



## STARTING A SMALL BUSINESS — FREQUENTLY ASKED QUESTIONS

### **1. Do I have what it takes to own/manage a small business?**

You will be your own most important asset, so an objective appraisal of your strengths and weaknesses is essential. To determine if you have what it takes, YOU need to answer some questions about yourself: Am I a self-starter? How well do I get along with a variety of personalities? How good am I at making decisions? Do I have the physical and emotional stamina to run a business? How well do I plan and organize? Are my attitudes and drive strong enough to maintain motivation? How will the business affect my family?

### **2. What business should I choose?**

Usually, the best business for you is the one in which you are most skilled and interested. For example, if you are trained as an auto mechanic, you may want to consider opening a shop related to auto repair. As you review your options, it is advisable to consult local experts and business persons about the growth potential of various businesses in your area. Matching your background with the local market characteristics will increase your chance of success.

NOTE: If you don't have an idea of what type of business you wish to start, consider visiting with one of SBA's major training and counseling resources:

- SCORE -- Service Corps of Retired Executives
- BICs -- Business Information Centers
- SBDC -- Small Business Development Centers.

Locations of these resources are found under the *Local SBA Resources* section of the SBA Home Page [www.sba.gov](http://www.sba.gov).

### **3. What is a business plan and why do I need one?**

A business plan precisely defines your business, identifies your goals and serves as your firm's resume. Its basic components include a market study, marketing/promotional strategy, current balance sheet, an income statement and a cash flow analysis. It helps you allocate resources properly, handle unforeseen complications, and make the right decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan package. Additionally, it can tell your sales personnel, suppliers and others about your operations and goals.

NOTE: A complete online training module on how to develop a business plan can be found in the TRAINING MENU of SBA ONLINE and in *STARTING* at [www.sba.gov](http://www.sba.gov).

### **4. Why do I need to define my business in detail?**

It may seem silly to ask yourself, "What business am I really in," but some owner-managers have gone broke because they never answered that question. One watch store owner realized that most of his time was spent repairing watches while most of his money was spent selling them. He finally decided he was in the repair business and discontinued the sales operations. His profits improved dramatically. Clearly defining your business or your purpose will give a true sense of direction as your venture develops.

## **5. What legal aspects do I need to consider?**

Licenses, permits, zoning laws and other regulations vary from business to business and from state to state. You will need to consider requirements of the Americans With Disabilities Act in order to accommodate needs of your customers and your employees. Your local Small Business Administration (SBA) office and/or chamber of commerce can provide you with general information, but you will need to consult your attorney for advice specific to your enterprise and area. You also must decide about your form of organization (corporation, partnership or sole proprietorship).

## **6. What do I need to succeed in a business?**

There are four basic needs for success in small business:

- Sound management practices.
- Industry experience.
- Technical support.
- Planning ability.

Few people start a business with all of these bases covered. Honestly assess your own experience and skills; then look for partners or key employees to compensate for your deficiencies.

## **7. Would a partner(s) make it easier to be successful?**

A business partner does not guarantee success. If you require additional management skills or start-up capital, engaging a partner may be your best decision. Personality and character, as well as ability to give technical or financial assistance, determine the ultimate success of a partnership. A successful partnership usually occurs when partners compliment each other so that one's weakness is another's strength. If you decide a partner is a good idea, make certain each of you has a clear, written understanding of your responsibilities and your rights.

## **8. How can I hire qualified employees?**

Choose your employees carefully. Decide beforehand what you want them to do. Be specific. You may need flexible employees who can shift from task to task as required. Interview and screen applicants with care. Remember, good questions lead to good answers. The more you learn about each applicant's experience and skills, the better prepared you are to make your decision.

## **9. How do I set wage levels?**

Wage levels are calculated using position importance and skill requirements as criteria. Consult your trade association and accountant to learn the most current practices, cost ratios and profit margins in your business field. While there is a minimum wage set by federal law and by some states for most jobs, the actual wage paid is entirely between you and your prospective employee.

## **10. What other financial responsibilities do I have for employees?**

You must withhold federal and state income taxes from all wages and salaries, contribute to unemployment and workers compensation systems, and match Social Security contributions. You may also wish to inquire about key employee life or disability insurance. Because laws on these matters vary from state to state, you should consult local information sources and/or SBA offices.

NOTE: A list of all SBA offices can be found under the Local SBA Resources of SBA's Home Page at [www.sba.gov](http://www.sba.gov).

## **11. What kind of security measures must I take?**

Crimes ranging from armed robbery to embezzlement can destroy even the best businesses. You should install a good physical security system. Just as important, you must establish policies and safeguards to ensure awareness and honesty among your personnel. Because computer systems can be used to defraud as well as keep records, you should check into a computer security program. Consider taking seminars on how to spot and deter shoplifting and how to handle cash and merchandise; it is time and money well spent. Finally, careful screening when hiring can be your best ally against crime. Also consider developing a plan for coping with disaster as part of your security measures. It is impossible to predict when fire, flood, earthquake, tornado, explosion or other disaster will strike. Being prepared — with a spare set of essential, regularly updated business records kept off premises --

can spell the difference between WHEN or IF you will reopen for business after the emergency is controlled.

### **12. Should I hire family members to work for me?**

Frequently, family members of the owner "help out in the business." For some small business owners it is a rewarding experience; for others it can cause irreparable damage. Carefully consider their loyalty and respect for you as the owner-manager. A question of paramount importance that you must be able to answer: Can you keep your family and business decisions separate?

### **13. Do I need a computer?**

Small businesses today face growing inventory requirements, increased customer expectations, rising costs and intense competition. Moreover, if you plan to do business with the federal government you will need electronic commerce capability. Computers can provide information that leads to better returns on investment. At the same time, they help you cope with the many other pressures of your business. Computers are not cure-alls, however, and considerable care should be given to:

1. Deciding if you need one,
2. Selecting the best system (or personal computer) for your business,
3. Selecting the most relevant software for your needs, and
4. Ensuring that you can easily operate the system.

### **14. What about telecommunications?**

All small businesses share some common functions: sales, purchasing, financing, operations and administration. Depending on your individual business, telecommunications can support your objectives in any or all of these areas. The telephone (the terminal) and the network (local or long distance or INTERNET) make up the basic components of a telecommunications system. These are effective tools that can easily adapt to changes in seasonality and growth. How you use telecommunications can affect how efficiently and profitably your company grows in the future.

### **15. How much money do I need to get started?**

Once you have taken care of your building and equipment needs you also must have enough money on hand to cover operating expenses (fixed and variable costs) for at least one year. These expenses include your salary, as the owner, and money to repay your loans. One of the leading causes of business failure is insufficient start-up capital. Consequently, you should work closely with your accountant to estimate your cash flow needs. Writing a business plan will provide you with accurate information on your needs for capital.

### **16. What are the alternatives in financing a business?**

Committing your own funds is often the first financing step. It is certainly the best indicator of how serious you are about your business. Risking your own money gives confidence to others who may invest in your business. You may want to consider family members or a partner for additional financing. Banks are an obvious source of funds. Other loan sources include commercial finance companies, venture capital firms, local development companies and life insurance companies; trade credit, selling stock and equipment leasing offer alternatives to borrowing. Leasing, for example, can be an advantage because it ties up less of your cash. Ask your local SBA office for information about these various sources as well as materials produced by SBA including business management publications.

NOTE: A list of banks which frequently work with SBA in providing loans to small businesses can be found in the Local Information section of SBA ONLINE.

### **17. What do I have to do to get a loan?**

Initially, the lender will ask three questions:

- How will you use the loan proceeds?
- How much do you need to borrow?
- How will you repay the loan?

When you apply for a loan, you will be asked to provide projected financial statements along with a cohesive, clear business plan which supplies the name of the firm, location, production facilities, legal structure, marketing and sales goals, financial analyses and operating plan. A clear description of your experience and management capabilities, as well as the expertise of other key personnel, will also be needed.

### **18. What kind of profits can I expect?**

Not an easy question, and you need to consider income and expenses before you even start to think about profits. However, there are standards of comparison called "industry norms and ratios" which can help you estimate your profits. Return on Investment (ROI), for example, estimates the amount of profit gained on a given number of dollars invested in the business. These ratios are broken down by Standard Industrial Classification (SIC) code for assets and size, so you can look up your type of business to see what the industry averages are. These figures are published by several groups, and can be found at your local library. Help is also available through the SBA, through SBA's Business Information Centers and the trade associations that serve your industry.

### **19. What should I know about accounting and bookkeeping?**

The importance of keeping adequate records cannot be stressed too much. Without financial records, you cannot determine how well your business is doing or where it is going. At a minimum, records are needed to substantiate:

1. Your tax returns under Federal and State laws, including income tax and Social Security laws;
2. Your request for credit from vendors or a loan from a bank; and
3. Your claims about the business, should you wish to sell it.

But most important, you need them to run your business successfully and to increase your profits.

### **20. How do I set up the right record keeping system for my business?**

The type of records and how many you need depend on your particular operation. The SBA's resources and an accountant can provide you with many options. When deciding what is and is not necessary, keep in mind the following questions:

1. How will this record be used?
2. How important is this information likely to be?
3. Is the information available elsewhere in an equally accessible form?

### **21. What financial statements will I need?**

You should prepare and understand three the basic financial statements:

1. Balance sheet, which is a record of assets, liabilities and capital at a specific point in time;
2. Income (profit and loss) statement, which is a summary of your earnings, expenses and net profit (or loss) over a given period of time; and
3. Cash flow projection, which shows the actual inflows and actual outflows of cash into and out of your business.

### **22. What does marketing involve?**

Marketing is your most important operational concern. There are four basic aspects of marketing, often called the "four P's":

- Product: A description of the item or service you sell.
- Price: The amount you charge for your product or service.
- Promotion: The ways you inform your market as to who, what and where you are.
- Place: The distribution channels you use to offer the product to the customer.

As you can see, marketing encompasses much more than just advertising or selling. For example, a major part of marketing involves researching your customers: What do they want? What can they afford? What do they think? Your understanding and application of the answers to such questions play a major role in the success or failure of your business.

### **23. What is my market potential?**

The principles of determining market share and market potential are the same for all geographic areas.

First, determine a customer profile (who) and the geographic size of the market (how many). This is the general market potential. Knowing the number and strength of your competitors (and then estimating the share of business you will take from them) will give you the market potential specific to your enterprise.

#### **24. What about advertising/promotion?**

Your business growth will be influenced by how well you plan and execute an advertising program. Because it is one of the main creators of your business' image, it must be well planned and well budgeted. Contact local advertising agencies or a local SBA office to assist you in devising an effective advertising/ promotional strategy.

#### **25. How do I set price levels?**

The price of a service or item is based on three basic production costs: Direct Materials, Labor and Overhead (the share of facilities, utilities, taxes, insurance, security and other general operating costs of the business attributable to the product or service -- for example, if one product accounts for 10 percent of your business, 10 percent of your overhead is assigned to it). After these costs are determined — the "break-even" cost — you factor in the profit desired. Because pricing can be a complicated process and you must remain competitive as well as profitable, you may wish to seek help from an expert.

#### **26. Are some locations better than others?**

Time and effort devoted to selecting where to locate your business can mean the difference between success and failure. The kind of business you are in, the potential market, availability of employees, the number of competitive establishments and customer accessibility all determine where you should put your business. Location is critical to small retailers where traffic flow spells the difference between success and failure. Home-based businesses initially operate out of the founder's home and, as they grow, the issue of location becomes vital to their continued success.

#### **27. Is it better to lease or buy the store (plant) and equipment?**

This is a good question and needs to be considered carefully. Leasing does not tie up your cash; a disadvantage is that the item then has no resale or salvage value since you do not own it. Careful weighing of alternatives and a cost analysis will help you make the best decision.

#### **28. Can I operate a business from my home?**

Yes. In fact, experts estimate that as many as 20 percent of new small business enterprises are operated out of the owner's home. Local SBA offices and state chambers of commerce can provide pertinent information on how to manage a home-based business.

#### **29. How do I find out about suppliers/manufacturers/distributors?**

Most suppliers want new accounts. A prime source for finding suppliers is the Thomas Register, which lists manufacturers by categories and geographic area. Most libraries have a directory of manufacturers listed by state. If you know the product line manufacturers, a letter or phone call to the companies will get you the local distributor-wholesaler. In some lines, trade shows are good sources of getting suppliers and looking over competing products.

#### **30. Where can I go for help?**

The U.S. Small Business Administration has offices in nearly every major city in the country. SBA operates the toll-free "Answer Desk" at 1-800-8-ASK-SBA, to give callers direct referral to appropriate sources of information. Sponsored by SBA are a variety of counseling, training and information services including the Service Corps of Retired Executives (SCORE), Business Information Centers (BICs) and Small Business Development Centers (SBDCs). In addition, procurement center representatives can be found at each major military installation. More than 2,700 chambers of commerce are located throughout the country to provide additional assistance. The bulletin board, SBA ONLINE and SBA's World Wide Web page [www.sba.gov](http://www.sba.gov) on the Internet are excellent areas to get pertinent information.

**31. What do I do when I'm ready?**

You have done your homework: you have a complete business plan; you know where you want to operate; you know how much cash you will need; and you have specific information on employee, vendor and market possibilities. You now may want someone to look over your plans objectively. Contact the business department at a local college for another opinion. A SCORE representative at the Small Business Administration can also review your work and help with the fine tuning. SBA has Business Information Centers in nearly every state where you can utilize state of the art technology yourself, and also receive counseling. Then, when you have made the final decision to go ahead, it is time to call the bank and get going. Good luck!

*All of SBA's programs and services are extended to the public on a nondiscriminatory basis.*