



**Good WORK** NETWORK  
goodworknetwork.org



# *Small Business Primer*

# Mission

*The mission of the  
Good Work Network  
is to expand the local  
economy by building  
minority and women  
owned businesses.*

# History

The Good Work Network, a 501(c)(3) organization, was established in the fall of 2000 to help economically disadvantaged individuals and businesses increase their income and wealth by acquiring the skills and resources necessary to participate more fully in self-employment and micro enterprise opportunities available in the mainstream economy. GWN provides training, technical assistance, and management support services to low income and disadvantaged micro entrepreneurs and to non-profit organizations.

# Client Services

- **Accounting & Bookkeeping** These services include a wide range of accounting and bookkeeping functions such as setting up accounting and record keeping systems; maintenance of the company's general ledger; bank reconciliation; sales and payroll tax assistance; financial statements preparation; financial statement analysis; cash flow projections; budgeting; QuickBooks training; and others.
- **Credit Counseling** After review of the client's credit reports, a credit action plan is developed to establish, repair or improve credit; the participant's progress is monitored through periodic checkups.
- **Training Programs** Training programs include Financial Education (a 12 hour course on personal money management); Entrepreneurship Training (a 30 hour course covering business concepts and business plan construction); Personal Effectiveness Training (a 12 hour course on personal development skills); Quickbooks Tutorial (an 8 hour course teaching business accounting using QuickBooks software); and other specialized training classes as deemed appropriate.
- **Technical Assistance** One-on-one counseling is available to clients in areas such as business plan writing, legal and tax startup issues, design of record keeping and accounting systems, loan packaging, marketing strategy development, marketing material design, etc.
- **Administrative Support** Secretarial and clerical services are available for document preparation and handling. Access to computers, copiers, and fax machines is also available.
- **Market Access Assistance** Microentrepreneurs that meet certain business capacity standards are linked to business and individuals interested in doing business with a diverse group of suppliers.
- **Capital Access Assistance** Qualified individuals are referred to New Corp, Hope Credit Union, or conventional lenders for loans and/or enrolled in available IDA programs.

# What Does it Mean to Be An Entrepreneur?

**ENTREPRENEUR** - “A person who organizes, operates and assumes the risk for business ventures.”

# Entrepreneurship as a Career

## The reality of running a small business:

- “Being your own boss” - It is not as much fun as it sounds
- “Boredom” - Running your own business does not mean that you will never be bored again.
- “Inability to find a job” - There is a difference between being self employed and being an entrepreneur.
- “Increased income” - That is not always true in most cases.
- “A real opportunity” - Is there actually an opportunity or does there just appear to be one?

# Importance of Strategic Planning

- Strategic planning is matching the strengths of your business to available opportunities.
- Collect, screen, and analyze information about the business environment.
- Have a clear understanding of your business - its strengths and weaknesses - and develop a clear mission, goals, and objectives.
- You must realistically assess the business you are convinced you know well.

**If you are to survive and prosper, take the time to identify the niches in which you are most likely to succeed, and to identify the resource demands that must be met.**

# Five Questions to Ask Yourself

## 1) Can I handle the pressure?

- Can you make difficult decisions quickly?
- Can you live with uncertainty?
- Can you handle multiple roles and work long hours?
- Can you separate the fate of your business from your own self-image?

# Five Questions to Ask Yourself

## 2) Is my idea practical?

- Do you have the necessary background and resources to run such a business?
- Is there really a market for your product or service?
- What customer need am I fulfilling?
- What level of sales will you need just to break even?
- What sort of competition will you face?

# Five Questions to Ask Yourself

## 3) Where will I get the money?

- There are no government grants to start a business.
- Most new business owners rely on their saving, home equity, or relatives and friends.
- The most important element in qualifying for financing from a lender is your credit history. How is your credit?

# Five Questions to Ask Yourself

## 4) Am I good with details?

- There is a great deal to organize before you ever begin operating your business
- You will need to become knowledgeable about bookkeeping, legal obligations, government regulations and taxes, etc.
- Maintaining accurate and complete records is crucial to success.

# Five Questions to Ask Yourself

## 5) How will this affect my family?

- You are likely to work much longer hours than a regular job.
- How will your spouse and/or children react to getting so much less of your time?
- Can your family survive without your paycheck until your business starts turning a profit?

# What is the Purpose of a Business?

- Common Answer is - “to make money, to earn a profit.”
- The real purpose of a business is to create and keep customers

# The “SECRET” to Creating and Keeping Customers?

- Produce goods or services that people want and value
- at prices and under conditions that are attractive relative to your competitors,
- at a cost that allows you to remain in business.

# Increase your chance of success - WRITE A GOOD BUSINESS PLAN

"The business plan is a necessity. If the person who wants to start a small business can't put a business plan together, he or she is in trouble," says Robert Krummer, Jr., chairman of First Business Bank in Los Angeles.

- Management and Personnel
- Marketing
- Operations
- Financials

# Management Plan and Personnel Issues

- What is your experience and what will your role be?
- What about your management team? Who are the key people; what are their backgrounds and responsibilities.
- What tasks will be performed by outside consultants or advisors?
  - Banker
  - Accountant
  - Insurance
  - Lawyer
- What sort of employee training will required?
- How will you be organized?
- Legal form of organization?

# Types of Business Entities

- Sole Proprietor
- Partnership
- Corporation
- Limited Liability Company

## TAKE THE FOLLOWING INTO ACCOUNT:

- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of structure you are willing to deal with.
- The business' vulnerability to lawsuits.
- Tax implications of the different ownership structures.
- Expected profit (or loss) of the business.
- Whether or not you need to reinvest earnings into the business.
- Your need for access to cash out of the business for yourself

See handout for more information

# Market Research - Customers

- Who are your Customers?
- What are their wants and needs?
- How will you find, identify and promote the customers?

# Market Research - Competition

- Who are your competitors?
- What are their strengths and weaknesses?
- What opportunities and threats do competitors present to your business?

# Market Research - Industry

- What is your primary industry?
- What is the current size of the industry?  
What life cycle stage is the industry in?
- What is its projected growth rate?
- What are the major customer groups within the industry (i.e., businesses, governments, consumers, etc).

# 4 P's of Marketing

- Pricing
- Place
- Promotion
- Product

\* Provide Extraordinary Customer Service \*

# Operations

- Licenses and Permits
- Lease
- Insurance
- Suppliers
- Inventory

# Financials



HOW  
MUCH  
MONEY  
DO YOU  
NEED?

# List of Assets you will need with “Real Prices”

- Building and Land
- Equipment
- Fixtures
- Furniture
- Inventory
- Cash to cover fixed cost for 3-6 months
- Cash For Pre-Business Expenses
  - Training
  - Travel

# Commonly overlooked start up expenses

- Decorating and Remodeling
- Installation of Fixtures and Equipment
- Utility Deposits
- Licenses and Permits
- Legal and Accounting Expenses
- Grand Opening Advertising Expense
- Others ???

# Finding Capital for Your Business

It is important to explore all of your financing options before making a decision; several sources to consider are:

- **Personal Savings:** The primary source of capital for most new businesses comes from savings and other personal resources. While credit cards are often used to finance business needs, there are usually better options available, even for very small loans.
- **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.
- **Banks And Credit Unions:** The most common sources of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound. Also consider a SBA guaranteed loan through a bank.
- **Angel Investors And Venture Capital firms:** These individuals and firms help expanding companies grow in exchange for equity or partial ownership.

# Additional Sources of Capital

- Credit Cards
- Employee Stock Ownership (ESOP)
- Home Equity Loans
- Other??

# What a bank will look for - 1) Ability to Repay/Capacity

- The ability to repay must be justified in your loan package. Banks want to see two sources of repayment -- cashflow from the business, plus a secondary source such as collateral.
- In order to analyze the cash flow of the business, the lender will review the business's past financial statements.
- Generally, banks feel most comfortable dealing with a business that has been in existence for a number of years because they have a financial track record. If the business has consistently made a profit and that profit can cover the payment of additional debt, then it is likely that the loan will be approved.
- If however, the business has been operating marginally and now has a new opportunity to grow or if that business is a start-up, then it is necessary to prepare a thorough loan package with detailed explanation addressing how the business will be able to repay the loan.

# What a bank will look for -

## 2) Credit History

- One of the first things a bank will determine when a person/business requests a loan is whether their personal and business credit is good. Therefore before you go to the bank, or even start the process of preparing a loan request, you want to make sure your credit is good.
- You will be referred to Capital Assess Project for Credit Counseling
  - You will receive the credit report and FICO scores from Transunion, Experian and Equifax
- Scores Ranges: 300-850
  - 600 - 650 On the low side
  - 650 - 700 Generally Good
  - 700 - 750 Really Good
  - 750 - 850 Excellent

# What a bank will look for - 3)Equity

- Financial institutions want to see a certain amount of equity in a business. Equity can be built up in a business through retained earnings or the injection of cash from either the owner or investors.
- Most banks want to see that the total liabilities or debt of a business is not more than 4 times the amount of equity. (Or stated differently, when you divide total liabilities by equity, your answer should not be more than 4.) Therefore if you want a loan you must ensure that there is enough equity in the company to leverage that loan.
- Don't be misled into thinking that start-up businesses can obtain 100% financing through conventional or special loan programs. A business owner usually must put some of her/his own money into the business. The amount an individual must put into the business in order to obtain a loan is dependent on the type of loan, purpose and terms. For example, most banks want the owner to put in at least 20 - 40% of the total request.

# What a bank will look for - 3)Equity

- Example:** A new business needs a \$100,000 to start. The business owner must put \$20,000 of her own money into the new business as equity. Her loan will be \$80,000. The debt to equity ratio is 4:1. Note also that this is only one of many factors used to evaluate the business -- just having the right debt/equity ratio does not guarantee you'll get the loan.

# What a bank will look for -

## 4) Collateral

- Financial institutions are looking for a second source of repayment, which often is collateral. Collateral are those personal and business assets that can be sold to pay back the loan.
- Every loan program, even many microloan programs, requires at least some collateral to secure a loan. If a potential borrower has no collateral to secure a loan, she/he will need a co-signer that has collateral to pledge. Otherwise it may be difficult to obtain a loan.
- The value of collateral is not based on the market value. It is discounted to take into account the value that would be lost if the assets had to be liquidated.

# Financial Projections

- Pro Forma Financial Statements
  - Cash Flow - Tracks Cash to Project Borrowing Needs
  - Income Statement - Includes Non- Cash Items
  - Balance Sheet - Snapshot of assets and liabilities

# Pulling in all together

- Begin researching industry
- Identify what customer “need” is being fulfilled
- Review of the Business Plan Outline
  - See handout
- Look at other resources
  - SBA.gov - online courses and information
  - lsbdc.org - local courses
  - Industry trade associations

# Where do I go from here?

- Make an appointment with our Intake Manager
- Visit Capital Access after you receive the referral from us
- Review the items discussed in this seminar
- After intake, you will be given an appointment with a Business Counselor
- WE ARE YOUR BUSINESS CONSULTANTS