

Business Start-up Guide



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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 Idaho SBDC delivers this course as an online training. Check out the [eLearning](#) section of the website or 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? Does someone 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.

❑ **Step 5: Get help from your local Idaho SBDC consultant.**

There's still a lot more to do, but now it's time to make an appointment with an Idaho SBDC consultant. You'll receive no-cost, confidential counseling 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.idahosbdc.org.

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 may have the opportunity 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 class taught online through the Idaho 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 on the [eLearning section](#) of our website (www.idahosbdc.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. These decisions usually turn out to be good ones.
- I get excited about new opportunities, ideas or projects just about every day.
- Personal 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.
- Business 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 NxLevelL course taught by the Idaho SBDC is an excellent place to learn these new skills or you can pick up specific skills through Idaho 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.

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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 and able 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.
- It is important to me to create my own space in which to work.
- 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.
- Lifestyle Total Points**

If your score is 63 or higher, you may 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 determined the skills and capabilities needed 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. 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, evaluate your idea against other possibilities and narrow the 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.

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 may be flattered and willing to share their experience and advice. The local chamber of commerce or other business association 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," 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 consultant, 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 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?
- Have you researched market demand or have you just assumed that people need or want your product or service (have you done any test marketing to validate)?
- Does your product or service satisfy an unfulfilled need or solve a problem?
- 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 target customers will be?
- Will your business be conveniently located with ample parking for the people you plan to serve?
- Do you understand how your business compares to the competition and what makes you different?

Study the Market

Ultimately, your idea must fulfill a need or solve a problem for customers 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 with expertise in the business and your own direct personal experience.
- **Competition.** Who are your competitors? Creating a simple table comparing your business to the competition based on key characteristics (like: products, price, quality, customer service) will tell you a lot. 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 and reviewing their websites for information. How busy are they? What problems do they seem to have? What type of customers do they have? What innovative things are they doing to attract customers and generate sales? How will you successfully compete?
- **Customers.** Do you know who your customers are? Do you understand why they buy your products or services? A useful tool in business planning is interviewing owners of similar businesses outside your 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. These business owners may be willing to discuss their businesses and share their insights, experience, and advice. Additionally, be sure to develop profiles of your typical customers and then talk with people fitting the profile descriptions using tools like: focus groups, surveys, and test marketing with feedback.
- **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. 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 and access to online resources 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 for assistance with all forms of research.

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

- Identify the appropriate North American Industry Classification System (NAICS) code for your business. The 2-6 digit codes are the standard used by federal statistical agencies classifying business establishments. Since many government and industrial statistics are gathered and reported by NAICS code, identification of the correct code for your business will enable you to locate important data. A NAICS code manual is available at most libraries and online through the NTIS website.
- Check for the current periodical publications and 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.
- Contact the appropriate industry trade associations that are listed in the *Encyclopedia of Associations*.
- Obtain a media kit from trade journals.
- Contact franchisors for information on their franchised businesses.
- Obtain the financial ratios for the business category. Trade association financial studies usually provide the most detailed information. 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* (see a reference librarian for assistance).
- 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.
- Search the Internet for information on your topic.

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 and is usually what 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 at least \$1.50 in quality collateral for every \$1 you want to borrow.
- Although you may think your collateral's true worth is its appraised value or its original cost, its worth to the lender will 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. 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 60-90 days to close a loan. If you have a complex situation or if the lender needs additional information, the time span may be significantly longer.

Sources of Funding / 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 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.

- **Self Funding & Personal Savings:** The primary source of capital for most new businesses comes from savings and other forms of personal resources. While personal credit cards are often used to finance business needs, there may be better options available, even for very small loans.
- **Partner(s):** At times a single individual does not 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 spreads the risks involved in starting and 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.

Remember too that friends and family can lose the investment they make in your business and relationships can be put at risk so think through these situations carefully.

- **Financial Institutions:** Banks and credit unions may provide a loan if you can show that your business proposal is sound and you have good cash equity to contribute (typically 25-30%). Many financial institutions who lend money to small and start up businesses participate in the Small Business Administration's (SBA) Guaranteed Loan Programs. To read more about SBA loans go to <http://www.sba.gov/content/sba-loans>.
- **Crowd Funding:** Crowd Funding involves the collective contribution efforts of individuals (typically) who network via an online platform to pool their money in support of funding start up businesses and business projects. Individual contributions are typically small and contributors receive some type of perk or reward as incentive to provide capital to the business as part of a campaign organized by the company raising the contributions. Alternative types of business Crowd Funding Platforms also exist including equity investment and debt investment platforms. See more information in the Technology section. www.idahosbdc.org/specialized-services/technology/financing
- **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 may be appropriate if you are seeking anything from a few thousand dollars to as much as \$1-\$5 million dollars.
- **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.
- **Accelerators & Incubators:** Accelerators and Incubators can be a great way to get your business off the ground while gaining access to resources and mentoring—think of them as a way to help you get jumpstarted.

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; a good personal credit score is important.
- **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 make a significant contribution from your own assets before asking them to commit to funding.

- **Collateral** and "**Guarantees**" are additional forms of security the lender will require. If for some reason the business cannot repay its loan from operating cash flow, the bank wants to know there are other sources of repayment. Assets such as equipment and buildings, and in some cases accounts receivable and inventory, are considered secondary 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—you will be asked to sign a personal guaranty on your business loans and you may also need someone else (with financial strength) to sign as a personal guarantor.
- **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** The soundness of a small business loan is also highly dependent on the trustworthiness of the business owner. Your reputation in your local area is important and you should be able to provide good local business references. A good personal credit score plays into character by demonstrating the importance of honoring and paying personal financial obligations.

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 to help them present an accurate picture of your business. 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 30 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?

Financial Statements and 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 statement is made up of two parts, a detailed statement of your sources of income and your expenses, and a detailed statement of your assets, liabilities and net worth. It's important to the lender to see your personal financial condition and assess how you manage it. It's also important when you are seeking financing for your business because it provides evidence of personal assets you could pledge to secure a loan.
- **Balance Sheet:** The Balance Sheet is a statement of financial position that shows the assets, liabilities, and net worth of the business at a specific point in time (for example, as of 12/31/2012). Assets are everything the business owns like cash, inventory, and equipment. Liabilities (also referred to as debt) are what the business owes to creditors. Net Worth (also called equity) is what the business owes to the owners. It's the investment owners have in the business. As a start up business you will be expected to forecast future Balance Sheets going out one to three years.
- **Profit and Loss Statement:** Also called the Income Statement, is the summary of sales revenue, less the costs and expenses of the business. Key elements of the profit and loss statement are Gross Profit (sales minus cost of goods sold), and Net Profit (the amount remaining after all expenses have been met). As a start up business you will be expected to forecast future Profit and Loss Statements going out one to three years.
- **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. In addition to this statement, you will be expected to prepare a **forecast of cash flows**, by month, going out one to three years.

In addition to these four financial statements, you will prepare a **listing of Start-up Costs** as part of the financial analysis for your business plan.

If you take the NxLevel class for Business Start-ups, you will learn more about financing your business and will put together the financial documents that you need. Check out our training calendar at <http://www.idahosbdc.org/regional-training> or contact the Idaho SBDC office nearest you to find out how to sign up for NxLevel online classes.

Step 5

Contact your local Idaho SBDC consultant.

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 consultants. 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 Idaho SBDC office nearest you to set up your appointment.

Contact Information



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