

Topic 1 — Starting a Small Business

Starting a Small Business

Topic Overview

If your participants are thinking about starting a small business, the Starting a Small Business topic can help. This topic will help them maximize their chances for success and minimize their potential risk by creating a business plan and getting started right.

This topic includes six lessons:

1. Are you ready?
2. Writing a business plan
3. Types of start-up financing
4. Your first steps
5. Helpful resources
6. Recap

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online Hands on Banking® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants' experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit www.handsonbanking.org to access the program. Should you require a CD ROM to access the program you may request a free copy at HOBCE@wellsfargo.com.

Topic 1 — Starting a Small Business

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Glossary

Instructor note:

The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.

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Glossary

Adjustable-rate loan	A loan that allows the lender to make changes in the interest rate, and the resulting principal and interest payments charged to the borrower. These rate changes are usually tied to the rise and fall of a financial statistic (called an index), such as the prime rate or Treasury Bill rate. The initial interest rates on ARMs are lower than rates on fixed-rate mortgages, as the borrower is taking the risk of the interest rate rising over time. The borrower is protected by a maximum interest rate, which the lender may reset annually. There may be a limit on the number and amount of increases or decreases to the interest rate at each change date or over the life of the loan.
Debt financing	Borrowing money that is repaid over a period of time, usually with interest. This can either be short-term (less than one year) or long-term financing.
Entrepreneur	An individual who launches a business or product venture.
Equity financing	An exchange of money for a share of business ownership.
Personal guarantee/ guaranty	When a business owner gets a loan for his or her company, and makes a promise that legally requires him or her to repay the debt if the business fails to do so.
Secured credit	The ability of an individual or a business to borrow money using assets, such as cash or real estate, as collateral. This means that if the borrower does not repay the debt as agreed, the lender has the right to take ownership of the assets.
Small Business Administration (SBA)	An independent agency of the Federal Government whose purpose is to help people get in business, stay in business, and grow.
Small Business Development Centers (SBDC)	Locally operated SBA training centers for new and small business owners.

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Lesson 1: Are You Ready?

In this lesson, participants will learn about the risk of starting their own business. While it is risky, it can be satisfying and rewarding if they succeed. They will learn if starting their own business is right for them and their odds of success.

Learning Objectives

After completing this lesson, participants will be able to:

- Determine whether starting a small business is right for them
- Improve their odds of success in starting a small business

Start the Discussion

To start a discussion with your participants, ask some open-ended questions about small businesses. Here are some examples you could use:

- What do you think are the most important skills for a small business owner to have?
- What personality traits do you think successful small business owners share?
- Think of a successful small business owner in your neighborhood. In your opinion, what are the business skills that make them successful?
- Think of a small business that has gone out of business. What do you think went wrong?
- How difficult do you think it is to start a small business?

The Basics

- Starting and managing your own business can take more time, energy, and talent than most jobs ever do.
- It may require a significant investment of your own money and it might be risky. But it may prove much more rewarding, too.
- Running your own business can give you the satisfaction of using your talents and doing work you enjoy. If you're a good money manager, it can be financially rewarding, as well.

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Improving Your Odds Quiz (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to answer the two questions. Then lead a discussion using the key points below.

Instructions:

1. According to the SBA, less than 50 % of all new businesses last more than...
 - a. **Two years**
 - b. Five years
 - c. Ten years

2. According to the SBA, 95% of all business failures are caused by...
 - a. Too much competition
 - b. **The business owner's lack of experience and expertise**
 - c. Setting prices too high or too low

Key Points:

- People with prior experience who thoroughly think through their new business in advance have a far greater chance of success than those who have not.
- Before launching a venture of your own, try to find someone in the same industry to talk to about what it takes to be successful.
- Try to gain experience working or volunteering for a similar business, ideally a successful leader in the field.
- Find out if there are trade associations you can join in that particular industry.



Your personal finances—how much cash and credit you can draw on—may also affect your odds for business success. If possible, build up enough start-up capital from all sources to make it through the first three years. .

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Improving Your Odds Quiz

Instructions:

Read the two statements below and select the best answer. Use the space at the bottom of the sheet to write down notes or questions you may have.

1. According to the SBA, less than 50 % of all new businesses last more than...
 - a. Two years
 - b. Five years
 - c. Ten years

2. According to the SBA, 95% of all business failures are caused by...
 - a. Too much competition
 - b. The business owner's lack of experience and expertise
 - c. Setting prices too high or too low

Notes/questions



Your personal finances—how much cash and credit you can draw on—may also affect your odds for business success. If possible, build up enough start-up capital from all sources to make it through the first three years

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Are You an Entrepreneur? Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to put a checkmark next to the qualities they believe describe them. When they are finished, go through the list and discuss each quality.

In addition to experience and expertise, many successful entrepreneurs share certain personal qualities. Although it's a rare individual who excels in all of the traits listed below, reviewing this list of the key qualities of successful entrepreneurs may help you decide whether starting and managing your own business is a career path you'd like to pursue.

Instructions:

Have your participants put a check mark next to the qualities that they believe describes them.

- Takes initiative (*A self-starter. Doesn't need a boss.*)
- Driven to achieve (*Enjoys competition. Will work hard and sacrifice.*)
- Positive mental attitude (*Self-confident. Sees the glass half full.*)
- Sets goals (*Has vision. Works with focus.*)
- Plans ahead (*Creates plans and follows them*)
- Resourceful (*Creative problem-solver. Finds a way.*)
- A leader (*Takes responsibility. Is accountable. Motivates and inspires others.*)
- Good communicator (*Great people skills. Good listener and negotiator.*)
- Always learning (*Open to new ideas. Learns from others.*)
- Capitalizes on strengths (*Doesn't try to be and do everything.*)
- Has technical knowledge (*Has needed know-how to succeed.*)
- Organized (*Prioritizes. Meets deadlines.*)
- Objective (*Evaluates risk. Makes good decisions under pressure.*)
- Uses money well (*Good at managing finances.*)
- Realistic (*Accepts ups and downs. Faces facts, changes strategy when needed.*)
- Persistent (*Follows through. Never gives up.*)
- Bounces back (*Accepts rejection and failure without being defeated.*)

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Are You an Entrepreneur? Activity

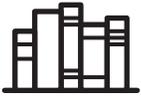
In addition to experience and expertise, many successful entrepreneurs share certain personal qualities. Although it's a rare individual who excels in all of the traits listed below, reviewing this list of the key qualities of successful entrepreneurs may help you decide whether starting and managing your own business is a career path you'd like to pursue.

Instructions:

Put a check mark next to the qualities that you believe describe you.

- Takes initiative
- Driven to achieve
- Positive mental attitude
- Sets goals
- Plans ahead
- Resourceful
- A leader
- Good communicator
- Always learning
- Capitalizes on strengths
- Has technical knowledge
- Organized
- Objective
- Uses money well
- Realistic
- Persistent
- Bounces back

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Instructor note:

At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Articles: Consider Entrepreneurship and Pursuing Your Ideas

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.

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Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key Points from the Are You Ready? lesson:

- Starting and managing your own business can take more time, energy, and talent than most jobs ever do.
- It may require a significant investment of your own money and it might be risky. But it may prove much more rewarding, too.
- Running your own business can give you the satisfaction of using your talents and doing work you enjoy. If you're a good money manager, it can be financially rewarding, as well.

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Lesson 2: Writing a Business Plan

In this lesson, participants will learn the value of creating a business plan and the key elements a good plan contains.

Learning Objectives

After completing this lesson, participants will be able to:

- Explain the importance of a business plan
- List and define the major components of a business plan

Start the Discussion

To start a discussion with your participants, ask some open-ended questions about business plans. Here are some examples you could use:

- What is the purpose of a business plan?
- What types of things would be included in a business plan?
- Do you need to hire someone to write a business plan?

The Basics

- The purpose of a business plan is to serve as a map for the present and a vision of the future.
- A business plan typically includes several key components that list specific information about your company, your goals, your financing and other important information.
- A business plan can help you attract investors.
- There are many available resources to help you write a business plan—the SBA or local Small Business Development Center are two examples.

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The Elements of a Business Plan (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Discuss the main components of the business plan.

Plan Component Name	The Plan Component Includes
Executive summary	<ul style="list-style-type: none"> • Business concept • Key success factors • Financial situation/needs
Company profile	<ul style="list-style-type: none"> • The inspirational vision statement describing the business you want to create • Definition of who your customers will be, what and how you plan to sell to them • A mission statement describing why your business exists and why customers will buy your product or service. (The best mission statements briefly but powerfully convey a company's commitment to its customers.)
Products and services	<ul style="list-style-type: none"> • Description of your product/services • Positioning of products/services • Competitive evaluation of products/services
Competitive analysis	<ul style="list-style-type: none"> • Industry overview • Competition • Competitor products and services • Opportunities; key strengths and weaknesses compared to your competitors
Market analysis	<ul style="list-style-type: none"> • Market overview, market segments, and target market and customers. • Reasons why the venture could fail, and your strategies for addressing these risks (shows investors or lenders that you have researched the market and understand the challenges)
Objectives	<ul style="list-style-type: none"> • Your highest priority goals in the key areas of your business, including finance marketing, and operations. • Answers to these questions: <ul style="list-style-type: none"> ○ "What do you want to accomplish in the near-term future?" ○ Where will you focus your time and resources? <p>(The best objectives are clearly-stated, specific, and measurable.)</p>
Strategies	<ul style="list-style-type: none"> • General approaches you will take to achieve your goals. • Strategies that describe how you will make your business successful over time given the strengths and weaknesses inside your business and the opportunities and threats in the marketplace.

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The Elements of a Business Plan (Instructor Copy) (continued)

Plan Component Name	The Plan Component Includes
Plans	<ul style="list-style-type: none">• Specific action steps you will take to achieve your objectives.• A clear statement describing “who will do what by when.”
Management qualifications and operations	<ul style="list-style-type: none">• Key personnel, organizational structure, product/service delivery, customer service/support, facilities. <p>(To get bank financing or investors, management experience is a critical element of your plan because investors generally invest in people, not products. A lot of businesses have great product ideas, but not all have the skills and experience to succeed.)</p>
Financial information	<ul style="list-style-type: none">• Assumptions and comments• Starting balance sheet and projection• Profit-and-loss projection• Cash flow projection• Ratios and analyses



Review your business plan twice a year to see if it still fits your company or if you need to make changes to your strategic direction.

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The Elements of a Business Plan

Plan Component Name	The Plan Component Includes
Executive summary	<ul style="list-style-type: none"> • Business concept • Key success factors • Financial situation/needs
Company profile	<ul style="list-style-type: none"> • The inspirational vision statement describing the business you want to create • Definition of who your customers will be, what and how you plan to sell to them • A mission statement describing why your business exists and why customers will buy your product or service. (The best mission statements briefly but powerfully convey a company's commitment to its customers.)
Products and services	<ul style="list-style-type: none"> • Description of your product/services • Positioning of products/services • Competitive evaluation of products/services
Competitive analysis	<ul style="list-style-type: none"> • Industry overview • Competition • Competitor products and services • Opportunities; key strengths and weaknesses compared to your competitors
Market analysis	<ul style="list-style-type: none"> • Market overview, market segments, and target market and customers. • Reasons why the venture could fail, and your strategies for addressing these risks (shows investors or lenders that you have researched the market and understand the challenges)
Objectives	<ul style="list-style-type: none"> • Your highest priority goals in the key areas of your business, including finance marketing, and operations. • Answers to these questions: <ul style="list-style-type: none"> ○ "What do you want to accomplish in the near-term future?" ○ Where will you focus your time and resources? <p>(The best objectives are clearly-stated, specific, and measurable.)</p>
Strategies	<ul style="list-style-type: none"> • General approaches you will take to achieve your goals. • Strategies that describe how you will make your business successful over time given the strengths and weaknesses inside your business and the opportunities and threats in the marketplace.

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The Elements of a Business Plan, Continued

Plan Component Name	The Plan Component Includes
Plans	<ul style="list-style-type: none">• Specific action steps you will take to achieve your objectives.• A clear statement describing “who will do what by when.”
Management qualifications and operations	<ul style="list-style-type: none">• Key personnel, organizational structure, product/service delivery, customer service/support, facilities. <p>(To get bank financing or investors, management experience is a critical element of your plan because investors generally invest in people, not products. A lot of businesses have great product ideas, but not all have the skills and experience to succeed.)</p>
Financial information	<ul style="list-style-type: none">• Assumptions and comments• Starting balance sheet and projection• Profit-and-loss projection• Cash flow projection• Ratios and analyses



Review your business plan twice a year to see if it still fits your company or if you need to make changes to your strategic direction.

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Identify Business Plan Components Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Using the Word Bank, participants should write in the correct word or phrase that matches the sample business plan text.

Instructions:

The left column of the chart below includes text from a sample business plan. Have your participants read through each paragraph and determine what section of the business plan it is. Instruct them to write in the correct answer in the right column.

Word Bank:

- | | |
|--|-----------------------|
| Company profile | Market analysis |
| Competitive analysis | Objectives |
| Executive summary | Plans |
| Financial information | Products and services |
| Management qualifications and operations | Strategies |

Business Plan Sample Text	Business Plan Component
We will make our business successful over time by conveniently handling all aspects of our customers' clothing care needs; focusing on residents within 5 miles of our store; and standing out from our competitors through unique pricing and service options.	Strategies
Mission XYZ helps our customers always look their best and get the maximum value from their investment in quality clothing.	Company profile
We plan to purchase equipment by June 15; sign three-year store lease by July 1; distribute advertising postcards to neighborhood homes and cars in our shopping center by August 20. Get newspaper coverage for our Grand Opening on September 15; hire delivery driver by December 1.	Plans
Our highest priority goals are to gain 350 steady customers by October 1; 2010, have revenue of \$600,000; realize \$120,000 in profit before taxes and add clothing repair and delivery services this year.	Objectives



A good business plan tells your banker, potential investors/partners, and employees where your business is headed and how you plan to get there. Be clear, specific, and inspiring..

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Identify Business Plan Components Activity

Instructions:

The left column of the chart below includes text from a sample business plan. Have your participants read through each paragraph and determine what section of the business plan it is. Instruct them to write in the correct answer in the right column.

Word Bank:

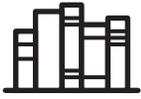
Company profile	Market analysis
Competitive analysis	Objectives
Executive summary	Plans
Financial information	Products and services
Management qualifications and operations	Strategies

Business Plan Sample Text	Business Plan Component
We will make our business successful over time by conveniently handling all aspects of our customers' clothing care needs; focusing on residents within 5 miles of our store; and standing out from our competitors through unique pricing and service options.	
Mission XYZ helps our customers always look their best and get the maximum value from their investment in quality clothing.	
We plan to purchase equipment by June 15; sign three-year store lease by July 1; distribute advertising postcards to neighborhood homes and cars in our shopping center by August 20. Get newspaper coverage for our Grand Opening on September 15; hire delivery driver by December 1.	
Our highest priority goals are to gain 350 steady customers by October 1; 2010, have revenue of \$600,000; realize \$120,000 in profit before taxes and add clothing repair and delivery services this year.	



A good business plan tells your banker, potential investors/partners, and employees where your business is headed and how you plan to get there. Be clear, specific, and inspiring..

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Instructor note:

At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Write a Business Plan

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.

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Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Writing a Business Plan lesson:

- The purpose of a business plan is to serve as a map for the present and a vision of the future.
- A business plan typically includes several key components that list specific information about your company, your goals, your financing and other important information.
- A business plan can help you attract investors.
- There are many available resources to help you write a business plan—the SBA or local Small Business Development Center are two examples.

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Lesson 3: Types of Start-up Financing

In this lesson, participants will learn about the two basic types of business financing and common sources of funding.

Learning Objectives

After completing this lesson, participants will be able to:

- Define and list the key benefits and challenges of the two types of financing—debt and equity financing.
- Define and list the five most common sources of funding for a small business

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- If you were to start a small business, where would you go for financing?
- What would you need to show an investor before they invested in your small business?

The Basics

- Almost every business needs at least some money to get started.
- Many small business owners look for additional funding at various times after their businesses are up and running.
- There are two types of business financing—debt and equity financing.
- There are many ways to get the money to start a small business, including family and friends, personal savings, financial institutions, and the U.S. Small Business Administration (SBA).

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Two Types of Business Financing Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class up into small groups. Instruct them to brainstorm benefits and challenges of each type of financing. When they're finished, use the key points listed below to frame your discussion.

Instructions:

Have participants list some benefits and challenges for debt and equity financing.

	Definition	Key Benefit	Key Challenges
Debt Financing	<p>Borrowing money that is to be repaid over a period of time, usually with interest.</p> <p>Can be short-term (full repayment due in less than one year) or long-term (repayment due over more than one year).</p>	<p>The lender does not gain an ownership interest in your business and your obligations are limited to repaying the loan.</p>	<p>In smaller businesses, personal guarantees are likely to be required on most loans. If you have too much debt, lenders may consider your business to be overextended and risky for further investment.</p> <p>In addition, you may be unable to weather unanticipated business downturns, credit shortages, or an interest rate increase if you have an adjustable-rate loan.</p>
Equity Financing	<p>An exchange of money for a share of business ownership.</p>	<p>Allows you to obtain funds without taking on debt (in other words, without having to repay a specific amount of money at any particular time).</p>	<p>The major disadvantage is that you no longer have 100% ownership of your business, and must therefore share some degree of control of the business with additional investors.</p>

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Two Types of Business Financing Activity

Instructions:

List some benefits and challenges for debt and equity financing.

	Definition	Key Benefit	Key Challenges
Debt Financing	<p>Borrowing money that is to be repaid over a period of time, usually with interest.</p> <p>Can be short-term (full repayment due in less than one year) or long-term (repayment due over more than one year).</p>		
Equity Financing	<p>An exchange of money for a share of business ownership.</p>		

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Sources of Funding Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill in the blanks as you lead the discussion.

These are the five common sources of funds used to finance a small business.

Personal savings	If you don't have enough money saved, you'll need to combine your own investment with funds from other sources . A lender will have greater confidence in your commitment to succeed when they know you have your own personal investment in the business. Many lenders, including the SBA, often require this.
Loans from family and friends	Your family and friends may be willing to loan you funds. Be prepared to show them how and when you'll be able to repay.
Financial institutions	Loans and lines of credit from financial institutions can be a source of start-up funding. You'll need good credit. Secured credit is ideal if you're just starting out and want to build good credit history . Develop a good working relationship with your banker or lender. The more they know about you and your business, the better they can advise and assist you.
SBA	The U.S. Small Business Administration (SBA) is an independent agency of the Federal Government. Its purpose is to help people get in business, stay in business, and grow . The SBA offers a large number of resources to help you start, finance and manage your business, and find new business opportunities. It can help you write a business plan, obtain start-up capital , purchase real estate, and much more. The SBA has offices throughout the United States to assist you. Learn more by visiting the SBA Web site at www.sba.gov . Examples of SBA services: <ul style="list-style-type: none"> • <i>Starting your business</i>: Small Business Start-up Kit; training and counseling; business planning tutorial; special assistance programs for minorities, women, the disabled, veterans, and other groups; workshops; shareware • <i>Financing your business</i>: Loan programs, including those that focus on: microloans (up to \$35,000) for start-up, newly established, or growing small businesses; low and moderate income areas. Working capital lines of credit.
Client commitments to contracts	Your customers (or future customers) may be willing to sign contracts , or even pre-pay, for products or services that you commit to deliver to them.
Investors	Most potential investors will request certain financial statements and a business plan from you before investing in your business. Be prepared for their questions by analyzing the creditworthiness and investor appeal of your business before you develop a business plan. While the plan should reflect your personal business goals, keep your audience in mind and draft the plan so that it sells your ideas to people who are in the business of making money.

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Sources of Funding Activity

These are the five common sources of funds used to finance a small business.

Instructions:

Fill in the blanks as you listen to the discussion.

Personal savings	If you don't have enough money saved, you'll need to combine your own investment with funds from _____. A lender will have greater _____ in your commitment to succeed when they know you have your own personal investment in the business. Many lenders, including the SBA, often require this.
Loans from family and friends	Your family and friends may be willing to loan you funds. Be prepared to show them _____ you'll be able to repay.
Financial institutions	Loans and _____ from financial institutions can be a source of start-up funding. You'll need good credit. _____ is ideal if you're just starting out and want to build good _____. Develop a good working relationship with your _____ or lender. The more they know about you and your business, the better they can advise and assist you.
SBA	The U.S. Small Business Administration (SBA) is an independent agency of the Federal Government. Its purpose is to help people get in business, stay in business, _____. The SBA offers a large number of resources to help you start, finance and manage your business, and find new business opportunities. It can help you write a business plan, _____, purchase real estate, and much more. The SBA has offices throughout the United States to assist you. Learn more by visiting the SBA Web site at www.sba.gov . Examples of SBA services: <ul style="list-style-type: none"> • <i>Starting your business:</i> Small Business Start-up Kit; training and counseling; business planning tutorial; special assistance programs for minorities, women, the disabled, veterans, and other groups; workshops; shareware • <i>Financing your business:</i> Loan programs, including those that focus on: microloans (up to \$35,000) for start-up, newly established, or growing small businesses; low and moderate income areas. Working capital lines of credit.
Client commitments to contracts	Your customers (or future customers) may be willing to sign _____, or even pre-pay, for products or services that you _____ to deliver to them.
Investors	Most potential investors will request certain _____ and a business plan from you before investing in your business. Be prepared for their questions by analyzing the _____ and investor appeal of your business before you develop a business plan. While the plan should reflect your personal business goals, keep your _____ in mind and draft the plan so that it sells your ideas to people who are in the business of making money.

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Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Writing a Business Plan lesson:

The Basics

- Almost every business needs at least some money to get started.
- Many small business owners look for additional funding at various times after their businesses are up and running.
- There are two types of business financing—debt and equity financing.
- There are many ways to get the money to start a small business, including family and friends, personal savings, financial institutions, and the U.S. Small Business Administration (SBA).

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Lesson 4: Getting Down to Work

In this lesson, participants will learn the first steps to take as a small business owner.

Learning Objectives

After completing this lesson, participants will be able to:

- Use a New Business Checklist to begin the first steps of work as a small business owner
- Create a New Business Checklist
- Understand how and why to hire a first employee

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Once you secure financing for your small business, what should you do?
- What types of tasks will you need to complete to get your new small business up and running?
- Have you thought about hiring employees? Why or why not?

The Basics

- Using a checklist is a great way to get your new small business up and running.
- Hiring a first employee is a big step, but could have financial benefits or disadvantages.

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New Business Checklist Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page and the completed handout on the page after that. Divide the class into groups. Hand out the blank business checklist document and instruct the groups to list activities they need to accomplish for each category listed below. When they are finished, hand out the completed business checklist which follows the activity. Lead a discussion about the key points.

Instructions:

For each category, have participants write in several items they should accomplish before you start a small business.

Legal	<ol style="list-style-type: none"> 1. Create a name for the business. 2. Register your business name. This is known as filing a “DBA” or “doing business as” statement, sometimes called a “fictitious name filing.” (The appropriate way to register depends on the state where you live. Check the Web sites of your secretary of state, county clerk’s office, or municipal government. Or, ask at your local Chamber of Commerce or public library.) 3. Obtain necessary licenses/permits from federal, state, and local governments. 4. File for taxes to be paid at a federal, state, and local level. 5. Talk to legal or accounting experts. Decide whether to trademark your business name and whether to incorporate your company for tax purposes.
Finance	<ol style="list-style-type: none"> 1. Consider hiring a bookkeeper or accountant to set up your company books. 2. Visit the bank. Set up business bank accounts separate from personal accounts. Set up a merchant service account to accept credit and debit card payments from customers. 3. Visit local small business development agencies and contact the Small Business Administration to explore loans and financing from SBA-approved lenders. 4. Discuss business insurance needs with several agencies and get price quotes to compare.
Management	<ol style="list-style-type: none"> 1. Develop a business plan, including vision, goals, action steps, timeline, and budget. 2. Visit a local business development center for advice. 3. Consider joining your local Chamber of Commerce. 4. Hire independent contractors or employees if extra help is needed.
Marketing	<ol style="list-style-type: none"> 1. Create a brand identity for the business, including logo, business cards, and letterhead. 2. Get listed in local phone book and consider placing an ad. 3. Create a Web site.
Technology	<ol style="list-style-type: none"> 1. Research equipment to buy. 2. Set up telephone service. 3. Set up your computer with needed software.

Important note: Participants should consult with their legal or financial advisors for more information.

Topic 1 — Starting a Small Business



New Business Checklist Activity

Instructions:

For each category, write in several items you should accomplish before you start a small business.

Legal	
Finance	
Management.	
Marketing	
Technology	

Topic 1 — Starting a Small Business



New Business Checklist

Legal	<ol style="list-style-type: none"> 1. Create a name for the business. 2. Register your business name. This is known as filing a “DBA” or “doing business as” statement, sometimes called a “fictitious name filing.” (The appropriate way to register depends on the state where you live. Check the Web sites of your secretary of state, county clerk’s office, or municipal government. Or, ask at your local Chamber of Commerce or public library.) 3. Obtain necessary licenses/permits from federal, state, and local governments. 4. File for taxes to be paid at a federal, state, and local level. 5. Talk to legal or accounting experts. Decide whether to trademark your business name and whether to incorporate your company for tax purposes.
Finance	<ol style="list-style-type: none"> 1. Consider hiring a bookkeeper or accountant to set up your company books. 2. Visit the bank. Set up business bank accounts separate from personal accounts. Set up a merchant service account to accept credit and debit card payments from customers. 3. Visit local small business development agencies and contact the Small Business Administration to explore loans and financing from SBA-approved lenders. 4. Discuss business insurance needs with several agencies and get price quotes to compare.
Management	<ol style="list-style-type: none"> 1. Develop a business plan, including vision, goals, action steps, timeline, and budget. 2. Visit a local business development center for advice. 3. Consider joining your local Chamber of Commerce. 4. Hire independent contractors or employees if extra help is needed.
Marketing	<ol style="list-style-type: none"> 1. Create a brand identity for the business, including logo, business cards, and letterhead. 2. Get listed in local phone book and consider placing an ad. 3. Create a Web site.
Technology	<ol style="list-style-type: none"> 1. Research equipment to buy. 2. Set up telephone service. 3. Set up your computer with needed software.

Important note: Always consult with your legal or financial advisors for more information.

Topic 1 — Starting a Small Business



The First Employee Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Do not hand out the sheet until after your group discussion.

Ask your participants to come up with tips and techniques when it comes to hiring that first employee. Help the discussion by asking them what things should they consider, what does the law say about hiring employees, do they really need to hire someone?

Then pass out the handout and lead the discussion using the table below.

- If you have a one-person business, hiring your first employee is a big step. But if you're unable to run every aspect of your business on your own, it may be time to hire help.
- Hiring an employee can be a major expense and responsibility, but it can free your time to focus on the most critical parts of your business.

Fill a gap.	<ul style="list-style-type: none">• Consider hiring someone who can add a skill you don't have or who can allow you to concentrate on what you do best.• The money you spend on salary should be less than the additional income you can make by adding to your team. For example, perhaps you love sales and marketing but tend to let paperwork pile up. Hire someone who can handle the paperwork, so you're free to sell even more.
Hire knowledge and experience.	<ul style="list-style-type: none">• In a small business, it's important to hire people you enjoy working with, but make sure they have the education, skills, experience, and natural talent to do the job.
Consider part-time specialists.	<ul style="list-style-type: none">• As an alternative to employing one full-time worker to handle multiple tasks, consider hiring a few part-time specialists in bookkeeping, administration, or communications.• You can benefit from individuals who specialize in a particular skill.• You also can pay an hourly rate and avoid expenses such as health insurance and vacation compensation.
Follow the law.	<ul style="list-style-type: none">• After selecting a candidate, be sure to follow the laws governing U.S. workers.• The employee must fill out Form W-4, which determines federal income tax withholding, and Form I-9, which certifies that the person is eligible to work in this country.• Employers must have workers' compensation and an unemployment insurance account in place.• They also need to pay payroll taxes, which include Social Security, Medicare, and unemployment benefits.

Topic 1 — Starting a Small Business



The First Employee

- If you have a one-person business, hiring your first employee is a big step. But if you're unable to run every aspect of your business on your own, it may be time to hire help.
- Hiring an employee can be a major expense and responsibility, but it can free your time to focus on the most critical parts of your business.

Fill a gap.	<ul style="list-style-type: none">• Consider hiring someone who can add a skill you don't have or who can allow you to concentrate on what you do best.• The money you spend on salary should be less than the additional income you can make by adding to your team. For example, perhaps you love sales and marketing but tend to let paperwork pile up. Hire someone who can handle the paperwork, so you're free to sell even more.
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Consider part-time specialists.	<ul style="list-style-type: none">• As an alternative to employing one full-time worker to handle multiple tasks, consider hiring a few part-time specialists in bookkeeping, administration, or communications.• You can benefit from individuals who specialize in a particular skill.• You also can pay an hourly rate and avoid expenses such as health insurance and vacation compensation.
Follow the law.	<ul style="list-style-type: none">• After selecting a candidate, be sure to follow the laws governing U.S. workers.• The employee must fill out Form W-4, which determines federal income tax withholding, and Form I-9, which certifies that the person is eligible to work in this country.• Employers must have workers' compensation and an unemployment insurance account in place.• They also need to pay payroll taxes, which include Social Security, Medicare, and unemployment benefits.

Topic 1 — Starting a Small Business

Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Getting Down to Work lesson:

- Using a checklist is a great way to get your new small business up and running.
- Hiring a first employee is a big step, but could have financial benefits or disadvantages.

Topic 1 — Starting a Small Business

Lesson 5: Helpful Resources

In this lesson, participants will learn the first steps to take as a small business owner.



Instructor note:

Photocopy the handout on the following page and discuss the list of resources with your participants.

This is a list of helpful U.S. government and Wells Fargo Web sites to help you start, manage, and grow your own small business.

U.S. Department of Labor—Wage and Hour Division

Information about: employment law; workers' rights

www.dol.gov/whd

U.S. Patent and Trademark Office

Information about: Patent and trademark laws and procedures

www.uspto.gov

U.S. Small Business Administration (SBA)

Starting, financing, and managing a small business; Finding new business opportunities

www.sba.gov

Wells Fargo

www.wellsfargo.com

Wells Fargo Credit Resource Center

www.wellsfargo.com/credit_center

Wells Fargo Insurance Resource Center

www.wellsfargo.com/insurance_center

Wells Fargo Small Business Website

www.wellsfargo.com/biz

Wells Fargo Retirement Planning for All Ages

wellsfargo.com/goals-retirement

Wells Fargo Tax Resource Center

www.wellsfargo.com/tax_center

Topic 1 — Starting a Small Business



Start Your Own Business

This is a list of helpful U.S. government and Wells Fargo Web sites to help you start, manage, and grow your own small business.

U.S. Department of Labor—Wage and Hour Division

Information about: employment law; workers' rights

www.dol.gov/whd

U.S. Patent and Trademark Office

Information about: Patent and trademark laws and procedures

www.uspto.gov

U.S. Small Business Administration (SBA)

Starting, financing, and managing a small business; Finding new business opportunities

www.sba.gov

Wells Fargo

www.wellsfargo.com

Wells Fargo Credit Resource Center

www.wellsfargo.com/credit_center

Wells Fargo Insurance Resource Center

www.wellsfargo.com/insurance_center

Wells Fargo Small Business Website

www.wellsfargo.com/biz

Wells Fargo Retirement Planning for All Ages

wellsfargo.com/goals-retirement

Wells Fargo Tax Resource Center

www.wellsfargo.com/tax_center

Topic 1 — Starting a Small Business

Topic Summary

Instructor note:

Summarize this topic by reviewing these key points with your participants.

Key points from the Starting a Small Business Topic

- **The business owner's experience and expertise is usually critical to success.**
- **Draw on your own job experience** or do plenty of research to fully understand your new business and what it takes to make it profitable.
- **Create a business plan.** It's your roadmap to a successful future.
- **Determine how much money you'll need to get started.** Be realistic. Consider whether you want to get a loan or take on partners.
- When it's time to get down to business, **take an organized approach.** Make sure you've addressed all the items on your checklist—from legal and finance, to management, marketing and technology.

Additional Activities

These activities are designed to extend the new concepts presented in the Starting a Small Business Topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

1. Have participants draft their business plans and work in teams to refine.
2. Create your own business checklist and complete it as much as you can. Determine what you need to do to thoroughly complete it.
3. Visit local banks and find out what services they provide for new business owners. Compare services and fees charged for them at different banks.
4. Visit your local SBA office and meet with a business counselor to discuss their services and loans for new business owners.
5. Go through the want ads of your Sunday paper to see what types of businesses are for sale in your community.
6. Walk or drive through your neighborhood and make a small list of some of the small business, particularly the ones that have just opened or ones that have been around for a long time. Think about the successful businesses—what factors do you think contributed to their success?
7. Interview some small business owners. Target independent and franchise owners. Questions to ask could include: why did you want to start your own business? On a scale of one to ten, how difficult was it to start your own business.

Topic 1 — Starting a Small Business

Appendix

Library Articles & Additional Topic Resources

Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.



Consider Entrepreneurship

Have you ever considered starting a business of your own?

Starting and managing your own business can ask a lot more of you in time, energy, and talent than most jobs ever do. It may require a significant investment of your own money and might be risky, but it may prove much more rewarding. Running your own business can give you the satisfaction of using your talents and doing work you enjoy. If you're a good money manager, it can be financially rewarding, too.

The reality, according to the U.S. Small Business Administration, is that less than 50 percent of all new businesses last more than two years. They also attribute 95 percent of all business failures to the business owner's lack of experience and expertise.

Before launching a venture of your own, strongly consider gaining experience and expertise working for someone else, especially a successful leader in the field. People with a solid track record who have thoroughly thought through their new venture have a far greater chance of success than those who have not.

In addition to experience and expertise, many successful entrepreneurs share certain personal qualities. Although it's a rare individual who excels in all of the traits listed below, reviewing this list may help you decide whether entrepreneurship is a career path you'd like to pursue.

Key attributes of successful entrepreneurs

- **Takes initiative.** A self-starter. Makes things happen rather than waiting and reacting. Self-directed. Independent. Doesn't need a boss.
- **Driven to achieve.** Has desire and passion to succeed. Enjoys competition. Has energy and stamina. Willing to work more than forty hours a week. Willing to sacrifice to achieve goals and dreams.
- **Positive mental attitude.** Self-confident. Believes in self. Trusts own ideas, instincts, and abilities.
- **Sets goals.** Creates a vision of success. Works with focus and intention.
- **Plans ahead.** Creates plans and follows them. Updates plans periodically. Good at anticipating new developments.
- **Resourceful.** Creative problem-solver. Imaginative and innovative. Sees better ways of doing things. Uncovers new resources and opportunities. Finds a way.
- **A leader.** Takes responsibility and accepts accountability. Like to make decisions. Shows an attitude of respect for others. Motivates and inspires others. Gives other the opportunity to be great. Shares the credit for success. Gains the respect of peers.
- **Good communicator.** Likes people. Has great people skills. Good listener. Effective negotiator.
- **Always learning.** Open to new ideas. Learns from others.
- **Leverages exceptional skills.** Makes the most of personal strengths, but doesn't try to be and do everything.

Consider Entrepreneurship (continued)

Key attributes of successful entrepreneurs (continued)

- **Has technical knowledge.** Understands both general business practices and the processes used to deliver goods and services.
- **Organized.** Able to prioritize. Good time manager. Gets things done on time.
- **Objective.** Able to evaluate risk. Willing to take calculated risks. Can make good decisions under pressure.
- **Uses money well.** Good money manager. Sees money as a tool for business success rather than an end in itself.
- **Realistic.** Accepts the ups and downs of business. Willing to face facts and change strategy or direction when needed.
- **Persistent.** Has determination and self-discipline. Follows through. Meets commitments. Will dedicate however much time it takes. Never gives up.
- **Bounces back.** Accepts rejection and failure without being defeated. Flexible. Adapts to changing conditions. Learns from experience and mistakes, creates new plans, and moves ahead.

As you review the items you checked, notice the items you didn't. To succeed, you'll need to find ways to fill your gaps.

Remember: there are millions of successful small businesses in our country, but there's always room for one more. When you think about your future in the world of work, consider the option of starting a business of your own.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at www.wellsfargo.com or any Wells Fargo store.



Pursuing Your Ideas

- **Look for unmet needs and a better solution**
- **Consider your skills and strengths**
- **Be realistic about your personal financial situation**
- **Determine the money you'll need**

Avoid common pitfalls

Many people want to go into business for themselves but lack a clear strategy for making it happen. Lisa Gundry, Ph.D., professor of management at Chicago-based DePaul University, discusses the process of generating attainable business ideas.

Q: How should someone pursue a specific idea for a small business?

A: I'm of the mind that the best business ideas grow out of the problems and frustrations that individuals have. Chances are if you have a problem or frustration, you're not alone. For example, there might be a service that I use, and it's not delivered to me in a manner that's most effective. So I think of a twist on it.

Some traditional ways that people come up with ideas are to look at their own work experience and determine what they can do better than their present or former employer. They may go into a parallel type of business. It can come from ideas that you get from customers or clients who you work with. We often get ideas by hearing what other people are not able to find in existing businesses.

Q: How do individuals evaluate their skills and potential for business success?

A: Doing a self-assessment is very important. One of the things that you're going to have to do is decide where the gaps are. If your strengths are in sales and marketing but not in the accounting or financial side of the business, you're going to need to find a way to fill that.

You need to find someone in that industry who will share with you [what it takes] to be successful. Do the informational interviews and, if possible, volunteer your time inside that type of organization if you can't work for it. Otherwise, it's very difficult to understand what it takes to run that kind of business. Also, find out if there are trade associations in that particular industry that you can join.

Q: How critical is a person's personal financial situation?

A: It's central in terms of what proprietary position you come from, what sources of financing can you draw from, and what is going to be your contribution toward the business. [Before you start a business,] it's important to build up enough capital from various sources to get you through the first three years. Inadequate capitalization will bring any business to its knees.

Pursuing Your Ideas (continued)

Avoid common pitfalls (continued)

Q: How do capital requirements vary among different types of businesses?

A: A service business often can be home-based, so you don't have the overhead of jumping into an expensive commercial lease. There may be fewer insurance concerns, for example, if you're a one-person consulting business. People often underestimate the number of businesses that start out of the home, which is about 80%.

Q: What are some common pitfalls people make during the startup mode?

A: One of the most common is infatuation with the product or concept. It's essential for successful entrepreneurs to be passionate about what you do, but sometimes it can blind you. Some people think they have such a good product that they don't have to do marketing—that it will sell itself. Also, it's a mistake to spend money too freely when cash is a problem. You really should have enough to get through the next three to six months.

The best businesses and the most successful entrepreneurs are those who have put out tremendous time and effort. There's a myth that people go into business for themselves have greater control over their lives, more flexible hours, work less hard, and have greater security. Most entrepreneurs will tell us that they're working far more hours. It's very different than working 9 to 5, where you have people to pick up the slack.

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Write a Business Plan

- **Purpose**
- **Key components**
- **Most important elements**

The purpose of a business plan is to serve as a roadmap for the present and a vision of the future. It can also help to attract investors for your business. The SBA and Small Business Development Centers can help you to create a business plan. There are many books and Web sites on the subject. Here are key components of what the plan should include:

Executive summary—business concept, key success factors, and financial situation/needs

Company profile—inspirational vision statement describing the business you want to create, including who your customers will be, what and how you plan to sell to them; and, a mission statement describing why your business exists and why customers will buy your product or service. The best mission statements briefly but powerfully convey a company's commitment to its customers.

Products and services—product/service description, positioning of products/services, and competitive evaluation of products/services.

Competitive analysis—industry overview, competition, competitor products and services, opportunities; key strengths and weaknesses compared to your competitors.

Market analysis—market overview, market segments, and target market and customers. To show investors or lenders that you have researched the market and understand the challenges, include reasons why the venture could fail, and your strategies for addressing these risks.

Objectives—your highest priority goals in the key areas of your business, including finance marketing, and operations. What do you want to accomplish in the near-term future? Where will you focus your time and resources? The best objectives are clearly-stated, specific, and measurable.

Strategies—the general approaches you will take to achieve your goals. Strategies describe how you will go about making your business successful over time given the strengths and weaknesses inside your business and the opportunities and threats in the marketplace.

Plans—the specific action steps you will take to achieve your objectives. Effective plans clearly state “who will do what by when.”

Write a Business Plan (continued)

Management qualifications and operations—key personnel, organizational structure, product/service delivery, customer service/support, facilities. To get bank financing or investors, management experience is a critical element of your plan because investors generally invest in people, not products. A lot of businesses have great product ideas, but not all have the skills and experience to succeed.

Financial information—assumptions and comments, starting balance sheet and projection, profit-and-loss projection, cash flow projection, and ratios and analyses

If you want to attract investors or get bank financing for your business, the experience of the management team is one of the most important elements of your plan. Your product or service is almost secondary, because, in general, investors invest in people, not products. A lot of businesses have great product ideas, but not all have the skills and experience to succeed.

Also concentrate on the market analysis section of your plan. This should include reasons why the venture could fail, and your strategies for addressing these risks. You want to show investors or lenders that you have researched the market and understand the challenges.

Review your business plan twice a year to see if it still fits your company or if you need to make changes to your strategic direction.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at www.wellsfargo.com or any Wells Fargo store.