

# Business Start-up Guide



WASHINGTON STATE NETWORK

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SMALL BUSINESS  
DEVELOPMENT CENTERS

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# Table of Contents

First Steps to Starting a Business .....	1
Step 1: Do you have what it takes?.....	2
Personal Assessment.....	3
Business Assessment.....	4
Lifestyle Assessment .....	5
Step 2: What business should you choose?.....	6
Step 3: Is your idea feasible?.....	8
Step 4: How will you finance the business?.....	10
Personal Financial Statement .....	14
Start-up Costs.....	15
Step 5: Contact your local Washington SBDC advisor. ....	16
Contact information .....	17

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## Business Start-up Guide

With few exceptions, every business begins as a small business. Some stay small, others grow as the years pass. Profitability and future growth of a business are based on the ability to understand business operations and make good decisions.

It's important to get off to a good start and that's why we've developed this Start-up Guide. It is designed to walk you through the key steps in starting a business and provide you with the essential information that you will need. While almost all start-up businesses will eventually need to consider each of these categories, you may choose to go through each step in a different order than they are listed. Completion of this guide will give you a great start on your business.

Some of this material was taken from the *NxLevel Guide for Business Start-ups*. The Washington SBDC delivers this 10-week course throughout the state. To find classes near you, contact the SBDC office nearest you (see contact information on the last page) for the schedule of the next class.

### First Steps to Starting a Small Business

#### ❑ **Step 1: Do you have what it takes?**

Do you know what going into business means for your income, lifestyle, family, and time? Complete this section to find out.

#### ❑ **Step 2: What business should you choose?**

You may think you already know what business is right for you or you may just want to be your own boss. Take the time to make a list and evaluate the possibilities.

#### ❑ **Step 3: Is your idea feasible?**

You've got a great idea but do others feel the same way? Do enough people or companies want your product or service? Do you know how many people will buy? Check it out before quitting your day job.

#### ❑ **Step 4: How will you finance the business?**

You've got the skills, a great idea, and a market, but what about the money? The number one reason that small businesses fail is because they did not have enough working capital to survive the first two years of operation. If you need to borrow additional money do you have 20-30% of the needed money that you are willing to invest in your company?

#### ❑ **Step 5: Get help from your local Washington SBDC advisor.**

Once you have completed this plan there's still a lot more to do, but now it's time to make check in with a Washington SBDC advisor to see if you are ready for an appointment. You'll receive no-cost, confidential advising from business experts to help point you in the right direction. They'll help you through the complex maze of getting your business up and running. Contact information is on the last page of this booklet or visit our website at [www.wsfdc.org](http://www.wsfdc.org) to locate the nearest advisor.

## Step 1

### Do you have what it takes?

There are a number of different reasons for starting a business. Some individuals are interested in "trying something new." Others work to solve a problem or meet an expressed need, want independence, or are trying to increase their income. Whatever your reasons for going into business, you must do so with your eyes open. If you are like most people, it's likely you haven't thought as much about the downside of going into business as you have about the bright side. A great deal of thought and research should go into making a decision that will affect you and your family for a long time to come.

#### Risks:

- **Failure.** Entrepreneurs must assume the emotional and financial risks of failure. In fact, the failure rate for new start-up businesses is high.
- **Time.** A major drawback to starting a small business is the tremendous amount of time it takes to make the business successful. Most report 60-70 hours per week as normal. Small business owners spend an average of 12 hours a day, 6 days a week on business activities.
- **Family.** Because of the strain of operating a business, families can suffer. Many entrepreneurs find that the lack of time for family, community, and personal activities is the highest price they pay for business ownership.
- **Money.** Most start-up businesses have their own money at risk. It is normal for small businesses not to earn a profit in the first two years. If you need financing, you will be expected to provide 20% or more of the total funds. The number one reason that small businesses fail is because they did not have enough working capital to survive the first two years of operation.

#### Rewards

Naturally, there must also be some rewards or no one would ever start a small business. These are different for each person but some of the common positive aspects are:

- **Independence.** For many, the freedom to act independently is chief in their decision to "be their own boss."
- **Money.** The financial returns from your own efforts are not limited to normal work for normal pay. You have the chance to make a lot more money than you can make working for someone.
- **Fun.** Many entrepreneurs describe what they do as fun – that is, they really enjoy what they do!

There are three key areas that you should evaluate before jumping into a business endeavor headfirst: your personality, your business skills and your lifestyle. We've provided three assessment tools for you to use to determine how ready you are for starting a business. Your results from the checklist will let you know if you are prepared to start a business and areas where you may need to develop some additional skills and training. After you have completed the checklists, move on to Step 2.

NOTE: These assessments are taken from the *NxLevel Guide for Business Start-ups*, a 10-week class taught through the Washington SBDC. We recommend this excellent course as the best way for would-be entrepreneurs to learn and develop the skills necessary to run a small business and complete a business plan. Look in the training calendar on our website ([www.Washingtonsbdc.org](http://www.Washingtonsbdc.org)) or call the SBDC office nearest you (see listing on the last page) for the next scheduled course.

## Personal Assessment

The purpose of a personal assessment is to help you see more clearly the habits you possess and to compare these to the core traits of entrepreneurs. Remember, this is a starting point for you to identify the skills you might need to improve upon as you begin your small business venture.

Read each statement and enter a score using a scale of 1 to 4.

1 = strongly disagree    2 = disagree    3 = agree    4 = strongly agree

When you are finished scoring, calculate your total by adding all points.

- I enjoy competition in both work and play.
- I often set goals for myself.
- I often meet the goals I set for myself.
- I set limits for myself and follow them (with money, time, projects).
- I am happiest when I am responsible for myself and my own decisions.
- If given a choice, I prefer to work with other people on a project.
- In group situations, I usually take a leadership role (setting the agenda, organizing duties, etc.).
- I do things on my own. Nobody has to get me going.
- I work best when there are no precedents for what I am doing.
- I enjoy putting myself "on the line."
- When I start something, I am able to generate enthusiasm and commitment among other people.
- I believe that "luck favors the prepared mind."
- I do not perform well when other people set goals and define tasks I am to do.
- I am an on-time kind of person.
- I enjoy seeking out new challenges.
- I thrive on inventing new ideas, products, concepts.
- I find it exciting and exhilarating when circumstances change and I must adapt or expand my abilities.
- I enjoy speaking in front of groups of people.
- I have strong intuition, and I listen to it.
- I have many natural talents.
- I often identify new skills I need and work at acquiring them.
- I prefer to be very busy.
- I enjoy the task of juggling several tasks at once.
- I can make up my mind in a hurry if I have to and these decisions turn out to be good ones.
- I get excited about new opportunities, ideas or projects about every day.
- Total Points**

A score between 63 and 100 points indicates you are well on your way to having the right mix of personal skills to weather the challenges of starting a small business. You enjoy setting your own goals and achieving them, and you are comfortable with taking some risks. On those statements you scored yourself below a 3, consider ways to enhance these skills. Your ability to identify your weak areas and seek out ways to improve upon them speaks to how successful you will ultimately be in your entrepreneurial venture.

Scoring between 25 and 62 points could mean that starting a business may not be for you. It can also mean that you lack confidence in certain areas, and with training and experience you could develop these skills and abilities. Partnering with other people or going to work in a small, entrepreneurial business to identify and learn about the areas in which you need to improve may be wise for you.

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## Business Assessment

Running a small business requires you to be a jack-of-all-trades. It is important to know early on which skills you have and those you will have to learn or delegate to others. The skills covered in this exercise can be acquired if you work at it. Chances are you possess far more business skills than you think and can learn those skills you don't have more easily than you think. When answering the questions, consider past and present activities, including community, religious or professional organizations, work, family, or hobbies. Chances are, you routinely use many business skills without knowing it.

Read each statement and enter a score using a scale of 1 to 4.

1 = strongly disagree    2 = disagree    3 = agree    4 = strongly agree

- I keep track of my personal finances and balance my checkbook every week.
- I create monthly and yearly budgets for myself and follow them.
- For any given period of time, I know what I spend on medical costs and living expenses.
- I know within \$100 how much it cost me to operate my car last year.
- Even if I don't prepare my tax return myself, I understand the concepts regarding taxation.
- I know how to borrow money from a bank.
- I have an excellent credit rating.
- I enjoy getting "out there" and selling an idea or product to people I have never met.
- Give me five minutes, an audience, and a great product, and I can make a sale.
- I understand how to calculate profitability and perform break-even analysis.
- I understand the difference between fixed and variable costs.
- I regularly read business books to improve my skills.
- I am able to utilize a computer to efficiently manage my work and personal finances.
- I have an e-mail address and use it.
- I regularly read *Inc.* and other weekly business magazines.
- I would press customers for full payment up front, or if they refused, negotiate with them for a 50% deposit or unconventional payment terms.
- I have work experience in the industry or field in which I am interested in starting a business.
- I have successfully managed people by: setting goals, delegating responsibility, and addressing performance.
- When negotiating a decision with a friend, co-worker, or salesperson, I am confident in identifying and communicating my interests and succeed at maximizing my outcome.
- I understand the basics for how different products and services are distributed and why.
- I have hired and fired people.
- I know how to effectively interview and assess potential employees.
- I understand how the concept of "cash flow" impacts business decisions.
- I am comfortable giving presentations and know how to create professional, effective presentations.
- I know how to use computer software to create professional, effective presentations.
- I know how to prepare an invoice.
- Total Points**

If you scored 63 points or above, you may already possess basic business knowledge and skills. Review the areas where you scored below a 3 and concentrate on learning the skills in these areas.

If you scored below 63 points, you probably need to polish some existing skills and learn some new business skills. Take some time to narrow the specific areas of business in which you need to develop by looking at the areas where you scored below a 3. The NxLevel course taught by the Washington SBDC is an excellent place to learn these new skills or you can pick up specific skills through Washington SBDC workshops. Talking with experienced business people is also a great way to get real life knowledge and skills.

Whatever your point score, remember that learning new business skills is a continual process in today's marketplace.

## Lifestyle Assessment

This assessment looks at the effects that starting and running a small business will have on your life. Lifestyle preference encompasses what you value as a human being – who you are, the priorities in your life that guide your decisions and determine what motivates you. You will need to study these lifestyle issues in order to create a compatible work and personal life fit.

Read each statement and enter a score using a scale of 1 to 4.

1 = strongly disagree    2 = disagree    3 = agree    4 = strongly agree

- My friends would describe me as a high energy person.
- My health is generally good.
- I can support myself without taking money out of my business for 1 year.
- If I need to, I could keep my full-time job and run my new business on the side.
- I have no problem working 10 – 12 hours a day, 6 days a week, including holidays.
- I am willing to work 60 hours or more a week.
- My family will tolerate my working 60 hours or more a week.
- I consider myself a high performer.
- I know I can work productively for long hours and meet deadlines, no matter what it takes.
- I have very good physical stamina.
- My family obligations rank number one on my list of priorities.
- At the expense of professional stability and perhaps higher income, it is important to me to be able to determine when and where I work.
- Foremost among my personal goals is the freedom to pursue my own ideas.
- I am prepared to lose my savings.
- Beginning my own business is all about making money.
- I am prepared to sacrifice the amount of money and/or time that I am able to commit to community, school, religious, or charity obligations during the first five years of my business.
- I can go a year without a vacation.
- I have the enthusiastic support of my family to pursue an entrepreneurial venture.
- I am comfortable setting, evaluating and achieving my own 1, 3, and 5 year plans.
- I understand that part of my job description in my new business would include sweeping the floor, typing letters and taking out the trash.
- When I think about the future, I envision positive, new growth opportunities.
- I don't get "stressed out" easily.
- I am comfortable working in a "gray area" where the boundaries between my work and personal life are sometimes hidden.
- I don't get sick very often.
- Total Points**

If your score is 63 or higher, you have a good tolerance for the impacts that running a small business will have on your life. Your score reveals that you are flexible enough to take on the challenges and uncertainties of beginning a new business. Be sure to pay particular attention to the statements you scored lower than a 3 and keep these in mind when choosing what type of business is best for you.

If you scored below 63, this does not automatically disqualify you from pursuing your own venture. This simply reveals some of the realities of your life and gives you the parameters within which you must make business decisions. Look at the statements you scored a 1 or 2, and you may be able to draw some conclusions about how time, money, family, and health factor into your ideal lifestyle.

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## Step 2

### What business should you choose?

Now that you've decided that you have the right skills to start a business, you'll need to determine what business you want to start. You may already have a very good idea and feel like you can skip this step. DON'T. It always helps to test and refine your idea.

#### Make a List and Check it Twice

Make a list of the businesses you could consider, eliminating only those that are obviously not for you. Rule out ones that require talents and skills you received low scores on in Step 1 and ones in which you have no interest.

Then, gather information and evaluate your idea against other possibilities. You might try one or more of the following sources for information:

- Telephone yellow pages can indicate what is and is not available in your area.
- Public libraries have a number of business directories, including the *Thomas Register*.
- Searching the Internet can help you find and refine your idea.
- Entrepreneurial magazines often have articles about new business ideas that have potential.
- Ask friends, coworkers, neighbors, and relatives if they have product or service needs that are not currently being met.

After collecting this additional information and reconsidering your list, narrow the possibilities.

#### Get Advice

One of the common errors in choosing a business is not asking for help. This is an important way to gather information to complete the selection process:

- **Talk with people in the same or a similar business.** Businesses located outside of the area you are considering locating your business will usually be flattered and willing to share their experience and advice. The local chamber of commerce or other business association meetings may provide access to business owners that you can talk to.
- **Work for someone else for a while.** A time-honored way of learning a business is to work in a similar business as an employee. Not only will you be getting on-the-job training, but you'll be getting a paycheck, and will be avoiding overhead expenses. When scouting out potential "employer-trainers," it's best to look for one that is successful and well run.
- **Ask for professional advice.** There are four professionals you should get to know early in your business planning: an attorney, accountant, marketing advisor, and banker. Share your plans with them. They may point out factors you hadn't yet considered.
- **Share your thoughts with your family, friends, and associates.** They may come up with considerations that may discourage you from one idea, or they may offer real encouragement for pursuing another idea. Having the support and involvement of those close to you can be an added benefit.

#### Common Entry Strategies

Now that you know what business you want to start, you'll need to choose how to start it. Some common entry strategies are:

- **Start a new business:** This option permits you the most freedom and the satisfaction of knowing you did it all yourself. Some opportunities which might prompt this choice are: a new invention, a spin-off of an existing product or service, turning a hobby into a business, awareness of a customer ready to buy your product, unfulfilled market need, expansion of a part-time activity or simply chance.
- **Buy an existing business:** By buying an existing business you can avoid lead time required to launch the business, understand expected income and expenses, acquire an existing customer base, and take hold of an established image. Most successful acquisitions are accomplished by knowledgeable, adequately financed business people. When acquiring a company, it's important to understand the numerous tax and financial maneuverings available for acquiring and financially restructuring an existing company.
- **Purchase a franchise business:** This option allows you to "purchase" a known trademark for delivery of products or services under an established system. You will usually pay a franchise fee, ongoing royalties, and the costs of getting into the franchise. While it can be comforting to have ongoing support services, collective buying and advertising power, and market research, not every franchise is a guarantee of success. Many small, less expensive franchises are underfunded, lack a good training program, and fail to provide the necessary support. Many of the large, well-known franchises are too costly for many beginning entrepreneurs. This can be an attractive starting point but be sure to check out the franchise thoroughly.

### Step 3

## Is your idea feasible?

At this point, you have examined your personal motivation for business ownership and chosen an interesting possibility. Most likely, you are anxious to run to the bank, get a loan, and open your business. STOP! Before you pump your life savings and sign over the equity in your home into a small business, you want to know if it has a chance to succeed.

A common mistake made by many people is to blindly begin a business without evaluating whether it is feasible. A feasibility evaluation will allow you to make a more informed "go" or "no go" decision. A sampling of topics that should be honestly appraised includes:

- Is there really a demand for your product or service? Is that demand sufficient to start and grow the business?
- Have you researched market demand or have you just assumed that people need or want your product or service?
- Does your product or service satisfy an unfulfilled need?
- Will your product or service serve an existing market in which demand exceeds supply?
- Will your product or service be competitive based on its quality, selection, price or location?
- Do you know who your customers will be?
- Will your business be conveniently located for the people you plan to serve?
- Will there be adequate parking facilities for your customers?
- Do you understand how your business compares with your competitors?

### Study the Market

Ultimately, your idea must fulfill a need for your buyers and must do so in a way that's somehow superior to the competition, however you define it. If you want to be sure that your idea will do these two crucial things, you need to know as much as you can about the following:

- **Personal knowledge.** Understanding the industry is vital to assessing the market for a product or service. Personal knowledge of the industry develops from having contacts in the business, personal experience and a general feel for the business.
- **Competition.** Who are your competitors? What are your competitors' strengths and weaknesses? What are your competitors planning to do next? What are your competitors' spending trends? A survey of the competition may be needed to determine if there is a niche or room in the market for another business. This can be done by observing competitors' businesses. How busy are they? What problems do the businesses seem to have? What type of customers do they have? Observation helps to determine the size of the market and problems businesses have in serving that market. It may be helpful to develop a Strengths-Weakness-Opportunity-Threats (SWOT) matrix to summarize this information.
- **Customers.** Do you know who your customers are? Do you understand why, how and when they will buy your products or services? It is critical in planning a business to interview potential customers and owners of similar businesses outside your planned market area. If your business will draw customers from a 25-mile radius, similar businesses in towns 60 miles away generally will not be competing for your customers. Business owners may be quite willing to discuss their businesses and to share advice. Often, they have insight and experience that can be invaluable to a new business owner. Also, after developing a profile of a typical customer, talking with a few people fitting that description will help identify needs of customers.
- **Secondary research.** Finding information that is already published, through searching the library or Internet, is necessary to quantify the market and to verify your findings

from the above three steps. Obtaining outside validation that the market potential exists and is yet untapped or is capable of supporting your business is critical. How big is your market? Is it large enough to sustain your business and competition? What is the growth trend for the next five years? Once a market has been identified, what is the size of the actual market that you can compete in? The actual market segment that you can sell to may be a small fraction of the total market.

## Research Tools

The following tools are designed to help with research at the library or on the Internet. This research should not be neglected nor should it be the sole source of information used in developing a business or marketing plan.

Local and university libraries contain publications which can provide much of the information entrepreneurs need. Materials that are not in your local library may be obtained through interlibrary loans. Check with the reference librarians. Most libraries also have Internet connections and the reference librarians can help you with on-line research.

Use the following list as your guide to doing secondary research on a specific business or industry.

- Identify the appropriate Standard Industrial Classification (SIC) code for your business. Four-digit numbers are assigned by the U. S. Government to specific lines of business. Since most government and industrial statistics are gathered and reported by SIC code, identification of the correct code for your business will enable you to locate important data. An SIC code manual is available at most libraries.
- Check for the current periodical literature on the subject.
- Check the *Small Business Sourcebook* or the *Encyclopedia of Business Information Sources* to identify major books, trade journals, and organizations for specific business categories.
- Write or call the appropriate industry trade associations that are listed in the *Encyclopedia of Associations*.
- Write or call for a media kit from trade journals.
- Write or call franchisors for information on their franchised businesses.
- Obtain the financial ratios for the business category. Trade association financial studies, if available, usually provide the most detailed information. Three other popular sources include Robert Morris Associates *Annual Statement Studies*, Dun & Bradstreet's *Business and Financial Ratio*, and Financial Research Associate's *Financial Studies of the Small Business*.
- Examine census material such as income, age, and family size of populations in areas as small in size as zip codes in the *Census of Population and Housing*, *Census of Retail Trade*, *Census of Service Industries*, *Census of Wholesale Trade*, and *Census of Manufacturers*. The Department of the Census website is: [www.census.gov](http://www.census.gov).
- Search the Internet for information on your topic. Some search engines you may want to try are: [www.google.com](http://www.google.com), [www.yahoo.com](http://www.yahoo.com), and [www.profusion.com](http://www.profusion.com).

## Step 4

### How will you finance the business?

Every day thousands of businesses are forced to close their doors. The most common reason given for the high failure rate of small businesses is lack of adequate capital. Capital is any asset that a business uses to create value and generate profits, including financial resources, equipment, and even human capital. Working capital means cash used to operate the business is usually what growing and beginning businesses lack.

Here are some facts you should know about financing your business:

- Most businesses are started with money from personal savings, family, or friends.
- Only about 20% of new business owners start their business with money borrowed from commercial lenders.
- No conventional lending source, private or governmental, will make a commercial loan for 100% of the funds you need to start your business.
- As a rule of thumb, you will need to provide a minimum of 25-30% of personal investment toward the total start-up costs of your business. If you have less than this, your chances of obtaining outside financing are not good.
- Your "sweat equity" will not be considered relevant by the lender.
- As a general rule of thumb, you will need \$1.50 in quality collateral for every \$1 you want to borrow. For new, and some existing, businesses this typically means equity in your house that can be used to coateralize the bank loan.
- Although you may think your collateral's true worth is its appraised value or its original cost, its worth to the lender can be far less than either of these values.
- Your financial projections must show that any loan proceeds plus interest and other business expenses can be repaid from business revenues. This option is referred to as "cash flow lending". The assumptions that you base your financial projections on will be examined carefully for reasonability. When the lending decision is being made, having adequate collateral will not override your business's inability to generate positive cash flow.
- Acquiring a loan will be more involved and time-consuming than you think. In the best of circumstances, it will normally take 45-90 days to close a loan depending on conditions in the market and the completeness of your loan package. If you have a complex situation or if the lender needs additional information, the time span may be significantly longer.

### Sources of Financing

Funding for a business usually comes in two forms: debt and equity. **Debt** is obtained from borrowing and must be repaid from cash flow. **Equity** is contributed by owners or investors and is not normally repaid from operations.

There are several sources to consider when looking for financing. It is important to explore all of your options before making a decision.

- **Personal savings:** The primary source of capital for most new businesses comes from savings and other forms of personal resources. While credit cards are often used to finance business needs, there may be better options available, even for very small loans.
- **Partner:** Very rarely does a single individual have sufficient resources to start a company on his or her own. With the right mix, a partner can bring both human and economic capital to the table. Having a partner also spreads the risks involved in running a business.
- **Friends and relatives:** Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest free or at a low interest

rate, which can be beneficial when getting started. Your friends and family may want to be a part of the company in exchange for the money. Remember, once you bring friends and family into the business, there is little separation between your professional and personal life.

- **Banks and credit unions:** The most common source of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound and that you have some money to contribute (typically 20%).
- **Angel financing:** In angel financing, a private investor or group of investors will contribute money in exchange for an equity stake in the company and perhaps a seat on the board of directors. In many cases, an angel will also contribute expertise, management skills and strategy advice. Angel financing is appropriate if you are seeking anything from a few thousand dollars to \$3 – \$5 million.
- **Venture capital firms:** A venture capital fund is a firm that specializes in financing new ventures with capital supplied by investors interested in speculative or high-risk investments that have the potential to provide them very high rates of return. They start where angel firms leave off.

Seek legal counsel to help you review documents and potentially develop the written agreement(s) for ALL loans or equity investments. The first rule here is that if it is not written it is not real!

## Loans

### 1. The Five C's of Credit

Your bank is not a charitable institution. It is in business to make (not lose) money. Consequently, when a bank lends money it wants to ensure that it will get paid back. To maximize the possibility of being paid back, the bank wants to make sure that there is sufficient assurance that a person can pay back a loan and that he or she has met such obligations before. The bank must consider the 5 "C's" of Credit each time it makes a loan. Review each category and see how you stack up.

- **Capacity** to repay is the most critical of the five factors. The prospective lender will want to know exactly how you intend to repay the loan. The lender will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships--personal and commercial--is considered an indicator of future payment performance. Prospective lenders also will want to know about your contingent sources of repayment.
- **Capital** is the money you personally have invested in the business and is an indication of how much you have at risk should the business fail. Prospective lenders and investors will expect you to have contributed from your own assets and to have undertaken personal financial risk to establish the business before asking them to commit any funding. If you have a significant personal investment in the business you are more likely to do everything in your power to make the business successful.
- **Collateral** or "guarantees" are additional forms of security you can provide the lender. If for some reason the business cannot repay its bank loan, the bank wants to know there is a second source of repayment. Assets such as equipment, buildings, accounts receivable and in some cases inventory, are considered possible sources of repayment if they are sold by the bank for cash. Both business and personal assets can be sources of collateral for a loan. A guarantee, on the other hand, is just that--someone else signs a guarantee document promising to repay the loan if you can't. Some lenders may require such a guarantee in addition to collateral as security for a loan.

- **Conditions** focus on the intended purpose of the loan. Will the money be used for working capital, additional equipment, or inventory? The lender will also consider the local economic climate and conditions both within your industry and in other industries that could affect your business.
- **Character** is the general impression you make on the potential lender or investor. The lender will form a subjective opinion as to whether or not you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background and experience in business and in your industry will be reviewed. The quality of your references and the background and experience of your employees also will be taken into consideration.

## 2. Types of Business Loans

Terms of loans may vary from lender to lender, but there are two basic types of loans:

A **short-term** loan has a maturity of up to one year. These include working capital loans, accounts receivable loans and lines of credit.

**Long-term** loans have maturities greater than one year but usually less than seven years. Real estate and equipment loans may have maturities of up to 25 years. Long-term loans are used for major business expenses such as purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

## 3. How Your Loan Request Will Be Reviewed

When reviewing a loan request, the lender is primarily concerned about repayment. To help determine this ability, many loan officers will order a copy of your business credit report from a credit reporting agency. Therefore, you should work with these agencies prior to going to the bank to help them present an accurate picture of your business and personal credit history. Using the credit report and the information you have provided, the lending officer will consider the following issues:

- Have you invested savings or personal equity in your business totaling at least 25 percent to 50 percent of the loan you are requesting? (Remember, a lender or investor will not finance 100 percent of your business.)
- Do you have a sound record of creditworthiness as indicated by your credit report, work history and letters of recommendation? This is very important.
- Do you have sufficient experience and training to operate a successful business?
- Have you prepared a loan proposal and business plan that demonstrate your understanding of and commitment to the success of the business?
- Does the business have sufficient cash flow to make the monthly payments and build a cash reserve?

## Financial Worksheets

Now it's time to put some numbers down on paper. A lender will usually use four primary financial statements to make a credit decision.

- **Personal Financial Statement:** This indicates your net worth and is important to the lender, particularly if you have never received financing for your business before, because it gives him or her evidence of personal assets you could pledge to secure a loan.
- **Balance Sheet:** This provides you with a snapshot of your business at a specific time, such as the end of the year. It keeps track of the company's assets (what the company owns including cash) and liabilities (generally loans from others). It also shows the capital, or equity, put into the business.
- **Profit and Loss Statement:** Also called the income statement, the profit and loss statement takes the sales for the business, subtracts the costs of goods sold, then subtracts other expenses. A lender will typically need a 3 year projection.
- **Statement of Cash Flows:** This statement presents the sources of cash in your business – from net income, new capital, or loan proceeds – versus the expenditures, or uses of the cash, over a specified period of time.

We recommend that you prepare the following two financial statements:

- Personal Financial Statement <http://asbdc.ualr.edu/start/sukit10.htm>
- Start-up Calculator [www.businessknowhow.net/bkh/startup.htm](http://www.businessknowhow.net/bkh/startup.htm)

If you take the NxLevelL class for Business Start-ups, you will learn more about financing your business and will put together the financial documents that you need. Visit our website at [www.wsbdc.org](http://www.wsbdc.org) or contact the Washington SBDC office nearest you to find out when the next class is scheduled.

# Personal Financial Statement

Date: \_\_\_\_\_

## Assets

Cash on hand and in checking accounts	_____	
Savings accounts	_____	
U.S. Government bonds	_____	
IRA or other retirement account	_____	
Certificates of deposit	_____	
Money owed to you	_____	
Life insurance cash value	_____	
Other stocks and bonds	_____	
Real estate	_____	
Automobile	_____	
Boats, motorcycles, snow machines, etc.	_____	
Household furnishings	_____	
Other personal property	_____	
Other assets	_____	
<b>TOTAL ASSETS</b>		_____

## Liabilities

Bills	_____	
Credit card balances	_____	
Notes payable to banks	_____	
Installment account (auto)	_____	
Installment account (other)	_____	
Loans of life insurance	_____	
Mortgages on real estate	_____	
Unpaid taxes	_____	
Other liabilities	_____	
<b>TOTAL LIABILITIES</b>		_____

**NET WORTH (Total Assets – Total Liabilities)** \_\_\_\_\_

# Start-up Costs

## 1. One-time Start-up Costs

Fixtures and equipment	_____	
Decorating and remodeling	_____	
Installation of fixtures and equipment	_____	
Starting inventory	_____	
Deposits with public utilities	_____	
Legal and other professional fees	_____	
Licenses and permits	_____	
Advertising and promotion for opening	_____	
Consulting and software	_____	
Cash	_____	
Other	_____	
<b>TOTAL</b>		_____

## 2. Monthly Expenses

Salary of owner/manager	_____	
Other salaries and wages	_____	
Rent	_____	
Advertising	_____	
Delivery expense	_____	
Supplies	_____	
Telephone	_____	
Utilities	_____	
Insurance	_____	
Taxes, including Social Security	_____	
Interest	_____	
Maintenance	_____	
Legal and other professional fees	_____	
Credit card fees	_____	
Dues and subscriptions	_____	
Miscellaneous	_____	
<b>TOTAL MONTHLY EXPENSES</b>		_____

**3. Number of months needed to get established** \_\_\_\_\_

**4. Start-up Costs: 1 + (2 x 3)** \_\_\_\_\_

## Step 5

### Contact your local Washington SBDC advisor.

Congratulations! If you've completed the first four steps, you know:

- whether you have the personal, business, and lifestyle requirements to begin a small business endeavor,
- your idea has been thoroughly examined and refined,
- there are customers for your product or service, and
- generally, you can make the finances work.

With this information, you are on your way to putting together your Business Plan, an important cornerstone of starting a business. But there are still many more questions to answer and choices to make.

At this point we recommend you make an appointment with one of our knowledgeable business advisors. They can review your information, answer your questions, and point you in the right direction to complete the additional steps needed to start your business. And all this is confidential and no cost to you! Contact the Washington SBDC office nearest you to set up your appointment.

#### Additional Steps

Some of the additional questions you will need to answer are:

- What legal structure will you have?
- What insurance coverage will be needed?
- What accounting system will you use?
- What equipment and supplies will you need?
- What will you name your business?
- Where will your business be located?
- How will you market your business?
- What permits and licenses do you need?
- Should you rent or lease?
- What do you need to set up an office?
- Should you have a home-based business?
- Have you applied for your state employer ID number and your federal identification number?
- Have you obtained a business license?
- Have you checked zoning and other land use ordinances?
- Have you established a bank account?
- Where will you find qualified employees?
- How much will you pay your employees and yourself?
- How will you price your product?

If you still want more information, we've provided several links to more comprehensive information on starting a business. Washington SBDC Resources: <http://www.wsbdc.org>

Small Business Administration: <http://www.sba.gov>

Business Owner's Toolkit: <http://www.toolkit.cch.com>