

You've come up with a great small business idea, now what? Transforming a business idea into success takes lots of planning and preparation, and you'll need the latest and greatest tools and resources.

This course takes a close look at the real-world problems facing owners of new and growing small businesses. You'll explore a wide range of real-world marketing strategies, small business funding options, and other small business solutions to help generate success.

This course is designed for anyone who wants to pursue his or her own small business opportunity. You may finally be ready to turn your hobby or passion into a full-time job. You may be ready to capitalize on an ideal opportunity that you can't afford to pass up. Either way, you want to be your own boss and make your own fortune.

Here's what each lesson in this course will cover:

## Lessons

### **1. Do You Have a Solid Small Business Idea?**

Start out by making sure you have an in-depth understanding of your business. Do you understand your market and industry? Do you have the patience and perspective to succeed? The answers are critical to the success or failure of a new enterprise. They also form the foundation of a good business plan.

### **2. Writing a Business Plan**

Now that you have the answers you need, it's time to write your business plan. This critical document sells you and your services to prospective investors and partners — it shows that you know your stuff and are ready to succeed. Examine processes involved in creating a good business plan.

### **3. Small Business Funding: Finding Guidance**

Now that you've completed your business plan, it's time to seek investors, as well as advisors and partners. Find out what potential investors and partners are looking for in a new venture, then explore the various funding sources: small business grants, loans, and other financing options.

### **4. Small Business Software and Technology**

Technology has changed everything about the way we live and work. It also levels the playing field between big business and smaller enterprises willing to learn and adapt. This lesson focuses on how small business technology can make the difference between merely working and succeeding.

# Lesson 1: Do You Have a Solid Small Business Idea?



Start out by making sure you have an in-depth understanding of your business. Do you understand your market and industry? Do you have the patience and perspective to succeed? The answers are critical to the success or failure of a new enterprise. They also form the foundation of a good business plan.

## Thinking About Starting Your Own Small Business?

You probably still remember the moment when that light bulb went off in your head — that moment when you suddenly realized that instead of wasting your time, energy, and expertise working for somebody else, it might be time to strike out on your own and start a small business. The reasons for starting your own small business are obvious: personal and financial freedom, the chance to make a difference, and the possibility of success, limited only by your time and talent.

But once you're inspired with a small business idea, what's next? How do you turn your great small business idea into a success? Unfortunately, most new small businesses fail within a year or two. In addition to a great business concept, writing a good small business plan and making smart decisions can ensure that you won't become another statistic. The right resources and tools can equip you to begin, grow, and succeed. That's where this course comes in.

## Asking and Answering the Essential Small Business Questions

In **Lesson 2**, you'll spend some time exploring the Business Plan — the document that will eventually serve as the encyclopedia of where you are and where you're going. But, before you start plugging facts and figures into your plan, you have some important questions to consider. These questions will help shape your decisions and choices going forward, and should also set your focus on the important issues involved in starting a new business. They also present an important opportunity to make sure your expectations are realistic and well-founded.

### Question 1: Where Do You Expect to Be in A Year?

Growth is good, but it's important to be realistic. A common mistake among new business owners is to make predictions that are far too optimistic. This can lead to unnecessary emotional distress as well as bad financial decisions early on.

Overnight successes are rare. In most cases, solid growth requires time and attention. Your business plan will help you concentrate on developing a fact-based forecast for your future. But from a personal perspective, are you ready to accept the possibility that your desire to succeed might also require a healthy dose of patience?

Business planning goes beyond the first year. What about five years out? What about 10 years? Who will run your now global business empire when you retire? Make sure you've carefully considered how long it may take to reach your goals.

## Question 2: What Do You Expect to Invest?

Besides some capital and a 40-hour week, what are you willing to invest in your new venture? Are you willing to work for free while your business earns enough to pay no more than operating costs? Again, it's an issue of arming yourself with realistic expectations so that you can better plan for your future success.

Starting a new business can be a drain on your wallet, your family, even your sanity. Some people enjoy the hectic hours and responsibilities; others find the stress unbearable. This isn't to suggest that starting a business will drive you over the edge, but when you invest so much in a single venture, it's bound to have consequences. Thinking about these consequences gives you an opportunity to ponder what some of those outcomes might be.

Funding your business is also a challenge. **Lesson 3** focuses on that challenge in greater detail. Keep in mind that beyond just the financial assistance required, success in business demands a high level of commitment, especially in the startup and growth phases. Don't underestimate the level of investment required for success, and you'll be prepared for any challenge that might arise.

**Action Item: Hard Questions Lead to Important Answers.** You'll revisit everything discussed here in the next lesson. It is important that your expectations are made clear, and that you're willing to revisit them as circumstances change. As you work through the rest of the lessons, keep the essential Small Business questions in mind.

## Get to Know Your Customer

The customer isn't always right, but they're always important. Understanding your clients, how they live, how they spend, what they need, should be the first task of anyone considering starting a business. It's not always a simple exercise, but knowing and understanding your client is crucial to any future success. So, how can you read your customers' minds and walk in their shoes?

Much of what you learn about your customers will feed into your business plan. This will be discussed in detail in the next lesson. Understanding your customer is so important to your future success that it should be one of your earliest priorities. So while you'll still need to come up with some hard data for your business plan, you should also take a slightly more philosophical approach to the people who are going to pay your bills. Start off by taking a look at your own buying habits.

## Know Yourself

You're not only a producer, you're a consumer. And even if you're not a member of your own potential customer base, you've purchased goods and services before. You've made some of the same choices that go into choosing and buying what you need as your customers.

## How Do You Buy?

What is the most important factor when you purchase something? Price? Brand name? Word-of-mouth opinion? How often do you settle on the first thing you find rather than shopping competitively?

Understanding this process is central in attracting and pleasing customers. Making assumptions about your customers' habits can prove fatal.

## How Do You Communicate?

What information do you require before making a purchase? Do you prefer technical language or a more matter-of-fact use of language? How often do you use the Internet to assist you in pre-purchase research? Communicating with your customers is the best way to retain their loyalty and guide future purchases.

## Ask Around

The best way to learn about customers' needs is to ask. Most people are happy to share their experiences, their likes and dislikes, and their thoughts on what customer service looks like. They like to feel that somebody wants to listen and cares about what they have to say. Sometimes just asking makes them feel empowered.

**Action Item: Customer Profiles.** Market research firms develop customer profiles that represent an "average" customer for a particular proposed product or service. These profiles can encompass everything from age and sex to income and hobbies. They can be quite basic: "a male in his 30s with an interest in computing and entertainment innovations." Some firms take it a step further, naming the persona and developing the sort of minute details associated with real-life habits and interests. If you had to develop a customer profile, what would it look like?

You'll learn more about specific ways to reach out to your customers in the next lesson when the business plan is discussed in greater detail. For now, just remember that good data is crucial in deciding how to sell to your clients. The more you know, the more you can customize your approach and secure a sale.

## Check the Facts

We live in a world of statistics. If there's a human behavior that can be measured, somebody is probably already on the job. Everybody from the local Chamber of Commerce to the IRS is busy gathering data on the people you're attempting to convert into customers.

Other students of human nature might include commercial trade groups, government agencies, and even local colleges. These organizations are generally willing to share all or some of this data with interested parties. This data is good for getting a general picture of your target customer base. It will also become a critical component of your business plan. You'll learn more about potential sources in the next lesson.

The term associated with learning more about your customers is called market research. Enter the phrase into a search engine and you're on your way to learning everything you ever wanted to know (and more) about the subject. Be wary of paying for information until you've exhausted all free sources.

## Your Unique Selling Point: Setting Your Small Business Apart

Another strategy of your overall business plan is your unique selling point (USP). This unique feature (or features) of your business is what you will use to set yourself apart from the competition.

In most markets, you're not the only place consumers can spend their money. The process of distinguishing yourself from the competition is a critical piece of your overall success. If you can't give your clients a compelling reason to give you their trust (and dollars), chances are they won't. The challenge nearly doubles when trying to woo customers from their existing spending habits.

Traditionally, many have used the 30/30/30 rule to create a unique selling point: a new product needed to be 30% faster, 30% cheaper, or 30% better.

The results are predictable:

- "We offer the cheapest rates in town."
- "We offer fast service."
- "We are the best at what we do."

But how can you move beyond this basic, and rather obvious, approach? Doesn't everybody claim to be the best in town? Does merely being the cheapest matter to people who also want quality? Here are some other things to focus on when you're crafting your USP:

### Excellence

Excellence is more than just the word "better." It's about your reputation, experience, and know-how. Excellence is more than a mere feature to be listed as a bullet point. It's a commitment to excellence in the way you serve your customers, partners, and employees. And it's the basis for a very strong USP when combined with other advantages.

### Innovation

We're constantly bombarded by the next big thing, and there's a reason for it. People are fascinated with, and respond favorably to, innovation. If you're bringing a next-generation product or service to market, you've already got your hook. While it's not enough to convert "eyes into buys" all by itself, it's a strong foundation to your USP.

### Insight

Do you possess an in-depth knowledge of your customers, your industry, or the solution you offer? Whether you sell hot dogs, hair products, or home remodels,

customers appreciate being understood. Demonstrate that you “get it” and customers are much more willing to give you their business. Make sure this understanding is reflected in your USP.

## Value

The basic question underlying any commercial transaction is simple: what can you do for me? What can you add to my life in exchange for my hard-earned dollars? Regardless of whether you serve small families or large corporations, unless you can explain how you add value through your work, you will fail to connect with potential clients. This “value add” approach is great way to start developing your USP.

**Action Item: Decoding Your Own Purchases:** Take a look at the last four or five products or services you purchased. What do you think the unique selling point for each product would be? Did any of these unique advantages figure in your purchasing decision?

## Putting It All Together

Combine the four factors above with some of the questions discussed earlier and you should begin to see ways to connect your product or service with the needs of your clientele. You will be able to demonstrate that you do more than just sell something. You work to solve a problem and add value to the life and work of others.

Here are those same Unique Selling Points updated:

- “Our low costs make us affordable to businesses of any size.”
- “Our quick service adds more productive time to your day.”
- “Our 30 years in the business have helped create a culture of quality.”

If you were a customer, which set of benefits would seem more compelling? Which unique selling points would help set a business apart from the competition? Customers like to make informed choices. One of your first challenges when starting a business is to make sure they’ve got the information they need to make the right choice (you).

## Moving Forward

In **Lesson 2**, you’ll learn how to take what you’ve already learned and start to develop a solid business plan. This plan will not only help tell your story to potential investors and partners, it will serve as the blueprint for your future success.

Make sure you complete the quiz and assignment for this lesson.

Review this 10-step startup checklist to check your progress thus far. These steps may not be a lot of fun, but they're almost always required.

1. Prepare a business plan.
2. Select an accountant and attorney.
3. Obtain federal and state tax identification numbers.
4. Open a business bank account.
5. Apply for business loans (if applicable).
6. Obtain business insurance.
7. Check zoning requirements.
8. Lease office space.
9. Establish a line of credit for your business.
10. Develop a marketing plan for your products/services.

- 1) The old 30/30/30 rule states that your new product should be 30% faster, better, or \_\_\_\_\_:
  - A) Stronger
  - B) Tastier
  - C) Cleaner
  - D) Cheaper
  
- 2) Your \_\_\_\_\_ selling point helps set you apart from the competition.
  - A) Uniform
  - B) Unique
  - C) Universal
  - D) Understandable
  
- 3) True or False: Instead of trying to understand your customer, you should devote all of your time and energy to understanding your competitors.
  
- 4) What is the number-one reason new businesses fail?
  - A) Lack of good management
  - B) Poor location
  - C) Lack of proper funding
  - D) Inflation



Now that you have the answers you need, it's time to write your business plan. This critical document sells you and your services to prospective investors and partners, it shows you know your stuff and are prepared to succeed. Examine the processes involved in creating a good business plan.

### Business Plan Basics

Hopefully, the questions and big-picture concepts you encountered in **Lesson 1**, and the first assignment, have inspired you to start focusing on the information you'll need to gather and some of the challenges you'll face in your entrepreneurial journey. This lesson moves on to some important specifics about the whys and hows of creating a successful business plan.

You've probably heard this expression: If you fail to plan, you plan to fail. And nothing requires good planning like a successful business startup. With so much at stake (your time, money, and sanity) how can you afford to do anything else? This lesson covers the information you'll need for your business plan and offers recommendations on where to get it.

While your specific needs may vary, you'll discover some basic requirements and principles that guide the building and use of any good plan. After covering the basics, the lesson moves on to the specifics of the plan itself: the business and market profile, the operations plan, and the sales and marketing plans. Each of these pieces covers an important aspect of your new operations, so don't skip ahead. Even if your new business is still in the "idle daydream" stage of development, you can benefit from a careful look ahead at what awaits you.

### What Does Your Business Plan Do?

Many entrepreneurs view their business plan as a glorified loan application. While it is certainly a central piece of the fundraising process, a good business plan should do a whole lot more than try and raise capital. A good business plan:

- Tells your story
- Guides your growth
- Grows with your business

### A Good Plan Tells Your Story

Your business plan should be your first choice of documents to market your business to potential investors and partners. A good business plan is a mix of passion and statistics, with each ingredient playing a critical role in the end product. It should also showcase your dedication to quality and your readiness for success.

**Action Item: Focus on What's Important.** Describe your business or service in ten words or less. Easy enough? Now try it in five words or less. A little tougher, right? How about three words? Learn to focus on what's really important as you discuss your business.

## A Good Plan Guides Your Growth

Potential partners and investors aren't the only ones who need to be reminded what you do and why you do it. A comprehensive business plan can help you plan for future change while ensuring that day-to-day operations are smooth and consistent. It can serve as a repository for the best practices and improvements that you develop as you grow.

## A Good Plan Grows with Your Business

A business plan isn't meant to be written once and then left on a shelf. It should change as your business does; it should always reflect the current state of affairs, and your goals for the future. A fresh, relevant business plan means you're always ready when the perfect opportunity comes along.

As you can see, your business plan is an indispensable document. Even businesses that manage to start and grow without a business plan will benefit from the knowledge and wisdom gained in creating one. It's never too late to start documenting who you are and what you stand for, and plan for the future.

## Assembling Data for Your Business Plan

Various parts of the business plan require data that you may not have. Whether it's data about your potential customers or competitors, where can you go to find these sometimes abstract answers?

As the previous lesson mentioned, nearly every aspect of the way we live and buy is being recorded as a statistic by somebody. Whether it's the federal government or a trade group, people are very busy collecting some of the very information you want. Some of it is available for the asking, and some at reasonable prices.

### Your Local Libraries

The local library used to be one of the only ways for entrepreneurs to learn more about their customers, communities, and industries. Times may have changed, but the library remains an indispensable source of information, especially with regard to research on potential competition and your industry. Ask the librarian on duty, and he or she will point you in the right direction.

Another great resource is university libraries. These will often have resources not available to the public library systems, and many allow the general public to browse these resources without registration. Most of them have placed some of their catalogs online, allowing you to do some of your research from home.

**Action Item: Look Locally.** Your local Chamber of Commerce exists as a resource to you. Call your nearest office to find out what sort of assistance they can add to your efforts. They often sponsor business fairs and expos that can help get your new business out in front of hundreds of new customers. The national Chambers of Commerce site will help you find your local Chamber.

## **The U.S. Government**

The U.S. government excels at the collection of data. Even if they don't collect it with the entrepreneur in mind, much of it is extremely useful. The problem is that it's spread out across hundreds of agencies and organizations. Log on to the Small Business Administration Web site to learn more about what's available.

## **Trade Groups**

Depending on your industry, you may have one or more trade groups to join. These groups do a lot for their members, everything from research to lobbying on legislative matters. For now, you're interested in what sorts of data they can make available to you as a member. That information might well be worth the cost of membership. Contact these groups to make the appropriate inquiries.

## **Paid Sources**

Finding somebody to offer you market research for a fee is easy. Deciding who has the right relevant, valuable information for you is difficult. But if you've already exhausted all of the possible free resources, paid research might be required.

Many of these organizations collect data that is especially helpful when gathering information on possible competitors. Forrester and Gartner are especially thorough when dealing with online and e-commerce companies.

- Forrester Research ([www.forrester.com](http://www.forrester.com))
- Gartner Dataquest ([www.gartner.com](http://www.gartner.com))
- Emarketer ([www.emarketer.com](http://www.emarketer.com))
- Hoover's ([www.hoovers.com](http://www.hoovers.com))
- Dun & Bradstreet ([www.dnb.com](http://www.dnb.com))

You can also visit Market Research Reports ([www.marketresearch.com](http://www.marketresearch.com)) to search hundreds of their report offerings. They're not exactly cheap, but they're a good value if you need their very factual brand of research.

Now that you know where to get some of the information you'll need for your business plan, it's time to look at what constitutes a strong business plan. Some plans might use different titles or a different order for the information presented, but the essentials should remain the same.

## **Profiling Your Market, Your Customers, Your Competition, and Your Industry**

Before discussing the plan itself, it might be helpful to look at some actual business plans. This will help you connect some of the concepts discussed here to a real-life business plan. While each business plan may vary in content and format, you should see the same basic information over and over again.

There are hundreds of sample business plans available on the Internet. One site that specializes in business plan creation is [www.bplans.com](http://www.bplans.com). It's a joint venture between the government's Small Business Administration and software maker Palo Alto Software. It has a great collection of sample business plans, business plan tools, and other content.

**Action Item: Scrutinize a Sample Business Plan.** Go to [www.bplans.com](http://www.bplans.com) or the site of your choice. Browse the available plans and choose one that's most closely suited to your new business. Look at the sorts of facts and figures used to support the plan. Do you have that information at the ready?

As you read through your sample, look for the following information. You won't see all of the specific things listed here in the plan (and vice versa) but it's a good start.

## Business and Market Profiles

The business and market profile section of a business plan will showcase your understanding of your prospective business, as well as your potential customers and competition. It contains a lot of statistics and projections, and is often the most painful piece of the plan to assemble.

## Information About You and Your Business

You'll need to tell the story about you, any other key personnel, and the history of your business so far. This should include at least the following:

- Biographies of key personnel
- Business milestones to date
- Incorporation and other legal information
- Description of the proposed product and services
- Relevant financial data (including any money raised so far) and projections
- Your unique selling point — very important!

## Information About Your Customer

Be sure to demonstrate a good understanding of your customers and how your products and services fit into the way they live and work. Make sure to include:

- Relevant demographic data
- Any research you've done about industry or consumer trends that affect your business

## Information About Your Competition

It's important to "know your enemy" and adequately assess their relative advantages and disadvantages. Whether you learn through firsthand observation or careful research, discuss the following:

- Who your competition is
- Their current share of the market
- Any recent changes in the market affecting their business

The difference between direct and indirect competition can be illustrated as follows: Joe opens a movie rental store. His direct competitors are Blockbuster and the other stores in the area, as well as online services like Netflix. His indirect competitors are movie theaters and cable movie channels. If a new Blockbuster goes up next door, it affects Joe's business directly. If the movie theater goes out of business, it also has an indirect impact.

**Action Item: Assess the Competition.** When you consider your competition, make sure you also take a look at your indirect competition, as discussed above. First, list your five top direct competitors. What about your top five indirect competitors?

## Information About Your Industry

Do you know enough about your line of work to succeed? This is an opportunity to explain how your business will fit within a larger industry or specialty. Try to highlight:

- Recent trends in the industry, and how they affect you
- Why the industry is poised for continued solid growth
- Any factors — market, environmental, regulatory — that might impact that growth

If you're selling to other businesses, you have even more options when it comes to researching potential customers. Some trade associations and publications sell their membership information, often customized to your geographic locale.

When you're writing your plan, start simple. Build outlines using short sentences, lists, and bullet points. Then gradually add on and begin to sculpt your information into the well-polished business plan you always knew it would be.

Now that you've explained who you are and what you do, it's time to explain how you do it. The next section covers your Operations Plan and your Sales and Marketing Plan, which gives you a chance to outline your efforts to run your business and attract new clients.

## The Operations, Marketing, and Advertising Sections of Your Business Plan

Once you've adequately described your business in the context of larger industries and markets, it's time to move on to describing how you work. You want to give potential investors and partners a good overview of day-to-day operations. This is also an opportunity for the business plan to pull double duty by allowing you to plan and implement best practices that will be followed as you start and grow.

## Your Operations Plan

You need to be able to outline all of your operations. If you manufacture something, this could get detailed. This is also where you highlight your current facilities and equipment, which presents a great way to state a need for increased investment in these areas if that's indeed the case. Make sure you also include:

- Management structure and number of employees
- Key tools and equipment
- Basic process overviews for sales and fulfillment
- Brief description of related back office activities
- Current research and development efforts

## Your Marketing and Advertising Plans

Once you describe how you service existing customers, it's time to talk about how you attract new business. This is especially important for startups that have yet to secure their first sale. You want to show that your plan is aggressive enough to generate interest, and sustained enough to keep trying. This section should include information on:

- Current pricing strategies
- A view of your current products and services with an emphasized marketing perspective (this should be a little more elaborate and polished than the basic description you already gave)
- Current and future promotional strategies, including media and target audiences
- Strategic marketing or advertising partners

As you can see, these sections of the business plan deal with how you attract and serve customers. You don't have to have slogans and ad campaigns already generated. You just need to be able to demonstrate that you know your customers and how to reach them.

## The Mini-Plan Approach

You may have heard the term "mini-plan" used before when discussing building and using business plans. A mini-plan is essentially a beefed-up version of the executive summary, which is typically found at the beginning of a business plan. This summary can also serve as a condensed version of the larger plan, highlighting relevant financial and market data and covering the essential must-know facts about the business.

**Action Item: Get Some Help with Your Mini-Plan.** If you've already started, or finished your plan, head over to The Wall Street Journal to check out their online mini-plan builder. The site requires registration, although it's free, and is a great start to putting together a sensational mini-plan.

While a mini-plan is a fantastic planning and marketing tool and a great way to get started building a business plan, it shouldn't be used as a substitute for a full-grown plan. An investor or business partner expecting a standard business plan will be disappointed, which is bad for any potential deal.

The Small Business Administration site offers some helpful business plan outlines as well as guidelines to help you with researching, organizing, and writing your plan. The Starting Your Business page at [www.score.org](http://www.score.org) also has some useful resources.

## **Moving Forward**

Whether you're starting from scratch or using specialized software or templates, hopefully you've already started to gather your data and build your plan. There are plenty of places to look for help, so don't get discouraged.

If your business idea is clearly defined and you are ready to start talking to investors, it's time to get serious! Using one of the resources listed in **Lesson 2**, choose one or more business plan samples and/or templates and start crafting your own business plan.

If your business idea is still in the idea stage, try to find two or three sample business plans that overlap with your business idea, and compare the plans. Do they all contain the same major subsections? Are they all about the same length? Studying differences and similarities will give you some pointers when the time comes to draft your own plan.



- 1) A good business plan tells your story, guides your growth, and does which of the following?
  - A) Records your employees
  - B) Stays shorter than 10 pages
  - C) Grows with your business
  - D) Ignores negative developments
  
- 2) Competition can either be direct or \_\_\_\_\_.
  - A) Indirect
  - B) Incomplete
  - C) National
  - D) Consecutive
  - E) Parallel
  
- 3) Which of the following are sections of a typical business plan?  
(Choose all that apply.)
  - A) Executive summary
  - B) Business and market profiles
  - C) Operations plan
  - D) Sales and marketing plans
  - E) A section called "The Greatest Entrepreneurs the World Has Even Known"
  
- 4) Which of the following should appear in your business and market profile sections of your business plan? (Choose all that apply.)
  - A) Biographies of key personnel
  - B) Business milestones to date
  - C) Incorporation and other legal information
  - D) Description of the proposed product and services
  - E) Your unique selling point

## Lesson 3: Small Business Funding: Finding Guidance



Now that you've completed your business plan, it's time to seek investors as well as advisors and partners. Find out what potential investors and partners are looking for in a new venture, then explore the various funding sources: small business grants, loans, and other financing options.

### Finding Small Business Funding

Statistics don't lie. The number one reason new businesses fail is a lack of proper funding. It takes money to make money. The world is full of great ideas that never took flight — not because an entrepreneur lacked vision or passion, but rather because he or she simply didn't have enough cash to keep going. In the end it all comes down to two little words: enough money.

How do you fund what hasn't even started? How do you ask for money from complete strangers? How much of your own money should you sink into your new venture? This lesson is about answering these and many other questions entrepreneurs have when they start a business. Just like before, this lesson builds on what you've already learned. The facts and forecasts you use to create your business plan figure heavily in the funding process we'll be discussing here.

### How Much Money Do You Need?

Before you ask for money, you'll have to determine how much you need. While you started to sketch out some of the basics when building your business plan, you'll need to get much more specific when it's time to raise capital.

### The Two Types of Capital

Businesses require two types of capital to get running and stay successful. Working capital refers to the amount of money needed just to meet day-to-day expenses. Your break-even analysis determines the amount of working capital you'd need just to keep the doors open.

The other type of capital is investment capital. It's used for purchasing equipment, hiring new staff, or investing in new inventory. Investment capital helps business grow and take advantage of opportunities as they occur. Investment capital needs are harder to predict without a history. Nevertheless, expect to hear questions about it when you talk to investors.

### Pick a Number (Then Ask For More)

Business is unpredictable. Fixed costs can skyrocket (remember the last gas crunch?) and sales can slump. In order to remain adequately liquid, make sure you plan for the emergencies you can't predict. And make sure those possibilities are folded into each and every request for funding you make. Investors expect you to understand the value of staying well-funded, so be prepared to be aggressive.

A standard rule of thumb is to look for at least a year's worth of operating expenses. This guarantees your doors will stay open and allow you to continue to grow your business. Be prepared to discuss the ratio of working to investment capital. Many lenders aren't looking to micromanage your business, but want some assurance as to where their money is headed.

**Action Item: Sample Analyses.** Many of the plans on the [www.Bplans.com](http://www.Bplans.com) site mentioned in the last lesson include examples of both the cash flow and break-even analysis. These are both important aspects of your business plan. If you're having trouble understanding how they work, start with a sample and plug in your own data. What's your magic break-even number?

## Focus on a Goal

Always raise money for a specific reason. Whether you're hoping to hit a particular sales number or expand into new territory, investors want to know you're headed somewhere. Obviously, just starting up is a pretty substantial milestone in and of itself. Raise enough money to reach your goal. Investors are reluctant to pour more capital into the same milestone more than once.

It's also beneficial to time your fundraising to coincide with recent business success. This means investors will be poking around when all is well, and will walk away with a much prettier picture of your business. It's not a case of deception, but rather focusing on results.

## Timing Is Everything

Always ask for money before you need it. It will reflect better on your business acumen, and you won't get caught under-capitalized and urgently waiting on financing to be approved and completed. It will also give you the time you need to make your case and get money with the best possible terms and conditions.

The best capital is always cheap capital, and that can be hard to find at the last minute. Start looking for capital a full six to nine months before it's needed. You should also work to identify industry trends early on and make sure there is sufficient capital to address them.

Once you have a good idea of how much money you'll need, and you're prepared to make the case for how it will be spent, you can start looking at potential lenders and decide who has the best financing options. While the cost of borrowing is obviously a primary factor in deciding on a lender, other considerations will always apply.

## Small Business Funding: Debt Financing and Loans

So where do you go to get the money you need? Your choices are many.

Traditional sources like banks continue to aggressively woo small business owners. Reports of the death of the hallowed angel investors of the dot-com boom have been greatly exaggerated — they do still exist. And the time-tested tradition of borrowing money from friends and family continues to generate successful business ventures (and a few losers as well).

While there isn't enough space to cover each source in exhaustive detail, this lesson highlights pros, cons, and other special considerations of several different funding sources. As you read, try to assess whether or not a particular source might work for you.

## Debt Financing

Debt financing requires taking on debt to fund operations. It allows you to maintain control over your investment and how (in most cases) you spend the capital you raise. In exchange for paying back the loan with interest, you have the capital you need. Common sources of debt financing include:

- Banks and other traditional lenders
- Friends and family
- Self-financing
- Microloans

Some lenders have reputations within your industry and community that are worth almost as much as their capital. Partnering with these lenders may help improve your own marketability. Some may also have relationships with many of your potential clients, even adding more value to your transaction.

## Banks and Other Traditional Lenders

Small business loans are still a very popular option for funding business startups. Many banks, credit unions, and other institutions have special programs designed specifically for such ventures. After a loan is approved, the cash is yours to spend and invest as needed. It can be used for operating capital, or to help cover those gaps between projected and actual sales until things heat up. It can also be used as investment capital to help upgrade key technology, people, and processes.

### The Good

Other than the repayment schedule, the bank loan carries few strings. While banks often have services and resources they may put at the borrower's disposal, they do not seek day-to-day control or a share of profits. Interest paid on most bank loans is a tax-deductible expense.

You might also be fortunate enough to find a bank or community organization that specializes in particular industries or communities. These institutions can be a tremendous asset to a new entrepreneur.

### The Bad

In a word, interest. The bank expects to get paid regardless of how your business performs. And they want interest, which can add up over the term of the loan, even if it is tax-deductible. The bank may also require some business assets to be used as collateral, causing quite a mess if the loan goes into default. Debt repayments can eat into your cash flow, gobbling up profits as soon as they're made.

Bank loans are also subject to strict qualification processes that take lots of factors into consideration, including your own personal credit history and score. Carrying heavy debt will eventually impact your ability to borrow more money, either for your business or yourself.

## Friends and Family

Mixing family and money is tricky business indeed. But for many startup entrepreneurs, it's the first choice when starting or expanding a new venture. The easy application process and generally kind interest rates make it attractive and convenient if capital is needed. Once you demonstrate early success, friends and family may continue to be a valuable source of much-needed capital.

If you decide to stay close to home when raising funds, clarify whether the money loaned is an outright loan or an expectation of some percentage of profit or equity. And be prepared when some people demand that their loan be properly documented, thus transforming it from an informal agreement into a contractual obligation.

### The Good

Informal borrowing from friends and family should be a faster and more straightforward process than going through a bank. And while you might not be able to attract official venture capital money, a collection of a dozen or so friends and family members might offer, in small pieces, the same level of money needed. Ten friends contributing ten thousand dollars apiece adds up fast.

Friends and family are also more likely to be gentle when demanding prompt repayment. They are far more likely to accept explanations that would never interest your traditional lender. Don't forget, nothing brings people closer like risking capital together in a new business adventure.

### The Bad

Did we mention that nothing brings people closer like risking capital together in a new business adventure? If you thought your relationships were complicated before, try bringing money into the equation. And don't be surprised when your lenders attempt to become not-so-silent partners overnight.

And as some contractual obligations must eventually be, your arrangements with friends or family may someday be litigated in court. There's no way to prevent a laidback, helpful friend from becoming quite the opposite if things go sour. Your credit score might not be the only damage to repair.

## Playing the Personal Banker

Self-financing is the number one option chosen by startup entrepreneurs. Dipping into your own assets to cover your new or growing venture is a logical choice for those with sufficient liquidity and realistic expectations. Some people also tap personal loans of credit or credit cards for a needed infusion of capital.

## **The Good**

There's a reason this is such a popular choice. As your own banker, you can set your own repayment terms (if any) and can spend with no oversight. Since the capital needed to start many businesses is minimal, many entrepreneurs feel comfortable borrowing enough to get started.

## **The Bad**

Restricting yourself to the self-funding option has some drawbacks. Tying some or all of your personal assets to the fate of your business can be devastating in the case of business failure. And when it's time to raise more money, the direct access to more funding can be dangerous.

Formal lending processes, for all their faults, often require an examination of business realities and what the future holds. This important second look is often bypassed if you're simply wringing more money from your savings or other assets.

Bypassing traditional lenders also means you're not generating a credit history for your business. If the need arises to raise larger sums of money later on, you don't have a history of reliable commercial borrowing to fall back on. It's certainly not an obstacle to borrowing, but it's something to consider.

## **Microloans**

Much has been made in the media of international microloan programs such as the one run by recent Nobel Prize winner Muhammad Yunus. His bank focuses on his native India, where they loan capital (sometimes as little as \$20) to needy entrepreneurs. In that same spirit, and in slightly larger amounts, microloans are beginning to gain popularity in the United States.

### **The Good**

Microloans are designed specifically for new businesses or those with little previous borrowing experience. Because the lending institutions are well versed in dealing with similar applicants, they can provide some assistance with the application process, which is generally much shorter and less complex than a standard bank loan.

### **The Bad**

Many microloan programs are designed to help historically underserved borrowing populations. So while the credit requirements may be easier to meet, there are other factors the lender will consider. And many lenders will place restrictions on how the money is spent, with some requiring the money to be used exclusively as working capital.

Now let's take a look at two more forms of financing: equity financing and grants.

## Small Business Funding: Equity Financing, Investors, and Grants

As opposed to debt financing, equity financing involves trading some measure of ownership and control in exchange for funding or other needed assets. The traditional franchise relationship is an example of equity financing, where a corporation will offer funding and other support to a franchisee in exchange for a share of profits and a large degree of operational control. Two common equity lenders are venture capital firms and angel investors.

### Equity Investors

Venture capital firms generally invest in startup businesses, although they also step in and assist growing businesses if the opportunity is right. They often expect a higher rate of return than standard businesses, and will most likely want to keep a close eye on the business and where it's going. Although they've got the reputation of helping fund the "next big thing," they're primarily interested in any investment that returns value.

Angel investors are essentially one-person venture capital firms. Like venture capital firms, the average angel investor is looking for big returns in exchange for their dollars. However, their investment often goes beyond mere dollars. Many experienced angel investors are veteran business people who are willing and able to mentor and assist you as your business grows.

#### The Good

Many people don't mind giving up a little control over their business if it means the bills will be paid. If for whatever reason a business fails, most equity lending arrangements don't leave the entrepreneur with an onerous debt and repayment schedule. And the extra advice and oversight many equity lenders bring with their funding can help fine-tune a good idea into a roaring success.

#### The Bad

While equity investing carries an attractive APR (generally 0%) there are drawbacks to consider. Co-owning and managing a business startup can introduce an added layer of complexity with its own consequences. And the loss of total control over business vision and the future is too much for many entrepreneurs to bear. And, when the money does finally start rolling in, you'll have a roomful of people waiting to get paid.

### The Elusive Grant

Despite what you may have seen on a late-night infomercial, the world is not awash in free money for any entrepreneur willing to spend it. While small business grants do exist, they are often hard to locate and hard to qualify for. So while you shouldn't rule them out completely, be realistic about your chances.

In the United States, the Federal Government offers very few such grants, with the majority of them being offered by state and local organizations. Your local Chamber of Commerce or trade group might have more information. Community development organizations with a geographical focus can also help, assuming you're located in the proper region.

### **The Good**

What's cheaper than free? If you qualify, a small business grant might offer you some or all of the capital you need to get up and running, or to take your efforts to the next level. No debt to repay means you can pour more of your profits back into the business.

The [www.grants.gov](http://www.grants.gov) site is a portal to all federal grant programs. The Small Business Administration also offers some leads. This is one area where good Web research skills can really pay off!

### **The Bad**

Finding and qualifying for these grants can be an enterprise all by itself. Depending on your resources, consider hiring the service of a grant specialist who has experience with the grants and related processes. Since grants are hard to obtain, you can spend a lot of time in an application process that inevitably goes nowhere.

**Action Item: Be Prepared.** Review all your possible sources of funding. Which loan or grant programs look the most attractive? Where else have you been considering? List your top ten choices, ranked in order of preference. Contact each potential lender for more details on the application and qualification process. This gives you a head start in the fundraising process and ensures you will meet all potential investor requirements.

## **Moving On**

So now you know a little more about how to look for the money you need to fund your new or growing business. If you've already begun the fundraising process, keep your options open and your documents at the ready. For the rest of you, make sure you do your homework and fully understand your needs and how to explain them.



## Lesson 3 Assignment



www.Inc.com has profiled seven businesses worth over a million dollars that were all started for less than \$1,000:

[www.inc.com/magazine/20000701/19531.html](http://www.inc.com/magazine/20000701/19531.html)

Read all seven profiles.

What do these entrepreneurs have in common?

- 1) Capital is either considered working capital or \_\_\_\_\_ capital.
  - A) Maintenance
  - B) Inventory
  - C) Investment
  - D) Contingent
- 2) True or False: You should always ask for less money than you think you need, just to make sure your request is approved.
- 3) True or False: Government grants can require a long and complicated application process.
- 4) True or False: Equity investors often want a say in how decisions are made in your business.

Technology has changed everything about the way we live and work. It also levels the playing field between big business and smaller enterprises willing to learn and adapt. This lesson focuses on how small business technology can make the difference between merely working and succeeding.

### **Work Smarter, Grow Faster**

Nothing else has helped level the playing field between small businesses and their larger competitors like technology. And the Internet has added even more value to businesses of all sizes, giving small and growing enterprises access to resources and markets that were previously unimaginable.

That's what this lesson is all about: assessing your true technology needs and figuring out how to meet them. Technology that doesn't provide real solutions to real problems is worthless. As an entrepreneur, you know you need to keep your dollars and other resources focused on serving and winning customers.

Hopefully you've cleared out at least a little bit of your budget for technology. Whether you decide to lease or purchase, you know it's an important investment. Regardless of what you're selling, technology will be a critical part of your success.

### **Right-Sized Technology**

Not all businesses deploy technology the same way. Don't feel pressured to upgrade to technologies or processes that don't solve real problems or add real value. It's tempting to rush into "the next big thing" without a plan. The result is resources that are either employed inefficiently or wasted. That's why right-sizing your business technology is critical.

Right-sizing guarantees you feel comfortable with the cost of technology and understand the value it adds to your business. It recognizes that not every upgrade makes sense to every business. Right-sizing lets your business drive your technology needs and not the other way around.

But it's not always easy. Right-sizing requires regular business technology checkups to reassess needs and consider products and services. It also requires a commitment on your part to understand the technology you use. Don't expect to become an expert overnight, but the more you know the better. Doing your homework and thinking in gradual phases is guaranteed to save you money and frustration down the road.

### **Focus on Communication**

Customers want a whole lot for their money. Beyond the goods and services they buy, they're purchasing a relationship. They trust you with their money, and expect you to maintain that trust

through communication. Well-managed communication will help you retain their business, their money, and increase your ability to draw new business as your reputation grows.

Isn't it a shame to consider that such a lofty arrangement could be destroyed simply because a customer gets a busy signal?

Feeling ignored and unrecognized is a common customer complaint in any industry. Nobody likes to feel neglected, especially if they're paying for the privilege. So any successful business must make customer communications a central piece of their plan for gaining and retaining customers.

**Action Item: Commit to Communication.** How will your customers be able to reach you? Can you guarantee somebody will return their call within a day or less? How many different e-mail addresses will you set up to handle incoming questions and comments? Prepare a detailed customer communication plan to help you plan your technology needs.

A comprehensive communications strategy means you need more than just an 800 number and a sympathetic ear. It's not enough to take care of the customers you have — what about the new customers you want? How does good communication help you grow your business?

Marketing allows you to aggressively push your vision to potential clients. Your Web site, advertising, and other public relations efforts all work to tell your story and give people a chance to respond. Whether this response is a sale, a lead, or just an inquiry, the conversation has started.

Many of the recent innovations being brought to market are focused on the way we communicate. When it works well, technology makes the world smaller and puts answers at your fingertips. But if a business fails to commit to good communication, all the technology in the world can't help.

## Small Business Communication Tools

Now that you're familiar with strategy of right-sizing all of the technology you employ, it's time to examine some important basics no business should be without. Remember, there is still flexibility even within this list of must-haves. Consider this a high-level planning tool rather than a shopping list.

Some gadgets and services might straddle more than one particular category of technology, but that doesn't mean you can scratch it off your list. For example, e-mail-enabled cell phones (or cell phone-enabled Blackberrys) offer blended telephone and Internet services, but may not meet either need adequately or completely.

VoIP (Voice over Internet Protocol) is the newest advance in telephony that is gathering momentum as we speak. It uses the physical infrastructure of traditional computer networks to carry voice conversations. The result is a tremendous savings on long-distance costs and innovations like online voicemail with the same reliability and quality of traditional land line service. Fax service is also supported.

## Telecommunication Services: Your Custom Blend

Although we live in a world where some people now prefer to order pizza online as opposed to picking up a phone, reliable phone service is still a must for businesses to start and succeed. Even the most technologically savvy members of our society expect that if they need to, they can get your business on the phone. The traditional importance of a business phone number continues to this day.

At the same time, you need to stay connected where you work, regardless of location. Whether you're on a job site or wooing potential clients, you need to be able to reach out to the important people when they're needed. Traditional phone service just doesn't support that sort of mobility.

The end result is a blended solution, a strategy that ensures reliable phone service for both your customers and employees. Your employees get the freedom to work where they need to, and your customers and partners know that when they dial, you'll be there.

**Action Item: The AT&T Solution Assistant.** AT&T is interested in right-sizing a telecommunications solution for your business. Let the Solution Assistant help you analyze your telecommunications needs and develop a custom strategy for meeting them. Visit the AT&T Solution Assistant site to learn more.

## Internet Services

Whether you're building a killer Web presence or just need to do some Googling, your business needs to be connected to the Internet. And while dial-up may have carried you this far, chances are it won't be able to support even the most basic small business technology requirements. The always-on aspect of broadband access is a tremendous time saver.

Since you know you've already decided you'll need the Internet, it's really just a matter of choosing a speed. That choice will depend entirely on the amount of data you're moving and what else you're doing with your connection. Depending on availability in your area, your "pipe" (connection) could deliver anywhere from around 400 kilobytes per second (DSL speed) up to a blazing-fast managed T1 bringing in 1500 Kbps or more. Either way, dial-up is left far behind in the proverbial dust.

But you're not just a consumer on the Internet anymore. With your Web presence, you're also a producer. You'll need Web hosting services as well as the other auxiliary services that help build and run the show. And if you think Web presence is just another name for a point-and-click Web site, it's time for a little update.

## Don't Just Build a Site, Build a Presence

There are tools available that can set up a Web site for your business in under 10 minutes (for free). But how do you direct traffic to your site? How will you use the Web to advertise? How can you guarantee visitors will find your site useful, easy to understand, and pleasing to the eye?

Most technologies have both build and run requirements. Building a Web presence is only half the battle, since it also has to be maintained and updated as needed. The same can be said of most of your essential technologies. These requirements include the cost in dollars and time, and whatever else is needed. Make sure you consider both requirements when doing your technology planning.

Beyond marketing and aesthetics, there are other important functions to consider. Will your Web site sell products or services and accept payments? Will it allow customers to track their purchases from order to fulfillment? Who will monitor incoming e-mail for sales leads and other inquiries?

As the site becomes more and more important to how you work, the outlines of a larger Web presence begin to emerge. This presence requires more than just a mere HTML site. It requires all of the related services, functions, and processes that transform your site from a just another www address into an engine that helps drive your business.

Here are some elements to consider as you design your Web presence:

- A. Contact information
- B. E-mail support
- C. Chat support
- D. Product catalog
- E. Ordering/fulfillment
- F. Technical support/customer service
- G. Blog
- H. Audio and video features

**Action Item: Your Web Presence.** Beyond your phone number and address, what should your Web site do for customers? Make a list of the top five functions you expect your Web site to perform. Also, take a look at the top five sites you visit. What functions and services do they offer?

## **Small Business Networking, Document Handling, and Computer Power**

External communication technologies are critical to your business. But you also need to consider internal networks, document handling, and the computing services that make it all possible.

### **Network Service: Expanding Your Connectivity**

Once you're hooked into the Internet, how do you share that connectivity with other users and devices in the workplace? How do three computers talk to one printer at the same time? These problems are solved by a well-designed computer network that allows you to stay connected but also protects you from a myriad of threats to your important data and resources.

Building a simple network is a fairly straightforward task. Their complexity increases as more users and devices join the network, and so do their maintenance requirements. Network technologies can frustrate even the most seasoned technology enthusiast.

Whether or not you outsource your network (both build and run responsibilities) to somebody outside your company is a big decision. It's often the first thing small and growing businesses seek assistance with. Make sure you work with a consultant who is as committed to right-sizing your technology as you are.

## Document Services

This is a quick subject for most small businesses, unless you're a print shop or design house. Unless you're printing or copying in huge volume, the costs can be quite reasonable. Don't overbuy. You'll probably find most of your money goes to the run side of things, with toner and ink refills quickly equaling the cost of the device over time.

You should also consider whether you'll try to support your marketing and advertising campaigns with your own printer, or if you plan on contracting that out. You'll have to find the right compromise between quality and cost to ensure your materials look good and you stay funded.

Multifunction devices combine essential business devices into a single easy-to-use unit. You can copy, scan, fax, and print with a single machine using a single software interface. They're becoming more and more affordable and the quality has improved dramatically in recent years. They're the perfect choice for your small, but growing operation.

## Computing Services

You may already own a computer that will meet your businesses needs for a while. If not, you're facing all sorts of decisions, and a wide range of products to choose from. As mentioned in the lease or buy discussion, if you're going to be equipping a staff it's probably best to lease the equipment rather than purchase.

Laptops offer greater mobility at a higher cost. But a properly equipped laptop with the right Internet service can serve as a powerful virtual office when you're on the go. But if you don't need that sort of mobility, a good desktop unit can be had for a far lower price.

**Action Item: Inventory Time.** It's a good idea to decide early on exactly the equipment you'll need to get your business up and running. How many laptops, desktops, printers, servers, scanners, copiers, fax machines, and portable digital assistants will you need? How many will you need a year from now?

## Free Advice and Other Resources for Small Businesses

It's probably a good idea, before this course wears you out completely, to highlight some wonderful sources of advice and assistance available to entrepreneurs. These online resources are available 24/7 and never complain when you need to ask yet another question.

## The SBA

The Small Business Administration's stated mission is to aid, counsel, assist and protect the interests of small business concerns. Founded by the government in 1953, the SBA has helped millions navigate the ups and downs of the market, as well as the ins and outs of the massive federal bureaucracy.

In addition to its regional and local offices across the U.S. and U.S. territories, the SBA has developed a fantastic online portal that should be a required destination for any entrepreneur looking to start a business. The SBA site ([www.sba.gov](http://www.sba.gov)) has lots of information for businesses of all sizes, and fully explains the SBA's wide ranging loan and grant programs.

## SCORE

Like the SBA, the Service Corps of Retired Executives works tirelessly to assist business people and their varied ventures. Since 1964, SCORE volunteers have mentored millions of people on their way to business success. The SCORE Web site ([www.score.org](http://www.score.org)) is a great place to learn more about the organization and their programs.

## Other Online Resources for Entrepreneurs

Many leading business publications have worked to develop content squarely aimed at those who run small and growing businesses.

## Business Journals

- Inc. ([www.inc.com/resources/startup](http://www.inc.com/resources/startup))
- Business Week ([www.businessweek.com/smallbiz](http://www.businessweek.com/smallbiz))
- Wall Street Journal ([www.startup.wsj.com](http://www.startup.wsj.com))

## Other Sites

- Entrepreneur.com: As the name suggests, this site is dedicated to those who seek to make their own opportunities.
- Intuit's Jump Up: The small business software specialist has collected relevant resources and excellent planning tools.
- Startup Nation: This site is dedicated to startups and the people who love them.
- Small Biz Survival: A blog with lots of good links focusing on small town and rural business development.

That's just a sampler. To get an idea of everything out there, simply point your favorite search engine at the topic of your choice and click. Chances are that if you've got a question, there's an answer out there waiting for you.



## Moving On

We've reached the end of the course. When you first made the decision to go into business, you knew it wouldn't be easy. Luckily, good planning and decision making can help you avoid many of the common mistakes, some of them fatal, that new entrepreneurs make. Knowledge is power, and we hope that this course has encouraged you to keep learning every step of the way. Learn as much as you can about your business and customers, and then concentrate on the relationship between the two. Learn to tell your story, and tell it well.

The task of an entrepreneur is never easy. You've got to turn your vision into a reality, and there's only 24 hours in the day. Seek every advantage and choose your partners carefully. This is how new ideas become great businesses. Since your time and money are limited, seek out the technology when it provides solutions, adds value, and helps you work smarter. Find ways to inspire innovation in your people and processes as well.

## Lesson 4 Assignment



SCORE has developed a very handy small business technology planning aid. Complete the article and grade your own progress.

[www.score.org/eb\\_9.html](http://www.score.org/eb_9.html)

Did you encounter some things you hadn't thought of yet? Are you getting a better picture of what you'll need to get started, and what you can add down the road?

- 1) Multifunction devices generally combine faxing, printing, copying, and \_\_\_\_\_ capabilities.
  - A) Long distance
  - B) VOIP
  - C) Scanning
  - D) Binding
  
- 2) Which of the following strategies ensures that your technology fills your needs and fits your budget?
  - A) Downsizing
  - B) Right-sizing
  - C) Outsourcing
  - D) Downloading
  
- 3) True or False: “Web presence” is really just a fancy term for your Web site.
  
- 4) Which of the following might be useful components of your Web presence? (Choose all that apply.)
  - A) Contact information
  - B) E-mail support
  - C) Chat support
  - D) Product catalog
  - E) Ordering/fulfillment