoaster ride, so this section also describes how to prepare yourself emotionally for requesting a loan or grant.

Understanding financial ratios.

This section introduces common financial ratios and explains how you can use them to check your business's health.

Credit and collections. As your business grows, customers may expect you to extend credit or to accept credit cards. This presents an opportunity for more sales, but it also poses serious risks. You can avoid these risks by choosing smart credit policies and knowing how to collect when people don't pay.



Financing Your Business

Often, entrepreneurs who need financing think only of banks. However, plenty of alternative money sources exist. In fact, studies show that U.S. microbusiness lending is underutilized. In other words, the people who are eligible for loans and grants often fail to ask for them.

Don't be afraid to take full advantage of these resources. Many types and amounts of financing are available, and you may even be able to get more than one at the same time. Also, people who offer microbusiness financing understand that microbusiness owners often face personal financial challenges. Therefore, it may be possible to get financing even if you have bad credit, no credit or no collateral.

Understanding your options can be confusing, but there are professionals whose job it is to help you. And no matter how hard seeking financing is, it's much easier than trying to start a business without the capital you need.

In Session 1, we discussed strategies for bootstrapping. The value of this approach is very clear when seeking financing. Finding creative ways to lower your costs reduces the amount of money you must borrow, which reduces your liabilities and improves your business's health. As a general rule, you shouldn't seek outside financing until you've made your business as lean and efficient as possible.

Personal Funds

Studies show that four out of every five new businesses are launched with the owner's personal funds, including:

- **Savings.** This could be money in a savings account, a certificate of deposit or even a shoebox under the bed.

- **Investments.** This category includes stocks, bonds, stamps, coins, jewelry and precious metals.
- **Life insurance.** Life insurance policies may allow you to borrow against the cash surrender value of the policy.
- **Outside employment.** Entrepreneurs often keep an existing job—or take on a second job—to cover startup costs and to ensure a steady income during the first three to six months of operations.
- **Home equity.** You may be able to borrow a percentage of your home equity; this includes refinancing your house or taking out a second mortgage.
- **Credit cards.** Credit card financing is risky at the best of times. Changes in 2005 to bankruptcy and lending laws have made it extremely dangerous. We don't recommend using credit cards to finance your business.

Lenders usually want to see that a business owner has committed significant personal funds to the venture. This shows that the business owner stands behind the business idea and is willing to take a serious risk to get up and running. For this reason, you should prepare to commit personal funds even if your goal is to get outside financing.

Debt Capital

Debt capital is borrowed money. No matter how your business fares, you must pay this money back.

In addition to repaying the loan (or **principal**), you must pay **interest**. The amount of interest depends on the amount of money you borrowed, the interest rate and the length of the loan.

Finding creative ways to lower your costs reduces the amount of money you must borrow.

Debt financing requires your business to make scheduled loan payments. This can be difficult during the startup and early growth phases. Also, the more debt you have, the higher your monthly charges will be. This increases the risk that your cash flow won't cover your debt payments. Here are some common forms of debt capital:

- **Short-term loans** are for less than one year. The most flexible form is called a **line of credit**. It allows you to borrow money as you need it, up to an approved limit. It's like having a credit card that expires in a year, but with a much lower interest rate.
- **Accounts receivable financing** is a specialized line of credit. If customers owe you money, you may be able to get financing by pledging these accounts receivable against the loan. Your inventory may also be included in the loan. Lenders usually base the amount you can borrow on a percentage of your accounts receivable (up to 80 percent) and your inventory (up to 50 percent).
- **Bullet loans** are short-term loans that usually come due in 30 to 90 days. One purpose of a bullet loan might be to cover the initial costs of doing a contract job for someone. These loans are common for businesses involved in project-oriented work.
- **Leasing** is essentially a long-term rental agreement. However, it can be considered a form of financing because it frees up funds for other needs.
- **Supplier financing** means that your supplier extends credit to you for a short period of time. For example, you may be able to order raw materials on

credit and sell the finished product before the bill is due. Alternatively, you may be able to pay for the materials over time (e.g., \$50 a month for six months). Always put these agreements in writing!

- **Term loans** normally run from three to 15 years and are typically used for high-cost equipment and real estate. They usually have a fixed interest rate and may include a penalty for early repayment.

Almost every bank loan is a **secured loan**. This means that the business or business owner must offer **collateral** for the debt. Collateral is a valuable asset that the lender takes instead of cash if you can't repay the loan. For example, if you pledge your house as collateral for a loan, the bank can take it if you don't pay back the money you borrowed.

Equity Capital

Equity capital is money invested by the owners of the business. This isn't a loan, so you don't have to pay it back. However, getting equity financing usually means giving up part of your business ownership and sharing profits with the investor. If your business is currently a sole proprietorship, it will have to become either a partnership or a corporation. If your business is a partnership, the provider of equity capital will become a partner.

How much of your business the investor will own is a matter of negotiation. If you want to be the only person who controls your business, you may have a hard time working with an investor. But if you see a positive side to having another voice in management, you may welcome the right investor. In that case, it's important to have a carefully written partnership agreement

Getting equity financing usually means giving up part of your business ownership and sharing profits with the investor.



and a method for cashing out a partner's share if he chooses to leave. These are complex issues that require professional legal advice.

Raising equity capital takes good sales and communication skills. Basically, you're selling your business's promise of profitability and selling yourself as a qualified manager of your business.

In some cases, a source of equity capital may ask you to guarantee a return on investment. If you agree to this, you will have to pay the investor even if your business fails. For obvious reasons, you shouldn't agree to this unless you have a very good reason to believe your business will succeed.

Angel Money

Financing from friends or relatives is often referred to as **angel money**. About 65 percent of small businesses start with financing from angel money and personal capital. Angel money can be debt capital (e.g., a loan from your sister) or equity capital (e.g., your brother gets partial ownership of your business in return for investing money).

If you plan to borrow angel money, handle it the same way you'd handle a regular loan. Give your angel a copy of your business plan and explain it thoroughly (especially the sales forecast, cash flow projections and profitability). After receiving the money, give your angel a **promissory note** stating the loan amount, the interest rate, and the term (i.e., how soon you will pay the money back). The note should also say when the first payment is due, how many payments there will be and how much each payment is.

If the angel money is in the form of equity financing, draw up legal documents stating

the conditions of the investment. Once it's signed, the angel owns part of your business and has a legal right to a share of your profits.

Think very carefully before borrowing from friends and family. Even if they give you the money as a gift, they may feel they should have some say in how you run your business. This often leads to friction.

And what if you can't pay them back on time? How will your lender react if he loses his money?

Remember, no business is a sure thing. You already have a lot riding on your business. Do you really want to gamble your personal relationships on it, too? Do you have the terms and conditions clearly written out? If there are problems, does the loan document spell out remedies?

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We go back seven generations in this valley. For all the improvement I can see, we might as well be living at the bottom of the mine. It's gone on like this long enough. Now, I feel like it's on me to do something.

Dad was an honest man and he always wanted me to get an education. He wanted me to have choices, so I could leave—if I wanted to—or stay and make things better. But I got married young—just 17 years old—and from then on I had my family to look after.

When my daughter Mary turned 17, I promised she was going to get the education I never got—that no one in the family ever got. She was going to be the first one. I was going to make it happen for her sake and for Dad's.

Ella Thompson has lived her entire life in Hamlin, West Virginia. Her husband Don died in a mining accident when she was 34, leaving her with three children and a small house.

If you plan to borrow angel money, handle it the same way you'd handle a regular loan.

The house had a trailer out back. Her 18-year-old daughter Mary used it for her bedroom. Mary was a really bright girl. She'd just graduated from the local high school. She liked to read—she'd read just about everything in the local library at least once—and Ella wanted to see her get away to college.

But where was the money going to come from?

Looking around, she saw that most of her neighbors and friends were in the same boat. They wanted their kids to get a good education, but they didn't know how to go about it.

Ella began to wonder if there were some way she could help herself and her neighbors at the same time.

...

Money Sources

This section looks at some of the most common sources of debt and equity financing for microbusiness owners.

Banks

Different banks serve different markets. A large commercial bank with hundreds of branches may not make loans to startup microbusinesses.

Smaller community banks tend to be a better bet. That said, some larger banks *do* offer microloans, so it pays to research the policies and terms of banks in your area.

Even if you don't need a bank loan right now, you should understand how they work. If possible, you should also build a relationship with a local banker so that you'll have an expert ally when the time for a bank loan comes. If you wait until the last minute to seek information and help, you're less likely to make a wise choice.

Credit Unions

Credit unions are started and managed by employees of a company, members of a labor union or other groups. They may offer better interest rates and loan terms than a conventional bank, but they tend to offer smaller amounts.

Still, if you are eligible to join a credit union, you might be able to borrow some or all of the startup capital you need. Credit unions tend to be interested in loans that foster community development or otherwise benefit credit union members.

Microlenders

Microlenders are typically nonprofit agencies funded by community banks, credit unions, community foundations, federal agencies or private individuals. They specialize in making short-term loans of \$35,000 or less to microbusinesses that may not have access to traditional loans. In addition, they may also offer business classes, mentoring and technical support.

Community Development Financial Institutions (CDFIs)

CDFIs typically offer loans that aid community renewal by promoting business growth and economic independence in disadvantaged communities. They also serve populations that lack access to credit, capital and financial services from traditional banks. They range from small, local nonprofits to large banks with millions of dollars in assets.

Currently, more than 1,000 CDFIs provide loans and other financial services to people in disadvantaged rural and urban communities throughout the United States. Here are some noteworthy examples:

- **ACCION USA** is one of the best-known microlending networks. It has loaned money to more than



Build a relationship with a local banker so that you'll have an ally when the time for a bank loan comes.

Types of CDFIs

CDFI Type	Purpose	Technical Assistance Provided
Community Development Bank	Provides lending and investment capital to rebuild lower-income communities	Subcontractors or subsidiaries offer credit counseling and business planning
Community Development Credit Union	Affordable credit card and financial services for lower-income people with special outreach to minority communities	Credit counseling, business planning
Community Development Loan Fund	Lends primarily to nonprofit housing and business developers in lower-income communities	Extensive guidance before, during and after the loan transaction
Microenterprise Development Loan Fund	Provides loans and technical assistance to low-income people in microbusinesses or self-employed	Training and technical assistance in social and business development
Community Development Corporation	Produces affordable housing, creates jobs and provides social services to low-income communities	Marketing, business planning, flexible manufacturing networks, business improvement
Community Development Venture Capital Fund	Invests in small to medium businesses in distressed communities that hold the promise of rapid growth	Extensive technical assistance, including taking seats on the board of directors

This chart is adapted from the Coalition of Community Financial Development Institutions (<http://cdfi.org/index.php?page=info-3>)



20,000 entrepreneurs since 1991. Its loans typically range from \$500 to \$30,000. You can reach ACCION USA at 866-245-0783, or email them at loans@accionusa.org. Their simplified loan applications take about an hour to fill out. Applicants with bad credit can apply for a credit builder loan (<http://www.accionusa.org>).

- **The Center for Community Self-Help** has provided low-wealth, minority, rural and female borrowers with more than \$5 billion in financing through its Self-Help Credit Union, Self-Help Federal Credit Union and Self-Help Ventures Fund. It also helped to enact one of the nation's first laws against predatory mortgage lending (<http://www.self-help.org>).
- **Urban Partnership Bank** works with individuals, small businesses, nonprofits, and faith-based organizations to serve underbanked communities in Chicago, Cleveland and Detroit.

Formerly known as ShoreBank (<https://www.upbnk.com>).

For more information, visit the CDFI Coalition (<http://www.cdfi.org>) or contact your state office of economic development.

Lending circles

This is a form of microlending in which entrepreneurs join together to seek favorable loan terms. It's increasingly common among immigrants and other disadvantaged communities, where members may have few assets and references, but are willing to band together for the common good.

The way it works is that the members coguarantee each other's loans. In other words, if you borrow \$500, the members of your group pledge that they'll come up with the money if you default. As each member pays off his or her loan, the group's rating gets better and it becomes eligible for more credit. Since the group's rating goes up or down depending on how well each member honors the terms of the

loan, the group itself screens new members and assesses their creditworthiness. Some groups also create a fund to cover defaults (and some lenders require such a fund).

Peer-to-Peer Lending

Peer-to-peer lending bypasses banks and connects borrowers directly to lenders. These loans may be secured or unsecured. They usually involve Web-based social networking.

There are three basic models:

- In the marketplace model, sites like Prosper Marketplace (<http://www.prosper.com>) connect qualified borrowers with private lenders through an auction-like process. The lender who offers the best loan terms wins the borrower's business.
- In the crowdfunding model, many individuals contribute a small sum of money to fund a specific project. The funding may be treated as a loan or as a donation. Kickstarter (<http://www.kickstarter.com>) and Indiegogo (<http://www.indiegogo.com/>) are popular crowdfunding sites.
- In the community lending model, a community or group pools its money and loans it to one of its members. GreenNote (<http://www.greennote.com>), which arranges student loans through the individual student's social network, is a good example.

Crowdfunding

Crowdfunding can be a quick way to raise money for a new business, or to expand or improve an old one. Typically, fundraising campaigns run for a month or two. The most successful campaigns introduce the entrepreneur (preferably through a

short video), tell a compelling story and clearly state the purpose of the funds. It's also important to raise awareness of the campaign; the major crowdfunding sites offer tools that can help you promote your campaign on social media and elsewhere.

Most microbusinesses offer a reward for pledging donations. For example, if you were trying to expand from a food cart to a traditional restaurant, you might offer each contributor two free meals when the restaurant opens. Another approach is to offer different rewards for different levels of funding: Someone who contributed \$50 might get two free meals, while someone who contributed \$150 might be invited to a donors-only dinner with live entertainment. If you make handcrafted goods, you might offer each donor an exclusive, custom-made product. Rewards like these give donors a sense of ownership in your success, and can have marketing benefits that go beyond the actual funds they raise.

To get the ball rolling, start with family, friends and advisors. Once the donations start coming in, outsiders are more likely to get involved.

To keep donors engaged, send out regular updates on your progress. The more you involve the crowdfunding community in your project, the more likely they are to promote it to others. If donors pledge money and hear nothing for a month or two, they may grow nervous.

Crowdfunding sites tend to favor unusual, creative business ideas. However, they also respond to stories. Your janitorial business may not be exciting or interesting, but maybe the reason you're starting it is. The businesses that do best with crowdfunding connect with donors on an emotional level and give them a strong personal reason to feel good about getting involved.

The businesses that do best with crowdfunding connect with donors on an emotional level.

Consumer Finance Companies

Consumer finance companies make small personal loans (usually a few thousand dollars). These loans are 100-percent secured by collateral. Consumer finance companies charge much higher interest rates and processing fees than banks and credit unions. However, they're also much more lenient about bad credit.

Some of these firms have been accused of predatory or dishonest lending practices, so research each company thoroughly before seeking a loan. Keep an eye out for hidden fees, taxes, insurance payments and prepayment penalties, all of which can add significantly to the cost of the loan. When in doubt, consult your mentor, a small-business counselor or the U.S. Consumer Financial Protection Bureau (<http://www.consumerfinance.gov/>).

Commercial Finance Companies

Commercial finance companies are similar to consumer finance companies, except that they tend to focus on business loans that are considered too risky or unique for banks. The Money Store is a good example. These loans can be helpful if your business has adequate collateral and has been turned down by a bank. That said, be prepared to offer lots of collateral, pay a high interest rate and face heavy penalties for early repayment.

As with consumer finance companies, read the fine print very carefully before signing the papers. Hidden costs can make these loans very expensive.

Read the fine print very carefully before signing loan papers!

Watch Out for Financing Scams!

Because microbusiness owners often lack easy access to capital, scammers target them with online and offline ads that offer free money or special access to government loans and grants. In most cases, these bogus offers require you to pay an access or registration fee with your credit or debit card.

Various bad things can happen if you pay this fee. The best-case scenario is that you will pay a hefty sum to receive information available for free from public sources, such as a government website. However, some scammers will send you nothing, and then use your credit card to make purchases or steal your identity.

To avoid getting ripped off, ignore unsolicited ads for no-cost loans, "free money" and other dubious offers. When in doubt, consult your local chamber of commerce, SBDC or Better Business Bureau.

Small Business Administration Loan Programs

The U.S. Small Business Administration (SBA) was created in 1953 to support the nation's small businesses. The SBA guarantees a portion of business loans made by banks and other lenders that conform to its guidelines. This helps small businesses that need long-term credit but can't afford the terms offered by conventional lenders. To qualify for an SBA-guaranteed loan, you must meet the following basic requirements:

- Your business must be an independently owned and operated enterprise within the United States or its possessions.
- The lender must certify that it could not provide reasonable loan terms without an SBA guarantee.
- You must have a reasonable amount of equity in the business. For a startup, \$1

of personal cash or assets for every \$3 of loan funds is preferred.

- You must have an acceptable personal credit history.
- Your business must be able to earn enough revenue to cover business expenses and owner's salary as well as loan payments.
- You must have experience in the type of business you wish to launch, as well as significant managerial experience.

Other eligibility restrictions vary by industry. Visit the SBA online at <http://www.sba.gov> for more information, or call toll-free at 800-8ASK-SBA, to research the current availability and terms of SBA programs. In addition, the SBA's online Loans and Grants Search Tool (<http://www.sba.gov/content/loans-and-grants-search-tool>) can help you find the right kind of financing for your microbusiness.

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I worked most days in an office, so I had some computer skills and could go online. That gave me access to information a lot of my neighbors didn't have. It also showed me what people in my corner of the world really need is access to information. That's what it all comes down to, whether you're talking about going off to college or learning about student loans.

That's why I decided I wanted to start an education placement service. I wanted there to be a local place where families could come to learn about options for educating their kids. I wanted all the information to be in one place, because people who are just trying to get by each day don't have time to fool around on 50 different websites. And I wanted them to hear about their options in plain English, without any of that bureaucratic talk that scares most people off.

I knew that's what the folks in my community needed, because I needed it myself. So many times in my life I wanted help, but I wasn't sure where to turn and I couldn't spare any time to find out. Now, I'd find my way by helping other people find theirs. I felt good about that.

I didn't need much money to live on, so believing I could make a difference was the main thing. I had three bright, beautiful kids depending on me, so I had to stay optimistic while doing everything I could to work things out.

Ella had come up with a great service, and people in her area needed it badly. Although there's a lot of public and private help available to disadvantaged communities, the people who need it most often don't know how to find it or apply for it.

When Ella had her idea, more than 700,000 nonprofits offered loans, grants, part-time jobs, scholarships, internships, information and tutoring. A small business that could provide information—and be a clearinghouse for loans, grants, jobs and school openings—would be a godsend in her community. She probably wouldn't get rich, but what she earned would make a big difference at home. And what she learned on the job could make all the difference in the world to her kids.

Ella's startup costs would be fairly low. The main things she needed were a computer with a powerful database program; a speedy DSL connection to the Internet; a subscription to the LexisNexis search service, which would give her access to information that wasn't easily available elsewhere; and a small office. After researching all these costs, she estimated that she needed to come up with \$5,000.

The question was, where would she get the startup capital?

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SBA Microloan Program

Under the SBA Microloan Program, startups or growing businesses may be eligible for short-term loans of up to \$50,000 through community-based nonprofits. The maximum time for repayment is six years, and you can't use the funds to pay existing debts or to purchase real estate.

Local lenders—which act as middlemen between borrowers and the SBA—have different requirements in terms of collateral, credit and documentation. They usually require borrowers to submit personal financial statements. You must also submit a business plan to show that you've researched your market and competition.

Loan requests for less than \$5,000 are usually processed within a few days; larger loans may take up to a month. The SBA requires all lenders to provide training and technical assistance to borrowers.

To find participating lenders in your area, go to <http://www.sba.gov/financing/microparticipants.pdf>, or contact your local SBA or SBDC office.

7(a) loans

This is the largest and most popular of the SBA loan programs. It was designed to help small businesses obtain long-term financing for such needs as working capital, machinery, equipment, fixtures, building acquisition and construction.

The loan is made by a private lender under the SBA's terms, and the SBA guarantees a percentage of the loan. For example, if you were to default on a loan of \$100,000, the SBA would reimburse your lender \$85,000. (Note that this guarantee is strictly for the lender. As the borrower, you still owe the full amount of the loan.)

Many U.S. banks participate in the 7(a) program, as do some nonbank

microlenders. Borrowers must apply through a participating lender.

To get a 7(a) loan, you must meet a variety of eligibility factors, including size, type of business, use of proceeds, character, management capability, collateral, owner's equity contribution and—of course—credit. All owners of 20 percent or more must personally guarantee SBA loans.

Applying for 7(a) loans can be complicated and time-consuming. Fortunately, your local lending institution or economic development office may be able to help you with this paperwork.

Depending on your background and needs, you may be eligible for a simplified version of the 7(a) program:

- **SBAExpress** offers a easier, faster application process for certain types of borrowers. Normally, you will get a response to your loan request within 36 hours. Lower interest rates may also apply.
- **Patriot Express** targets veterans and members of the military community who wish to establish or expand a small business. The maximum loan amount is \$50,000. Eligible military community members include veterans, active-duty service members eligible for the military's Transition Assistance Program, reservists and National Guard members, and spouses of any of the above. Applicants receive a response within 36 hours.
- **Export Express** helps small businesses develop or expand export markets. Applicants must have been in business for at least 12 months. The maximum loan amount is \$250,000, and the maximum loan guarantee is 90 percent. Applicants receive a response in less than 24 hours.

- **Export Working Capital Program** provides up to \$2 million in working capital to help small businesses take advantage of export opportunities. Applicants must have been in business for at least one year, or be able to demonstrate comparable exporting and business experience.
- **Rural Lender Advantage** encourages small community and rural lenders to “partner with SBA by simplifying and streamlining the Agency’s loan application process and procedures, particularly for smaller SBA loans.”
- **Community Advantage** increases the capacity of CDFIs and other micro-lenders to make loans in underserved and distressed communities. The application for borrowers is only two pages long, and you’ll normally get a response in five to 10 days. The maximum loan amount is \$250,000.
- **Small Loan Advantage** encourages larger lenders to make smaller loans, especially to businesses in underserved markets. As with Community Advantage, the application is two pages long and the maximum loan amount is \$250,000. Response time varies from one to 10 days.
- **CAPlines** provides short-term working capital to small businesses. Various lines of credit are available depending on your type of business. For example, the seasonal line provides funds for seasonal increases in inventory. For more information, contact your SBA district office.

Certified Development Company/504 Loan Program

A certified development company (CDC) is a community-based nonprofit that works

with the SBA and private lenders to finance small businesses. There are about 270 CDCs nationwide, each of which covers a specific geographic area.

The 504 loan program provides growing businesses with long-term, fixed-rate financing for fixed assets such as land, buildings and machinery, as well as for renovations to existing facilities. Special terms are available for businesses that are pursuing certain types of energy efficiency or sustainability projects. Loans can’t be used for working capital, consolidating or repaying debt, or refinancing. Generally, small businesses must create or retain at least one job for every \$65,000 guaranteed by the SBA. However, the SBA will waive this requirement if your business meets a community development or public policy goal (e.g., aiding rural development or expanding U.S. exports).

Contact your local SBDC or chamber of commerce to find the CDC that serves your area.

U.S. Community Adjustment and Investment Program (CAIP)

This loan program was created in 1993 to help U.S. communities that lost jobs as a result of the North American Free Trade Agreement (NAFTA). As of this writing, many counties in 24 states are eligible for this loan, as measured by job losses and unemployment rates. CAIP funding covers the substantial fees for eligible loans, which reduces the cost of these loans to the borrower.

CAIP can be used with both the 7(a) and 504 loan programs. However, note that CAIP loans include a job creation requirement. For 7(a) loans, the borrower must create one job for every \$70,000 that the SBA guarantees. For 504 loans, the borrower must create one job for every \$65,000 that the SBA guarantees.

Contact your local SBDC or chamber of commerce to find the CDC that serves your area.

Small Business Investment Company (SBIC)

This is the only venture-capital program sponsored by the federal government. The SBA licenses private venture-capital firms, and these SBICs have a portion of their financing guaranteed by the SBA. They provide equity capital and long-term debt to small businesses with high growth potential. The cost of loans and debt securities is regulated by the SBA. For more information, visit <http://www.sba.gov/content/sbic-program-0>.

Other Government Loan Programs

Loan programs offered by state and local governments vary greatly. Many regions, counties and cities have microbusiness development programs; local governments may operate these programs themselves or offer them through another agency. Check for such programs with your local office of economic development or mayor's office.

Rural Economic & Community Development Administration

The USDA's Rural Economic & Community Development Administration (RECD) offers loan programs for small businesses in rural areas. Visit <http://www.rurdev.usda.gov> for up-to-date availability and terms.

Business and Industry Guaranteed Loan Program

The Business and Industry Guaranteed Loan Program encourages commercial financing of rural businesses. The business owner applies through a commercial financial institution, and together they submit an application to RECD. Most types of businesses in cities with a population below 50,000 are eligible, as long as they pursue the following goals:

- Provide employment
- Improve the economy or the environment
- Promote water conservation
- Reduce U.S. reliance on nonrenewable energy resources

There's no official minimum loan, but loans typically begin at the SBA 7(a) maximum and can be as high as \$10 million.

Plan to Achieve Self Support (PASS)

This program is offered by the U.S. Social Security Administration (SSA) to help people with disabilities set aside money for training, education or funding a microbusiness. To apply, you must write a PASS that states the goal of your business, the steps you will take to launch the business, the money you will use (not counting SSI benefits) and a timetable for achieving your goal. If your PASS is approved, the SSA will either increase your SSI benefits to cover the cost of launching your business, or exempt the amount you spend on your business when determining your eligibility for SSI. For more information, download *Working While Disabled—A Plan for Achieving Self-Support* (SSA Publication No. 05-11017) from <http://www.socialsecurity.gov/pubs/11017.html>.

Revolving loan funds

A revolving loan fund is a source of money that fosters small-business development, especially in distressed or underserved areas. Local and regional revolving loan funds were originally capitalized with grants from the Economic Development Administration, the HUD Community Development Block Grant Program, and other sources. Loans are limited to eligible



borrowers in certain counties or cities. Standards and rules vary from region to region. For information on revolving loan funds in your area, consult your city, county or state office of economic development.

Business Incubators

Business incubators allow multiple startups to operate in a single building. In addition to office and manufacturing space, they typically offer technical assistance, networks of mutual support and—in some cases—access to capital. Once the startup is profitable and stable, it moves into its own space. For more information on business incubators, visit the National Business Incubator Association (<http://www.nbia.org>).

Preparing to Seek Financing

Here are some of the main factors lenders and investors look at when evaluating a financing proposal:

- The growth potential of your business
- The riskiness of your business venture
- The length of time you need the money
- The kind of money you need (debt or equity)
- The amount of interest you can pay (debt), or the amount of ownership you'll give up (equity)
- Sales forecast and cash flow analysis

Completing your business plan and making a confident presentation to prospective financing sources is the best way to address these issues. The *Sources and Uses of Financing Worksheet* will help you prepare to get the financing you need.

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It wasn't hard to find an empty storefront in Hamlin. That was the easy part! I called around and looked at some places, and it seemed like for a few hundred dollars a month, I could have my own little office smack dab in the middle of town.

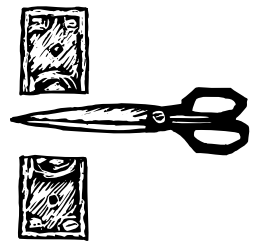
I thought hard about working out of my home. It wouldn't cost me anything, and I reckoned most visitors would feel more comfortable there.

It didn't take me long to see problems with that notion. One thing was, I didn't have the lines for DSL at home, and dialup wasn't anywhere near fast enough for my business. Besides that, we were cramped enough in our old house as it was.

But the main thing was, I wanted to look like a real, honest-to-goodness business. Not just for whoever was going to lend me money, but also for my own sake. I wanted to leave my own house each morning and walk down to my own office. I just felt good about that idea.

Ella had no illusions about the prices she could charge for her services. Her neighbors weren't exactly rolling in money, but she assumed she could generate enough revenue to keep her business up and running and provide her family with an adequate income

When she approached her local bank for a loan, she found out she was wrong. Her banker explained the problem: If she charged what her target customers could afford, she wouldn't bring in enough money to stay afloat. And if she charged enough to keep her doors open, her target customers wouldn't be able to afford her services. Although the banker liked her idea, his responsibility was to make safe loans that would earn money for the bank; lending to a microbusiness like Ella's just wasn't feasible.



	When Needed			
	Now	This month	This quarter	This year
Amount Needed				
\$20K or less	Personal savings Friends and family Peer-to-peer lenders (e.g., Prosper.com) Commercial finance companies	Friends and family Peer-to-peer lenders (e.g., Prosper.com) SBA Microloan Home equity loan Equipment leasing Bank line of credit Bank loan Equipment leasing Customer or supplier financing	Crowdfunding (e.g., Kickstarter) Strategic partners SBA Microloan Friends and family Bank loan Community fund loan Equipment leasing Customer or supplier financing Asset/Receivables financing	Strategic partners Banks
\$20K-100K	Microloans	Peer-to-peer lenders (e.g., Prosper.com) Microlenders Bank loans Bank lines of credit Home equity loan Equipment leasing	Strategic partners Asset financing	Strategic partners Banks
\$100K-1M	Angel investors	Bank loans Bank lines of credit SBA 7(a) program	Bank loans Bank lines of credit SBA 7(a) program	Venture capital Banks Strategic partners SBA 7(a) program

However, he did give her some good advice. He suggested that she contact a regional nonprofit called the Appalachian Enterprise Council, and ask them for advice on setting up as a low-profit limited liability company, or L3C. That way, she could apply for grant money from education-oriented nonprofits.

When Ella contacted Susan Finney from the AEC, she learned that she could form an L3C in Vermont and operate it in West Virginia. More important, she learned that AEC was very interested in her idea. They made grants specifically to increase regional opportunities, and they had a special interest in higher education. Ella's plan fit their mission perfectly.

Susan explained that the AEC program was unusual. Unlike most regional grantmakers, it focused on tech grants for computers, software and networks. If they determined that her idea was viable, they'd provide her with startup and operational money. They'd assess her program

regularly, and as long as it remained successful, they'd renew the funding.

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Determining How Much You Need

There are two things to consider when deciding how much financing to request. First, the amount of the loan depends on the purpose of the funds and the type of collateral you can offer. For instance, the financing available for a piece of equipment may be determined by a bank rule limiting such loans to 75 percent of the purchase price. Financing for real estate and fixed assets is usually limited to a maximum percentage of the transaction.

Second, your cash flow projections show the amount of money you need to borrow, as well as the monthly payments your business can afford.



Getting Debt Financing

The best lending relationships are built on trust, confidence and open communication. Keep your lenders informed about the positive and negative aspects of your business. If you're honest with them, they'll be more willing to work with you if you run into problems.

If you apply for a loan, most lenders will want the following information:

- **Business loan application form.** Available from the lender.
- **Business plan.** Use your NxLevel® Micro-Entrepreneur Business Plan.
- **Cash flow projections.** Depending on lender requirements, you should either have monthly cash flow projections for 2 years, or a monthly projection for the first 12 months and quarterly projections for the next two to five years. Many lenders and investors also ask for income statements and balance sheets.
- **Personal financial statement (PFS).** Lenders ask for personal financial information to assess whether you will be able to repay the loan if your business fails. In most cases, they will ask you to pledge personal assets as collateral. This is a guarantee that you'll repay the loan even if you go out of business.
- **Personal tax returns.** Some lenders will want to see copies of your tax returns to verify the income you stated on your personal financial statement.

The Five Cs of Credit

Here are the five primary factors that lenders consider when evaluating financing proposals.

Credit

Good personal credit is one of the most important factors in acquiring a startup loan. Lenders are wary of borrowers with a history of missed loan payments or bankruptcy.

Credit problems don't automatically disqualify you from getting a loan, but they may slow the process down. If your credit problems stem from a specific situation—like medical bills—explain the situation and list the steps you've taken to fix it. You should also look into credit repair loans through microlenders like ACCION USA.

Watch out for credit repair scams. In many cases, they charge you for services that are normally free. In others, they may actually increase your debt. As with any offer, if it sounds too good to be true, it probably is!

Character

The soundness of a microbusiness loan usually depends on the trustworthiness of the owner. If you have excellent business and personal references, you are more likely to get a loan.

Capacity

"Capacity" refers to your ability to repay the loan with cash from business operations. Lenders expect a business to be able to make loan payments from its profits. Your financial projections should address this concern by explaining how you expect to repay your loan. If your revenue projections are too optimistic, or your cost estimates are too low, lenders may not see them as realistic.

Collateral

If your business can't make its loan payments because of poor sales or low profits, the lender may take your collateral to pay the debt. Collateral may



Good personal credit is one of the most important factors in acquiring a startup loan.

include inventory, equipment (including automobiles), accounts receivable and real estate (including your home). Before approaching a lender, take stock of your collateral and be prepared to pledge it as security for the loan.

Conditions

This refers to the overall economic situation in the area where you live and the nation as a whole. If economic conditions are depressed, it affects all levels of the business community. This may affect the availability of funds as well as your ability to repay the loan.

Your Financing Presentation

Your written business plan and verbal presentation are the most important tools you have when looking for outside financing. To develop an effective presentation, keep these goals in mind:

- **Preparation.** Be thorough in preparing your business plan, and in preparing yourself to approach lenders and investors. Think about all the questions you might be asked, and have answers ready. If you don't know an answer, don't guess! Tell them you'll get back to them with an answer, and then do it.
- **Practice** with friends, family and your mentor before you make the actual presentation.
- **Positive attitude.** Confidence and enthusiasm are contagious, so show your confidence in yourself and your business. This will come naturally through preparation, practice, and a firm belief in your business idea based on solid market research and a thorough understanding of your customers' needs.
- **Persistence** is often the biggest factor

in getting financing. If you're turned down, ask the lender to suggest improvements to your plan and presentation. Act on that advice when you make your next presentation.

Getting ready emotionally

Seeking financing will test your skill, your patience, your sense of humor and your self-confidence. Before you take the plunge, ask yourself these questions:

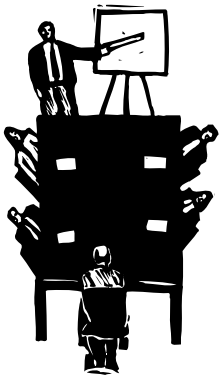
- Are you ready to hear "no"? Not all businesses get financing the first time they make a presentation.
- Are you ready to hear "yes"? Are you prepared for success? Are you ready to swing into high gear and actually open your business?
- Are you ready to adapt? Most loans are denied for specific reasons. You must address them before trying again, which could mean overhauling your business idea or your business plan.

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One thing Susan made very clear was that a grant isn't just free money that they give you for nothing. I'd have to work very hard to get it, and I'd have to work even harder to keep it. I couldn't just sit in my little office collecting checks from people. I had to be able to do what I said I would. And I had to prove that it was really working.

That meant keeping track of what happened to people after they came to me for help. And that meant doing everything I could to make sure they succeeded. Grantmakers don't want things to be too chancy, so my business plan had to answer all their questions.

It started to seem like a really big job. Too big for me, maybe. But then Susan told me, "A big job is just a bunch of little jobs." If I



just plugged away at the little jobs one after another, I'd get the big one done in the end. That made sense, because that was how I'd been living for years. I thought, "I can do that. I've always done that!"

Ella knew she needed to put a lot of work into her business plan and financial projections before she could make a pitch to AEC, so she signed up for a business planning class at the regional Women's Business and Training Center.

With help from her instructors and encouragement from her fellow students, she finished her business plan and wrote a cover letter that clearly stated the amount of funding she needed for her educational clearinghouse. She had her daughter Mary doublecheck her spelling and grammar, and—finally!—sent the package to the AEC.

After several more meetings with Ella, the AEC approved her grant request. They were very impressed with her business plan. They thought her idea was sound and her cost projections were on target. They also recognized that as a local person who was a potential consumer of education grants, Ella was in an ideal position to understand and help others.

Their only concern was that Ella was taking on a big job by herself. Fortunately, one of the services they offered was a program that matched startups with business coaches. They introduced Ella to Katie Frazer, a 31-year-old business development manager for a firm in Charleston. Katie had volunteered to help a worthy Appalachian microbusiness, and Ella's education clearinghouse was exactly the kind of project she had in mind. She and Ella hit it off right away.

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Understanding Financial Ratios

Financial ratios are very simple equations that can tell you a lot about your business's strengths and weaknesses. They tell you whether your financial condition is getting better or worse, and help you to identify and remedy problems before they spiral out of control. They can also tell you whether you're holding too much or too little inventory, or collecting receivables too slowly.

Ratios are also important when you're seeking financing. Bankers use them to assess the health of businesses and measure their ability to repay loans.

The following pages discuss some of the most important ratios for microbusiness owners.

Bankers use ratios to assess the health of businesses and measure their ability to repay loans.

Current Ratio

This is the standard measure of a firm's financial health. By comparing current assets to current liabilities, it indicates whether your business can pay its debts.

To see your company's Current Ratio, divide total current assets by total current liabilities:

$$\text{Current assets} \div \text{Current liabilities}$$

Here's an example. Suppose your company has \$32,000 in current assets and \$14,000 in current liabilities:

$$32,000 \div 14,000 = 2.3$$

A ratio of about 2 is usually healthy. It means that your business has \$2 of assets for every \$1 of debt. A ratio of 1 or less may mean you have financial problems. A ratio above 3 may mean you're not making the best use of your assets. It's a good idea to check your current ratio every month.



Debt to Income Ratio

This ratio compares your monthly income to the monthly amount you must pay your creditors.

$$\text{Debts} \div \text{Income}$$

The lower this number is, the better. Most lenders prefer a debt to income ratio of no more than 36 percent, of which no more than 28 percent should go to mortgage payments. A debt-to-income ratio above 45 percent generally indicates a dangerous level of debt.

Debt to Equity Ratio

This ratio shows how much of your company's assets are financed through debt versus equity.

$$\text{Total debt} \div \text{Total equity}$$

Example: Suppose your balance sheet shows \$10,000 of total debt (short-term liabilities plus long-term debt). And the equity amount totals \$5,000 (this is the cash you invested up front).

$$10,000 \div 5,000 = 2$$

This means your ratio of debt to equity is 2 to 1. In other words, for every \$1 you have in equity, you owe \$2 to creditors. Lenders and investors usually consider 1 to be a safe level for this ratio. Numbers higher than 2 may indicate that the business has too much debt.

If necessary, you can improve this ratio by paying off debt or retaining a higher amount of earnings in the business until after the balance sheet date. Another option is to repay revolving debt—such as a line of credit—before the balance sheet date, and borrow it again after the balance sheet date.

The higher your net profit margin is, the better your company is at turning sales into profit.

Debt to Assets Ratio

This ratio shows how much of your company's assets are financed through debt.

$$\text{Total debt} \div \text{Total assets}$$

If the ratio is greater than 0.5, most of your assets are financed through debt. For example, a ratio of 0.7 (or 70 percent) would mean that 70 cents out of every dollar in assets came from debt. A high debt to assets ratio may indicate a serious danger of bankruptcy.

Gross Profit Margin Ratio

This ratio indicates the profit margin you earn on sales. To calculate it, divide Gross Profits by Sales, and multiply the result by 100.

$$(\text{Gross profits} \div \text{Sales}) \times 100$$

Gross profit is the amount of sales dollars left after you deduct cost of goods sold. This ratio should remain stable. A decline may mean your product costs are rising faster than your prices. A high margin is usually good, but it can also indicate overpricing, which may mean your goods aren't competitive.

Net Profit Margin Ratio

The higher your net profit margin is, the better your company is at turning sales into profit. If your business is having cash flow problems, calculating your net profit margin can help you set prices that generate an adequate profit. If this ratio declines, it may signal serious financial trouble. Here's how to calculate your net profit margin:

$$(\text{Net profits} \div \text{Net sales}) \times 100$$

Suppose your income statement shows that your net profit for this year is \$5,000 and

your net sales are \$20,000. This is a ratio of 25 percent ($\$5,000 \div \$20,000 = .25$, or 25 percent). By contrast, your last year's income statement showed a net profit of \$3,000 and gross revenues of \$18,000. This is a ratio of 16 percent ($\$3,000 \div \$18,000 = .16$, or 16 percent).

This tells you that your company became more profitable (16 percent for last year and 25 percent for this year). A decline in profitability would be a danger signal.

Credit and Collections

Many microbusinesses put off developing a credit and collections policy until they have no choice. This is a bad idea. When you don't plan ahead, you often end up spending a lot of time and money fixing problems you could easily have avoided. Developing a smart credit policy early on could make the difference between your business's success and failure. The *Credit and Collections Worksheet* will help you make these important choices.

There are three ways to offer credit.

- **Credit cards.** Accepting credit cards is your safest option, because much of the risk is on the credit card company. Each company has different policies for its members, but the charge you pay to the company normally varies with your sales volume and amount. The average fee usually runs between 2 and 5.5 percent. Some companies, like American Express, charge a higher rate. Businesses that deal with customers over the telephone, through the mail or online usually need to accept credit cards.
- **Credit terms.** In some cases, you may want to offer credit terms to your customers. This is the riskiest option, because you're forced to rely on the

creditworthiness of your customers. When you extend credit terms to your customers, have them sign a sales contract that explains the terms clearly (e.g., payment is due in 30 days, and penalties apply to late payment).

- **Checks.** Although checks are usually considered to be cash rather than credit, they're included here because they do involve some risk on your part. When you accept a check as payment, you're bearing the risk that the check will be good.

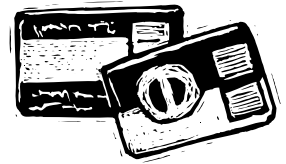
Credit Cards

The typical credit card transaction begins when your customer hands you her card. What you do with the card depends on which system you have in place. You'll either manually imprint the card onto a paper draft or swipe the card through an electronic terminal.

If the transaction is handled over the telephone or Internet, or through the mail, it begins when the customer gives you the credit card number. In that case, you'll either fill out a paper draft or enter the number into a terminal.

The next step is for you to obtain permission from the credit card company to process the sale. If you're using the older technology, you'll have to call a special number to get an authorization code (this is usually required with sales over a certain amount, such as \$50). If you're using the newer technology, the authorization code will be obtained automatically. Once you have the authority, the last step is to obtain the customer's signature on the receipt (phone and Internet sales don't require a signature).

Then, you send the credit-card sales receipts to the bank so that you can get



Developing a smart credit policy early on could make the difference between your business's success and failure.



paid. If you use the older technology, you'll have to take the receipts to your bank. If you use the newer technology, you can send the receipts electronically. This process is done at the end of the day, and is called "settling your accounts."

Your bank will authorize the charge, and notify the credit-card company (or some company acting on its behalf) of the charge. That company will collect the money from the bank that issued the card, send it to your bank, and bill your customer. Once your bank has the money, it will put it in your account, minus a processing fee (called the **discount rate**), which is split between your bank and your credit-card company.

When your customer pays the bill, the credit-card company sends the money to the bank that issued the card, minus another processing fee.

Mobile credit card payments

You can process credit cards with smartphones and other mobile devices by plugging a card scanner directly into your device. This can be a low-cost alternative to using a traditional terminal. More important, it allows you to get paid by credit card anywhere, anytime. For example, if you sell at a food cart or farmers' market, this technology can increase sales by giving your customers more payment options.

As of this writing, Intuit GoPayment (<http://gopayment.com/>), Square (<https://squareup.com/>), and PayPal Here (<https://www.paypal.com/>) are leading providers of mobile credit card processing services. Transactions of this type are predicted to reach \$55 billion by 2015. As with traditional card processing services, check fees and terms carefully before choosing a provider.

Mobile credit card processing can increase sales by giving customers more payment options.

• • •

I met up with Katie pretty often at first, and we talked on the phone a lot, too. One thing she really helped me with was figuring out how to use my grant proceeds. Like with the computer, she explained that I had two options. If I used loan money to buy the computer, I'd have a new asset, but I'd also have a new liability. And then I'd have to maintain the computer and depreciate its value on my balance sheet over time.

Katie looked at Ella's cash flow projections and decided leasing was the way to go. First, Ella could record the cost of the computer equipment as an expense, thus lowering her net taxable income. Second, the computer supplier would provide service and technical assistance, allowing Ella to focus on her work. Third, the lease would allow Ella to upgrade her computer when better ones came on the market.

In her first six months of business, Ella met with Katie every couple of weeks, and got valuable guidance on staying organized, promoting her services and setting up databases to match clients with resources.

As a condition of the grant, the AEC required Ella to offer a standardized tutorial to applicants for education funding, which would help them prepare for college. After studying training methods recommended by Susan at AEC, she was able to teach her applicants to do research, take tests and complete homework assignments. She also explained the ins and outs of college registration, and the importance of choosing and working toward a specific educational goal.

She offered a two-hour class once a week, and taught six to eight students at a time using video and overheads. The cost of these classes was included in the flat fee she charged for her placement service.

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Looking for the best rates

Shopping for the best merchant account rate is like shopping for anything else. You want the best value at the lowest price. Don't make the mistake of assuming you'll get the same rate at every bank.

Here are the things you should consider:

- **Discount rate.** This is the sum that is deducted and paid to the credit card company and the issuing bank. It usually ranges from 2 to 5.5 percent of your credit sales, depending on the volume of your sales and the typical transaction size.
- **Transaction charge.** This is the profit that the processing network makes. It's usually included in the discount rate, but it may be charged separately. The transaction charge is really the only element of the discount rate you can negotiate. Ask each bank you visit about its transaction charge and then compare the numbers. If one bank has a transaction fee higher than another bank, find out if you get any additional services for the higher fee.

Avoiding credit card fraud

Because microbusinesses are small and often have relatively inexperienced owners, they are a common target for con artists. Credit card fraudsters usually prefer to order goods online or over the phone, so that the business owner can't examine the card or ask for photo identification.

Here are some warning signs of fraudulent orders:

- Orders for multiple expensive items or large amounts of cheaper items.
- Multiple large orders within a short time frame, especially from buyers in

Russia, Eastern Europe or Southeast Asia.

- Overnight shipping, especially to foreign countries.
- Vague contact information, such as a private box address, an unlisted phone number or a free, Web-based email address (e.g., johndoe@yahoo.com).
- Large orders from "businesses" that don't appear when you search for their names online.
- A shipping address that doesn't match the credit card billing address.
- Asking the delivery person to leave the package at the door. Sometimes, crooks will have packages shipped to a nearby house, especially if they know the owner is away. To avoid fraud, require the person who receives the package to sign for it.

If an order shows two or more of these warning signs, take extra steps to confirm that the buyer is for real before you ship.

Fraud evolves constantly. As old scams become widely known, crooks come up with new ones. Therefore, the best way to stay safe is to set sensible sales policies and stick to them. This includes educating employees about online and offline threats. Some con artists target lower-level employees on the assumption that they're easier to bully into making bad decisions or taking phony orders.

To avoid these problems, make sure everyone at your business follows these basic rules:

- Ask customers for the three- or four-digit security code on the back of the credit card.



Microbusinesses are a common target for con artists.



- Ask for the cardholder's full name, billing address, telephone number, card expiration date and issuing bank. Verify these details with the issuing bank before shipping the order. Alternatively, ask the bank to call the customer to verify the charge.
- Deliver only to the billing address on the credit card.

For more information on avoiding fraud, contact the U.S. Federal Trade Commission at <http://www.ftc.gov> or 1-877-FTC-HELP.

Check Policies

Here are some good rules to follow when setting your check policy:

- **Decide what checks you will take beforehand.** The SBA recommends never accepting checks that are undated, postdated or more than 30 days old. Checks should be written and signed legibly in ink, with no erasures or written-over amounts. Also, be careful of checks without a printed address or sequence number. You should also avoid third-party checks.
- **Call the bank first.** If a check is large, and you're doubtful about it for any reason, call the bank that issued the check and ask if there are sufficient funds in the account to cover it. You can also ask for a rating on the account, or any history of bad checks.
- **Ask for personal identification, such as a driver's license.** Look closely at the picture on the license, and jot down the license number on the check. This confirms the person's identity, and it will also help you collect if the check bounces.

- **Use a company that verifies checks.** More and more businesses are using the services of check-verifying companies. There's a fee for the service, and you'll need to get online to use it. But if you follow the procedures, the verifying company bears the risk if a check doesn't clear the bank.
- **Never accept a check written for more than your selling price.** Some crooks will write bad checks for more than the selling price of an item, and then ask the merchant to return the amount they overpaid.
- **Never issue a refund before the check clears.** Obviously, if you refund money you haven't actually gotten yet, you run the risk of an even bigger loss!

Collection strategies for bounced checks

No matter how careful you are, you'll get a bad check sooner or later. In many cases, this is due to an innocent mistake on the customer's part. Most checks returned because of nonsufficient funds will clear the second time you deposit them. A check can only be redeposited once, however. So if it's for a large amount, consider politely telephoning the customer to make sure the funds are available before redepositing it.

If the check bounces again, you can send a certified letter notifying the recipient that you intend to turn the matter over to your attorney if you don't receive payment within a specified time. (You may not have an attorney, but the recipient of your letter won't know this!) A formal, typed letter on good stationery will strengthen your demand for payment.

Another option is to take the bounced check to your bank and ask them to try to collect for you. There may be a small

Never accept a check written for more than your selling price!

fee for this service. Normally, the bank sends the bounced check back to the originating bank, with instructions to pay you as soon as funds have been deposited to the account. However, if a deposit isn't made during this holding period—usually a month—you're out of luck.

Hang onto the bad check as proof of the customer's debt. If you have a good reason to believe the customer knew the check was bad and intended to cheat you, consider sending a copy of the returned check (along with a note detailing your efforts to collect the money) to the District Attorney's office.

Another choice is your local police department. When you get a bad check from an out-of-state customer, your police department may be able to work with the police in your customer's city to get results. They can't actually collect the money, but because it's a crime to write a bad check, police intervention might throw a good scare into your customer.

Credit Terms

Many microbusinesses accept only cash. Of those that offer credit, most limit what they accept to checks and credit cards because the risks are fairly low. However, microbusinesses that sell to other businesses may need to offer credit terms of 30 or 60 days to their customers.

If you need to offer credit terms, here are some basic guidelines:

- Base your credit decisions on the individual customer's creditworthiness.
- Realize that the credit terms you offer can differ from one customer to the next. Your best customers deserve more generous terms. (The reverse is also true: Your worst customers deserve less generous credit terms.)

- If a customer is late on payments, you may have to reduce or eliminate the credit terms you offer that customer until he or she re-establishes a good payment record.
- Expect to achieve your ideal credit policy only through trial and error. You're bound to make some errors about who's a good credit risk and who isn't.
- Consider your credit policy in relation to your cash flow. Your policy should not endanger the cash flow you need to operate your business.
- Remember that your credit policy will change over time, along with your business's growth and economic conditions. Review it at least once a year to make sure it still meets your needs.

Review your credit policy at least once a year to make sure it still meets your needs.

...

I'm not the world's greatest public speaker. But when I stand up in front of people and say, "I can help your kids get to college," I get their attention and I keep it.

They listen not because I'm some world-famous expert on education, but because most of us share a way of life. I'm nobody special, and my story is nothing special in these parts. What matters to people around here is that I speak their language. There's a lot of help out there for folks like us, but it seems like some of us need to hear about it from one of our own before we understand that it really is there for us.

People here have a lot of pride, and that can be an issue. But when it comes to your kids, a lot of that stubbornness falls by the wayside, thank heavens. I know one man who wouldn't take a nickel from anyone for himself. But when he found out I could help him get his daughter's tuition paid...well, he told me what mattered most to him is that she get the best she could out of life.



At the end of her first year, Ella had 30 families involved, with a total of 42 kids from 16 to 19. Her personal filing system was up to 370 contacts, and she was constantly making new contacts with schools and agencies looking for gifted but disadvantaged students. Also, people started calling her from nearby counties.

She found that as an economically distressed area, Hamlin was eligible for help from a number of nonprofits. She also found that the joy of parents who suddenly see a brighter future for their kids is very infectious.

I'm not getting rich, but I'm making a good deal more than I ever did before. I'm building up some savings, too. But the best thing is that Mary will be starting at West Virginia State in September. If I make the people I've helped anywhere near as happy as Mary going on to college makes me, then I've got as good a job as I could ever want.

...

What You've Learned

This session dealt with obtaining the financing you need to get your business up and running. It explained sources of financing, the importance of establishing a good working relationship with your lender, the lending process itself and the importance of making yourself emotionally ready to seek financing.

In this session, you learned:

1. Debt capital is money you borrow, and equity capital is money you get in return for a share of ownership in your business
2. Sources of capital can include your own funds, angel money from family and friends, and other lenders and private investors.

3. Before you talk to a possible source of financing, you must know exactly how much money your business needs, and what its projected revenues and expenses are.
4. Just as you spend time getting your financing proposal ready, you must also take the time to get ready emotionally.
5. Whether you're seeking financing, or simply managing your business day to day, it's important to test the financial health of your business with ratio analysis.
6. An appropriate credit policy will save you time and trouble, and may make the difference between success and failure.

WORKSHEETS



SESSION 14

SESSION 14: FINANCIAL TIPS AND TOOLS

Bank On It!

Sources and Uses of Financing Worksheet

There are two primary types of financing. **Debt financing** means you borrow money, and then pay it back with interest. **Equity financing** means you trade partial ownership in your business for money. Funding sources might include your own savings, a family member, friends, financial institutions, private microlenders, suppliers or leasing companies.

At this point, you should know how much financing you need to cover your startup and operating costs until your microbusiness becomes profitable. First, check your sales forecast for accuracy. Then, look at your cash flow projections. If you don't have enough cash to cover startup expenses, you have decisions to make. If the business doesn't generate sufficient cash to cover the projected cash requirements, you have *more* decisions to make. For example, do you have personal savings to invest in your business? If so, is this an investment that you and your family are willing to make? Will you need to seek outside funding instead of—or in addition to—your personal savings?

Step 1 How much money do you need to borrow—or to invest yourself—to cover startup expenses and operate for your first year? How much financing will you need, and for how long? Will you seek debt or equity financing? List potential sources for each.

Debt Financing

Amount sought \$ _____

How long do you need this financing? _____

How much debt can you afford per month? _____

Potential sources _____

Terms _____

Availability _____

Advantages _____

Disadvantages _____

Documents needed _____

Sources and Uses of Financing Worksheet—continued

Equity Financing

Amount sought: \$ _____

How long do you need this financing? _____

How much control of your business are you willing to give up? _____

Potential sources _____

Terms _____

Availability _____

Advantages _____

Disadvantages _____

Documents needed _____

Step 2 *List your chosen sources of startup capital in the Sources of Financing column of the Sources and Uses Statement Worksheet on the following page.*

List the amount each source will contribute to your venture, and then total all funds in the *Amount* column.

Step 3 *Show how you will use this capital.*

Break the uses of your startup capital down by category, based on the *Startup* column of the (C) **Operating Cash Out** section of your *Cash Flow Projection Worksheet*. List the amount needed for each use, and then total all expenditures in the **Amount** column.

Sources and Uses Statement Worksheet

Sources of Financing	Amount
TOTAL SOURCES OF FINANCING	
Uses of Financing	Amount
TOTAL USES OF FINANCING	

Credit and Collections Worksheet

1. List all the types of payment you will accept (cash, checks, credit or debit card in store, credit or debit card online, credit or debit card via smartphone, credit accounts)?

2. What are your policies for accepting checks? Will you use a check verification service? If so, how much will this service cost each month?

3. If you will accept credit or debit cards, what are the setup costs? What transaction fees apply? Consider in-store terminals, online payment processing and mobile device processing.

4. If you allow customers to open credit accounts, when are payments due? Will you offer a discount for on-time payment? What penalty will apply to late payments?

5. Describe how you will collect late payments.



Writing Your Business Plan

Use the information from this session to write the sections of the business plan listed below. Start with the headings and subheadings just as they're shown here. Then, follow the instructions under each subheading to write that section of your business plan.

Section V. Financial Plan

A. Capital Requirements

Loans, Grants and Self-Financing

Review Step 1 on the Sources and Uses of Financing Worksheet. Write a paragraph explaining how you intend to finance your business. Explain how much money you'll need to borrow—or to invest—to cover startup expenses, fixed asset purchases and operating costs. Explain how much of the total funds will come from owner investment, and how much from borrowed funds. Also, explain how long you'll need any borrowed funds, and how you intend to pay it back. This section should bring into focus all the financial information you've gathered up to this point.

D. Financial Statements

Sources and Uses Statement

Make a copy of the Sources and Uses Statement Worksheet and include it here.

Personal Financial Statement

Review the Personal Financial Statement that you prepared in Session 1, and update it if necessary.

Note: These instructions continue on the next page.

Executive Summary Worksheet

After you finish the other sections of your plan, take the best two or three thoughts from each section to create a summary. The key to creating a good summary is to *write it with your audience in mind*. If your plan is going to a banker, for instance, your summary should address a banker's concerns.

The summary should be no longer than one page, and the information should be in the same order as the sections of your plan. The summary should read like a condensed version of a book. In other words, the ideas must flow together. They can't be a jumble of loosely connected thoughts. Pick your key points carefully, and remember your purpose: to make the reader want to continue reading.

- Step 1** *Look back at your business description, product description, mission statement and business goals and objectives. Get a clear picture of how you want to present your business to your reader. Can you summarize your goals and objectives in a way that will make the reader want to learn more about you and your business?*
- Step 2** *Review the Business Concept and Business Organization and Operations sections from Sessions 2 through 6. Include the names and relevant background of the owner(s), as well as important team members. State why you (and your management team) are qualified to move forward with your business idea, and explain how crucial your management capabilities are to the project. Note any intellectual property, existing contracts or market research findings that support your business concept.*
- Step 3** *Summarize the Marketing Plan section in such a way that the reader has no doubt you have done your homework. Introduce your target market, and explain your positioning and competitive advantage in that market. Make sure readers understand what's different or better about your business, and show them that you know how to sell benefits to your target customers. Demonstrate that you really understand your customers' needs.*
- Step 4** *Summarize your financial requirements for startup, as well as estimated sales and profits. If you're using your plan to get a loan, you should also explain how much capital you need, how you will use it to achieve your goals and what type of collateral you offer. Review Section V for this information.*



Writing Your Business Plan

Section I. Executive Summary

Write a one-page summary of the various sections of your NxLeveL® Micro-Entrepreneur Business Plan. Remember: Your goal is to make the reader want to read more!

Note: We're asking you to begin developing the *Executive Summary* now, because it often takes several rewrites to get it right. Also, you may need to make corrections before writing your final draft of the business plan.

You're Almost Done!

You're now ready to pull together the last few pieces that will make your plan complete.

The *Attachments* section of your plan can be very helpful for your readers. It contains supporting documents that will give the reader as complete a picture of your business as possible.

The front pieces of your *NxLeveL® Micro-Entrepreneur Business Plan* introduce and organize the plan for easy reading. The *Cover Page* identifies your business name, the owners, and the month and year in which the plan was written. The *Table of Contents* lists all materials by page number. The *Executive Summary* gets the reader interested in reading more.

Follow the instructions on the following pages to create these last pieces, and then look at the *NxLeveL® Micro-Entrepreneur Business Plan Outline* to see where they fit in the completed plan.

Cover Page

The *Cover Page* should include the following information:

- Name of the business. If your corporation or LLC carries one name, but you actually do business under another name, show both (see example below).
- Business address.
- Business contact info (including phone number, email and website address).
- Logo (if you have one).
- Month and year the business plan was completed.

Here's an example:

Ubik, LLC dba

The Golden Tripod

1311 N. Avenue Road Highway, #511

Townsville, AM 40171

Tel: (102) 077-0211
Email: info@suet-trees.com
www.suet-trees.com

October 2014

Table of Contents

Organize the *Table of Contents* to show the major section headings, along with the page number that starts each section. It's even better if you show detailed subheadings under the sections, so that readers can easily find the information they need. For example:

Table of Contents — SAMPLE

<u>Section</u>	<u>Page</u>
Section I. Executive Summary	1
Section II. Business Concept	3
A. General Description of the Business.....	3
B. Business Goals and Objectives	4
C. Industry Information.....	4
Industry Background	
Current and Future Trends	
Business Fit in the Industry	

Executive Summary

Now, take one more look at your *Executive Summary*. It may be tempting to make this section longer than one page, but *don't*. If you can't get your reader interested in one page, you probably can't do it in two. Be clear, concise and compelling!

Writing Your Business Plan



Cover Page / Table of Contents

Follow the instructions on pages 14-8 and 14-9 to develop your Cover Page and Table of Contents.

Section I. Executive Summary

Review, edit and finalize your Executive Summary.

Action Plan Worksheets

Review the *Action Plan Worksheets* you filled out while working through these sessions. Update any activities you've completed, and note any tasks you still need to finish. For your business plan, consider compiling these sheets into a formal Action Plan that shows only the activities that still need work. Consider including a copy of your Action Plan in the *Attachments* section.

Attachments Worksheet

This section of your business plan should include any information or documents that further support or explain the case you made in the body of the plan.

Step 1 Identify your intended audience.

Different audiences will require you to prepare slightly different attachments. For instance, the attachments you send to a banker for a loan would be more detailed than the attachments you would send to a supplier to establish trade credit.

Step 2 Identify desired supporting documents.

Using the worksheet on the following page, identify documents you'll use as supporting evidence for your business plan. Consider which supporting materials you need, based on your audience.

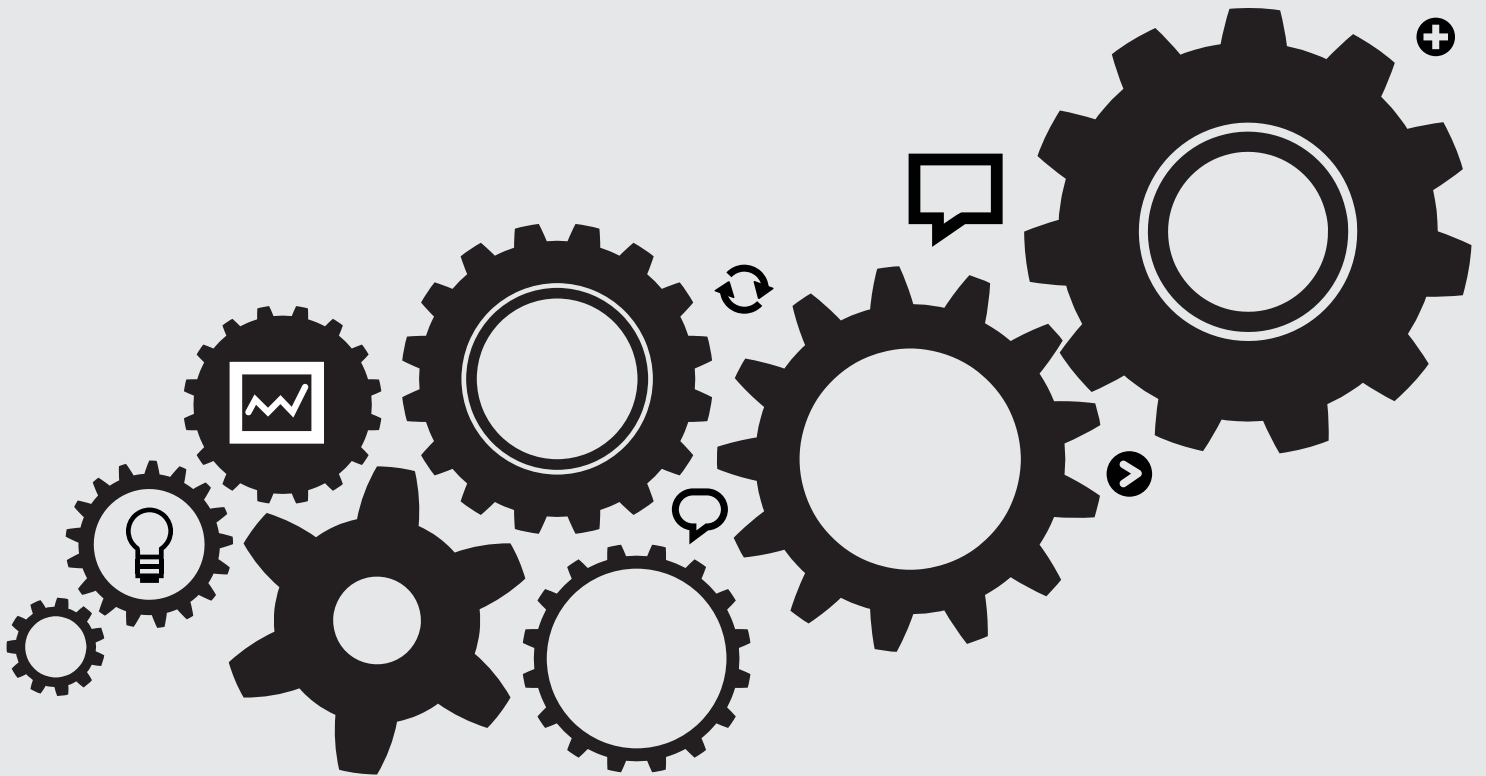
Step 3 Collect supporting documents.

Step 4 Prepare a cover page for the Attachments section, and list the documents you've included in their order of appearance.

Attachments Worksheet

Supporting Documents for Attachments Section	Required?	Completed
Current personal credit report		
Personal tax returns		
Résumés for each owner		
Résumés for key managers		
Résumés for key employees		
Organizational chart		
Job descriptions		
Letters of reference		
Property layout (showing outbuildings, floor plans, etc.)		
Map of location		
Building permits		
Appraisals		
Photos of business site and equipment		
Photos of products		
Photos of promotional tools and signage		
Copies of leases and contracts		
Loan documents		
Credit reports of major customers		
Intellectual property protections and licenses		
Certifications		
Other legal documents		
Market studies, including surveys and customer data		
Magazine articles, book references or research papers		
List of mentors, advisors and consultants (including your attorney and accountant)		
Other:		

TEXT



SESSION 15

Bringing It All Together

READY, SET, GO!

HIGHLIGHTS

Making the Deal.....page 2

Overcoming
Barriers and Pitfallspage 11

Moving to the Next Levelpage 17

“*Success is to be measured not so much by the position one has reached in life, as by the obstacles one has overcome.*

—Booker T. Washington”

About This Session

This session is about moving forward.

A big part of moving forward is learning to negotiate, so that you can reach agreements, make deals and make progress.

Another part of moving forward is learning to avoid the common barriers and pitfalls your new business will face.

Last, moving forward means bringing all your hard work to a

fruitful end by completing your business plan.

Making the deal. Good negotiators know what they want out of a deal, but they also try to find where their interests and those of their counterparts overlap. They take the other side’s interests, needs and views into account, and use their negotiation skills to resolve conflicts and create win-win solutions.

Overcoming barriers and pitfalls.

What challenges will you face as a small-business owner? Where can you find answers to your questions? In this section, we’ll tell you what to expect and suggest ways of overcoming common obstacles.

Moving to the next level. The end of this session brings all the lessons into perspective, and prepares you for the next step in your journey toward running a successful small business.

Making the Deal

Negotiation is the process of resolving conflicts and creating win-win solutions. You may not realize it, but you negotiate every day. When you debate which movie to go to with friends, or discuss whose turn it is to take the garbage out, or offer your child a reward for getting better grades, you are negotiating.

Like any other skill, negotiation can be learned and practiced. Understanding what good negotiators do, and why they do it, will help you achieve great results.

Many people see negotiation as a conflict that the more aggressive negotiator always wins. In reality, the best negotiators are cooperative and flexible. They know that their own interests depend on creating a win-win outcome that leads to a stable working relationship. Negotiation can produce solutions that neither side could have achieved independently. In fact, negotiation can be open, friendly and even fun.



The best negotiators are cooperative and flexible.

Hard and Soft Negotiators

Different people take different approaches to negotiating:

- **Hard negotiators** pursue their own narrow goals aggressively and have little or no concern for the other person's interests or needs. They're more interested in "winning" than in having a good business relationship. They often resort to threats, bullying or bluffing to get what they want.
- **Soft negotiators** want to avoid conflict at any cost, so they usually don't stand up for their own best interests. Generally, hard negotiators see them as people who can easily be bullied.
- **Win-win negotiators** combine the best parts of both approaches by being

hard on problems and soft on the participants. Like kids in a three-legged race, they work together to reach a shared goal. They approach problems cooperatively and achieve a win-win outcome through open, honest communication. In short, they attack problems, rather than each other.

• • •

A lot of people, if you asked them why they started a business, would probably say "I had this great idea," or "I knew I had something special to offer." That wasn't how it was with me at all. When I decided to start a business, I had no ideas and I didn't think I had much to offer anyone.

For me, the biggest motivation was that I'd made just about every mistake you could make in life, and I was ready to turn things around and make a change for the better. Plus, I was still living at home, and even though Mom never said anything, I knew that put a burden on her.

I didn't want to be a burden. I wanted to earn enough to get my own place and start helping her out. I wanted to feel different about myself. And have other people feel different about me, too.

Mark Stuebner lived in Grand Island, Nebraska. He was 26 and needed work, but he didn't really know what to do or where to look. He had some skills—basic auto repair and things like that—but nothing he could see earning him a living.

He needed to talk to someone, so he looked up his old high-school counselor, Tom Muentzer. Mark had been a little wild back in high school. He drank too much and got in some trouble with the law. He ended up dropping out, in fact. But he remembered liking Tom, who had a knack of making him feel hopeful about his future at a time when everyone else was telling him he'd wind up in jail.

Tom had a positive outlook about me. He always said I was a smart kid, which I liked hearing. But he was also kind of pushy and demanding. Always telling me to plan for this and work for that. I didn't want to hear that kind of stuff in those days.

But since then, I'd grown up a little. And thanks to Alcoholics Anonymous, I wasn't drinking anymore. So I had a different take on things. This time, I was ready to listen and learn.

...

The Role of Power

We feel that win-win negotiation is the best approach to making deals. But some negotiators would rather achieve their goals through a show of power. This can work for a while, but in the long run threats and bullying usually don't lead to the best outcome. Deals made under pressure last only while one party feels weaker. When the weaker party gets an opportunity to back out, the deal falls apart.

Power principles

There are many kinds of power. Authority gives you one kind of power and self-respect gives you another. You can be powerful by having more money or by having more character. You can win negotiations by being a bully or by being honest and fair.

Hard negotiation can be intimidating, but it's often a sign of weakness. Think about it: If you have something really good to offer people, you usually don't have to be a bully to win their cooperation! And besides, how much power do you really have when you can't hold on to what you've won?

Here are some basic principles of power:

- Power is always relative and limited, never absolute.

- Power can change hands suddenly.
- Power can be real or imaginary.
- Power can be exercised without acting.
- Power is often only as strong as you think it is.
- Power exercised out of fear, greed or anger indicates weakness.

Think about your own past negotiation experiences. Did actual power or perceived power play a bigger role in the outcome? Chances are, perceived power played a bigger role.

No matter how weak you think your position is, you probably have many other forms of power, including:

- The power to negotiate fairly and wisely.
- The power to choose whether to sign the deal.
- The power to point out the consequences of a failed agreement.
- The power to deflect attacks by refusing to retaliate.
- The power to show a way out of the conflict.
- The power to maintain your personal integrity.

The power of hope

What each side hopes to achieve by negotiating, and how confident each side is of reaching a good outcome, has a huge impact on how things turn out. Experts agree that:

- People with high hopes achieve better outcomes.

Power is often only as strong as you think it is.



- Skilled negotiators with high hopes earn better outcomes regardless of the amount of power they possess.
- People with high hopes can direct negotiations better than people with low hopes.
- High initial proposals improve the quality of the final settlement.
- People with lower hopes make more unnecessary concessions.

How Deals Are Made

Negotiation often requires time and patience. It can be a long journey from your initial negotiations to the signature that closes the deal.

No matter who you are or what approach you take, the negotiation process generally contains the same phases. These include setting an agenda, voicing demands and offers, working to minimize differences, and closing the deal. Ideally, each of these stages builds upon the gains made in the previous stages, allowing the two sides to arrive at a fair outcome.

Identify your interests

Before negotiating, identify your interests. When you have clear goals, you project a confident, professional image that gives your counterpart a reason to take you seriously.

Your interests may be very different from your position. Your position is what you say you want (more money, a faster turnaround time, a larger order size). Your interests are the things that motivate you to take your position (your needs, concerns and hopes).

It's important to understand the difference. Otherwise, you may spend a lot of time arguing over positions, only to end up with an agreement that doesn't satisfy your interests.

List your interests in order of their importance, and determine how much each is worth in relation to the others.

Next, consider all the options that would satisfy your interests. In how many ways can your interests be met? What are you willing to do—or give up—to get what you want or need?

You should also explore those terms of the deal that would satisfy your counterpart's interests. You'll improve your position if you can think of good options your counterpart overlooked.

Identify your BATNA

Next, identify your **Best Alternative to a Negotiated Agreement (BATNA)**.

If negotiations don't work out, what are your options? What other opportunities do you have? Do you have other offers? It's essential to know exactly what's at stake.

If possible, it's also wise to identify the BATNA of the other party.

Identify your settlement range

You probably know what you want out of a deal, but you also need to think about what you *don't* want. What's the very least you need to achieve in order to feel good about the deal? What is the point below which you can't go?

Once you've set this bottom line, you've created a **settlement range**. At the top of the range is the best-case scenario, where you get everything you want. At the bottom is the worst-case scenario, where you walk away with the bare necessities.

By "bare necessities," we don't mean that you got to keep your gold fillings and the clothes on your back; we mean the minimum you need in order to feel that the deal, though not perfect, is acceptable.

You shouldn't insist on your best-case scenario at all costs, but you shouldn't

*Before negotiating,
identify your interests.*

make unnecessary concessions, either. If you end up right in the middle of your settlement range after a tough negotiation, with most of your interests met, consider it a solid win.

...

Tom was happy to talk to me and help me. The first thing he said I should do was to learn everything I could about Grand Island. I said, "I've lived in this town my whole life, Tom. There's not much to it. What more do I need to know?"

He told me I should look at the kind of work people did, the social programs, the types of businesses that were coming to town, Internet use, college enrollment statistics, you name it. But way beyond that, he wanted me to think about how the town fit into the region, the state and the country. What were the trends? Was the town shrinking or growing?

By the time he was done, I realized that I didn't know very much about Grand Island at all. And I started to get interested. Tom put me on the school's computer and I got started researching the basics about the area.

To make a long story short, I found out that most jobs in Grand Island were farm, retail trade or construction. That narrowed things down a whole bunch. I didn't feel like I was cut out for retail, so I decided to check out the market for construction.

Mark knew a few guys who were in construction. One of the first people he talked to was a friend from grade school named Nick Storch, who was working right then on a retrofitting project downtown. He mentioned to Mark that the worksite needed cleaning and pressure washing. The crew was understaffed and didn't have time to do that kind of work. Nick knew someone in Lincoln who did site cleanup for a living, but no one was doing it in Grand Island.

Nick said the big problem local contractors had in common was that nobody wanted to take on the cleanup work. There was a steady need for it, though. Nebraska weather being what it is, construction and farm equipment needed cleaning in spring and fall. And at malls and such, all the shopping carts, outside equipment, and even the big garbage bins needed cleaning at least a couple of times a year.

That sounded promising to Mark. He already had a sturdy truck, so all he needed was some pressure washing equipment, safety gear and an ability to negotiate contracts with construction companies, strip-mall owners and supermarkets.

He ran the idea past Tom, who told him to do some market research, find out who his customers would be, figure out his costs and prepare a good sales pitch.

...

Identify obstacles

You're sitting face-to-face with a customer or partner and things just aren't working out. Maybe you're unable to communicate with one another, or maybe you feel intimidated by the other party. Either way, something's stopping you from reaching an agreement. What should you do?

First of all, don't give up. The following strategies can help you make it through the obstacle course:

Recognize bad behavior

If the other person resorts to an unfair tactic, your best weapon is to recognize it and name it. Naming such tactics as soon as you see them can improve your sense of control and confidence. Here are some tactics to watch out for:

- **Stonewalling.** The negotiator refuses to budge from his position, rejects

Naming unfair tactics as soon as you see them can improve your sense of control and confidence.



your proposals and won't listen to your arguments.

- **Bullying.** The negotiator attempts to browbeat or threaten you into the deal.
- **Deception.** The negotiator tries to trick you into the deal, taking advantage of your good faith by providing misleading or false information.

Open your ears

If you really listen to what the other person is saying, you might find that an obvious solution has been right in front of you all along. Being a careful listener is the best advantage you can have when negotiating. Revisit the listening tips from Session 1.

Get in the other person's shoes

Instead of fighting your counterpart's tactics, try stepping into his shoes. Try to understand and appreciate his point of view.

You don't have to *agree* with that point of view, of course. Your goal is simply to understand it and see if you can find some common ground. You may find that you have the same time pressures or expenses, or even the same dislike of negotiating. Whatever it is, recognize it and use it to form a bond.

Lighten up and laugh

The way you approach negotiations can have a big effect on the results, so why not have a positive, easygoing outlook? Take the opportunity to lighten up the discussion where possible and appropriate. This can build trust and create a more pleasant environment.

Fall back and regroup

When negotiations get tense, people often retreat to their positions instead of focusing on their interests. They simply

react, without thinking or listening to the other side. Negotiations often fall apart at this stage.

You have the power to break this deadlock. Step back and look at the negotiation as an outside observer would. You have as much right to set the pace of negotiations as your counterpart does. Exercise this right whenever you feel the need to. Take a 15-minute break to calm down, reflect and relax. This will give your counterpart a chance to do the same. Having cleared your head, you'll be ready to engage more effectively than ever.

One way to buy yourself some time is to say nothing. Silence is one of the most powerful tools a negotiator has; it gives the other person nothing to argue with, and may throw off her momentum. This consolidates your power and forces the other side to adapt to your pace.

Another good way to slow down is to verbally review the progress you've made up to that point. Taking notes is helpful, too. It gives you an excuse to pause and reflect while showing that you take the process seriously.

Get off the hot seat

No matter what the other person says, never make an important decision on the spot. Good negotiators always fall back, regroup and go to a safe location to make their decisions. In this context, "safe" means a place where you're under no direct pressure to close the deal.

If pressured, say something like "You've obviously put a lot of time into this, and I'd like to do the same before I answer." Or "I always get a good night's sleep before I sign a contract."

Even if you only have a few minutes to make a decision, you should still allow yourself some space and time to review

Being a careful listener is the best advantage you can have when negotiating!

your options. A decision made under pressure may be one you regret later.

Walking Away from the Table

No matter how committed you are to making a deal, there may come a point where your best course of action is to walk away. Knowing your “walk-away point” in advance strengthens your position.

How do you decide when to walk away? One thing you can do is consider the costs—in terms of time, money, relationships, personal integrity, energy and emotions—of walking away versus continuing to negotiate. As a general rule, it’s time to think seriously about walking away from negotiations when:

- Your counterpart’s ethics clash with your own.
- You’re being forced to accept a deadline you can’t meet.
- Your counterpart is greedy and unwilling to compromise.
- You believe your counterpart is unwilling or unable to honor the deal.
- You can get better results elsewhere.
- You strongly dislike your counterpart.
- You have evidence that your counterpart is dishonest or the deal is illegal.
- Economic conditions lower the value of the deal to your business.

Your Negotiating Partners

In the course of running your business, you’re likely to negotiate with each of the following types of people. The information presented here will help you to be confident, professional and prepared.

Lawyers

Most lawyers price their services in one of two ways:

- **On contingency.** The lawyer’s payment is based on a percentage of the money you win in a lawsuit.
- **Straight fee.** The lawyer’s payment is based on hourly work.

Fees are always negotiable, so get fee information from several lawyers before negotiating.

Bankers

There are many types of banks; some serve consumers and some serve businesses. Your goal is to find a bank that understands your needs.

Bear in mind that unlike many negotiating partners, banks are limited by a number of business factors:

- They must perform due diligence.
- They must charge higher rates for riskier loans.
- They often ask for collateral.
- Market trends dictate their lending patterns.

Venture capitalists and investors

Investors have a leg up on the average small-business owner for one simple reason: They negotiate deals all the time. Always work with a trusted lawyer when negotiating with prospective investors.

Suppliers

You’ll probably rely heavily on your suppliers, so it’s wise to choose suppliers who share your values and standards, and with whom you’ll enjoy working.





Research potential suppliers thoroughly before you approach them.

If you're just starting out, you may have a hard time negotiating favorable payment terms or setting strict quality standards. One possible solution is to negotiate a short-term agreement in which you perform well, after which you have an add-on or long-term agreement.

Before you approach a supplier, it's smart to research the company thoroughly. How many competitors do they have? How long have they been in business? What regulatory burdens do they face?

Answering questions like these can give you an idea of how important your business is to the supplier, which may give you more bargaining power.

Customers and buyers

Customers are the end users of your product, while buyers purchase goods to resell. Negotiations with customers should be guided by your interest in a long-term relationship. If you're in a service business, you'll probably be negotiating contracts that include price, delivery time, project terms and work specifications.

Negotiations with buyers are similar to those with suppliers. Major issues include payment terms, late payment options and contract changes.

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The first thing I needed to do was confirm what Nick said, and make sure no one else was doing that kind of cleanup work for my target customers. I looked through the Yellow Pages and checked online. I even called a few companies and asked if they offered that service or knew anyone who did.

I found out Nick was right: The field was wide open. All I needed was a pressure-cleaning rig on the back of my truck, and I'd be the only game in town.

I didn't figure negotiating the cleanup contracts would take a lot of work. For one thing, I had connections. I knew some guys in construction, and I knew a couple of people at the grocery stores, too. I figured I could get a foot in the door without breaking a sweat.

Mark went to see George Blaurock, a fellow AA member who'd inherited family money, and borrowed \$5,000. After some negotiations, Mark signed a promissory note for the loan, stating that in three months' time, he'd start making monthly payments of \$200. George generously set the yearly interest rate at 5 percent, and Mark agreed to pay more whenever he could.

The loan covered the parts and repairs that Mark's truck needed before he could use it as a business vehicle. Luckily, Mark was able to do a lot of the work himself, which saved him a few hundred dollars. With the rest of the money, he bought a pickup-mountable pressure washer with a 150-gallon tank. On Tom's advice, he got a diesel model, so that he could run it on biodiesel and cut down on his overhead.

The next step was to drum up some business. He visited every construction project, every grocery store, and every strip mall and big-box store in town. He even went to the hospital and the country club. Most of them told him he'd need to call first and set up an appointment to discuss contract terms.

Tom said I was overexcited, and it didn't take long to find out he was right. He explained that before I tried to approach these businesses, I needed to find out who had the authority to hire me and set up an appointment with that person. I also needed to get ready by educating myself about each business. A hospital or a country club is a whole lot different from a strip mall, he said. For instance, the hospital might want to know how loud my washer was. But they probably wouldn't care about noise at

a mall, especially if I was working after hours. I needed to think about things like that before trying to negotiate a contract.

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Employees

In negotiations with employees, the major issues are compensation, benefits, duties and the good relationship you hope to maintain between you and your employee. For this reason, it's best to know as much as possible about the person's skills, interests, goals and ambitions before negotiating.

When cash is tight and your employees want raises, it's important to understand that the request for a raise is sometimes a response to stress or unhappiness. Perhaps your employee doesn't need more money so much as a more flexible schedule, more vacation time, more recognition, more cooperation from co-workers or even just a longer lunch break. You may have to ask a number of polite, probing questions in order to find out exactly what's on the employee's mind, so that you can work together on a win-win solution.

Independent contractors

Negotiations with independent contractors typically focus on cost, deliverables, deadlines, environmental and quality standards, and intellectual property rights. As with other negotiating counterparts, you should gather as much information as possible about your prospective contractors before negotiating.

Landlords

At some point, you'll probably have to negotiate a lease with a landlord. Usually, landlords want to earn as much money per square foot as possible. Rent generally covers a fixed time period, and often includes several add-ons (e.g., ground fees,

common area maintenance, construction allowance and cleaning). All these fees are negotiable.

Contract Management

A signed contract is a very valuable asset for your business, especially if it's with a major customer. It's surprising how many businesspeople neglect deals they've closed. Your contracts represent a promise of future deals, but only if you manage them professionally. Delivering exceptional performance under contract requires ongoing, consistent management.

Failing to manage your contracts can have serious financial consequences. It can cause you to miss out on time-sensitive incentives and discounts, and it can also lead to inefficiencies, errors, wasted effort and missed deadlines. Studies show that costs that arise from inadequate contract management can reach as high as 7 percent of a business's operational budget. Put another way, much of your profits will be lost if you don't manage your contracts properly.

Much of your profits will be lost if you don't manage your contracts properly.

Nurturing your partnerships

Nurturing a partnership means understanding each other's performance standards, time constraints, business priorities and management culture. How does your partner business make and implement decisions? What are its competitive strengths? What does it value in its business dealings? Understand these things, and you'll be able to meet requirements before they're requested of you.

The first step after signing a contract is to have a kickoff meeting where you review the terms of the contract with your partner. You must agree on how and when each side will perform its part of the deal, and how

you will verify and measure progress. Here are some basic suggestions:

- Review the timetable for successful completion of the contract.
- Break the contract into smaller pieces based on the timetable and performance goals (e.g., units to be delivered, deadlines to meet).
- Define the responsibilities of each participant.
- Define plans for managing breaches of contract, or substandard performance.
- Define the margin of error allowed for performance targets.
- Establish meeting times and dates to review the status of the contract.
- Review payment terms.

If possible, it's an excellent idea to make someone within your business responsible for keeping track of contract issues. On a day-to-day basis, this person will ensure your business's compliance with the terms of each deal you sign, and become the communication link between your business and your partner.

It's important that you understand and approve of the system that this employee uses. If the employee is on vacation, or decides to quit, you need to be able to take control of compliance efforts seamlessly. Having a contract management system that only one employee understands is a recipe for disaster.

Having a contract management system that only one employee understands is a recipe for disaster.

Contract Management Software

Here are some potential benefits of contract management software:

- Automatic tracking of performance, compliance and deliverables
- Creating an electronic backup of contracts and contract-related data
- Instant access to contracts through a searchable central repository
- Monitoring contract milestones and deadlines
- Creating an email-based reminder system to alert personnel when it's time to fulfill contractual duties
- Standardizing processes and terms
- Avoiding unwanted automatic renewals
- Avoiding late fees, penalties and service interruptions
- Reducing material and service costs
- Validating invoices against contract terms
- Keeping track of rebates and discounts
- More efficient workflow and time allocation
- Improving organizational control and oversight
- Confirming receipt of goods and services before permitting payment
- Capturing system data for accounting programs

Exceeding expectations

Next, let's focus on managing your performance as the provider. Given the choice between simply meeting the terms of your contract or exceeding them, you should always do more rather than less.

Here are several basic ways to exceed expectations:

- **Be speedy and professional.** All companies should deliver rapid, professional service when and where their customers need it. Exceeding expected delivery time is one of the most powerful statements you can make, but you should never sacrifice quality and professionalism for speed.
- **Follow up on service.** Check with your partner (in person or over the phone) to make sure that all questions or issues have been resolved. Once again, a great deal of your business's success rides on your ability to look back on your performance with a critical eye and rate how timely, appropriate and professional it was.
- **Avoid unnecessary charges.** Make sure your invoices aren't cluttered with petty extra charges for small spare parts or minor services.
- **Share your expertise.** Just as you want your partners to enhance your business's competitiveness, you should work to make your partners more competitive. Share your knowledge with them, and look for ways to increase your value to them.
- **Stay available.** Keep as many lines of communication open as possible, from phone, email and personal meetings to social media, text messaging and newsletters.

Fixing problems

At some point in your business dealings, you'll make mistakes—all businesses do! What matters most is that you improve and grow by learning from them.

Suppose you ship an order to a customer five days late, and when it arrives your customer calls to complain that you sent too few of a certain item. What do you do? Acknowledge the problem and take responsibility for it! As the head of your business, any problem—large or small—is ultimately your responsibility.

Here are the fundamentals of crisis management and problem resolution:

- Acknowledge the problem.
- Acknowledge your partner's frustration or annoyance.
- Understand and explain what caused the problem.
- Take full responsibility.
- Fix it fast!
- Explain how you'll prevent the problem from happening again.

Partners who feel that you've given them the attention they deserve are some of the best allies your business can have. Likewise, people who feel that you have dealt with their problems professionally may become some of your most loyal customers. Speedy and sincere resolution of problems helps your business to learn, grow and develop long-term relationships.

People who feel you have dealt with their problems professionally may become your most loyal customers.

Overcoming Barriers and Pitfalls

Today, there are more opportunities than ever for startup businesses. Unfortunately, there are also many hazards and roadblocks. In this early planning stage, you must think about these challenging aspects of your new venture.

To that end, we'll briefly discuss some common barriers and pitfalls so that

you can anticipate and overcome these obstacles to success.

Prepare Yourself for Change

Change in the business world is constant, so you should expect to be in a continuous cycle of learning, asking questions and finding innovative ways to solve problems.

Obviously, you can't learn to do everything at once. That's why you must recognize your own abilities, and use good judgment in choosing other people to fill the gaps in your knowledge and experience. Resist the temptation to move beyond your core strengths. Instead, delegate responsibility, and learn to consider the advice of advisors and mentors. Above all, remember that you don't need to have all the answers, but you must be willing and able to ask the right questions.

Cash and Credit Issues

Cash flow problems

Cash flow problems can occur when you underestimate your startup costs or overestimate your revenue projections. A sample cash flow projection can help you monitor your current cash position and project future cash needs.

Solutions

- Keep your cash flow projections up to date. Revise your projections monthly, comparing estimated to actual cash flow.
- Have a backup plan ready in case your projections fall short. Build rapport with your banker well in advance of anticipated needs, and keep her informed of your progress.
- Keep an eye on your overhead. If you have a period of declining sales, it may be difficult to reduce overhead quickly.

- Look at all the possibilities, not just the good ones. You've prepared a sample cash flow projection based on what you thought were realistic expectations. Now, project a worst-case scenario and ask yourself some tough questions: *What if the sales don't happen? What if collections are twice as slow as I expect? What if my material costs are double what I expect?* This will help you prepare a backup plan.

Credit issues

A startup with no credit history is limited in its ability to establish open lines of credit with suppliers or service providers. The result? Additional strain on your cash flow.

Solutions

- Recognize that you may have to start out on a COD (cash on delivery) basis with suppliers, and plan appropriately in your cash flow projections. Establish a positive payment history from the start by agreeing to COD terms, or by asking for small open lines of credit with short payment terms. Pay promptly to build a positive credit history.
- Keep in contact with suppliers. Let them know via newsletter, email, social media or phone calls how your new business is doing. This will go a long way toward establishing a credit line.

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I took Tom's advice and looked at the different needs of the companies I was targeting. I also looked at how much it would cost to do the work. I didn't know much about business, but I knew I couldn't charge by the job. If I charged the same price for a mall's parking lot and a bank's parking lot, I'd either be overcharging the bank or losing money on the mall.



*Keep your cash flow
projections up to date!*

Tom helped me go over how much it would actually cost me to run the washer and the truck. We factored in my living expenses and the loan payments, too. From there, we came up with an hourly rate that made sense to me. I called up some pressure washers in Omaha and Lincoln just to see what they were charging. My prices were a little less, which seemed about right because Grand Island was a much smaller town.

By the time we figured all this stuff out, I was sure I had a fair price. And I was sure everyone I talked to would agree. I mean, why wouldn't they?

Mark had two appointments the following week, and both of them turned out to be disasters. The first customer was a big grocery store near the center of town. The owner said he'd consider hiring Mark, but only if he lowered his hourly rate. On top of that, he wanted the job done in one hour flat. Mark explained that he'd be losing money. The owner shrugged. "Maybe you're in the wrong line of work," he said.

The next customer was a man named Heinz, who owned two strip malls out near Route 30. He was even more unreasonable. He demanded that the washing job include all the store facades and awnings, and he offered a set fee with no room for negotiations. Mark controlled his temper—barely—and walked out of the office without a contract.

I told Tom what happened, and he wasn't surprised. "Everything comes down to negotiation," he said.

I wasn't happy to hear that, because I just didn't feel confident about myself or my skills. I'd just sat there with these guys dictating to me how much work I'd do and how much I'd get paid, and I felt like I didn't have a leg to stand on. They were giving me only two choices: Work for less than I need to get by, or don't work at all.

Tom told me I'd have to learn to negotiate,

and I needed more help than he could give me. So he sent me over to Lincoln for a two-day negotiation class for small-business owners.

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Growth Issues

In this section, we'll look at some of the challenges that growth often poses for startups, and offer some potential solutions.

Growing too fast

It's good to be enthusiastic about your new business. But being in a hurry can result in poor decision-making, which often causes problems in the long run. Planning ahead helps you to act more quickly, and to solve problems before they become serious.

A common trap for startup owners is the desire to be an instant success. Such tactics as inappropriate pricing, changing products in midstream, and deciding to do everything yourself, are examples of bad decisions caused by being in too much of a hurry.

Solutions

- Slow down long enough to think about the long-term consequences of your decisions.
- Review decisions with your mentor before you act on them, especially in the early stages of your business.
- Set realistic goals and use planning techniques to manage your time.

Avoiding innovation

Growing businesses sometimes get into a rut. They settle into a comfortable pattern and miss out on opportunities to stay innovative and competitive. Soon, growth slows and fizzles, leaving the business owner wondering what happened.

The role that innovation plays in



Planning ahead helps you to solve problems before they become serious.



*What's great today may
not be good enough
tomorrow!*

attracting and keeping customers can't be overemphasized. Whatever your business does, countless competitors are trying to do it better. Inventors all over the world are working on products that could supersede your product and put you out of business. In other words, what's great today may not be good enough tomorrow.

Of course, it's hard to focus on innovation when you're trying to cover costs each month. Add to that the fact that many small businesses get used to doing things a certain way, and you begin to see the difficulty of embracing change and innovation. The fact is, most people fear change, and often find it difficult to keep an open mind and accept new ideas. That isn't to say it can't be done, but it usually takes a special effort to make it happen.

Part of this effort is planning and restructuring for a focus on innovation. You can start by using your business plan as a tool for growth through innovation. Then, prepare yourself for the difficulties ahead.

If you have employees, harness their innovative ideas by empowering them to act and think creatively. People have different talents and look at the world in different ways. Some see the big picture, while others are better at the little details. You need to encourage both types to come together and attack problems.

You can also turn to your best customers for ideas. As everyday users of your products, they may be able to help you adapt and improve. Last, consider getting a fresh perspective by inviting outsiders to help you with innovation.

Solutions

- Never stop learning. Read relevant magazines and websites, and sign up for business classes and seminars. Stay

on top of emerging issues by reading trade journals and attending trade shows and chamber of commerce functions.

- Keep close tabs on your competitors, and do your best to understand which market conditions are driving their decisions.
- Encourage innovative thinking. Always ask yourself and your team "Can we do this better?" and "Are we being as creative and efficient as possible?" Don't take any materials or processes for granted. There's always room for improvement.
- Be aware of new technology. New products and trends can completely change how customers research, buy or use products like yours.
- Keep track of your customers. Has the market for your products changed? Are your customers' needs and preferences changing? Have their habits changed?

Employee management issues

As a business grows, its character changes. The solo entrepreneur is replaced by a team of people that may include full or part-time employees, independent contractors, suppliers, advisors, and assistants. In the process, small businesses often focus on sales at the expense of the people who make those sales possible: employees. This results in poor communication, loss of efficiency, and low morale.

Also, if growth forces you to hire new personnel, your regular employees may feel threatened.

Solutions

- Create or update an organizational chart for your business, including writ-

ten job descriptions. Who reports to whom? For which tasks is each person responsible? What deadlines apply? How frequently will you evaluate performance? Who has what authority?

- Set clear objectives for each person's performance. Update these objectives frequently with a formal performance evaluation system. If you work on projects with a team, be very clear about who does what, when.
- Reassess and update employee compensation and incentive plans at least once a year.
- Invite existing employees to participate in creating new job descriptions and interviewing prospective team members.
- Treat your employees as you would like to be treated.

Space considerations

Growth may require you to seek out a larger office, workspace or warehouse to make room for additional equipment, materials, inventory and personnel. You may also need to remodel to provide a larger break room or meeting area, or more restroom facilities. You may even need to open another office in a different city or state.

Too many growth-oriented business owners take the risk of moving to new facilities in advance, after guessing what their future space needs will be. At best, this is a gamble. If it fails, you may find that you've committed yourself to paying extra money for a space that's larger than you need in the short term.

Also, moving your operations may be complicated and distracting. If you're truly committed to growth, you won't want to

hobble yourself with these problems at the outset.

Solutions

- Look for an extended period of growth—or a very solid promise of it—before making any big moves.
- If your office is getting a little cramped—but is still functioning well—you can always think of it as a temporary sacrifice to make a move more feasible.
- If cramped facilities are making it hard to get things done, consider renting or subletting a separate facility until you can afford an ideal space.
- Consider having some employees work from home if it won't disrupt your operations.

Technological limitations

Growth often requires new equipment, new computers and networks, faster Internet connections and so forth. Before you grow, make sure your all business systems and equipment are up to the job.

Solutions

- Look at all the systems that help you run your business, from accounting software, to inventory management systems, to ordering and shipping methods, to your vehicle fleet, to computer software and hardware, to Web presence and email. Will you be able to meet your goals with the existing systems, or will you have to upgrade? Business owners who overlook the strain that growth puts on these systems often end up underestimating the total cost of growth.
- Remember that new business systems

Before you grow, make sure your all business systems and equipment are up to the job.



have a learning curve. Also, they need to be tested thoroughly to ensure that they're right for your business. Always allow enough time to test new systems and work the bugs out.

- If your suppliers offer training on new software or equipment, take advantage of it. You should also keep up with upgrades and new capabilities.
- Many businesses overlook the expense of buying new software licenses when they grow. If you're adding personnel, check whether you need to buy additional copies of necessary programs, or switch to a Web-based service.
- When you can't afford to do a task in house, consider outsourcing it.

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The class made a lot of sense to me. They talked about the steps of negotiating and the different styles people brought to the table. It was easy to relate the things they said to what had happened to me back in Grand Island.

One thing I figured out was that my position basically boiled down to the fact that I needed to make a certain amount of money per hour. That meant the negotiations just went around and around: I wanted this amount, and they wanted to pay me that amount. We were just butting heads on positions without ever finding any common ground.

Somehow, I needed to get them to put aside their position on price and time and start looking at what was actually in their best interests. When they tried to dictate my hours or my price, I'd remind them that pressure cleaning would benefit their business and their image in the town.

I also learned the difference between hard and soft negotiators. I found that I'd been leaning

toward the soft side, mostly because I wasn't confident enough. Both the guys I'd dealt with in Grand Island were hard negotiators, that's for sure!

After two days of training, Mark had a good grasp of what he'd been doing wrong. He knew that in the future, he'd have to be confident enough to defend his interests, but also flexible enough to compromise on his positions where necessary.

Instead of complaining that he needed the money, he'd explain why the client needed his services. Instead of complaining that an hour's work wouldn't cover his expenses, he'd explain that an hour's work wouldn't get the job done right, which would reflect badly on Mark and his client. Instead of complaining that he couldn't afford to wash facades and awnings, he'd focus on the fact that the awnings and facades *needed* washing, and talk about what it would mean to the client's business if they stayed dirty.

On the drive back to Grand Island, Mark felt he'd reached a turning point. He was ready to have another meeting with his recent sales prospects. And this time, he was going to make them see that hiring him would be a win-win situation.

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Conflicts Between Personal and Business Life

While poor cash flow causes most small business failures, personal relationship issues rank a close second. Your investment of time, energy and financial resources requires ongoing family support and acceptance.

Aligning personal and business goals is seldom easy, especially in the startup or growth phase. However, it's an essential task.

When you can't afford to do a task in house, consider outsourcing it.

Solutions

- Always involve your family members in critical decisions. Remember: These decisions affect them just as much as they affect you.
- Keep the lines of communication open with employees and family members.
- Set aside time to have fun and relax! If your family members feel that your business is making you unhappy, tense or emotionally unavailable, they're much less likely to support it.

Moving to the Next Level

In these 15 sessions, we've been preparing you to start your own business. You've waded through a lot of information—and done a lot of work—to get closer to that goal. Now, you need to bring it all together and move to the next level.

Celebrate What You've Accomplished!

If you hadn't completed this work, you'd be miles behind where you are today. You may not have your business plan completed yet, but you probably *do* have a lot of it sketched out. You may not have all the answers, but you have a lot more than you did just a few short weeks ago. In taking these steps, you've shown that you have what it takes to be a successful business owner.

Organize What You've Learned!

You've gathered a lot of data, spoken to a lot of people and perhaps even developed a rough outline of your business plan. Are you missing anything? You won't know until you take the time to sort through your materials and organize them. Use

file boxes, ring binders, notecard files or whatever will help you stay organized.

Fill in the Blanks!

When you know what you have, you'll also know what you *don't* have. Now is the time to collect the remaining details you need to make your business plan really strong.

Ask for Help!

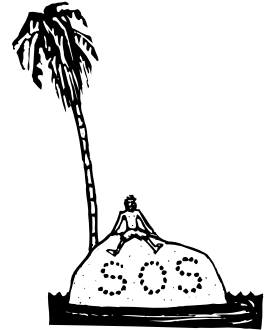
Did you get stuck on a certain part of your business plan? Are you confused about how to find your customers? Are the financial projections too complicated? Don't feel like you have to do everything alone. Rely on your team of advisors to help you. You can also contact your local economic development agency or Small Business Development Center for help.

Finish Your Business Plan!

Put your business plan together as best you can. Ask your mentor, an advisor or a family member to review it and offer honest feedback. Then, make the appropriate changes. Don't be offended if they have a lot of questions or criticisms—it's not personal, it's business!

Remember, the main sections of your business plan include:

- Cover and Title Page
- Table of Contents
- Executive Summary
- Business Concept
- Business Organization and Operations
- Marketing Plan
- Financial Plan
- Attachments





Check and Doublecheck!

After writing your plan, read it carefully and ask yourself these questions:

- Is the plan really viable? Does it pass the common-sense test?
- Do you truly understand your customers' needs?
- Is there a clear, stable demand for your product?
- Is there a potential for growth?
- Are you targeting the right market?
- Are your financial projections correct? Are your assumptions based on credible data?
- Do you currently have the knowledge and skills you need?
- Should you revise your business concept?
- Does the plan answer the questions lenders and investors will ask?
- Are you really excited about launching this business?

Make sure you can answer all these questions honestly and positively before you seek financing. Of course, you should also seek input from your mentor, advisors, family and friends. Once you're satisfied with your work, you can start putting together your executive summary.

Don't be discouraged if you find major problems with your plan. You can always revise and improve it. Addressing any problems you find will sharpen your thinking and prepare you for a successful outcome.

Finally, don't be a slave to your plan. If new opportunities come your way, don't

avoid them just because they don't appear in your plan. There's more than one way to reach your goals!

Remember above all that your business plan is a living document. It should evolve as you learn more about your market, your business and yourself.

Polish Your Presentation!

Your completed NxLevel® Micro-Entrepreneur Business Plan should be:

- Typed and printed on quality paper.
- Free of spelling and grammatical errors.
- Presented in a hard folder or binder.
- Clear, direct and easy to read.

Once you've proofread your plan several times and cleaned up its formatting, pass it along to a trusted friend, relative or mentor for a final review. Keep an open mind as to their input.

When you present your business plan in person, you should:

- Dress professionally.
- Look directly and confidently at your audience.
- Prepare and budget your time in advance.
- Speak slowly and clearly.
- Present a compelling executive summary in the first 30 seconds, and use the next two or three minutes to provide details and supporting information.
- Finish with a clear call to action that explains exactly what you want from the listener.

Stay Positive!

A sense of humor and a positive attitude will serve you well during the planning and startup of your business. Don't let the little things frustrate you. Remember to take care of yourself physically and emotionally.

Don't Stop Planning!

It's a great feeling when you complete your first business plan. Pat yourself on the back—you deserve it! But remember, planning is a vital everyday task for any successful business.

We strongly recommend reviewing your business plan every year. Even the most carefully researched business plan becomes obsolete when conditions change. Your target customer profile or market segment can shift, economic conditions can change, your competitors can introduce groundbreaking products, or a new technology can emerge.

Your answers to the following questions should guide the evolution of your business plan:

- Does my business plan accurately reflect my business today? Are my original goals and standards still reasonable? Are my assumptions still valid?
- What new threats and opportunities does my business face?
- Can my business operate more efficiently?
- What new resources does my business require?
- Am I still serving the same customers I targeted in my business plan? Have their needs changed? Has my ability to meet their needs changed? Am I still meeting my quality and service goals?

- Has the competitive landscape changed?
- Do new regulations apply to my products, employees or raw materials?
- Has cost structure and pricing in my industry changed?
- Do new technologies affect my ability to compete?
- What new product or market growth opportunities are available?
- How much growth financing will I need, and where will I get it?
- Will I need to hire new staff?

...

I decided to go see the guy at the grocery store first. But this time, I was armed with a plan. I actually went and looked around his lot and took note of all the dirt and trash I saw. I wanted to be able to talk about what his customers were seeing when they got out of their cars, and how it might make them feel about his store.

If he told me he wanted the work done in an hour, I'd point out that he'd get a half-finished job. I'd say something like, "If it took an hour to do a good job mopping your floors each night, would you tell your janitor to do it in half an hour?"

Why pay someone to do the job halfway? How does the money you saved matter if your customers come in and the floor is dirty? It's the same thing with the parking lot. Either pay to get it spotless, or leave it dirty. Paying to get it halfway clean is the worst of both worlds. You're putting your positions ahead of your interests: spending money and getting nothing to show for it.

Tom and I worked on strategies for the other issues that had come up. We looked at places

Review your business plan every year!



where I could afford to compromise and places where I had to stand my ground.

I went home and practiced my negotiating strategies with Mom, which was actually kind of fun. She came up with arguments I hadn't thought of, and then we sat down to figure out how I could answer them.

And it all paid off. Two days later, I signed my first contract—with the same grocery store owner who'd told me I was in the wrong line of work.

Mark knew that negotiating with Mr. Heinz would be a little tougher. He was the competitive type—the kind of guy who always wanted to negotiate on his own turf and make lots of demands.

Mark decided he'd be willing to lower his hourly rate a little if he could get more business in return. With Tom's help, he arrived at a good settlement range. He felt a lot more confident, because he knew that even if he couldn't make a deal with Mr. Heinz, he'd be able to win business from other people.

During the meeting, he restated what he was offering to do for Mr. Heinz. He explained the benefits each of them would gain if they were able to strike a deal. He also pointed out that the fact that Mr. Heinz was willing to hire him at all proved that he understood the work needed to be done. Mr. Heinz looked thoughtful, and Mark knew he'd scored an important point.

Mark was willing to make some concessions. He offered a discounted price, and told Mr. Heinz he'd be happy to do the facades and awnings. But in return, he wanted to come four times a month instead of two. Otherwise, he couldn't guarantee that the lots would continue to look good.

After thinking for a while, Mr. Heinz agreed. Mark had his second contract and was off and running with his new business.

Today, I'm living in my own apartment and my \$5,000 loan is just about paid off. I'm even

helping Mom with her mortgage payments. But what's more important than the money is that I feel good about myself. One day at a time, things keep getting better. I feel like the negotiation skills I learned, and the confidence they brought me, have paid off in every part of my life.

...

Welcome to the NxLevel® Training Network!

The greatest asset NxLevel® gives its participants is access to other people who have participated in and taught programs. Their combined business and life experience are a golden resource. Make the most of it!

By sharing ideas and supporting one another, entrepreneurs learn from each other's mistakes and explore new ways to achieve their goals. They also enjoy the comfort of knowing that others have experienced similar challenges, risks and rewards.

You can participate in this network by visiting our website, and by building on any relationships you formed with fellow participants. Furthermore, local trade associations, chambers of commerce and SBDCs sponsor many events for small businesses. Attend them, contribute to them and benefit from them!

We are happy to welcome you into the NxLevel® network of entrepreneurs, and look forward to your contribution to our success stories and innovative entrepreneurial solutions!

The entrepreneurial vision is a powerful force. It can transform the quality of your life, your family and your community. When you combine this vision with your expanding knowledge of business, your entrepreneurial journey becomes fun, fulfilling and profitable!



WORKSHEETS



SESSION 15

SESSION 15: BRINGING IT ALL TOGETHER

Ready, Set, Go!

Dealmaking and Contract Management Worksheet

Identifying common goals and interests, and creating mutually beneficial solutions, is what business is all about. Negotiation is the cornerstone of the dealmaking process.

1. With whom will you be negotiating, and for what reason?

2. For each negotiation listed above, what are your primary interests? What would a win-win solution look like?

3. What tools will you use to manage contracts (calendars, time management software, etc.)?

4. How will you stay in touch with your contract partners (phone, email, newsletter, personal meetings, social media such as Twitter or Facebook, etc.)?

If you intend to move forward with your business, there will be barriers and pitfalls along the way. Thinking about these problems *before* you move forward will help you overcome them.

1. What are the biggest barriers and pitfalls you expect to face in your first year of business? What about your second and third years?

[illegible]

2. What will you do to overcome or manage these problems?

[illegible]

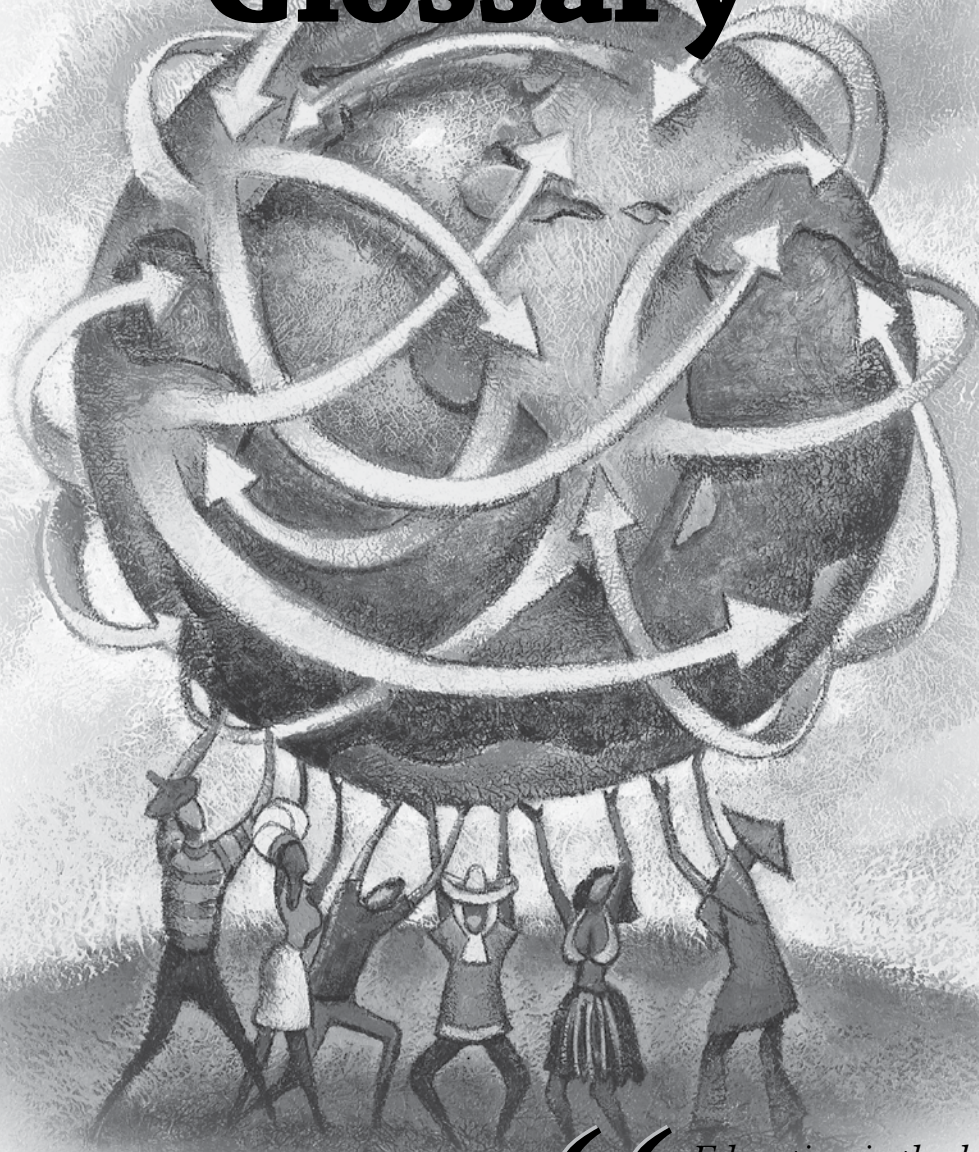
Getting Started: Implementation Checklist

If you've decided to move forward with your business concept, the following checklist will serve as a reminder of some of the details that need your attention.

- ☐ Research zoning laws for business location.
- ☐ Research other local or state laws that may apply to your business.
- ☐ Check state and local business license requirements. Secure necessary licenses and permits.
- ☐ Research local, state and federal tax information.
- ☐ Finalize business name, logo and ownership structure.
- ☐ Choose and register domain name for website (if applicable).
- ☐ File "doing business as" (DBA) registration.
- ☐ Obtain federal tax ID number.
- ☐ Establish business bank account.
- ☐ Establish an accounting and recordkeeping system.
- ☐ Protect your intellectual property (e.g., patents, trademarks, trade secrets).
- ☐ Identify intellectual property you need to buy or license (e.g., photos, art, website content).
- ☐ Identify capital required, and potential sources of financing.
- ☐ Seek necessary debt or equity financing.
- ☐ Secure facilities.
- ☐ Buy or lease equipment.
- ☐ Purchase adequate supplies and inventory.
- ☐ Obtain insurance for facilities, equipment or other needs.
- ☐ If hiring employees, check on federal and state requirements.
- ☐ Publicize and promote new business.
- ☐ Other: _____
- ☐ Other: _____
- ☐ Other: _____
- ☐ Other: _____



Glossary



“Education is the kindling of a flame, not the filling of a vessel.”
—Socrates

accounts payable. Money owed for inventory, supplies and other expenses.

accounts receivable. Money owed to a business by its customers.

accrual basis. A method of accounting in which revenues are recorded when earned and expenses are recorded when incurred, no matter when the cash changes hands.

agent. A representative who normally has authority to make commitments on behalf of the firm he or she represents.

amortization. The deduction of capital expenses over the life of an asset.

arbitration. A system administered by the court system to resolve disputes. It is increasingly used instead of litigation.

assets. Any items of value owned by a business, including cash, accounts receivable, notes receivable and property.

balance sheet. An itemized report that shows assets, liabilities and owner's equity at a given point in time.

bankruptcy. Legal proceedings instituted when an individual or business can't pay its outstanding debts.



benchmark. A point of reference set to determine progress toward a goal.

board of directors. Individuals elected by shareholders to oversee the management of a corporation. The members of a board of directors are paid in cash and/or stock, meet several times each year, and assume legal responsibility for corporate activities.

brand identity. The image a business tries to project to customers, communicated by a product's design, benefits, packaging, advertising and service enhancements.

brand image. The customer's impression of a brand.

branding. Telling the "story" of your business and your product in a compelling and colorful way—one that gives consumers a reason to buy your product instead of someone else's.

brand management. Management activities related to the development, maintenance, and promotion of a brand.

breakdown forecasting. Looking at your largest population of customers, then breaking that group down by qualifying criteria such as age, income, and preferences to define the level of sales expected from target customers.

break-even analysis. Identifies the point at which total revenue equals total costs and profits are zero.

break-even point. The sales level at which neither a profit is earned nor a loss incurred.

brokers. Professional intermediaries who bring buyers and sellers together.

browser. A software program that allows users to view and interact with Web pages.

buildup forecasting. Estimating the size of each market segment, then adding them together to arrive at a sales forecast.

buy/sell agreement. A contract that sets forth the terms and conditions by which associates in a business can buy out other associates.

bylaws. Corporate rules that set forth provisions for the annual meeting, size and manner of election of the board of directors, number and duties of the officers, voting requirements for merger, and similar matters.

cable modem. A modem designed to operate over cable TV lines.

capital. Cash or material assets (e.g., tools, property and equipment) owned by or used in a business.

carrying costs. The cost of tying up money by holding inventory, plus additional costs like taxes and insurance that apply to inventory.

cash basis. A method of recording income and expenses in which each item is entered when received or paid.

cash discount. A discount given to buyers who pay bills within a specified time.

cash flow. The movement of cash into and out of a business.

cash flow projection. An estimate of the amount of cash that will come into and go out of a business over a specific period of time.

cash receipts. Cash generated from sales, accounts receivable and loans.

Certified Public Accountant (CPA). An accountant certified by a state examining board.

cloud computing. Any method of delivering a service (such as data storage or an accounting program) through a Web browser.

COGS. *See cost of goods sold.*

collateral. Assets pledged to a lender to secure or support a loan.

competitive analysis. Analysis of your competitors' strengths and weaknesses, both actual and potential.

consideration. An exchange of value that passes between the parties to a legal contract.

consumer promotions. Short-term sales promotions to consumers.

contextual advertising. A form of online advertising that serves consumers with targeted messages based on website content or search terms.

contingency planning. Considering possibilities for disruption of your usual business activities, and developing a means of continuing your business should those disruptions occur.

cooperative advertising. Advertising in which manufacturers and retailers pool their resources to promote both the product and the store. The manufacturer offers retailers an allowance to advertise the

manufacturer's product, allowing retailers to include the name of their store.

copyright. The exclusive right to reproduce, sell, publish or distribute literary or artistic work (i.e., works of authors, composers and other artists). *See also intellectual property.*

corporate shield. The protection against personal liability offered by a corporation.

corporation. A group of persons authorized by the state to function as a separate legal entity, with privileges and liabilities distinct from those of its individual members.

cost of goods sold (COGS). Costs associated with the sale of a product, which may include materials, freight, direct labor and overhead.

cost-plus pricing. A basic pricing method in which a business determines its costs, and then adds a percentage to achieve a desired profit margin.

CPA. *See Certified Public Accountant.*

current liabilities. Monetary obligations due to be paid within one year (e.g., accounts payable, wages payable, taxes payable, current portion of long-term debt, interest and dividends payable).

current ratio. Current assets divided by current liabilities. The higher the ratio, the more likely it is that a business will be able to meet its current obligations.

debt financing. Business financing that normally requires periodic interest payments, and repayment of the principal within a specified time.

debt to equity ratio. The relationship of creditors' money to owners' money in a business, indicating the extent to which a business relies on borrowed funds.

demographic data. Data that describe the specific characteristics of an individual, such as age, level of education, occupation, income, marital status and address. Businesses gather demographic data to discover who and where their customers are. *See also psychographic data.*

demographic segmentation. Market segmentation based on demographic data.

depreciation. Allocation of the cost of a tangible asset over its useful life.

direct marketing. Presenting promotional information to consumers via door-to-door selling, telemarketing, direct mail, catalog or the Internet; any

presentation of a product or service directly to the consumer, without the use of a middleman.

direct writer. A type of insurance agent who represents only one insurance company.

discretionary income. Amount of spendable or savable income available after providing for basic necessities such as shelter, food and clothes.

distributive share. The amount of profit or loss allocated to partners in a business.

distributor. An agent who sells directly for a manufacturer and maintains an inventory on hand.

distribution channel. An organized system of inter-related marketing institutions that promotes the physical flow of goods and services from the producer to the consumer or end-user.

dividend. A share of profits paid to stockholders of a corporation.

domain name. The basic address of a website (e.g., www.nxlevel.org).

e-commerce. The marketing, selling and buying of goods and services over the Internet.

EIN. *See employer identification number.*

email client. A software application that runs on a personal computer, enabling the user to send, receive and organize email.

employer identification number (EIN). The identifying number for a business entity, obtained from the IRS by filing application form SS-4.

equity. The amount of the owner's investment in the business.

equity financing. Financing received in exchange for partial business ownership. The investor's financial return comes from dividend payments, and from growth in the net worth of a business.

exit limits. A predetermined point at which a businessperson will decide to get out of a business. Exit limits act as a safety net against personal and professional loss.

expenses. Assets spent in order to operate a business. Expenses are subtracted from total revenues to determine net income.

express contract. A contract whose terms are in words or writing.



feasibility study. Research and analysis intended to determine whether a business opportunity is worth pursuing.

Federal Insurance Contributions Act (FICA). Legislation under which taxes are levied for the support of Social Security.

financial statements. Documents that show the financial activities and health of a business or individual.

fixed costs. Costs that do not vary significantly with the volume of output or sales (i.e., utilities, rent, depreciation, interest, administrative salaries). Also, costs that are constant regardless of quantity of products or services sold. See also *variable costs*.

fixed rate. An interest rate that does not change during the life of the loan.

follow-the-leader pricing. A pricing policy based on what industry leaders charge for a given product.

Four Ps. Product, Price, Placement and Promotion. These are the elements that must be appropriately balanced in the marketing mix.

general ledger. The central accounting record that summarizes all of a business's financial transactions, organized by type of account.

general partnership. Two or more people who jointly own a business. General partners participate fully in management of the business, and their liability is personal and unlimited.

geographic segmentation. A form of market segmentation based on such factors as population density, climate, landscape (e.g., beach versus mountains) and weather.

goodwill. A type of intangible asset that generates sales and value for a business, such as a good reputation, strong brand recognition and so forth.

gross profit. Net sales (gross sales less returned merchandise, discounts, or other allowances) minus the cost of goods sold. Also referred to as *gross margin*.

guaranteed loan. A loan made by a financial institution to a small business with a partial guarantee from the Small Business Association.

horizontal growth. Growing by offering a new product or by seeking a new market for an existing product. See also **vertical growth**.

implied contract. A contract whose terms are implied by conduct.

income statement. A financial report showing revenues earned, expenses incurred in earning the revenues, and the resulting net income or net loss. Also referred to as a *profit and loss statement*.

indemnification clause. A contractual clause that transfers the risk of damages or loss from one party to another.

independent agent. An insurance agent who offers policies from a variety of companies.

independent contractor. A self-employed individual who does contract work for a business without being on that business's payroll.

industry analysis. A form of market assessment that helps business owners understand important trends in their industry.

intellectual property. Ownership or exclusive rights to processes or other products of intelligent thought, such as trade secrets, copyrights, patents and trademarks.

intensive distribution. Distributing a product through many retail outlets. Usually used for low-cost "convenience" products.

intermediaries. Businesses or individuals who help a product move through the distribution channel from the manufacturer to the customer.

internal controls. The policies and procedures a business establishes to assure the reliability of its accounting records, to safeguard its assets and to promote its objectives.

internet. A global network of linked computers that share digital information.

Internet service provider (ISP). Commercial companies that provide access to the World Wide Web for a fee.

inventory. The raw materials, work-in-process and finished goods (including merchandise purchased for resale) intended for internal consumption or sale.

inventory turnover ratio. This ratio tells you the average number of times inventory is sold during the year.

ISP. See *Internet service provider*.

key-person insurance. Life insurance taken out by a business on an essential or very important employee, with the company as beneficiary.

liabilities. A business's short- and long-term debts.

liability. Legal responsibility for injury or damage to a person or property.

liability insurance. Insurance covering losses arising from injury or damage to another person or property.

limited liability company (LLC). A business entity that is a hybrid between a partnership and a corporation.

limited partnership. A partnership that allows for general and limited partners. Limited partners are usually liable for debts only to the extent of their investment, and have little or no control over management.

line of credit. Short-term financing (usually from a bank) that is available for a business to borrow against as needed, and that must be repaid within a specific time.

liquidity. The readiness and ease with which assets can be converted to cash without a loss.

list price. The price that appears on a product line sheet or a catalog, or is quoted by a salesperson. This is a business's official price before any discounts.

local exchange trading system (LETS). A local, nonprofit networks whose members trade goods and services through an alternative currency.

LLC. See *limited liability company*.

long-term debt. Loans scheduled to be paid back over a period longer than one year.

long-term liabilities. Debt that will not mature within the next year.

long-term loans. These loans are for 10 or more years, and are usually for real estate transactions or equipment purchases.

loss leader. Merchandise or services sold at a loss to increase customers, sales of related items or customer awareness.

malware. A generic term for any form of malicious software that damages computers or computer files (e.g., viruses).

market. A population segment comprising actual or prospective buyers of a particular product or service.

market analysis. Research and analysis that yield information about the marketplace in which a business will compete.

marketing. All activities intended to influence the sale of goods and services to consumers.

marketing mix. The balance of product, price, placement and promotion that a business uses to sell to a target customer. See also *Four Ps*.

marketing plan. The section of the business plan that describes how a business will market its products or services to its target customers.

market segment. A subsection of a larger market, comprising groups of customers with similar needs and characteristics.

market segmentation. Examining a target market in order to find the market segment that is most likely to generate profitable sales.

market share. The percentage of a market's total sales (in units or dollars) that a business receives.

markup. The percentage by which a product's price is increased to achieve a desired profit margin.

MBDC. See *Minority Business Development Centers*.

mediation. A nonbinding means of settling a contractual dispute through guided negotiation.

merchandising. The planning and promotion of sales by presenting a product to the right market at the right time.

merger clause. A contractual clause that nullifies existing agreements between the parties to a contract, and affirms that the contract itself is the only valid description of the agreement.

microlenders. Nonprofit agencies funded by community banks, credit unions, community foundations, federal agencies or private individuals. They specialize in making short-term loans to disadvantaged or underserved borrowers.

Minority Business Development Centers (MBDCs). Established to increase the number and viability of minority-owned businesses.

mission statement. A written statement broadly describing what a business hopes to do and be for its customer.

net profit. Sales minus variable costs and fixed costs. Net profit is used as a starting point to measure return on investment for specific products or businesses.

net worth. The total assets of a business minus its total liabilities.

niche market. A special segment of a market, often defined in terms of particular buyer characteristics,



which a given business is particularly well suited to target.

noncompetition agreement. A contract that restricts an employee or owner from competing against a former business or employer.

nondisclosure agreement. A contract whereby a person or company agrees not to disclose trade secrets.

objectives. Clearly defined and measurable steps that a business takes to achieve its goals.

operating agreement. An agreement among the members of a limited liability company, or parties to a partnership, that serves much the same function as a corporation's bylaws.

operational planning. A planning process focused on short-term actions (usually one year).

organizational chart. A chart diagramming the managerial structure of a business, designating specific areas of responsibility.

outsourcing. The hiring of independent contractors to assist with business operations. *See also offshoring.*

overhead. The operating expenses of a business, including rent, utilities, insurance and taxes.

owner's equity. The amount owed by a business to its owner.

patent. An exclusive right granted by the government to the inventor of an invention or process.

payment services provider (PSP). A service that processes online credit card payments for a fee.

penetration pricing. A pricing policy that sets an attractively low price in order to enter a new market or gain market share.

peer-to-peer lending. A Web-based financing option that bypasses banks and connects borrowers directly to lenders.

personal financial statement. A document that shows an individual's financial situation at a specific point in time.

personal guarantee. An agreement under which a business owner is personally and legally responsible for repaying a business loan or other debt.

personal selling. A form of selling in which the seller deals with the buyer face to face and/or tailors the pitch or product to individual buyers.

phishing. A form of cybercrime that lures victims into revealing credit card numbers or other financial information by sending counterfeit emails that purport to be from a legitimate, well-known business.

point-of-sale data. Marketing data obtained from cash register scanners.

pollution prevention (P2). A program businesses can implement to reduce or eliminate generation of hazardous and nonhazardous wastes.

pop-up retail. Small, temporary or mobile retail outlets created to take advantage of hot trends or seasonal sales opportunities.

premium pricing. Pricing above market value in order to evoke perceptions of quality and prestige.

price promotions. Short-term discounts offered by manufacturers or retailers to encourage customers to try a product.

primary data. Data collected directly—i.e., through surveys or interviews—by a market researcher for the purpose of answering questions about customers or markets. *See also secondary data.*

principal. The dollar amount originally borrowed or financed, on which interest is paid; also referred to as the “face amount” of a loan.

product. Goods, services or a combination of both, offered by buyers to sellers.

product life cycle. The four stages that products go through in the marketplace: introduction, growth, maturity and decline. The stage of the product life cycle affects marketing decisions.

product line. A group of similar products offered by a single company.

product positioning. The way a product is priced and promoted relative to competing products. Businesses use positioning strategies to maximize their competitive advantage and differentiate their offerings from those of competitors.

profit. Total revenue, minus total costs.

profit margin. The amount of each sales dollar that represents net income, usually stated as a percentage; net income divided by sales.

promotional mix. A combination of promotional strategies tailored to a specific product and market.

PSP. *See payment services provider.*

psychographic data. Data dealing with the activities, interests, culture and opinions of a target population. See also *demographic data*.

quick ratio. “Quick assets” (cash and other assets immediately convertible to cash) divided by current liabilities. Lenders use this ratio to measure the ability of a business to meet current debt obligations.

revenue. The money generated by such earning activities as selling a product, charging rent or receiving interest on a loan.

sales forecast. Predicts how much of a product or service will be sold over a period of time.

sales representative. Sales representatives use the company’s product literature and samples to present the product to prospective buyers. A representative usually handles many complementary lines that do not compete.

SBA. See *Small Business Administration*.

SBDC. See *Small Business Development Centers*.

search engine optimization (SEO). A systematic method for improving the visibility of Web pages in search engine results.

secondary data. Information that has already been gathered and published by someone other than the market researcher. See also *primary data*.

secured loan. A loan for which the borrower has pledged assets as collateral to the lender.

secure socket layer (SSL). A standard that encrypts all data between a Web browser and a Web server. This enables consumers to safely submit credit card data and other private information to an Internet business.

seed capital. Funding required in the early or growth stages of a business to finance market research, strategic planning, technical research and product development.

selective distribution. The practice of distributing goods or services through a limited number of intermediaries and outlets. This gives manufacturers greater control over the way their products are sold.

SEO. See *search engine optimization*.

shareholder. One who owns shares of stock in a corporation. Along with this ownership comes a right to vote on certain company matters, including election of the board of directors.

short-term debt. Loans due within one year.

short-term interest rate. The rate of interest that applies to short-term debt.

Small Business Administration (SBA). A federal agency established to provide small businesses with advocacy, financial assistance, management counseling and training.

Small Business Development Centers (SBDCs). Established by Congress in 1980 to join federal, state and local governments; the educational community; and the private sector in making management assistance and counseling available to existing and prospective small business owners.

social media. Any online platform that lets users create and share their own content, including images, video, audio and text.

sole proprietorship. An unincorporated one-owner business, farm, or professional practice.

spam. Unwanted e-mails sent by mass marketers; the digital equivalent of junk mail.

spyware. Computer software that gathers information about Internet users’ online activities without their knowledge.

strategies. Specific, clearly defined plans for achieving business objectives.

supply chain. The interdependent business processes and activities involved in the flow of goods from the producer to the consumer.

SWOT analysis. A process of examining your business’s strengths, weaknesses, opportunities and threats, and comparing them to those of your competitors.

tactics. Carefully planned actions taken to support stated business strategies.

tangible assets. Assets that can literally be touched (e.g., equipment, buildings, inventory).

target market. The market segment whose needs a business tries to anticipate and satisfy.

target return. An desired level of financial return on an investment, usually expressed as a percentage of total costs.

terms. Conditions or provisions specified for repaying loans or paying invoices.



test marketing. A way to experiment with a new product or marketing strategy before attempting to act on a larger scale.

total revenue. Unit price, multiplied by the number of units sold.

trade associations. Organizations comprising businesses in a specific industry or trade, and formed to advance their common interests.

trade promotions. Incentives that businesses offer to retailers and wholesalers for stocking their product.

trademark. A symbol, letter, device or word that identifies a product and grants exclusive legal rights to its owner or manufacturer.

uniform resource locator (URL). The addressing scheme used to identify Web pages.

unsecured loan. An uncollateralized loan backed only by the borrower's signature.

URL. *See uniform resource locator.*

value-based pricing. Basing a price on the perceived value of the product to the customer.

value in use. The overall savings and other benefits a product delivers, which may justify paying a higher price than one would for a similar product without those benefits.

variable costs. Costs that change significantly in direct proportion to the volume of output or sales.
See also fixed costs.

variable rate. An interest rate that changes over the life of the loan.

venture capital. Money used to finance new or unusual business undertakings.

vertical growth. Increasing sales of an existing product within an existing market. *See also horizontal growth.*

viral marketing. A form of marketing in which consumers spread a marketing message or offer to one another through word of mouth or social networking.

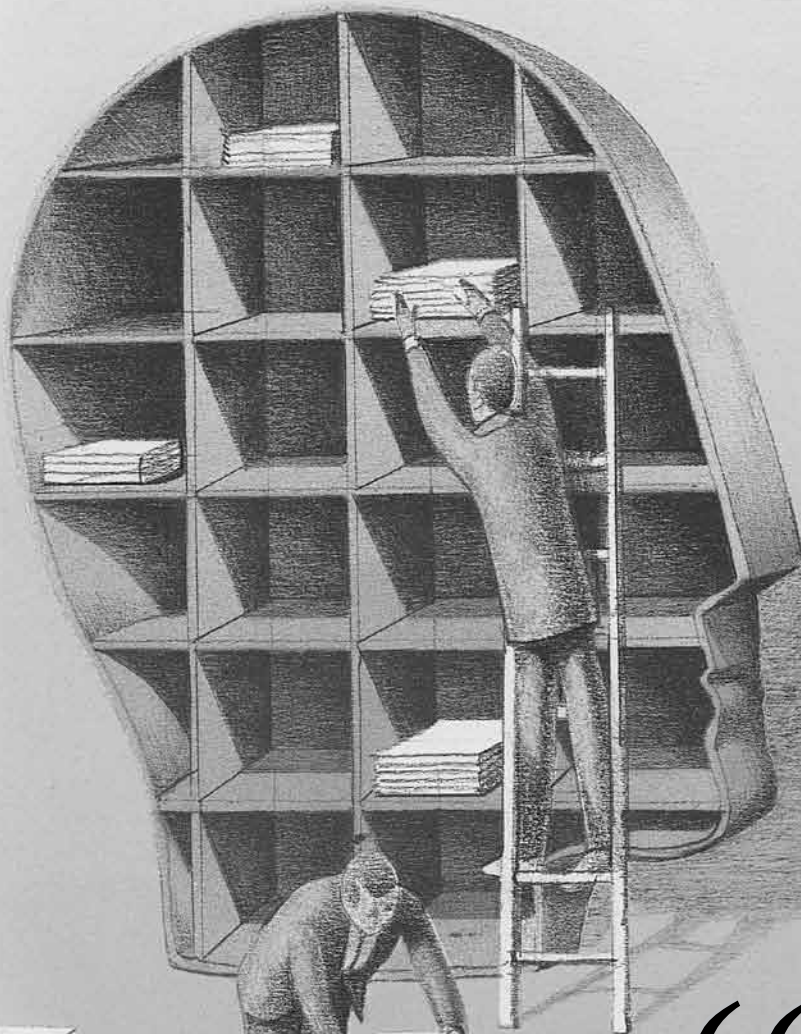
warranty. An assurance by a seller that goods will meet a certain standard of suitability or quality.

win-win negotiations. A style of negotiation in which one or both parties seek an outcome that will maximize the benefit to each party.

work done for hire. A doctrine stating that ideas created while employed or commissioned are owned by the employer or commissioner.

zoning. The division of an area into zones that restrict the number and types of buildings and their uses.

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“Eureka! I have found it!”
—Archimedes

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