

**Before I start a business,
the basics!**

or

I have a business but what is next?

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Startup Basics

Things to do first!

You are going to need motivation and talent to start and manage your business. You will need to plan and research all aspects of your new venture. Discipline, skill and hard work are needed to gain an advantage over your potential competition. Mistakes in the beginning may not be fatal but will hurt your chances at success. To achieve your goals you will need to create and maintain a thorough and introspective business plan, take the time before you jump in with both feet to research all aspects of your potential business.

Your business plan will become one of your most valuable tools, force you to think through some important issues and help you measure your success throughout your entire business career.

Getting Started-The essentials

1: **List your reasons for wanting to go into business.** Some of the most common reasons for starting a business are:

Self-management
Financial independence
Creative freedom
Full use of personal skills and knowledge

(Go ahead write down your reason or reasons!)

2: Next **determine what business is right for you.** Ask yourself these questions:

What do I like to do with my time?
What technical skills have I learned or developed?
What do others say I am good at?
Will I have the support of my family?
How much time do I have to run a successful business?
Do I have any hobbies or interests that are marketable?

Helpful hint time!

You will find this little box pop up through out this book. It will give little hints and tips you will need to become successful.

Great writing skills are not essential, but help. What is really important is getting yourself trained to write notes, lists and other things down so you can reference it later!

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3: **Identify your business niche.** Research and answer these questions:

- What business am I interested in starting?
- What services or products will I sell?
- Is my idea practical, and will it fill a need?
- What is my competition?
- What is my business's advantage over existing firms?
- Can I deliver a better quality service?
- Can I create a demand for my business?

Hint time again!

This is a great time to stop reading and concentrating on this list. It is ok, take your time. I **will** be here when you come back!

4: The final step before developing your plan is the pre-business checklist. **You should answer these questions:**

- What skills and experience do I bring to the business?
- What legal structure will I use?
- How will my company's business records be maintained?
- What insurance coverage will be needed?
- What equipment or supplies will I need?
- How will I compensate myself?
- What are my resources?
- What financing will I need?
- Where will my business be located?
- What will I name my business?

Business plans are a great blueprint, a fantastic guideline for all your business management, finances, and operations! To help you develop a solid business plan the internet has a long list of suggested tools for your needs. One of the most comprehensive tools and help is located at www.firstgov.gov

Helpful Tip:

You should know your business plan is a flexible document. As your business grows and changes your business plan will need to grow and change also. When you feel comfortable with your plan, you should have a business friend review it and help you make changes if needed.

Writing your Business Plan

What goes in a business plan?

The body can be divided into four distinct sections: Description of the business
Marketing
Finances
Management

Addenda should include an executive summary, supporting documents, and financial projections. Although there is no single formula for developing a business plan, some elements are common to all business plans. They are summarized in the following outline:

Elements of a Business Plan

Cover sheet
Statement of purpose
Table of contents
The Business

Description of your business

Marketing - *How do you want to let the world know you are in business?*

Competition - *Local, state and nationwide, who is doing what you want to do?*

Operating procedures - *How are you going to do what your business needs to do?*

Personnel - *You have you, and ??? Doing what?*

Business insurance – *Insurance Company, agent, coverage, limits..*

Financial Data - *Banks love this one, what money, where is the money coming from, and when?*

Loan applications

Capital equipment and supply list

Balance sheet

Breakeven analysis

Pro-forma income projections (profit and loss statements)

Three-year summary

Detail by month, first year

Detail by quarters, second and third years

Assumptions upon which projections were based

Pro-forma cash flow

Supporting Documents

Tax returns of principals for last three years, personal financial statement (all banks have these forms)
For franchised businesses, a copy of franchise contract and all supporting documents provided by the franchisor

Copy of proposed lease or purchase agreement for building space

Copy of licenses and other legal documents

Copy of resumes of all principals

Copies of letters of intent from suppliers, etc.

Time for a test.

Please take the time for this test. It could answer a nagging question you have about yourself!

Entrepreneurial Test

You need to think about why you would like to own your own business. What makes you think you will be successful?

Some business development materials start out with a dissertation on the characteristics of the business owner in order to help you decide if you should go into business for yourself. These questions deal with the basic personality of potential entrepreneurs.

Are you entrepreneurial enough to build a business?

Do you know what the meaning of the word "entrepreneurial"?

Are you a risk taker?

Did you get good grades in school? Did you know many successful entrepreneurs did not?

You are a cautious person and a good student. Should you forget the whole thing? That's what some entrepreneurial tests would suggest.

However, there are many successful business owners who, as an adolescent, were team players, athletes, school leaders, excellent students, and never seriously questioned the status quo. Often, though, a tendency toward caution is not typical of many successful entrepreneurs. Most entrepreneurs tend to be maverick personalities with risk-taking vision and courage. Many entrepreneurs tend to be just a bit offbeat; they sometimes need to be in order to creatively grow a successful business.

Obviously there is no one set formula for success. However, the following entrepreneurial test may help you in your personal evaluation process.

You just need to remember that this is simply a tool; it is fun to take and interpret, but you should keep it in perspective.

You must answer ALL questions for the test to be accurate.

For each question, click on the answer that best describes you.

<u>I'm persistent.</u>	Yes	Maybe	No
<u>When I'm interested in a project, I need less sleep.</u>	Yes	Maybe	No
<u>When there's something I want, I keep my goal clearly in mind.</u>	Yes	Maybe	No
<u>I examine mistakes and learn from them.</u>	Yes	Maybe	No
<u>I keep New Year's resolutions.</u>	Yes	Maybe	No
<u>I have a strong personal need to succeed.</u>	Yes	Maybe	No
<u>I have new and different ideas.</u>	Yes	Maybe	No
<u>I am adaptable.</u>	Yes	Maybe	No
<u>I am curious.</u>	Yes	Maybe	No
<u>I am intuitive.</u>	Yes	Maybe	No
<u>If something can't be done, I find a way.</u>	Yes	Maybe	No
<u>I see problems as challenges.</u>	Yes	Maybe	No
<u>I take chances.</u>	Yes	Maybe	No
<u>I'll gamble on a good idea even if it isn't a sure thing.</u>	Yes	Maybe	No
<u>To learn something new, I explore unfamiliar subjects.</u>	Yes	Maybe	No
<u>I can recover from emotional setbacks.</u>	Yes	Maybe	No
<u>I feel sure of myself.</u>	Yes	Maybe	No
<u>I'm a positive person.</u>	Yes	Maybe	No
<u>I experiment with new ways to do things.</u>	Yes	Maybe	No
<u>I'm willing to undergo sacrifices to gain possible long- term rewards.</u>	Yes	Maybe	No
<u>I usually do things my own way.</u>	Yes	Maybe	No
<u>I tend to rebel against authority.</u>	Yes	Maybe	No
<u>I often enjoy being alone.</u>	Yes	Maybe	No
<u>I like to be in control.</u>	Yes	Maybe	No
<u>I have a reputation for being stubborn.</u>	Yes	Maybe	No

Yes = 3 pts

Maybe = 2 pts

No = 1 pt

If you scored between 60 and 75, you can start that business plan. You have the earmarks of an entrepreneur!

If you scored between 48 and 59, you have potential but need to push yourself. You may want to improve your skills in your weaker areas; this can be accomplished by either improving yourself in these areas or by hiring someone with these skills.

If you scored between 37 and 47, you may not want to start a business alone. Look for a business partner who can compliment you in the areas where you are weak.

If you scored below 37, self-employment may not be for you. You will probably be happier and more successful working for someone else. However, only you can make that decision.

Courtesy of;
American Women's Economic Development Corporation, Stamford, CT, and Women in New Development, Bemidji, MN,
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Are You Really an Entrepreneur?

Many successful entrepreneurs have similar traits and characteristics. Learn what these are and what you can do to improve on your own.

FICTION: To be an entrepreneur, you must be born that way.

FACT: Anyone can learn to operate like an entrepreneur.

What are the similarities of successful entrepreneurs?

- Persistence
- Desire for immediate feedback
- Inquisitiveness
- Strong drive to achieve
- High energy level
- Goal-oriented behavior
- Independent
- Demanding
- Self-confident
- Calculated risk taker
- Creative
- Innovative
- Vision
- Commitment
- Problem solving skills
- Tolerance for ambiguity
- Strong integrity
- Highly reliable
- Personal initiative
- Ability to consolidate resources
- Strong management and organizational skills
- Competitive
- Change agent
- Tolerance for failure
- Desire to work hard
- Luck

Many entrepreneurs also had *a role model to influence* them early on and parents who were entrepreneurs

Two traits necessary for successful entrepreneurs are creativity and innovation.

What is Creativity?

Creativity is being able to create new ideas and ways to solve problems that provide cool opportunities.

Characteristics of Creative People

Bright
Adaptable
High self esteem
Challenge-oriented
Idea-oriented
Inquisitive
Curious

Can you improve your creativity? YES!

How? Gather as much information as you can (read, talk with experts, etc.); **brainstorm over time**. Just think about the problem or issue until an idea comes to you.

Is the solution reasonable? If so, try it. If not, keep thinking.

Did it work? If so, great. If not, begin the process over again.

Helpful Hint;

Don't put barriers on your mind! Allow yourself to think outside the box!

Put these steps to use.

Left Brain Right Brain
Analytical
Rational Intuitive
Artistic

You need both sides of your brain when being creative, as they compliment each other.

What is an Innovation?

Something that is invented (ex. CDs, DVDs, the Wheel), or

Something that is created from an existing idea or product (ex. Super Wal-Mart).

Where do innovative ideas come from?

Unsatisfied customers

Demographic changes in society

Luck

Imagination

Vision

Problem-solving

Helpful Hint:

Remember to;

Look for new ideas

Keep it simple

Start small

Try, try, and try again!

Strategic Planning

Big businesses are the only ones that need to strategic plan! No, not true! Small business needs strategic planning as much or more than the 'big guys'!

Strategic planning is matching the strengths of your business to available opportunities. **To do this effectively, you need to collect, screen, and analyze** information about the *business environment*!

You also need to have a clear understanding of your business - its strengths and weaknesses - and develop a clear mission, goals, and objectives.

Acquiring this understanding often involves more work than expected.

You must realistically assess the business you are convinced you know well.

In addition, strategic planning has become more important to business managers because technology and competition have made the business environment less stable and less predictable.

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

Product Basics

Products may be described in terms of their features and benefits. Features are product characteristics; benefits are customer needs served by those features. Some examples of features are size, color, horsepower, functionality, design, hours of business, and fabric content. Benefits are less tangible but always answer the customer's question: What's in it for me?

While product features are usually easy to define, product benefits can be trickier because they exist in the customers' minds. The most compelling product benefits are those that provide emotional or financial rewards. It's not the brighter smile that the toothpaste offers that is its benefit; it's what the smile might bring you (a good-looking mate, a better job, etc.).

Emotional rewards run the gamut of human emotions, but basically allow the buyer to feel better in some way. For example, sending flowers to a friend or family member allows the buyer to feel supportive or loving. Buying products made from recycled materials offers the buyer the chance to feel environmentally responsible.

Products that deliver financial rewards allow the buyer to save money (e.g., a discount long-distance phone plan) or make money (e.g., computer software for managing a home-based business).

Discovering Your Product's Benefits

To identify your product's benefits, you must consider your customers' needs. Imagine yourself in your customers' shoes, talk to them directly, or conduct surveys asking about their needs and perceptions.

If possible, hire an independent firm to conduct a focus group with a sample group of customers to test your product for usability and desirability.

Examine customers who have purchased your product in the past. What do their customer profiles tell you about your product's benefits?

Once you have a basic sense of your product's benefits, you can set up systems to develop and track their evolution:

Ask customers for suggestions for improvement.

Pay careful attention to customer complaints and prospect inquiries. Train and reward employees for questioning customers and prospects to learn what they like and don't like about your product.

Watch your competitors. Do the changes in their product offerings suggest product benefits you hadn't yet considered?

Why is it important to understand my product's features and benefits?

Understanding product features and benefits allows you to:

Describe your products in terms relevant to your customers.

Differentiate - explain how your product is different than the competition's.

Effectively choose pricing and positioning strategies. Refer to strategy ideas below in "Strategies that are based on features."

Differentiation

Products may be highly unique (specialty products), virtually indistinguishable from competitors' products (commodity products), or in between these extremes. No level of uniqueness is necessarily better than any other, but they do require different marketing strategies. A potentially important strategy for specialty products is differentiation, which sets them apart from the competitors' products in the minds of customers. A thorough understanding of how your product's benefits compare to your competitors' allows you to compete effectively with them through differentiation.

Commodity Products - Few, if any, perceived differences among competing products.

Specialty Products - Highly unique features compared to other products competing for buyers' dollars.

Strategies that are based upon features

Introducing - Identifying yourself as the first to offer a new product feature is a proven competitive strategy. For example, specifying a product as the first organic body lotion containing Vitamin E will position your company as a leader, at least for a while.

Improving/Modifying - Instead of being at the head of the pack with a totally new feature, you might modify or improve your product's features, which creates the impression that your company cares about satisfying its customers. Modifying product features is a strategy many businesses use when a competitor has lowered prices. For example, if the maker of one organic body lotion lowers its price, the maker of another may add Vitamin E as a new and improved feature but keep its price the same. It is important to remember that modifying features usually leads to changes in benefits. Stay aware of the evolution of perceived benefits your product offers so you can use them in your marketing.

Grouping - Often, features are grouped into different product models — and prices — escalating from a basic model to a fully loaded model. Automobiles, electronic devices, and vacation packages each offer features that may be added to a basic product model. Services can also be grouped in this fashion. For example, an accountant might offer a certain fee for preparing annual tax returns, another fee to also process payroll, and another to manage all of a client's financial affairs.

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Are you ready for the risks?

In business, there are no guarantees. There is simply no way to eliminate all the risks associated with starting a small business - but you can improve your chances of success with good planning, preparation, and insight. Start by evaluating your strengths and weaknesses as a potential owner and manager of a small business. Carefully consider each of the following questions:

Are you a self-starter? It will be entirely up to you to develop projects, organize your time, and follow through on details.

How well do you get along with different personalities? Business owners need to develop working relationships with a variety of people including customers, vendors, staff, bankers, and professionals such as lawyers, accountants, or consultants. Can you deal with a demanding client, an unreliable vendor, or a cranky receptionist if your business interests demand it?

How good are you at making decisions? Small business owners are required to make decisions constantly - often quickly, independently, and under pressure.

Do you have the physical and emotional stamina to run a business? Business ownership can be exciting, but it's also a lot of work. Can you face six or seven 12--hour workdays every week?

How well do you plan and organize? Research indicates that poor planning is responsible for most business failures. Good organization - of financials, inventory, schedules, and production -can help you avoid many pitfalls.

Is your drive strong enough? Running a business can wear you down emotionally. Some business owners burn out quickly from having to carry all the responsibility for the success of their business on their own shoulders. Strong motivation will help you survive slowdowns and periods of burnout.

How will the business affect your family? The first few years of business start-up can be hard on family life. It's important for family members to know what to expect and for you to be able to trust that they will support you during this time. There also may be financial difficulties until the business becomes profitable, which could take months or years. You may have to adjust to a lower standard of living or put family assets at risk in the short-term.

Why Small Businesses Fail

Success in business is never automatic. It isn't strictly based on luck - although a little never hurts. It depends primarily on the owner's foresight and organization. Even then, of course, there are no guarantees.

Starting a small business is always risky, and the chance of success is slim. According to the U.S. Small Business Administration, over 50% of small businesses fail in the first year and 95% fail within the first five years.

In his book *Small Business Management*, Michael Ames gives the following **reasons for small business failure**:

- Lack of experience
- Insufficient capital (money)
- Poor location
- Poor inventory management
- Over-investment in fixed assets
- Poor credit arrangements
- Personal use of business funds
- Unexpected growth

Gustav Berle adds two more reasons in *The Do It Yourself Business Book*:

- Competition
- Low sales

More Reasons Why Small Businesses Fail

These figures aren't meant to scare you, but to prepare you for the rocky path ahead. Underestimating the difficulty of starting a business is one of the biggest obstacles entrepreneurs face. However, success can be yours if you are patient, willing to work hard, and take all the necessary steps.

On the Upside!

It's true that there are many reasons not to start your own business. But for the right person, the advantages of business ownership far outweigh the risks.

You will be your own boss!

Hard work and long hours directly benefit you, rather than increasing profits for someone else.

Earning and growth potential are far greater!

A new venture is as exciting as it is risky.

Running a business provides endless challenge and opportunities for learning.

State Requirements

While business licensing requirements vary from state to state, some of the more common types are listed below.

Business Licenses

A state business license is the main document required for tax purposes and conducting other basic business functions. Many states have established small business assistance agencies to help small businesses comply with state requirements.

Occupations and Professions

State licenses are frequently required for occupations as varied as building contractors, physicians, appraisers, accountants, barbers, real estate agents, auctioneers, private investigators, private security guards, funeral directors, bill collectors, and cosmetologists. Since you can't always guess which occupations and professions are licensed by your state, you should always check with your state licensing authorities.

Licenses Based on Products Sold

Some state licensing requirements are based on the product sold. For example, most states require special licenses to sell liquor, lottery tickets, gasoline, or firearms. Contact your state licensing authorities to determine the licensing requirements of your business.

Tax Registration

If the state in which you operate has a state income tax, you'll have to register and obtain an employer identification number from your state Department of Revenue or Treasury Department. If you're engaging in retail sales, you will need to obtain a sales tax license.

Trade Name Registration

If your business will only be operated in your local community, registering your company name with the state may be sufficient.

Employer Registrations

If you have any employees, you'll probably be required to make unemployment insurance contributions. For more information, contact your state Department of Revenue or Department of Labor.

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About the Author;

Bruce has over 26 years of successful business management experience in several fields. Including transportation, computer building/repair, and as a webmaster. Currently he is Co-Owner of VanBar, an internet business that specializes in the art of “excellence of customer service”! VanBar was created in 2003, and is a family owned and operated business. Bruce is a driven individual that does ‘move to his own drummer’ but refuses to allow any compromise on quality.

VanBar owns and operates www.vbhomeaccents.com
www.vboutdoorteakfurniture.com
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About the above Material;

The material gathered in this book came from many years of experience and www.firstgov.gov
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“Thank you for reading this material with this and some motivation on your part you are now armed with the knowledge it will take to run your successful business.”

-Bruce Gokey

Last Hint!

As a business owner you must beyond anything else...Have a sense of humor!

Glossary of Terms

ACCOUNTS PAYABLE Trade accounts of businesses representing obligations to pay for goods and services received.

ACCOUNTS RECEIVABLE Trade accounts of businesses representing moneys due for goods sold or services rendered evidenced by notes, statements, invoices, or other written evidence of a present obligation.

ACCOUNTING The recording, classifying, summarizing, and interpreting in a significant manner and in terms of money, transactions, and events of a financial character.

ADDENDA a supplement to a book

ASSUMPTIONS The act of assuming/undertaking another's debts or obligations.

AUCTION A public sale of goods to the highest bidder.

AUTOMATIC DATA PROCESSING Data processing largely performed by automatic means. The discipline which deals with methods and techniques of automatic data processing.

Pertaining to data processing equipment such as electrical accounting machines and electronic data processing equipment.

BANKRUPTCY A condition in which a business cannot meet its debt obligations and petitions a federal district court for either reorganization of its debts or liquidation of its assets. In the action the property of a debtor is taken over by a receiver or trustee in bankruptcy for the benefit of the creditors. This action is conducted as prescribed by the National Bankruptcy Act, and may be voluntary or involuntary.

BREAKEVEN POINT The breakeven point in any business is that point at which the volume of sales or revenues exactly equals total expenses - the point at which there is neither a profit nor loss - under varying levels of activity. The breakeven point tells the manager what level of output or activity is required before the firm can make a profit; reflects the relationship between costs, volume, and profits.

BUSINESS BIRTH Formation of a new establishment or enterprise.

BUSINESS DEATH Voluntary or involuntary closure of a firm or establishment.

BUSINESS DISSOLUTION For enumeration purposes, the absence from any current record of a business that was present in a prior time period.

BUSINESS FAILURE The closure of a business causing a loss to at least one creditor.

BUSINESS PLAN A comprehensive planning document which clearly describes the business developmental objective of an existing or proposed business applying for assistance in SBA's 8(a) or lending programs. The plan outlines what and how and from where the resources needed to accomplish the objective will be obtained and utilized.

BUSINESS START For enumeration purposes, a business with a name or similar designation that did not exist in a prior time period.

CANCELED LOAN The annulment or rescission of an approved loan prior to disbursement.

CAPITAL Assets less liabilities, representing the ownership interest in a business; a stock of accumulated goods, especially at a specified time and in contrast to income received during a specified time period; accumulated goods devoted to the production of goods; (4) accumulated possessions calculated to bring income.

CAPITAL EXPENDITURES Business spending on additional plant equipment and inventory.

CAPITALIZED PROPERTY Personal property of the agency which has an average dollar value of \$300.00 or more and a life expectancy of one year or more. Capitalized property shall be depreciated annually over the expected useful life to the agency.

CASH DISCOUNT An incentive offered by the seller to encourage the buyer to pay within a stipulated time. For example, if the terms are 2/10/N 30, the buyer may deduct 2 percent from the amount of the invoice (if paid within 10 days); otherwise, the full amount is due in 30 days.

CASH FLOW An accounting presentation showing how much of the cash generated by the business remains after both expenses (including interest) and principal repayment on financing are paid. A projected cash flow statement indicates whether the business will have cash to pay its expenses, loans, and make a profit. Cash flows can be calculated for any given period of time, normally done on a monthly basis.

CHARACTER A letter, digit, or other symbol that is a part of the organization, control, or representation of data used in computer systems.

CHARGE-OFF An accounting transaction removing an uncollectible balance from the active receivable accounts.

CHARGED OFF LOAN An uncollectible loan for which the principal and accrued interest were removed from the receivable accounts.

CLOSING Actions and procedures required to affect the documentation and disbursement of loan funds after the application has been approved and the execution of all required documentation and its filing and recording where required.

CLOSED LOAN Any loan for which funds have been disbursed and all required documentation has been executed, received, and reviewed. For statistical purposes, first or total disbursement is counted as a closed loan.

COLLATERAL Something of value - securities, evidence of deposit, or other property - pledged to support the repayment of an obligation.

COLLATERAL DOCUMENT A legal document covering the item(s) pledged as collateral on a loan, i.e., note, mortgages, assignment, etc.

CONSORTIUM A coalition of organizations, such as banks and corporations, set up to fund ventures requiring large capital resources.

CORPORATION A group of persons granted a state charter legally recognizing them as a separate entity having its own rights, privileges, and liabilities distinct from those of its members. The process of incorporating should be completed with the state's secretary of state or state corporate counsel, and usually requires the services of an attorney.

COMPROMISE The settlement of a claim resulting from a defaulted loan for less than the full amount due. Compromise settlement is a procedure available for use only in instances where the government cannot collect the full amount due within a reasonable time, by enforced collection proceedings, or where the cost of such proceedings would not justify such effort.

CONTINGENT LIABILITY A potential obligation that may be incurred dependent upon the occurrence of a future event. Two examples are: (1) the liability of an endorser or guarantor of a note if the primary borrower fails to pay as agreed and (2) the liability that would be incurred if a pending lawsuit is resolved in the other party's favor.

COSTS Money obligated for goods and services received during a given period of time, regardless of when ordered or whether paid for.

CREDIT RATING A grade assigned to a business concern to denote the net worth and credit standing to which the concern is entitled in the opinion of the rating agency as a result of its investigation.

DATA ELEMENT The basic unit of identifiable and definable information. A data element occupies the space provided by fields in a record or blocks on a form. It has an identifying name and value or values for expressing a specific fact. For example, a data element named "Color of Eyes" could have recorded values of "Blue (a name)," "Bl (an abbreviation)," "06 (a code)." Similarly, a data element named "Age of Employee" could have a recorded value of "28" (a numeric value).

DEBENTURE Debt instrument evidencing the holder's right to receive interest and principal installments from the named obligor. Applies to all forms of unsecured, long-term debt evidenced by a certificate of debt.

DEBT CAPITAL Business financing that normally requires periodic interest payments and repayment of the principal within a specified time.

DEBT FINANCING The provision of long term loans to small business concerns in exchange for debt securities or a note.

DEED OF TRUST A document under seal which, when delivered, transfers a present interest in property. May be held as collateral.

DEFAULTS The nonpayment of principal and/or interest on the due date as provided by the terms and conditions of the note.

DEFERRED LOAN Loans whose principal and or interest installments are postponed for a specified period of time.

DISBURSEMENT The actual payout to borrower of loan funds, in whole or part. It may be concurrent with the closing or follow it.

DISBURSING OFFICER An employee authorized to pay out cash or issue checks in settlement of vouchers approved by a certifying officer.

DIVESTITURE Change of ownership and/or control of a business from a majority (non-disadvantaged) to disadvantaged persons.

EARNING POWER The demonstrated ability of a business to earn a profit, over time, while following good accounting practices. When a business shows a reasonable profit on invested capital after fully maintaining the business property, appropriately compensating its owner and employees, servicing its obligations, and fully recognizing its costs, the business may be said to have demonstrated earning power. Demonstrated earning power is the foremost test of the business risk in pressing upon an application for a loan.

EASEMENT A right or privilege that a person may have on another's land, as the right of a way or ingress or egress.

EMPLOYEE ASSISTANCE PROGRAM (EAP) COORDINATOR Coordinates the activities of Central Office or regional counselors, maintains a community resource list of available professional assistance to troubled employees, and a current roster of EAP counselors for the area of his/her jurisdiction.

EAP COUNSELOR Conducts confidential consultations with troubled employees who so request, who are referred for objective analysis of a personal problem, and for identification of the best available assistance and/or professional services needed to resolve the employee's problem.

ENTERPRISE Aggregation of all establishments owned by a parent company. An enterprise can consist of a single, independent establishment or it can include subsidiaries or other branch establishments under the same ownership and control.

ENTREPRENEUR One who assumes the financial risk of the initiation, operation, and management of a given business or undertaking.

EQUITY An ownership interest in a business.

EQUITY FINANCING The provision of funds for capital or operating expenses in exchange for capital stock, stock purchase warrants, and options in the business financed without any guaranteed return, but with the opportunity to share in the company's profits. Equity financing includes long-term subordinated securities containing stock options and/or warrants. Utilized in SBIC financing activities.

EQUITY PARTNERSHIP A limited partnership arrangement for providing startup and seed capital to businesses.

ESCROW ACCOUNTS Funds placed in trust with a third party by a borrower for a specific purpose and to be delivered to the borrower only upon the fulfillment of certain conditions.

ESTABLISHMENT A single-location business unit, which may be independent - called a single-establishment enterprise - or owned by a parent enterprise.

FINANCIAL REPORTS - Reports commonly required from applicants request for financial assistance, e.g.:

Balance Sheet - A report of the status of a firm's assets, liabilities and owner's equity at a given time.

Income Statement - A report of revenue and expense which shows the results of business operations or net income for a specified period of time.

Cash Flow - A report which analyzes the actual or projected source and disposition of cash during a past or future accounting period.

FINANCING New funds provided to a business, by either loans, purchase of debt securities, or capital stock.

FLOW CHART A graphical representation for the definition, analysis, or solution of a problem, in which symbols are used to represent operations, data, flow, equipment, etc.

FORECLOSURE The act by the mortgagee or trustee upon default in the payment of interest or principal of a mortgage of enforcing payment of the debt by selling the underlying security.

FRANCHISING A continuing relationship in which the franchisor provides a licensed privilege to the franchisee to do business and offers assistance in organizing, training, merchandising, marketing, and managing in return for a consideration. Franchising is a form of business by which the owner (franchisor) of a product, service, or method obtains distribution through affiliated dealers (franchisees). The product, method, or service being marketed is usually identified by the franchisor's brand name, and the holder of the privilege (franchisee) is often given exclusive access to a defined geographical area.

GROSS DOMESTIC PRODUCT (GDP) The most comprehensive single measure of aggregate economic output. Represents the market value of the total output of the goods and services produced by a nation's economy.

GROSS NATIONAL PRODUCT (GNP) A measure of a nation's aggregate economic output. Since 1991 GDP, a slightly different calculation, has replaced GNP as a measure of U.S. economic output.

GUARANTEED LOAN A loan made and serviced by a lending institution under agreement that a governmental agency will purchase the guaranteed portion if the borrower defaults.

HARDWARE A term used to describe the mechanical, electrical, and electronic elements of a data processing system.

HAZARD INSURANCE Insurance required showing lender as loss payee covering certain risks on real and personal property used for securing loans.

INCUBATOR A facility designed to encourage entrepreneurship and minimize obstacles to new business formation and growth, particularly for high technology firms, by housing a number of fledgling enterprises that share an array of services. These shared services may include meeting areas, secretarial services, accounting services, research libraries, on-site financial and management counseling, and word processing facilities.

INDEPENDENT AND QUALIFIED PUBLIC ACCOUNTANTS Public accountants are independent when neither they nor any of their family have a material, direct, or indirect financial interest in the borrower other than as an accountant. They are qualified, unless there is contrary evidence, when they are either (1) certified, licensed, or otherwise registered if so required by the state in which they work, or (2) have worked as a public accountant for at least five years and are accepted by SBA.

INDUSTRIAL REVENUE BOND (IRB) A tax-exempt bond issued by a state or local government agency to finance industrial or commercial projects that serve a public good. The bond usually is not backed by the full faith and credit of the government that issues it, but is repaid solely from the revenues of the project and requires a private sector commitment for repayment.

INNOVATION Introduction of a new idea into the marketplace in the form of a new product or service or an improvement in organization or process.

INSOLVENCY The inability of a borrower to meet financial obligations as they mature or having insufficient assets to pay legal debts.

INTEREST An amount paid a lender for the use of funds.

INVERSE ORDER OF MATURITY When payments are received from borrowers that are larger than the authorized repayment schedules, the overpayment is credited to the final installments of the principal, which reduces the maturity of the loan and does not affect the original repayment schedule.

INVESTMENT BANKING Businesses specializing in the formation of capital. This is done by outright purchase and sale of securities offered by the issuer, standby underwriting, or "best efforts selling."

INVITATION FOR BIDS Formal solicitations for offerings to perform procurements by competitive bids when the specifications describe the requirements of the government clearly, accurately, and completely, but avoiding unnecessarily restrictive specifications or requirements which might unduly limit the number of bidders.

JOB DESCRIPTION A written statement listing the elements of a particular job or occupation, e.g., purpose, duties, equipment used, qualifications, training, physical and mental demands, working conditions, etc.

JUDGMENT Judicial determination of the existence of an indebtedness or other legal liability.

JUDGMENT BY CONFESSION The act of debtors permitting judgment to be entered against them for a given sum with a statement to that effect, without the institution of legal proceedings.

JUNK BOND A high-yield corporate bond issue with a below-investment rating that became a growing source of corporate funding in the 1980s.

LEASE A contract between the owner (lessor) and the tenant (lessee) stating the conditions under which the tenant may occupy or use the property.

LEGAL RATE OF INTEREST The maximum rate of interest fixed by the laws of the various states which a lender may charge a borrower for the use of money.

LENDING INSTITUTION Any institution, including a commercial bank, savings and loan association, commercial finance company, or other lender qualified to participate with SBA in the making of loans.

LEVERAGED BUY-OUT The purchase of a business with financing provided largely by borrowed money, often in the form of junk bonds.

LIEN A charge upon or security interest in real or personal property maintained to ensure the satisfaction of a debt or duty ordinarily arising by operation of law.

LIQUIDATION The disposal, at maximum prices, of the collateral securing a loan and the voluntary and enforced collection of the remaining loan balance from the obligators and/or guarantors.

LIQUIDATION VALUE The net value realizable in the sale (ordinarily a forced sale) of a business or a particular asset.

LITIGATION Refers to a loan in "liquidation status" which has been referred to attorneys for legal action.

Also: The practice of taking legal action through the judicial process.

LOAN AGREEMENT Agreement to be executed by borrower, containing pertinent terms, conditions, covenants, and restrictions.

LOAN PAYOFF AMOUNT The total amount of money needed to meet a borrower's obligation on a loan. It is arrived at by accruing gross interest for one day and multiplying this figure by the number of days that exist between the date of the last repayment and the date on which the loan is to be completely paid off. This amount, known as accrued interest, is combined with the latest principal and escrow balances that are applicable to what is now referred to as the loan payoff amount. In the case where prepaid interest exceeds the accrued interest, the latter is subtracted from the former and the difference is used to reduce the total amount owed.

LOSS RATE A rate developed by comparing the ratio of total loans charged off to the total loans disbursed from inception of the program to the present date.

LOSS RESERVE ADJUSTMENT RATE A reserve rate based upon the ratio of the aggregate net chargeoffs (chargeoffs less recoveries) for the most recent five years to the total average loans outstanding for the comparable 5-year period.

MARKUP Markup is the difference between invoice cost and selling price. It may be expressed either as a percentage of the selling price or the cost price and is supposed to cover all the costs of doing business plus a profit. Whether markup is based on the selling price or the cost price, the base is always equal to 100 percent.

MATURITY As applied to securities and commercial paper, the period end date when payment of principal is due.

MATURITY EXTENSIONS Extensions of payment beyond the original period established for repayment of a loan.

MERGER A combination of two or more corporations wherein the dominant unit absorbs the passive ones, the former continuing operation usually under the same name. In a consolidation two units combine and are succeeded by a new corporation, usually with a new title.

MORTGAGE An instrument giving legal title to secure the repayment of a loan made by the mortgagee (lender). In legal contemplation there are two types: (1) title theory - operates as a transfer of the legal title of the property to the mortgagee, and (2) lien theory - creates a lien upon the property in favor of the mortgagee.

NEGOTIATION The face to face process used by local unions and the employer to exchange their views on those matters involving personnel policies and practices or other matters affecting the working conditions of employees in the unit and reduced to a written binding agreement. Used also by contracting officers to reach agreement with potential contractors.

NEGOTIATION DISPUTE That point in negotiations where labor and management cannot come to an agreement on some or all of the issues on the bargaining table and the services of the FMCS have not been utilized.

NEGOTIATED GRIEVANCE PROCEDURE The sole and exclusive procedure available to all employees in a bargaining unit and the employer for processing grievances and disputes.

NET WORTH Property owned (assets), minus debts and obligations owed (liabilities), is the owner's equity (net worth).

NOTES AND ACCOUNTS RECEIVABLE A secured or unsecured receivable evidenced by a note or open account arising from activities involving liquidation and disposal of loan collateral.

OBLIGATIONS Technically defined as "amount of orders placed, contracts awarded, services received, and similar transactions during a given period which will require payments during the same or a future period."

ORDINARY INTEREST Simple interest based on a year of 360 days, contrasting with exact interest having a base year of 365 days.

OUTLAYS Net disbursements (cash payments in excess of cash receipts) for administrative expenses and for loans and related costs and expenses (e.g., gross disbursements for loans and expenses minus loan repayments, interest and fee income collected, and reimbursements received for services performed for other agencies).

PARTNERSHIP A legal relationship existing between two or more persons contractually associated as joint principals in a business.

PATENT A patent for an invention is the grant of a property right to the inventor, issued by the Patent and Trademark Office. The term of a new patent is 20 years from the date on which the application for the patent was filed in the United States or, in special cases, from the date an earlier related application was filed, subject to the payment of maintenance fees. US patent grants are effective only within the US, US territories, and US possessions.

PRIME RATE Interest rate which is charged to business borrowers having the highest credit ratings for short term borrowing.

PRO-Net An Internet-based database of information of small, disadvantaged, 8(a), and women-owned businesses seeking procurement contracts.

PRODUCT LIABILITY Type of tort or civil liability that applies to product manufacturers and sellers.

PROFESSIONAL AND TRADE ASSOCIATIONS Non-profit, cooperative, and voluntary organizations that are designed to help their members in dealing with problems of mutual interest. In many instances, professional and trade associations enter into an agreement with the SBA to provide volunteer counseling to the small business community.

PROPRIETORSHIP The most common legal form of business ownership; about 85 percent of all small businesses are proprietorships. The liability of the owner is unlimited in this form of ownership.

PROTEST A statement in writing by any bidder or offeror on a particular procurement alleging that another bidder or offeror on such procurement is not a small business concern.

RATIO Denotes relationships of items within and between financial statements, e.g., current ratio, quick ratio, inventory turnover ratio, and debt/net worth ratios.

REQUEST FOR PROPOSALS Solicitations for offerings for competitive negotiated procurements when it is impossible to draft an invitation for bids containing adequate detailed description of the required property and services. There are 15 circumstances in the Federal Acquisition Regulations (FAR) which permit negotiated procurements.

RETURN ON INVESTMENT The amount of profit (return) based on the amount of resources (funds) used to produce it. Also the ability of a given investment to earn a return for its use.

SECONDARY MARKET Those who purchase an interest in a loan from an original lender, such as banks, institutional investors, insurance companies, credit unions, and pension funds.

SERVICE CORPS OF RETIRED EXECUTIVES (SCORE) Retired and working successful business persons who volunteer to render assistance in counseling, training, and guiding small business clients.

SMALL BUSINESS DEVELOPMENT CENTERS (SBDC) The SBDC is a university-based center for the delivery of joint government, academic, and private sector services for the benefit of small business and the national welfare. It is committed to the development and productivity of business and the economy in specific geographical regions.

TURNOVER (Business) Turnover is the number of times that an average inventory of goods is sold during a fiscal year or some designated period. Care must be taken to ensure that the average inventory and net sales are both reduced to the same denominator; that is, divide inventory at cost into sales at cost or divide inventory at selling price into sales at selling price. Do not mix cost price with selling price. The turnover, when accurately computed, is one measure of the efficiency of a business.

UNDELIVERED ORDERS The amount of orders for goods and services outstanding for which the liability has not yet accrued. For practical purposes, represents obligations incurred for which goods have not been delivered or services not performed.

UNFAIR LABOR PRACTICE Action by either the employer or union which violates the provisions of EO 11491 as amended.

UNIFORM COMMERCIAL CODE Codification of uniform laws concerning commercial transactions. In SBA parlance, generally refers to a uniform method of recording and enforcing a security interest or charge upon existing or to be acquired personal property.

USURY Interest which exceeds the legal rate charged to a borrower for the use of money.

VENTURE CAPITAL Money used to support new or unusual commercial undertakings; equity, risk, or speculative capital. This funding is provided to new or existing firms that exhibit above-average growth rates, a significant potential for market expansion, and the need for additional financing for business maintenance or expansion.

WORD PROCESSING The efficient and effective production of written communications at the lowest possible cost through the combined use of systems management procedures, automated technology, and accomplished personnel. The equipment used in word processing applications includes but is not limited to the following: dictation and transcription equipment, automatic repetitive typewriters, visual display text editing typewriters, keyboard terminals, etc.

WORKERS' COMPENSATION A state-mandated form of insurance covering workers injured in job-related accidents. In some states the state is the insurer; in other states insurance must be acquired from commercial insurance firms. Insurance rates are based on a number of factors, including salaries, firm history, and risk of occupation.