

Eight Keys to Maximize Your Company's Value

1. Understand and operate from your core purpose of the business
 - a Why you are doing this?
2. Plan Properly
3. Monitor your (and the business) financial position
4. Understand price and volume
5. Manage cash flow
6. Manage growth
7. Borrow properly
8. Plan for transition and succession

Key Links

Washington State Business License:

Corporation, LLC www.sos.wa.gov

Master Business License www.bls.dor.wa.gov

SBA Loan Programs: www.sba.gov/services/financialassistance/index.html

Crowd Funding Sources:

- ▶ Micro Ventures <http://www.microventures.com/>
- ▶ Indiegogo <http://www.indiegogo.com/>
- ▶ Kickstarter <http://www.kickstarter.com/>
- ▶ <http://www.prosper.com/>
- ▶ <http://www.lendingclub.com/home.action>
- ▶ <http://peerbackers.com/>
- ▶ <http://www.lightercapital.com/>
- ▶ <http://www.microventures.com/>
- ▶ <https://www.kabbage.com/>

Women / Minority Owned Businesses: www.omwbe.wa.gov

Labor and Industries www.lni.wa.gov

Independent contractor <http://www.lni.wa.gov/IPUB/101-063-000.pdf>

Thinking About a Business Loan?

There are a wide variety of ways to finance your business. Nearly all types rely on five basic key points to decide whether you will qualify or not. Depending on how you are able to answer these questions lenders decide not only if they will loan to you but how much it will cost you. EDASC is able to assist you in evaluating your situation and suggesting which types of financing you might qualify for.

1. **CAPABILITY** – The question is whether you bring, or have, proven expertise to this business. Typically, the ideal standard is 3 to 5 years of experience in this, or directly related, industry. You will demonstrate this through your resume and a well thought out business plan.
2. **CAPACITY to repay the loan** – Can your business afford to repay the loan without placing the business under stress? The primary question here is given your expected cash flow through the business and the business paying fair market value for all of its inputs, do you have enough cash left to pay the new loan payment. You demonstrate this through your business plan and a cash flow projection.
3. **COLLATERAL** – If your project is unsuccessful is there adequate liquidation value to recover the loan amount. Typically, a lender will seek between 100% and 125% of the loan value in secured collateral. Collateral may be real estate, investments, equipment and anything that could be easily converted to cash. You demonstrate this through financial documents for an existing business and your own personal financial statements.
4. **CREDIT/CHARACTER** – Has your past use of credit and personal decisions shown strong financial decision making? Typically, a lender seeks applicants with a credit score above 700 without any other types of negative notations within their credit file. Some loan programs provide for those with scores below 700 but much higher interest rates and shorter payback periods apply. You demonstrate this through your credit file.
5. **COMMITMENT** – What are you willing to invest in your business? Seldom will a lender provide 100% financing. A lender may provide anywhere from 70% to 90% of the total project cost. When seeking financing, the closer to being able to commit 20% to 30% the more likely you will find a lending partner. Keep in mind, this is new money into the project and specifically excludes previous investments you may have made. You demonstrate this through your personal financial records.

Understanding Your Credit Score

Your credit score influences the credit that's available to you and the terms (interest rate, etc.) that lenders offer you. It's a vital part of your credit health. Your credit score also influences other items such as insurance costs.

When you apply for credit – whether for a credit card, a car loan, or a mortgage – lenders want to know what risk they'd take by loaning money to you. When lenders order your credit report, they can also buy a credit score that's based on the information in the report. A credit score helps lenders evaluate your credit report because it is a number that summarizes your credit risk, based on a snapshot of your credit report at a particular point in time. Credit scores answer the question – how has this person handled money in the past.

Credit scores are often called “FICO Scores” because most credit bureau scores used in the U.S. are produced from software developed by FICO (Fair Isaac and Company). But it's important to understand that not every credit score you can buy online is a true FICO Score. In fact, there are a wide variety of scores that may be used – each reporting a wide number of “scores”

About FICO Scores

FICO credit scores range from 300 to 850. That FICO Score is calculated by a mathematical equation that evaluates many types of information from your credit report, at that agency. By comparing this information to the patterns in hundreds of thousands of past credit reports, the FICO Score estimates your level of future credit risk. No score says whether a specific individual will be a “good” or “bad” customer. Typically a score of 700 indicates that you pay your bills as agreed and you utilize approximately 30% of your available credit.

What's in a Score?

35% Payment history

30% Total debt (both in ratio to total available credit and per line of credit if revolving)

15% Duration of credit

10% New credit requests

10% Types of credit open

Things To Do

- Check your credit files for accuracy – correct as necessary
- Time your credit inquiries based on your changes in balances and accounts
- Don't pay a company to “fix” your credit. Do it yourself.

Sources:

<http://www.myfico.com/crediteducation/creditscores.aspx>

	Sole Proprietor/ General Partnership	Limited Liability Company	S-Corporation	C-Corporation
Formation	No filing required, unless doing business under an assumed name. All partners must agree to the arrangement.	State filing required with the Secretary of State.	State filing required; Subchapter S election typically must be made within 60 days of formation.	State filing required with the Secretary of State.
Duration of Existence	Cease doing business or death of owner	Depends on state rules	Perpetual	Perpetual
Use of Lawyer	Sole Prop – no, fill out a Master Business Application Partnership – Yes, file a Partnership Agreement or Articles of Partnership. Clearly state exit strategy and % of ownership of two of more partners.	Yes – file Articles of Organization with Secretary of State	Yes – file Articles of Incorporation with Secretary of State.	Yes – file Articles of Incorporation with Secretary of State.
Use of Accountant	Should get at least 1-2 hours of consultation up front about when taxes are due, how to set up chart of accounts and receive advice about deductions.			
Costs	None	\$180 to the Secretary of State	\$180 to the Secretary of State	\$180 to the Secretary of State
Significant Restrictions	Sole Proprietorship is limited to a single owner (or married couple) Partnerships must have at least two owners.	None	Cannot have more than 100 individual owners. All must be US citizens.	None
Significant required paperwork	None	Have to file one page statement to Secretary of State each year.	Have to have annual board meeting and minutes	Have to have annual board meeting and minutes
Personal Liability	Owners have unlimited liability.	Members are typically not liable for the debts of the LLC.	Shareholders are typically not personally liable for corporate debts.	Shareholders are typically not personally liable for corporate debts.
Ability to Raise Capital	Limited to the owner's assets and borrowing capacity		Limited to owner's contributions and corporate borrowing abilities. Can sell interests to raise capital. Likely to require owner's personal guarantee (for all those owning more than 10%)	

Formalities and Record Keeping	Relatively few legal requirements.	Formal meetings and minutes are not required; annual state reports are required.	Requires formal board and shareholder meetings and minutes, as well as annual state reports	Requires formal board and shareholder meetings and minutes, as well as annual state reports.
Management and Operation	Sole proprietor has full control. Partnerships have a flexible management and operational structure.	Management is flexible, like a partnership; an operating agreement typically outlines management duties. A board of managers is optional.	Managed by the directors, who are elected by the shareholders; the directors appoint officers who run the day-to-day operations.	Managed by the directors, who are elected by the shareholders; the directors appoint officers who run the day-to-day operations.
Retirement Plans	Keogh plan. Deductions, other features now generally the same as for corporate pension and profit sharing plans. Proprietor cannot borrow from Keogh Plan.	No regulations issued, but probably same as a partnership, if treated as a partnership by IRS.	Plans now essentially identical to regular corporate retirement plans, except that shareholders/employee (5% shareholder) of S corporation cannot borrow from plan.	Corporate retirement plans are no longer significantly better than Keogh plans. Deduction limits are same now as for Keogh, but participants can borrow from plan.
Taxation	Not a separate taxable entity. Income/loss is passed through to the owners.	By default, there is no tax at the entity level. Income/loss is passed through to members, like a sole proprietorship or partnership.	No tax at the entity level. Income/loss is passed through to the shareholders.	Taxed at the entity level. If dividends are distributed to shareholders, dividend income is taxed at the individual level.
Tax Reporting	Sole Proprietorships: All income is reported on Form 1040 Schedule C. Partnerships report income on Form 1065, with profit distributions on Schedule K-1.	See Sole Proprietorship/ General Partnership. LLCs may also elect to be taxed as a C- or S-Corporation.	Report income on Form 1120S, with salaries reported on Form W-2 and profit distributions on Schedule K-1.	Report income on Form 1120, with salaries reported on Form W-2 and any profit distributions on Form 1099DIV.
Can the owner be paid as an employee?	No	No	Yes	Yes
How are payroll taxes paid?	Owners pay full 15.3%	Owners pay full 15.3%	Owners pay ½, business pays ½.	Owners pay ½, business pays ½.
How are losses treated?	Flow through to the individuals (some limitations)	Flow through to the individuals (limited to basis)	Flow through to the individuals (limited to basis)	No flow through to shareholders
Is the Owner responsible for paying taxes?	Yes	Yes	Yes	No

Are cash distributions taxable?	no, but may affect basis in business for partnerships	no, but affect basis in business	no, but affect basis in business	Yes
Is there double taxation?	No	No	No	Yes
Who is in charge	The single owner or the partners under the partnership agreement	The members (owners)	The Board of Directors	The Board of Directors
Are the owners liable for the business?	Yes	Generally limited to your contribution to the business	Generally limited to your contribution to the business	Generally limited to your contribution to the business
Is there a restriction on the tax year that can be used?	Generally calendar year	Generally calendar year	Generally calendar year	Any year permitted (limit for personal service corp)
Transfer of Interest	No	Depends on member agreement	Yes	Yes
Recommended for	Owners who want minimal formalities, maximum flexibility and are not worried about personal liability.	Owners who want the liability protection of a corporation with fewer corporate formalities and the simplicity of pass-through taxation.	Owners who want the liability protection of a corporation and the simplicity of passthrough taxation.	Owners who need maximum tax and ownership flexibility combined with liability protection.
Pluses	<ul style="list-style-type: none"> You get all the profits Easy to start Limited to no legal help required Income is taxed at the personal level – fewer forms to complete Low start-up and often low operating costs May be operated from your home Great for part-time businesses 	<ul style="list-style-type: none"> Income is taxed once May have more than one class of stock Have unlimited liability protection Essentially a CCorporation with tax benefits and stock regulations 	<ul style="list-style-type: none"> Stockholders have liability protection for the actions of the company Income is taxed only at the shareholder level Growth and raising capital is easier than certain other entity types Losses may be used to offset personal income Essentially a corporation but with a better tax structure 	<ul style="list-style-type: none"> Unlimited liability protection for stockholders May offer more than one class of stock The Inc. after your company name adds credibility Growth opportunities are enhanced Raising capital is easier than with a sole-prop or LLC Clearly defined structure and hierarchy

Minuses	<ul style="list-style-type: none"> • You are responsible for all debts • You have unlimited legal liability • All decisions and work are up to you • Growth and financial opportunities may be limited • Benefits may be more expensive (health insurance) • You are limited in how much capital you may receive • The business ends upon the death of the proprietor or the departure of one of the partners 	<ul style="list-style-type: none"> • Not an Inc after your name • May have a limited life span as determined by the State • Creating this entity may be tricky and will require professional assistance • May fall under additional IRS scrutiny 	<ul style="list-style-type: none"> • Has only one class of stock • Has many start-up requirements including more federal and state requirements • May fall under additional IRS scrutiny • Must adhere to strict fiscal guidelines • May only form one every five years. 	<ul style="list-style-type: none"> • Income is taxed at the corporate and stockholder level Many on-going state regulations and yearly reporting requirements To do business in another state you must file foreign corporation registrations with that state • Company subject to the desires of the Board of Directors • Start-up process is longer and more complicated
----------------	--	--	---	---

Your Business – Your Plan

Does my business need a business plan?

Yes it does. How complex a plan depends on the current and future needs of your business. Your plan is a crucial component to the success of your business. Borrowing money to start your business certainly needs a business plan to show your path to success. It is your guide to managing your business and keeps you on the right track for development. It safeguards you by requiring you to consider just what could fail and just how you can fix it before it is a crisis.

What is a business plan?

A business plan is the blueprint for your business. It describes the procedures and the monetary effects of your company. It is a powerful tool that helps you manage your future strategy and allows you to consider your options before you are hip deep in the operation of your business.

Once I write this am I done?

Yes & No. Your plan is never ever really done. Review your business plan occasionally and update it to reflect changes you have made in your operation. Your business plan is a future looking document and your job as the business owner is be aware of what comes next.

Just how tough is this?

Writing your business plan is similar to writing a story. You will display your expertise by painting a picture of the different aspects of your company. The hardest parts are where you are not personally clear on just how something will certainly work. We will help you with research and reviewing services, at your request, to help you in creating your business story.

Where do I begin?

Below you will certainly discover the different areas of a company plan. In each area you need to attend to the vital areas showed as you tell the tale of your company. You do not always need technical seeming terms; actually they usually get in the way of the viewers.

- Write in a positive, present tense voice. Write as if your business exists today and how you see it in your mind.
- Invest an hour a day on this and write one area at a time. Each section should be under a page. Be short and stick to the point.
- Save your individual pronouns. A business plan is about the business. Eliminate I, we, and our. Establish your full company name in the beginning of each area and use a shortened term, such as Business, afterwards.
- Stay clear of acronyms. It slows down the reader down and also gives them an opportunity to disengage.
- Write in your own voice. Your style is just fine. The editing process will make it nearly perfect.
- Keep your asides (you understand, the things you set off similar to this) or the "points" you place in quotes to yourself. They sidetrack the visitor.
- Show your sources! Information you get from somewhere else needs to be credited. Let your reader know-- particularly numbers or data

Your Business – Your Plan

Executive Summary

It's your first page but you will write it last. One to two pages to summarize your business and will likely be the most read part of your business plan. Be excited. As you write, think about what you would say if someone gave you five minutes to explain your business. For each of the following bullet points, plan on crafting a short paragraph to discuss the topic.

- Business concept
- Structure
- Market potential
- Management team & Key personnel
- Competencies that set you apart
- Needed funding, its use and long-term funding plans □ Exit strategy

Section 1: Organization Description

This section describes the core components of your business and talks about to why you are in business. For each bullet point only one or two sentences is needed. This section should be less than a page in length.

- The overall objective of business – Why are you doing this?
- What problem or pain is the company is solving
- What have you done so far
- Competencies (if desired competencies are not present then a work plan to develop them)
- What do you sell or what do you do
- What will it take to be successful
- Location and facilities (both present and ultimately required)

Section 2: Industry Analysis

This section examines the current industry and trends. Understanding these are important for projecting potential opportunities and challenges. Nothing about your company here, just your industry in general. Again, plan on writing one or two sentences. The entire section should be less than a page in length.

- Current services available to the target market
- Unmet demand indicators (What says more companies are needed?)
- Regulatory issues (both present and potential)
- What could keep you from doing your business in the manner & location you want
- Supply and distribution issues?
- Technological and seasonality factors
- Economic influences
- Obsolescence (Will your business become a dinosaur soon?)

Your Business – Your Plan

Section 3: Market Analysis

This section is closely related to the Industry Analysis but this focuses more on your target market, customers, and potential customers. The key to this section is showing how, with only a small percentage of the available market, your business has sufficient customers. Same size parameters as the other sections

- Define your geographic market space (Where will you be doing business?)
- Definition of your demographics (Customer and population size & trends)
- Market trends

Section 4: Competition

Understanding the competition is important to showing your long-term viability. Competition comes from businesses present today and one's that may enter the market down the road. Reflect on this section carefully and tell the reader how you will address competition. Compare your business to 2 to 3 competitors on whatever points are relevant. Follow up the table with a discussion of future competitors

EXAMPLE: *Fictional Company, Inc. faces several competitors in providing its products/services. An analysis of the market competition is contained in the following table.*

	Your Business	Competitor A	Competitor B	Competitor C
Services				
Area of operation				
Price				
Hours				
Other Data				

[Your future competition goes here]

Section 5: Marketing

Marketing is a key element of any business. This is not your marketing plan but a very brief discussion about your central marketing position. Build this section by taking each of your products/services through the key points below. Be precise in what methods you will use to market. This section may be more than a page.

- Pricing (either a street price charged or a cost per customer served)
- Promotion
 - How will you advertise
 - Trade shows, conferences, etc.
 - Partnerships
 - Incentives
- Who will promote your product(s) and service(s) other than you

Your Business – Your Plan

Section 6: Operations

Operations are the daily activities for working your business. Use a long-range view of 3 to 5 years, and build the operational plan into the phases that you will be using to run your company at different phases. Examples of the phases could be time periods, demand levels, manufacturing capacity, funding availability, or any parameter that changes your business.

Try writing this section from your customer's perspective. Take the reader through the transaction from first contact through completion of the transaction. Add additional information to support the business operations. Some this information may be:

- Product(s) and Service(s) development
 - Who is developing your products or services and what are the risks of development
 - How much will it cost?
- Key suppliers (contacts, partners etc.)
- How does your customer get the product or service
- How are you going to keep them happy? (Service & Support)
- Human resource plan
- Where are you going to do this & is it adequate (Now & in the future)

Section 7: Management and Organization

This section shows you have the professional management necessary to assure long-term success. Present your people and their capacity to lead your business powerfully. If you know that you will need to hire someone else then present that as well. Clearly define what skills and experience you need and when it should happen.

Consider how an About Us page appears on a web site and use that as a guide to your writing. One to two paragraphs on each key person plus additional information depending on entity form.

- Management team
- Open positions and what skills are needed to fill them
- Key personnel (1 paragraph on each)
- Board of Directors (if needed)

Section 8: Capitalization and Structure

This will be the easiest section you create. Most points can be answered in one sentence.

- Legal form (C Corp, S Corp, LLC, partnership, proprietorship, etc.)
- How much money you have now (includes committed future funding)
 - Any requirements attached to current equity or committed funding
- Current cash flow being generated if you are currently doing business
- Financial commitments of others if this is a new business
- Exit strategy
 - Selling your business
 - Merging or being acquired
 - Buy-out by an existing partner
 - Hand-down to children
 - Or many other options

Your Business – Your Plan

Section 9: Development and Milestones

Establish your long-term goals. Be very specific. Start with your first year by month – then do the second year by quarter. Establish 2 -4 measurable goals per period. This section may be several pages because of the formatting. Some examples of milestones might be...

- Financing commitments
- Product/service development milestones
- Signing of significant contracts
- Expansion
- Additional funding
- Any other significant milestones

Section 10: Risks and Contingencies

This is where you look at all the things that can go wrong with your business and how you plan to recover. Stay focused on the larger or mid-sized issues that you could encounter and quickly address how you would address the challenge. Remember, big rocks only, ignore smaller issues. Everything we have done to now centers on the positive aspects of your business or states facts concerning your chosen industry.

Section 11: Financial Projections

Everything you have done so far shows a successful business that has clear market demand in a growing industry. Now you get to show your work in numbers. Not much text in this section but instead tables and graphs will tell your story. The core to this section is a cash flow projection for your business.

[If you are currently in business] The following financial statements illustrate the past performance of the XYZ Company...

- Financial statements (real and pro forma)
 - If currently in business 3+ years, financial statements
 - If new business, personal financial statements of all owners or major stockholders

The following forward looking financial projections are based on the following assumptions:

- Itemize your assumptions by bullet point (check your milestones, risks, and marketing sections)
- Add any additional assumptions as required.

The overall financial resources and strategy of the XYZ Company are....

- Financial resources
- Financial strategy

Insert the cash flow projection worksheets which contain...

- Three years of forward projections
 - We will help you develop these

This Page Intentionally Blank



Program Evaluation

We appreciate you attending this session of the EDASC/SBDC/SVC Education Series. We ask that you share your thoughts with us so that we may continue to provide high quality assistance to you and your business. Please take a few moments to let us know how we did and what we could do in the future. Thanks!

Course Title: _____ Date: _____

Program/Instructor Evaluation: Please use the following scale to rate our program and instructor:

4 = Outstanding; 3 = Good; 2 = Fair; 1 = Poor

	4	3	2	1
1. Effective presentation of information				
2. Presentation of practical skills and knowledge to manage my business				
3. Worth my time and investment If not, please tell us why.				
4. Length of Program	Too Long	Perfect		Too Short
5. Useful class materials				
6. Program organization				
7. Overall rating of the instructor				



What was your primary reason for taking this program?

Where did you hear about this program?

Are you interested in attending more of these programs? If so, on what topics?

Would you recommend EDASC/SBDC/SVC Education programs to others? Yes No

Please indicate the responses that best apply to you

<input type="checkbox"/> Male <input type="checkbox"/> Female	Disabled: <input type="checkbox"/> Yes <input type="checkbox"/> No	Business Owner <input type="checkbox"/> Yes <input type="checkbox"/> No
Military Status <input type="checkbox"/> Veteran <input type="checkbox"/> Service Disabled Veteran <input type="checkbox"/> Reserve/National Guard <input type="checkbox"/> Non-Veteran	Race/Ethnicity <input type="checkbox"/> Asian <input type="checkbox"/> Black <input type="checkbox"/> Native American/Alaska Native <input type="checkbox"/> Hawaiian/Pacific Islands <input type="checkbox"/> White <input type="checkbox"/> Hispanic	EDASC, Skagit Valley College and The Washington SBDC thank you for submitting your response. For more information on the SBDC go to: www.wsbdc.org  

Funded in part through a cooperative agreement with the U.S. Small Business Administration