How To

Really Start

Your Own

Business

Inc.

Contents

Inc.

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This booklet is designed to help you with a range of disciplines for starting your own business-from your inspiration or idea to creating a plan, building a team, investing in technology and using the Internet As a quick primer; in workbook format, it focuses on cash control, financial management, and capitalizing on the Web.

Chapter 1

Summarize Your Idea

Remember the following about any idea for a new business:

- Always be on the lookout for ideas. They can come from anywhere: your work experience, a hobby, or even your experiences as a consumer when an existing product or service doesn't meet our needs.
- Identify a niche. Usually the niche, or opportunity, will be an innovation or proven idea in a new market or a unique idea in an existing market.
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  *Learn everything you can about the business you want to start and the marketplace you'll be operating in. This means getting work experience and collecting information so you'll know the arena inside and out.

  * Make sure your idea is so focused that you can express it clearly in 50 words or less.

Summarize your business Idea in 50 words or less:

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Begin testing your idea by asking probing questions. Put answers in writing. Do this for each idea you have.

1. Where did your idea originate (from a specific experience, industry observation, a sudden inspiration)?

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2. if your idea is for a new product or service, describe how you expect to get it accepted in the market.

3. If your idea is for an improvement or variation of an existing product or service, describe why consumers will use it instead of what is already available.

4. Describe your market niche in 50 words or less.

5. List at least three qualifications that you have that will allow you to pursue a business in this market niche (work experience, education, research, reputation, etc.).

6. What are your two most important personal goals for the next five years (independence, visibility, income, personal satisfaction, etc.)?

7. How will this business help you achieve those personal goals?

8. List and describe briefly the two most significant barriers you expect while launching and operating your business.

9. Explain how you expect to overcome these challenges.

Test Your Idea

As you evaluate your Idea, keep in mind the following:

* Market research doesn't have to be complicated or expensive, but you must do it.
* Conduct research to determine whether there is an adequate number of potential customers to support your product or service. Use the following sources for statistical and demographic information:
    * **Libraries and published directories (e.g., Gale Research directories)**
    * **Computerized databases (available at many libraries)**
    * **Web sites (posted by both business/corporate resources and public agencies)**
    * **U.S. Small Business Administration (1800-U-ASKSBA)**
    * **U.S. Bureau of Census, U.S. Department of Commerce (www.census.gov)**
    * **Trade associations for your industry**
    * **Local chambers of commerce**

* Test your idea with potential customers and others who can offer constructive feedback (e.g., friends, relatives, bankers, suppliers, executives). Keep a written record of the responses.
* Be prepared to make changes based on the responses.
* Study and evaluate the competition.
* How will your product or service be an improvement over the competition?
* Price your product competitively - higher if your product or service improves on an existing one, and lower if it will be equal to what is on the market. Be sure you can make a profit.

For each of the following categories, list two potential sources (with location and phone number) who can comment candidly about your business idea.

Bankers (check your local Yellow Pages under "Banks")____

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Trade associations (search the Internet or check the Encyclopedia of Associations, available in most libraries)____

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Government or university-affiliated organizations (call your SBA district office, Service Corps of Retired Executives, or nearest Small Business Development Center)__________________________________

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Successful entrepreneurs (from magazine or newspaper articles and local references)________________

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Suppliers (check local Yellow Pages, classified advertisements, and publications such as the American Wholesalers and Distributors Directory, available at major libraries________________________________

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Answer the following questions about your market:

1. Identify your three most important groups of potential customers, defining them by the criteria (e.g., age, demographics. industry, etc.) you believe are most relevant to your product or service.

a.____

b.____

c.____

2. Name your primary competitor for each of the three groups.

a.____

b.____

c.____

3. Describe how each group feels about this competitor.

a.____

b.____

c.____

4. Describe the factors that are most likely to make each group leave a competitor and switch to your product or service.

a.____

b.____

c.____

5. Where did the answers to questions 3 and 4 come from (printed pieces, market study, questions to prospective customers)?

a.____

b.____

c.____

6. Describe what accounts for the success of each of your competitors.

a.____

b.____

c.____

7. Describe what makes each competitor vulnerable to loss of customers.

a.____

b.____

c.____

Answer the following questions about your pricing policies:

1. Provide details and/or a calculation of how you arrived at the price for your product or service.

2. List the prices that your most significant competitors charge for their corresponding product or service.

3. If your prices are higher, why? How will you justify them to customers?

4. If your prices are lower, why? How will they help you attract customers?

Chapter 3

Protect Your Idea

Start-up entrepreneurs tend to worry about having their business ideas stolen. Successful entrepreneurs, however, have mixed feelings about the importance of legal protection. It is important to keep the issue in perspective:

* Don't worry about protection so much that it interferes with your test marketing and business development.
* Be discrete about revealing details of your business idea, particularly with competitors.
* If you think your idea qualifies for legal protection, talk with a lawyer. The options are:
    - **Patent** (to protect an original device or process)
    - **Copyright** (for printed material, such as consulting manuals, books and maps, or computer software)
    - **Trademark** (to guard a product name, logo, symbol, or figure)
    - **Service mark** (to guard a brand or service name, logo, symbol, or figure)

Here are eight basic steps to ensuring that you have sufficient legal protection:

1. For the best protection against having your business idea stolen, be sure you know the character of every person you discuss the idea with.

2. If you share copies of your business plan, be sure to number each one and record the name of the individual who receives it.

3. Ask those who will view your business plan to sign a nondisclosure agreement that prohibits their using or discussing the information.

4. Be sure any employment agreements limit the ability of someone who leaves your company from using proprietary materials, designs, and formulas, or from taking customer names with them.

5. File for a patent to prevent others from copying your invention.

6. File for a copyright to prevent others from copying your material, including print, software, music, films, art, and recordings.

7. Register your trademark to prevent others from using a special name or logo you plan to use.

8. To protect your ownership rights, obtain the services of a qualified attorney who is experienced in matters involving intellectual property protection.

To obtain US copyright forms or for more information about copyright protection, contact the Copyright Office, Library of Congress, Washington, D.C. 20559. For more information about patents and trademarks, log on to the U.S. Patent and Trademark Office, at: **www.uspto.gov**.

Chapter 4

Create a Business Plan

A well-written business plan will play a key role in the success of your business. In addition to being required to obtain certain loans, a carefully considered plan helps business owners focus on the strategic objectives and communicate those objectives to the staff. For those inexperienced in creating a business plan, free assistance is available from a variety of sources, including local Small Business Development Centers and the nonprofit Service Corps of Retired Executives (SCORE). Local banks can tell you what they look for in a plan, and an accountant can help you prepare necessary financial statements.

The planning process will not be intimidating if you keep these points in mind:

* Planning ahead for your new business can mean the difference between success and failure.

* Use an informal plan consisting of three to six pages to convince relatives and friends to back your venture. Be sure to cover the first eight points cited below.

* To approach bankers, individual investors, and venture capitalists, prepare a more format written business plan. It shouldn't be longer than 40 pages and should be organized as follows:

1. Executive Summary. A two-page, succinct explanation of your business and its activities, with an overview of your key objectives and business goals.
2. Business Description. Describes your perception of the company. How will your business grow and profit?
3. The Market and Competition. Largest section. Honestly acknowledges competition and describes how your company will differ from other providers.
4. The Product or Service. Describes the core of your business.
5. Selling. Explains how you will access the marketplace. Will you advertise, attend trade shows, establish a Web site?
6. Management and Personnel. Explains how you will staff and manage your business. It includes one-paragraph profiles-or biographies-of yourself, partners, and any other key managers.
7. Financial Data. Contains the balance sheet, profit-and-loss statement, break-even chart, and cash flow analysis.
8. Investment. Based on the cash flow, it includes what the investor will receive as a return.
9. Appendices. Includes testimonials from potential customers, research clips, miscellaneous charts and graphs.

To create a successful business plan, consider these three questions:
1. Which type of business plan (informal, less than 10 pages, or more formal, up to 40 pages) is most appropriate for you? Why?
2. Outline the sections of your plan (see list above). How long should each be?
3. Identify areas that require more work on your part, as well as areas that you are ready to put into writing.

Need Help with Your Plan? Know the SCORE

The Service Corps of Retired Executives (SCORE) is a nonprofit organization sponsored by the U.S. Small Business Administration (SBA). Its' 13,000 retired and active business executives provide free counseling on a wide variety of small business topics. They assist in defining and analyzing your problems, and they help you find solutions based on their experiences with similar situations. There is no limit on the length of time you may utilize SCORE resources. All Information about your business is kept strictly confidential. SCORE has 389 chapters with counselors in all 50 states, Puerto Rico, Guam, the Virgin islands, and the District of Columbia. Contact the SBA at 800-827-5722 or the national SCORE headquarters at 800-634-0245 to locate the SCORE office nearest you.

Chapter 5

Choose a Structure

For legal and financial purposes, you must have a formal structure for your business. Your four basic choices:

1. **Sole proprietorship**. The owner and the business are the same (usually a service business, with the owner providing the service). Business and personal tax returns are filed together. According to the U.S. Small Business Administration, more than 75% of all businesses operate as sole proprietorships.
   * **Advantages**: Simple and inexpensive (start-up costs are low); maximum control.
   * **Disadvantages**: Personal legal liability; limited ability to raise capital; succession issue.

2. **Partnership**. A business with more than one owner; divides profits and losses among participants. It's most appropriate for lawyers, doctors, and other professional service providers, but not for most new businesses.

3. **Incorporation**. A likely choice for businesses with employees or bank financing. It costs $500 to $1,000 or more for attorney and fees. A corporation is a state-chartered organization owned by shareholders. The shareholders elect a board of directors who are ultimately responsible for management of the business. There are two forms of for-profit corporations (see below).
   * **Advantages:** Personal assets are protected if the business fails or is sued.
   * **Disadvantages:** Taxes on profits are potentially higher than with sole proprietorship.

   S corporation. So called because it is under subchapter S of the Internal Revenue Code; known as a Sub S.
      * **Advantages**: Most appropriate for start ups; limits personal liability; eliminates double taxation.
      * **Disadvantages**: Taxes on many fringe benefits; limits on retirement benefits; restricts number of stockholders to 35.

   C corporation. So called because it is taxed under regular corporate income tax rules.
      * **Advantages**: Limited liability; access to capital (can raise money through sale of stock); perpetual life (unlike sole proprietorship); ownership can be transferred.
      * **Disadvantages:** Profits are subject to double taxation (corporate income is taxed, and then dividends paid to stockholders are taxed as part of the individual's income); regulation and paperwork; start-up costs, including legal and filing fees.

4. **Limited liability company (LLC).** State chartered organization that allows for the reduced personal liability of a corporation, but with the tax advantages of a partnership.
   * **Advantages:** Liability protection; no "member" restrictions; no double taxation; easier access to capital (compared with partnership).
   * **Disadvantages:** Tax and liability benefits vary from state to state; high costs of start up.

Take these steps to map out the most appropriate structure for your business:
Identify the legal structures of your key competitors.

a.____

b. ____

c. ____

Why, in your view, did each competitor select its particular organizational structure?

a. ____

b. ____

c. ____

How does their structure benefit or hurt them?

a..____

b..____

c..____

Select the structure that best suits your new company's needs. List three reasons why this option will benefit you. Similarly, for the remaining three structures, list reasons why they would not prove advantageous.

Sole Proprietorship

1. ____

2.____

3..____

Partnership

1. ____

2..____

3..____

Incorporation

1.____

2. .____

3. .____

Limited Liability Company (LLC)

1..____

2. ____

3..____

Comparing Organizational Structures

Attribute	**S Corp**	**C Corp**	**Partnership**	**Sole Proprietorship**	**LLC**
Liability protection	Yes	Yes	No	No	Yes
Member restrictions	Yes	No	No	Yes	No
Double taxation	No	Yes	No	No	No
Transfer of shares	Yes	Yes	No	No	No
High cost of start-up	Yes	Yes	No	No	Yes/No
Easy access to capital	Yes	Yes	Yes/No	No	Yes

*Can be high, particularly in states that have only recently adopted LLC regulations.

At some point, no matter how carefully you monitor your cash flow, you will have to borrow money from a bank. There are two main reasons to borrow: to cover a temporary cash flow gap and to provide working capital for the growth of your business.

Plan ahead. A written financial plan - whether for a bank or internal use - is a major step in the right direction. A financing plan helps you avoid the causes of cash flow problems, anticipate financing needs (for growth or for survival), and helps keep your total borrowing under control.

A financing plan spells out responses to such questions as: What are the business's needs? Why can't they be met from retained earnings? Are operating profits going to be available to meet long4erm debt? How much is needed, when, and under what terms? Most important, the plan should provide an answer to the banker's biggest question: How will this loan be repaid?

You must be able to show that you can afford to service the loan. One of the classic ways small businesses trip themselves up is to use this year's financing to pay off last year's debt. This pyramiding is doubly defeating. It creates a larger debt load than is wise, and it is very discouraging to be always struggling with debt even while profitability is increasing. Be wary of using financing to conceal operating losses.

How do you put together a financing plan?
Start by identifying your business's different needs for funds. Most of these will be covered by operating profits. Those that cannot be (or cannot without making the liquidity vanish) should be carefully analyzed to see whether more debt should be sought. It's important to remember that if debt financing is needed to cover a cash flow gap ordinarily caused by insufficient operating profits, the underlying cause of the shortfall must be identified and dealt with before financing will do any good. Borrowing to paper over an operating problem always leads to a worsened situation, tempting though it may be at the time. Suppose, for example, that your sales have fallen off and costs have risen, making it clear that soon you ll have a severe liquidity or working capital problem. If the lag in sales can be cured without borrowing, fine. (You can almost always take costs down a few notches.) If you will still have a cash flow problem, then make sure that the borrowing won't make it worse. If the sales problem can't be resolved, sooner or later you'll be back to the bank to borrow more, thus driving costs even higher.

Make sure you know your needs before going to the bank-both in dollar terms and in what benefits that cash inflow will have. Any banker you'd want to work with will ask what you need the money for and whether you could raise it from operations. To admit that you haven't looked for operating economies and profits as a way to generate money is a sure way to lose credibility. Enter the bank well prepared. Legitimate financing needs fall into five related categories. At any one time your needs may overlap several of these categories. A start-up, for example, may face radical expansion, perhaps requiring an acquisition or the launch of a new division

1. Start-ups. A new business needs a combination of investment capital and long-term debt. 0ne error that cripples a lot of small businesses is the use of short -term debt to finance long- term needs. The basic rule in financing is to match the term of the loan to both the term of the need and to the source of repayment. Using a 90-day note for permanent financing needs is very risky. Not only is there the ever-present danger that the loan will not be renewed, but there is the added disadvantage of never being able to plan more than 90 days ahead.

2. Working capital shortages. After initial capitalization, working capital should be generated from operating profits over a long period. If you suffer from chronic working capital shortages due to under capitalization but are making some operating profits, then the answer may be a term loan if you can demonstrate that the loan will more than repay it self in additional operating profits. Sometimes a modest working capital loan will put a business over the hump, affording enough breathing room to make much higher operating profits.

But remember, a working capital loan, which is paid back monthly over a period of up to three to seven years, for example, adds to any existing financial strain. If your business won't generate sufficient operating profits to cover the payments comfortably, then added equity is needed, not another loan.

Using Credit Wisely

Managing cash and securing capital are the two biggest challenges small business owners face, particularly in the start-up phase. To keep personal expenses separate from business expenses, use business credit cards as money management tools. Here are three ways they will help you:

* Business credit card: Use it to make and manage purchases, as well as cover travel and entertainment expenses. Like a reserve of credit, a business card gives you the flexibility to pay bills in full or revolve your balance.
* Business check card: An ideal replacement for cash and checks - with the convenience of a debit card, check cards allow you to draw on funds from a business checking account. They are excellent for startups, since they allow your company to establish a business relationship with your bank
* Business credit line: Providing an unsecured line of credit up to $50,000, the credit line gives businesses a source of working capital for emergencies or growth opportunities.

3. Equipment and other fixed assets. Equipment and other fixed-asset loans are about the clearest examples of matching a loan to the need and payment base. Since the equipment ordinarily secures these loans, the anticipated useful life of the equipment becomes a major factor in the credit decision. A rough guideline is that you can finance equipment with a projected useful life of 10 years for up to 70% of its life and up to 90% of its value. Don't buy fixed assets on 90-day notes. The timing is wrong. If you're trying to make your business work on sweat equity, you may want to go ahead and pay off a piece of equipment more rapidly than we'd recommend. That's an option, but a hard one to live with. While equipment loans rarely go beyond 7 years, commercial real estate may be financed over 10 or more years, depending on the situation. Since you are building equity in equipment and real estate from profits over a number of years, you should finance it the same way

4. Inventory, seasonal progress. These loans are short-term and usually are tied to a clearly defined source of repayment, such as one inventory turn, fulfillment of a contract, or sale of a specific asset. Short-term notes are repaid from short-term sources, clearly identified before the credit is granted. Medium and long-term debts, on the other hand, are repaid from more indirect sources. A banker looks to proven management ability (usually evidenced by a profitable history and clearly understood plans) for repayment. Since there is no single fast source of repayment, the risk is greater and the decision more difficult. This is a crucial distinction. A poorly run company may be a good short-term credit risk, but for long-term credit, a business must show ability to consistently generate profits. Remember, term loans come due every month, adding to the drain on resources and, in turn, increasing the risk and need fur more careful financial management.

5. Sustained growth. The final major need for financing is growth, which can outstrip working capital. As sales go up, for example, liquidity goes down. A combination of investment, lines of credit tied to receivables and inventory, and long term working capital loans is the common answer Notice what this implies. If you plan to grow, you must plan to generate profits consistently at the same time keeping your business liquid to meet current obligations. To make sure that you maintain liquidity, you have to be certain of your financing strategy. The answer? A solid financing plan. (For help in creating a sound financial plan, contact your nearest SCORE office. Sec box, page 10.)

Work with your banker. If you aren't comfortable preparing a financing proposal complete with financial statements, or if you feel that your banking relationships could be improved, get your banker involved in your long term planning efforts. Like all business professionals, bankers like to use their skills. Since most businesses suffer from a lack of financial management skills, and since most bankers have these skills, it is to your advantage to make the first move. Invite your banker to help you. Level with him or her if you can't keep communications open, then you won't get help - and it's quite possible that you won't get the financing you need. By being open, you'll enhance your credibility; better yet, you'll more likely find that you can turn the banker's skills into a positive resource rather than a roadblock.

Get a Fix on Financing

To obtain the funds to launch your business, here are six avenues of attack:

1. Stick close to home. There may be more options than you think, including:
* Personal savings
* Business credit card
* Business credit line
* Business check card
* Second mortgage on your home
* Profit-sharing funds from your previous job
* Friends and relatives

2. If you need more than these sources can provide, consider:
* Bank loan
* Limited partnership
* Private offering

3. Plug into a local network, including the following:
* U.S. Small Business Administration: 800-827 5722, (www.sba.gov)
* Nearest office of Service Corps of Retired Executives (SCORE): 800-634-0245 (www score.org)
* Nearest Small Business Development Center (SBDC) or your state economic development department
* Local business associations, such as the chamber of commerce
* State and locally sponsored small-business conferences

4. Seek venture capital only if your business has the potential to achieve multimillion-dollar sales within five years. (For more information, contact the National Venture Capital Association at 703351-5269; or the National Association of Small Business Investment Companies at 703-6831601.)

5. Don't get bogged down hunting for funds; if you encounter problems raising money, try to start your business on a smaller scale.

6. Be sure you know your current credit rating and history-for both you (personal credit rating) and your business. Try to find out which credit reporting service your prospective lender uses and request a report from that company. The three major credit reporting companies are: Dun & Bradstreet (800 234-3867), Equifax (800-685-1111), and Experian/TRW (800 682-7654).

ABC's of Borrowing: Five Types of Business Loans, Terms, and Purposes

Loan Type	Credit Card	Credit Line	Short-Term Loan	Equipment/ Vehicle Loan	Commercial Real Estate Loan
Term	Evergreen	12 months or evergreen	90 day note	Up to 7 years	10 years+
Purpose	* Cover travel, entertainment, and office supplies	* Cover short term cash flow needs Carry accounts receivable Unexpected events	* Short-term items like inventory	* Purchase or refinance business equipment and/or vehicles	* Purchase or refinance commercial real estate

Use the five questions below to provide a framework for focusing on funding your business.

1. List the banks in your area where you will apply for a loan and individuals that might provide you with introductions to bankers.

____

____

2. Identify individuals at the bank whom you should approach with your request.

a)________________________________ c)________________________________

b)________________________________ d)________________________________

3. What are the key questions you will ask your banker? (Find out how much experience the bank has in lending to your type of business, then ask about the lending/borrowing details: e.g., loan limits, collateral requirements, interest rates, and other terms.)

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4. How will you answer each of these five questions that the banker will inevitably ask you?

a) How much money do you need?
b) How long do you need it for?
c) What are you going to do with it?
d) When and how will you repay it?
e) What will you do if you don't get the loan?

5. Should you seek venture capital rather than a bank loan? Begin answering this question by comparing the key factors bankers and venture capitalists focus on:

Banker	**Venture Capitalist**
Collateral	Market demand for your product or service
Covenants in loan agreement	Equity position and value of stock
Ratio analysis	Compound annual rate of return (typically 35% to 50%)
Ability to repay	Exit within 5 to 7 years
Financial statements	Management's background

Both, of course, will expect you to present a sound business plan.

Check the sources you plan to approach for funding.

Personal Resources	**Close to Home**	**Outside Sources**
Savings	Friends	Rank loan
Second mortgage	Family	SBA loan
Insurance		Business credit card
Profit sharing		Business credit line
		Venture capital
		Limited partnership
		Private offering

Chapter 7

Build a Team

For your new business to have a chance to grow, it must have good people. With this in mind, be sure to do the following:

1. Hire those who: a) share your values and goals for the business and b) have winning attitudes and track records.

2. Approach partnerships with caution. Describe everyone's responsibilities in writing and work together with a lawyer on a buy/sell agreement that covers who owns what and how the partners can sell their shares to end the partnership.

3. Use outside advisers such as an accountant, a lawyer, a mentor, and a board of advisers consisting of two to five professionals whose judgement you respect.

Personal assessment. List your business related strengths and weaknesses and likes and dislikes. Include personal traits, skills, and behavior. For example, if you like numbers but dislike making presentations to groups of people, write that down. If you don't enjoy working with raw data or performing in depth analysis, but would rather spend your time in people-oriented situations, then put that down. This exercise will enable you to determine the personal contributions you will bring to your own company, as well as define the gaps that can be filled by hiring qualified key employees.

Strengths (e.g., finance, people skills) ____

Weaknesses (e.g., marketing) ____

Likes (e.g., data analysis) ____

Dislikes (e.g., selling) ____

This should give you some specific ideas about the qualities you'd most like to see in your employees. Next, think about the skills, traits, and backgrounds you would like them to bring to the business. List and prioritize them from the most to the least important:

____

____

____

____

____

Based on the qualities above, write a job title and description for each of the key people you plan to hire.

a) ____

b) ____

c) ____

d) ____

Compensation

1. What is the market value for each job title or individual described at the bottom of page 17?

Title (a): ________________________Salary: $ __________________________________

Title (b): ________________________ Salary: $ __________________________________

Title (c): ________________________Salary: $ __________________________________

Title (d):_________________________Salary: $ __________________________________

2. How much salary might he or she expect to receive from one of your competitors?

a) Starting salary: $______________________c) Starting salary: $_______________________

b) Starting salary: $______________________d) Starting salary: $_______________________

3. What salary are you prepared to offer?

a) Starting salary: $ _____________________c) Starting salary: $_______________________

b) Starting salary: $ _____________________d) Starting salary: $_______________________

4. What other forms of compensation or benefits might you provide in lieu of extra money?

____

____

____

5. When do you need to bring these people on board? Write a schedule of when you plan to have each person working for your company.

a)____________________________________ c)_____________________________________

b) ___________________________________d) _____________________________________

Outside Advisers

Name the outsiders who can contribute to your operation by providing valuable advice and services:

Bookkeeper ____________________ Accountant ___________ ____________________

Attorney/Mentor _________________ Consultant ___________________________________

Friend/Counterpart________________ Board of Advisers ______________________________

Chapter 8

Invest in Technology

Computers and other technology can be powerful partners in your business, enabling you to maximize your time and effectiveness. To get the most out of your investment, it's important to become familiar with the terms, systems, and applications that will help your business grow. For openers, here are basic technology terms with which every employee should be familiar.

Term	Definition
Gigabyte (GB)	Unit of measure for how much information your computer's hard drive can store (1GB) equals about 1 billion bytes; 20 GB to 60 GB are now common)
Hard Drive	Long term storage-the place where information and applications are kept
Megabyte (MB)	Unit of measure for how much information your computer's hard drive can store, or how much random access memory your computer has (e.g., 32MB)
Megahertz	"Clock speed" at which a processor is rated to run (233MHz is now common)
Modem	Hardware that allows your computer to send information over telephone lines for accessing the Internet, sending e-mail, etc. (typical rating: 28.8 baud, or 28,800 bits per second)
Monitor	The "television screen" portion of your computer system
Multimedia	A combination of text, graphics, audio, and video
Peripheral	Equipment such as a printer, fax, modem, or scanner that is plugged into your computer
Port	A socket on the back of a computer used to connect modem, printer, or other equipment
Processor	The "brains" of your computer
Random Access Memory (RAM)	Temporary storage-what the computer uses to run software and store your work until you save it; measured in megabytes (MB). Typical RAM: 32MB
Scanner	A device that allows you to enter a printed image or page of text into the computer
Software	Computer programs

Before you buy a computer, be clear about what you want the system to do for you. Check off the tasks that
You would like to use a computer for, and take this list with you when shopping for one.

Write correspondence	Presentations
Keep a customer list	Contact management
Generate mailing labels	Send/receive faxes
Design a brochure	Maintain an appointment calendar
Create a catalog	Design your office
Lay out a newsletter	Conduct research for a proposal
Send/receive e-mail	Surf the Internet
Accounting/bookkeeping/spreadsheets	Set up a "storefront" on the Internet
Check writing	Network internally (printer, multiple offices)
Track inventory/order entry	Financial planning
Do "what if" financial calculations	

Look at buying a computer and other office equipment as an investment, not a cost. Your choice of systems should be based on more than the price of the basic unit. When conducting your preliminary research, ask these questions:

* How easy is it to use?
* Will I need to hire someone to set it up?
* How difficult are the software programs to learn?
* Will I need to pay for training (for self, managers, or other staff)?
* How easy is it to add peripherals, such as scanners, hard drives, or backup devices?
* Can I exchange information easily with other computers?
* As my business grows, how easily can I connect with other computers?
* How soon is my business likely to outgrow the unit?
* Is there a toll free number to call for help?
* What are the warranty and repair policies?
* How satisfied have other users been with this system?

To help you choose the computer that's right for your business, use this checklist of features to consider when talking to a salesperson:

Telephone Equipment: How many lines do you need?

Many small businesses rely on a two-line phone - one line for incoming calls and one for outgoing, fax, and modem (i.e., Internet) calls. Determining how many lines you need depends on the type of business you're in and the number of people requiring phone access. While there is no universal rule regarding lines-to-people ratio, many businesses find that a 1:3 ratio (one line for every three stations) is adequate. If your business will rely heavily on telephones (i.e., for Internet access, fax machines, credit-card authorization terminals, and answering machines), you will need multiple lines. Contact your local phone company and ask the business representative for a busy line study. This is a statistical printout of the number and frequency of incoming calls that receive busy signals, and it will help you determine how many lines you should have.

To understand more about telephone capabilities, here are 10 pointers you may also want to discuss with your phone company rep:

1. If you are setting up a home business, installing distinctive ringing will allow you to piggyback a different telephone number on your existing line, making it ring in a different tone and pattern.

2. If you want a separate telephone line in your home based business, you can save money by installing a residential line. To obtain a business listing in the Yellow Pages, however, you need to install a business line.

3. If you don't mind being interrupted during a call, call waiting can notify you when another call is coming in. Customers often find this option annoying, however, and business telephone etiquette experts suggest investing in voice mail, which allows customers to avoid a busy signal and leave a detailed recorded message.

4. If you want to be able to speak to several individuals in different places at the same time, you can arrange for conference calling.

5. When you frequently call the same numbers, speed dialing can save you time by allowing you to preprogram a one or two-digit code into your telephone.

6. You can save money on calls of short duration if your telephone provider offers billing in six-second increments instead of full minutes.

7. Caller ID allows you to identify who is calling before you pick up your telephone.

8. When you sign up for additional telephone lines or services, inquire about installment billing, which allows you to spread out the payments over several months, often without finance charges.

9. If you're often away from your office and want your calls to follow you to another number, invest in call forwarding options.

10. To encourage customers to contact you for information and orders, establish a toll free 800 or 888 number.

Chapter 9

Use the Internet

The Internet is an exciting, cost-effective communications medium that small businesses can use to complement their existing research, sales, and marketing efforts. For example, you can use the Internet to:

* Get information and updates to your customers.
* Solicit feedback and ideas from customers.
* Communicate and collaborate with agencies, vendors, and suppliers.
* Exchange information and questions with peers and consultants, no matter where they're located.
* Search for information about products, technologies, statistics, and your competition.
* Sell products or services 24 hours a day, 7 days a week, to a global audience (see Chapter 10).

Making Your Connection

To connect your computer to the Internet, you'll need to subscribe to an online commercial service (such as America Online or CompuServe), or sign up with an Internet Service Provider (ISP). When choosing an ISP, start by asking these questions:

* How long has the firm been in business, and how stable is the company?
* How many customers does it have in relation to the number of modems? (If the ISP doesn't have enough modems, you'll be frustrated by busy signals when you want to connect.)
* Are its rates timed or flat fee? (If you're a heavy Internet user, a monthly flat-rate arrangement may be most economical.)
* What are its technical support services? Are they free or for a fee?
* Does it offer any other services, such as design or hosting of Websites?

Web Sites

Many companies have set up Web sites with valuable information for small businesses. Once you've connected to the Internet, take time to visit the following sites:

Site	URL/address
Visa Small Business	www.visa.com/smallbiz
Entrepreneurial Edge Online	www.edgeonline.com
Wall Street Journal Interactive	www.wsj.com
Inc. Online	www.inc.com
Trade Show Central	www.tscentral.com
Working Solo	www.workingsolo.com
SCORE	www.score.org
U.S. Small Business Administration	www.sba.gov
U.S. Patent and Trademark Office	www.uspto.gov
U.S. Census Bureau	www.census.gov
IRS Tax Forms and Publications	www.irs.ustreas.gov

If you want to search the Internet for specific information, it is best to use a search engine. After typing in key words or phrases, your results will be displayed on the screen. Here are some popular search engines:

Search Engine	**URL/address**
Yahoo!	www.yahoo.com
Alta Vista	www.altavista.com
Infoseek	www.infoseek.com
Excite	www.excite.com
C\net	www.search.com
Webcrawler	www.webcrawler.com

One of the best ways to learn about the Internet is to browse sites on your own. Bookmark those that you find are worth frequent visits.

E-mail Address
When it comes time to choose your e-mail address, be prepared to submit several name options in case your first choice is already taken. For example, Terry Johnson, president of XYZ Inc., might become one of the following:

* terryjohnson@provider.com * tjohnson@provider.com * terryj@provider.com * xyzprez@provider.com

Later, XYZ might set up its own domain name, and Terry's e-mail address might become:

* terryjohnson@xyz.com * tjohnson@xyz.com * terryj@xyz.com * prez@xyz.com

To register a domain name, any company can contact InterNIC (Internet Network Information Center) at **rs.internic.net/rfrInternIc.html** and follow the onscreen registration process. The current fee is $100 (two years @ $50). InterNIC is part of Network Solutions Inc. (NSI).

To become acquainted with the capabilities of the Internet, start with its terminology:

Term	Definition
Baud	A rating that indicates how much information a modem can send or receive per second, expressed as bits per second (e.g., a 28.8 baud modem transmits data at 28,800 bps).
Browser	A program that is used to look at various kinds of Internet resources, such as Web sites. Netscape Navigator is an example.
Domain name	The unique name that identifies an Internet site.
E-mail	Messages sent from one person to another via computer.
FAQs (Frequently Asked Questions)	Documents that list and answer the most common questions on a particular subject.
Firewall	A combination of hardware and software that separates a network into two or more parts for security purposes.
Home page	The "front door" to a company's information on the World Wide Web.
HTML (Hypertext Markup Language)	The universal coding language of the Internet used to create hypertext documents for use on the World Wide Web.
Hypertext	Information linked in a web structure on a computer, allowing all works referenced in a particular work to be instantly accessible. Hypertext links can be graphical, video, and/or audio in addition to text.
Internet	A vast collection of interconnected networks, also known as the "information superhighway" and the "network of networks."
Intranet	A private, internal network within a company or organization that uses the same kinds of software found on the public Internet.
ISDN (Integrated Services Digital Network)	Technology that enables data to move more quickly over conventional telephone lines.
ISP (Internet Service Provider)	A company that provides customers with access to the Internet for a fee.
Modem	A device that lets people connect a computer to a phone line to access the Internet.
Netiquette	The etiquette of the Internet and online communication.
Newsgroups	Collections of articles and messages on a particular topic.
Surfing	Randomly browsing the Internet for information.
URL (Uniform Resource Locator)	The standard format for the address of any resource on the Internet that is part of the World Wide Web.
WWW (World Wide Web)	The area of the Internet that features magazine-like pages, with colorful text, graphics, and sound. (See "Put the Web to Work" on page 24.)

Put the Web to Work to Market and Expand Your Business

As the World Wide Web became the marketing buzzword of the late 199()s, businesses anti consumers alike began using statistics on the Internet Web, and online services interchangeably It's easy to get confused, so it pays to keep in mind what the Web is and what it's not.

First, the World Wide Web is just a small part of the Internet, with fewer users than the Internet as a whole. Although the Net is made up of more than 10 million computers routing mail and storing information, the Web is made up of less than 100,000 computers that store Web sites. How many of the Internet's 60 million users browse the Web? Figure somewhere between a half and two-thirds, or 30 million to 40 million. No accurate measuring system exists. But even though the surveys disagree on the exact number of people hooking up, experts agree that the Web is used for more than the commercial online services.

The number of Web sites doubles every three to five months. As they become easier to use and more graphics-rich, they attract more and more people. By 2000, the Web will have more than 90 million users logging on either through standard Internet access accounts or online services.

With commercial users logging in at record rates, the Web has quickly become the place to be for business, (Online sales were expected to top $6 billion by the end of 1998). Consumers visit the Web to be entertained and to buy products and services. small businesses, able to rean taster than large corporations, are learning to Nerve both needs very well. The.New Yorker once ran a cartoon of two dogs sitting in front of a computer. One is typing while he tells the other, "On the Internet, nobody knows you're a dog." On the Web, nobody knows you're a small business.

The difference between a bad Web site and a good one isn't money, it's creativity. Setting up a good Website isn’t expensive, so small-company sites can look just as good, or better, than large-company sites. And smaller companies can move quickly, because they're able to make changes without calling endless meetings or securing departmental approval

On the Web, taking chances anti moving quickly pays off. Creative, flexible sites attract the most visitors, who then tell their business colleagues and friends to have a look. The Web is one of those marketplaces where being small is an asset.

Once users find a site-through a search engine, by reading a URI in a magazine ad, or being sent to the site from a link to another site - there are certain things they'll expect to see. Ignoring these important elements will mark any site as amateurish and not worth revisiting. Here are five essentials for any site:

1. **It delivers what it promises**. Say a Web user types “car repair" into a search engine, and Auto Mile Car Dealership turns up among the sites that list “car repair" in their keyword sections.

Marketing Resources on the Web
Here's a sampling of six sites that can help you fine tune your marketing plan.

1. Direct Marketing Association
www.the-dma.org
Guidelines and news from the leading association of direct marketers

2. E-mail address directory
www.bigfoot.com
Bigfoot's databases facilitate searches for e-mail addresses

3. International Trade Administration
www.lta.doc.gov
Broad range of export-related information, statistics, and country reports

4. Marketing-advertising links
www.bizmarketlng.com/sltes.html
Links to commercial and nonprofit sites on advertising and marketing

5. Marketing on the Internet
www.lndustry.net/gulde/htmi
Provides an overview and background on online marketing

6. Trade shows and conventions
www.expogulde.com
Details on upcoming expos worldwide by date, name/industry and location

That site had better have more than just a line reading, "Our repair shop is open 12 hours a day" to justify listing `repair" in the keyword section. Otherwise, that users will be angry to have wasted the time visiting the site, only to learn there's no information on car repair there. Make sure that a keyword leads a user to a sizable amount of information at your site.

2. It can be downloaded quickly. The classic mistake that many companies make is to include a large photo or sound or video clip on the Web site. Often it is of the CEO, who is saying something useless like, "Welcome to our Web site; we hope you like it'. Graphics and sound take a long time to download compared to text. For a Web user; waiting several minutes for something that boring is bound to make the user click elsewhere-literally Many interesting visual effects can be created on Web sites that don't take long to download. For example, skinny horizontal graphics that stretch across the screen take shorter time to download than large ones that use a lot of vertical space. Black-and-white graphics load faster than color ones.

3. Company Information Is easy to find. On the Web, it doesn't matter if a company is in Maine or Montana. With a click of the mouse, it's lust as easy for Web users to reach one as it is the other But nobody is living completely in cyberspace yet. Users want to know where the companies are in the real world. Perhaps the customer lives near the company and would like to visit, or maybe they'd just find it interesting to know that a cactus greenhouse is located in Wisconsin. It's essential to place the Web site somewhere in traditional real world space, so always list a physical company location. Even more essential is to include an address, as well as phone and fax numbers. Some Web users want to call a company or mail in an order rather than e-mail it. Usually this information provides reassurance that the site belongs to a real company and not a con artist. Sometimes the Web user just wants the information because he or she is more comfortable with traditional contact methods.

4. It's updated frequently. Most Web site administrators update their sites at least once a week. This time-intensive task consumes a lot of labor; especially when the One-Hour Browse Rule is factored into the equation: For every change made to the site, the person making the change should browse the Web for at least one hour to get ideas, to keep current, and to compare what other businesses are doing with this burgeoning medium. Keeping the site updated and refreshed is key for companies that expect visitors to return. There is so much action on the Web that it's tempting for visitors to jump somewhere more exciting if your site bores them.

5. There's user Interaction. One of the big advantages of this medium is that it allows users to interact immediately They can send e-mail, fill out a form, enter a contest, or request information the instant they have the urge. And they expect to be asked-it's part of the fun and entertainment of browsing the Web. A site with no "user feedback" e-mail forms, no games to play or no forms to fill out is a site that will soon sit untapped. A clever site will attract visitors who will return regularly to see what's new.

Make Money Online?
You can save money by buying online, using your business credit card. You can also make money by selling online. A Web site can boost your profits by increasing your sales without proportionately increasing your marketing expenses. Is It really safe to divulge credit card numbers online? The chances of someone stealing those numbers are actually remote. It's far less likely, for example, than the chance of someone reading a copy of a customer's credit slip from the trash.

To put customers' minds at ease about doing business online, offer protected transactions, either In the form of encryption software or a transaction service. Such services process credit card sales by encrypting them for each customer. Growing consumer confidence in the integrity of these services promises to send the number of online sales soaring. The estimated number of online shoppers in 1998: 16 million. By 2002, that number is expected to be 61 million.

Chapter 11

Control Cash and Credit

What levels of debt can your business safely support? Can you control the amount, timing, and availability of credit? That is, can you ensure the timely inflow of cash from new debt?

Assume that you have done all you can realistically do to control your cash flow, but you still face occasional periods of cash shortfalls. To tide you over these periods, you have to borrow from an outside source- e.g., a commercial bank or credit-card company line of credit, How do you go about preparing a financing proposal? Begin by focusing on receivables and inventory. Chances are they are your largest current assets against which you might borrow,

Ideally receivables and inventory turn into cash as soon as you wish. However; unless you manage them carefully cash flow and carrying costs become a problem. To manage your working capital properly you must know:

1. The age of your receivables and inventory
2. The turn of your receivables and inventory, and
3. The concentration of your receivables (how many customers comprise the majority of your receivables, what amount of receivables they represent, what products the receivables cover) and inventory by product lines,

You must also know what your credit and collection policies are doing to your working capital. All too often small-business owners mistake sales for profits. They extend more and more credit, pursue lax collection policies, and end up financing their customers to increase sales. Most businesses cannot afford to provide interest-free loans to customers just because they expect it. Slow-paying customers must be subjected to profitability analysis, which takes in their carrying costs. Sales increases should translate into profits on the bottom line, but it's difficult to increase profits when you're carrying customers who habitually stretch their payments.

Receivables management. To control receivables, begin by examining their age. Break receivables out weekly to spot the slow-pay accounts as soon as possible. Then you can try to collect before the accounts cost you your profits. Aging receivables is simple: Separate invoices into Current, 30 days, 60 days, 90 days, and more than 90 days.

Then calculate your collection period: Divide annual credit sales by 365 to find the average daily credit sale. Next, divide your current outstanding receivables total by the average daily credit sale. This yields your collection period.

Here's a good rule of thumb for a quick test of your receivables management: If your collection period is more than one third greater than your credit terms (for example, 40 days if your terms are net 30), you have a looming problem.

Five Steps to managing Receivables

1. Age your receivables.

2. Calculate your collection period and apply the "40-day/30-day" rule of thumb to see if you have a problem.

3. Identity slow paying customers.

4. Pursue delinquent accounts vigorously

5. Identity fast-pay accounts and try to Increase their number

Managing your inventory. Inventory management, like receivables management, is often overlooked as a source of operating profits. Careful attention to how you manage these two areas can often free up cash and improve operating profits without resorting to bank borrowing. If you are managing both of these areas well, congratulate yourself-you are in a distinct minority.

Carrying costs of inventory can run as high as 30% of average inventory, a substantial drain on working capital. Consider the costs of storage, spoilage, pilferage, inventory loans, and insurance. They add up fast.

Determining the right level of inventory to carry is difficult. On the one hand you want to avoid unnecessary expenses, while on the other you want to avoid as many stock-outs as possible. Trying to manage inventory on a day-to-day basis invites trouble; accordingly, most businesses use some kind of inventory policy. The three most important factors in creating an inventory policy are inventory turnover (how many times per year; and how that compares with other businesses in the same line), reorder time (planning on a 10-day reorder time is vastly different from a 210-overday reorder), and who your suppliers are.

Establish a contingency plan. A contingency plan is a plan you hope never to use: It outlines what you would do if all of your optimistic plans went wrong. It doesn't have to be lengthy In some cases, it can be as short as a single page and still be more than adequate, although for most businesses such a plan will be somewhat longer. A contingency plan should provide answers to these questions:

1. What suppliers would give you extended terms or carry you in case of a crunch? Why would they carry you? How long, and how much?

2. What new investment could you make? Would you refinance personal assets to provide a cash cushion for your business? Could you? What other assets could you bring to support a cash crunch?

3. What assets does your business have to either sell or turn to cash some other way if necessary (perhaps a sale/lease back, for example)?

4. How will you keep your banker and major trade creditors on your side?

5. Have you examined all possible sources of additional working capital in your business? Where might you have some leverage?

6. What customers would be willing to prepay or speed up orders if it would help you?

The purpose of a contingency plan is to make sure before a crisis is at hand that you won't panic. As evidence of thoughtful business management, it's hard to beat and is being sought by more and more creditors.

Tighten and maintain cash controls. Cash flow control begins with the cash flow budget. If you don't have a cash flow budget, you will have cash flow problems. You also need a sales budget or its equivalent to keep the sales level where it should be. Small sales lags can add up to big problems if not spotted early - ranging from a sluggish salesperson to a less than honest clerk.

Your cash flow budget is a tool for keeping head costs down. You have a degree of control over costs that you don't have over sales; while you can almost always cut costs, you can't generate sales (especially cash sales) whenever you need to, If you could, you never have a cash flow problem.

Every budget has some fat in it. Tightening controls means always asking whether this or that purchase or expenditure will have a positive effect on your business. If there is no clear answer, examine the expenditure closely. This effort must be consistent to work. All the controls in the book mean nothing unless they're applied-whether the control is a separation of purchasing from paying, making sure that bills and reorders go out when they should, or even keeping a physical count of the inventory

Credit and collection. The cost of extending credit is one of those hidden costs that eats up working capital. Very few smaller businesses have explicit credit policies. If they did, they could dramatically increase both profits and the quality of their current assets.

Investigate accepting credit cards and encouraging customers to use them. They cost little in return for the headaches they save you. Consider the cost, in direct comparison to bad debt losses, and in time, effort, and attention that slow-pay accounts cost you.

Inventory control is a balancing act. If your inventory gets too high, you run out of cash. If it is too low, chances are either you're buying in uneconomical quantities (a danger sign to bankers), you're too undercapitalized to ever become profitable (another danger sign), or you're bleeding the business. Bankers are increasingly interested in the quality of inventory as well as the more standard indicators of good management (liquidity, profitability, and track record). If you have a cogent inventory policy and follow it, you will upgrade both inventory quality and profitability

The added costs of capital tied up in receivables, for example, is frequently greater than any fee charged by the financial institution supporting the transaction.

Use a follow-up form each time you call a lagging account. The completed slip will provide back-up information and should be filed for reference on further calls. Remember to ask for specific payments on specific dates. if payment is not received, call back and ask again.

Three Credit Policy Steps

1. Divide your customer list into three groups: Prime, Good, Other. Prime customers pay within term; Good usually do; Others seldom, if ever do.

2. Look for similarities within the groups: What kinds of customers are Prime or Good? flow do they differ from other?

3. Look for ways to upgrade as many customers as possible to Prime and Good. Remember: You don't have a sale until you're paid.

Speaking about Financial Management

Accounts payable: Liabilities resulting from purchases of goods or services on an open account basis.

Accounts receivable: Amounts owed by customers as a result of delivering goods or services and extending credit in the ordinary course of business.

Balance sheet: A financial statement that shows a company's assets and liabilities.

Budget: A forecast of revenues and expenditures for a specific period of business activity.

Cash flow: Usually refers to net cash provided by operating activities; there is also cash flow from financing and investing.

Cash flow statement: A report on cash receipts and cash payments for a particular period.

General ledger: A record containing the group of accounts that supports the amounts shown in the financial statements.

Gross profit: The difference between sales revenue and cost of goods sold.

income statement: A report of all revenues and expenses pertaining to a specific period.

inventory turnover: The number of times during an accounting period that a business sells the value of its inventory. Turnover is calculated by dividing the cost of goods sold by the average inventory during the period. (Average inventory is figured by adding beginning and ending inventory, then dividing by two.)

Line of credit (LOC): An agreement by which a financial institution (usually a bank) holds funds available for a business's use. A secured LOC is ordinarily renewed annually; an unsecured line may have to be paid down once a year.

Exercise

Project Your Cash Flow

Cash flow is the movement of cash in and out of your business within a given period, usually a week or a month. It is not the same as profit. A business can show a profit on the day it goes bankrupt simply because it has insufficient cash to meet its obligations.

Cash flow projection - looking ahead to determine what your cash flow is likely to be - is critical to keeping a business running.

Cash In and **Cash Out** are the dynamic sections or your cash-flow projection, representing the flow of money in and out of business. This is where you make your forecasts. The line items differ, depending on your particular business.

Elements of Cash Flow

1. Starting Cash (or Starting Balance). Each monthly projection begins with the amount of cash you have on hand at the start of the month. Your Starting Cash is the same number as the previous month's Ending Cash.

2. Cash In. This section of the statement is also called "Sources of Cash." It includes all cash received during the month. There are several possible sources:

a. Sales are a primary source of cash, but remember to include only cash sales. Sales that have been invoiced do not represent money you can spend this month, so list only the cash sales you expect to have.

b. Paid Receivables are those sales that were previously invoiced and have been paid this month. It is important to project accurately when you expect to be paid-30 days, 60 days, etc. If a sale made in January is actually going to be collected in March, you want your projections to be realistic and reflect that lag time.

c. Interest. If your business is fortunate enough to have money in the bank, it will be earning interest.

d. Other. Additional sources of cash might be a bank loan sale of stock, or the sale of an asset such as a company car.

3. Cash Out. This section is also referred to as "uses of cash." Cash leaves the business in two basic ways: fixed expenses and variable expenses.

a. Fixed expenses are incurred regularly and are not easily eliminated. Generally, they do not fluctuate with sales volume; they are "fixed" from month to month: rent and payroll, payroll taxes, estimated taxes, utilities, interest on loans, and insurance payments.

b. Variable expenses can change from month to month and often vary with sales volume or production volume. They can be more easily changed than fixed expenses. Some examples: supplies, commissions, advertising, raw materials, consulting services, and promotion.

4. **Ending Cash (or Ending Balance**) is how much cash is left at the end of the month. It is the result of the numbers in Cash In and Cash Out. Simply add the Starting Cash to Total Cash In and then subtract Total Cash Out. The cash you end the month with is the cash you have to start the next month - so, you get the number for Starting Cash by copying it from the previous month's Ending Cash.

5. Cash Flow is the amount of cash that has flowed through the business (see box on page 29). It is a measure of what has happened that month. If nothing has happened-say you began with $1,000 and didn't take any cash in or pay out a nickel-you would end up with $1,000, but your Cash Flow woyld be $0. To calculate Cash Flow, subtract the Ending Cash from the Starting Cash. The secret to success is positive cash flow.

Are You *Really* Ready to Do Business?

Now that you're about to open for business, here are five tips for starting out on the right foot:

1. Search for suppliers and subcontractors you can count on. Use these sources:

* Yellow Pages	* Research organizations
* Trade organizations/industry groups	* Specialty magazines in your industry
* Chambers of Commerce	* Connections and networks

2. Carefully evaluate each supplier's quality, price, and service by checking references and using trial orders.

3. Establish good credit by paying your bills as quickly as possible.

4. Negotiate the best terms you can, using your start-up situation as leverage.

5. Seek to build long4erm relationships with your best suppliers.

For a review of basic start-up principles, here are eight dos and don'ts:

1. Do create a written business plan. Don't worry about its length (10 to 40 pages, depending on the type of presentation) as much as its strength (include 8 or 9 basic components; see page 10).

2. Don't shortchange yourself in terms of staff, equipment, and space-but do think "lean." During your early stages of growth, do strive to keep your business as simple as possible.

3. Do apply for credit in your start-up period, even if you don't need it. It's important to start building a credit rating and credit history as soon as possible so evidence of your creditworthiness grows as your financial needs grow.

4. Do establish a working relationship with more than one banker. Not only will this help keep your bankers competitive and protect you against unexpected changes in the banking community, but it will give you more options as your financial needs grow.

5. Don't use short-term debt to finance long-term needs. Match loans and terms to your need and payment base. Since you are building equity in equipment and real estate from profits over a number of years, you should finance it the same way.

6. During your start-up period, do give your suppliers proof that there's demand for your product or service.
They want you to succeed. If you show them why you can, chances are they will not only extend credit, but also give you the attention you deserve.

7. Do ask customers for feedback regularly. Invite them to be candid and to tell you about your weaknesses as well as your strengths, and how you can serve them better.

8. Don't rely solely on long-term goals (e.g., annual or quarterly). Do set daily and weekly objectives that will help you measure performance day-to-day and week to week.