Growing Your Business

Evaluating Your Market: A Basic Review

Market evaluation is the most critical element of successful business planning. It provides the basic data that will determine if and where you can successfully sell your product or service and how much to charge.

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If you are thinking of starting a new business or expanding into new markets, proper market evaluation is critical to success. While it may sound deceptively simple to figure out if a market exists for your product or service, it's probably one of the most challenging requirements of a business. The process involves scrutinizing your competition and your customer base and interviewing potential suppliers.

The information collected can help you adopt your product or service to better meet customer needs. In some rare cases, it might lead to a totally new, but financially rewarding venture. This Financial Guide covers some of the basic considerations of market evaluation. It is intended as a basic introduction to a complex determination to help focus the thinking for those business people with limited experience in marketing. In many cases, a professional guidance can be extremely helpful.

Market Research

There are a number of benefits to conducting market research including:

- Create primary and alternative sales approaches to a given market,

- Make profit projections from a more accurate base,
- Organize marketing activities,
- Develop critical short/mid-term sales goals, and
- Establish the market's profit boundaries.

So, how should you go about conducting your research? Two of the most important first steps are defining your goals and organizing the collection/analysis process. Maintain a set of well-documented and easily accessible files so you can store and retrieve data as needed.

Questions to Ask

Your research should ask these basic questions:

- Who are your customers?
- What are their needs and resources?
- Is the service or product essential in their operations or activities?
- Can the customer afford the service or product?
- Where can you create a demand for the service or product?
- Can you compete effectively in price, quality, and delivery?
- Can you price the product or service to assure a profit?
- How many competitors provide the same service or product?
- What is the general economy of your service or product area?
- What areas within your market are declining or growing?

Market Data

Knowing your market not only requires an understanding of your product, but also an understanding of your customers' social and economic characteristics. In conducting your research, you can access relevant market information from these sources:

The Small Business Administration (SBA) provides immediate, round-the-clock information on its services, publications, and programs. Users can access a national calendar of events, such as training programs, small business seminars, and international trade fairs. Most information is available at no cost.

The Small Business Development Centers (SBDCs) offer the latest in high-technology hardware, software, and telecommunications. Each BIC offers electronic bulletin boards, computer databases, on-line information exchange, periodicals and brochures, counseling, videotapes, reference materials, texts, start-up guides, application software, computer tutorials and interactive media. SBDCs are located around the country. One-on-one counseling with seasoned marketing veterans also is available through the Service Corps of Retired Executives, better known as SCORE.

Other sources include:

- Trade association studies and journal articles.
- Regional planning organization studies on growth trends.
- Banks, realtors and insurance companies.
- Customer surveys in your market area, which you can conduct on your own or search out existing material.

Finally, research on competitors is extremely important. Visit industry trade shows to find out what your competitors are selling and how they are marketing their products. Similarly, stay current on information in industry magazines and publications.

Research data will help you develop the basic assumptions in your financial projections - and tell you whether or not to go into business. Once you have obtained and analyzed this information, it becomes the foundation of your business plan. You should not view market research, however, as a one-time activity. Once you establish your business, you should continually be in touch with your customers. You may also have to adapt your product/service and/or marketing strategy to keep up with your customers' changing needs.

Export Markets

In general, you should be well-established in the U.S. market before committing resources and taking on additional risk to explore export markets. Some products, such as used equipment that is obsolete in the United States but new to other countries, may be particularly well-suited for exporting right from the start. Whatever your product or service, it is never too early to explore its export potential.

Researching international markets involves many of the same steps as domestic market evaluation. The first step is to identify the countries with the largest and fastest-growing markets for your product. The SBA's Office of International Trade can help. Information on this service can be found on the SBA's internet site. The National Trade Data Bank, maintained by the U.S. Department of Commerce, also contains valuable market information.

From your list of possible markets, you will want to determine which of these offer the best prospects. You should examine the markets in greater detail, looking at how your product quality and price compares with that of goods already available. You also should determine who your major customers are.

With this information, you can pick one or two export markets to explore initially. You can add more markets later as your export skills develop. Now you are ready to conduct more in-depth market research on this target market(s), just as you did before establishing your business.

Summary

A small business owner must know and understand the market. Market research is simply an orderly, objective way of learning about people-the people who will buy from you and sustain your business venture.

Pricing Your Products and Services: A Basic Review

Pricing goods and services is one of the most difficult tasks in the business arena. Many small businesses fail to make a profit simply because they don't consider all the factors necessary to make prices competitive and yield that elusive profit.

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Before setting prices, you must understand your market, distribution costs, and competition. Remember, the marketplace responds rapidly to technological advances and international competition. You must keep abreast of the factors that affect pricing and be ready to adjust quickly.

This Financial Guide does not attempt to be an in-depth discussion of pricing analysis. Rather, it is intended only to provide a basic review of the several pricing strategies - and perhaps encourage you to take a fresh look at your present strategies. Professional financial guidance will be helpful in working up and evaluating the financial aspects of the analysis for your financial resources.

Retail Cost and Pricing

A common pricing practice among small businesses is to follow the manufacturer's suggested retail price. The suggested retail price is easy to use, but it does have one major shortcoming - it doesn't adequately account for the element of competition.

Competitive Position

An alternative to the manufacturer's suggested retail price is to base your price on those of your competitors. For example, a small retailer should compare prices with a store that's comparable in size and customer volume. It's risky to compete with a large store's prices because they can buy in larger volume, and their cost per unit may be less.

Instead, price products based on your local small-store analysis, and then highlight other competitive factors, like personalized customer service and convenient location. There are any number of factors that influence a consumer's decision to buy from a certain business, including price, convenience, and courteous and attentive service.

Pricing Below the Competition

Some vendors have been very successful pricing their goods or services below the competition. Since this strategy reduces the profit margin per sale, it requires a company to reduce its costs and:

- Obtain the best prices possible for merchandise
- Locate the business in an inexpensive location or facility
- Closely control inventory
- Limit the line to fast-moving items
- Design advertising to concentrate on price specials
- Limit other services.

One word of caution: Pricing goods below the competition can be difficult to sustain. Why? Because every cost component must be constantly monitored and adjusted, it exposes a business to pricing wars. Competitors can match the lower price, leaving both parties out in the cold.

Pricing Above the Competition

This strategy is possible when the cost of an item is not the customer's greatest concern. Considerations important enough for customers to justify paying higher prices include:

- Service considerations, including delivery, speed of service, satisfaction in handling customer complaints, knowledge of product or service, and helpful, friendly employees
- A convenient or exclusive location
- Exclusive merchandise.

Multiple Pricing

This approach involves selling a number of units for a single price, for example, two items for $1.98 and is useful for low-cost consumable product, such as shampoo or toothpaste. Many stores find this an attractive pricing strategy for sales and year-end clearances.

Cost Factors and Pricing

Every component of a service or product has a different, specific cost. Many small firms fail to analyze each component of their commodity's total cost, and, therefore, fail to price profitably. Once this analysis is done, prices can be set to maximize profits and eliminate any unprofitable service.

Cost components include material, labor, and overhead costs:

- **Material cost** is the cost of all materials found in the final product. For example, wood used to manufacture a chair is considered a direct material.
- **Labor cost** is the cost of the work that goes into the manufacturing of a product. An example would be the wages of all production-line workers producing a certain commodity. The direct labor costs are derived by multiplying the cost of labor per hour by the number of person-hours needed to complete the job.
- Remember; do not only use the hourly wage but, also the dollar value of fringe benefits, which include social security, workers' compensation, unemployment compensation, insurance, and retirement benefits.
- **Overhead Cost** is any cost that is not readily identifiable with a particular product such as supplies, utilities, depreciation, taxes, rent, advertising, transportation, and insurance. Overhead costs also cover indirect labor costs, such as clerical, legal and janitorial services. Be sure to include shipping, handling, and/or storage as well as other cost components. a portion of overhead costs must be allocated to each service performed or product produced.
  The overhead rate can be expressed as a percentage or an hourly rate. This is a complex task. It is best to consult with an expert in this area. It is important to review your overhead costs periodically. Charges must be revised to reflect inflation and higher benefit rates. It's best to project the costs quarterly, including increased executive salaries and other projected costs.

Figuring Costs and Profits for a Consultant Service

As a consultant, you will most likely price your service by the hour. Remember to charge for an adequate number of hours. Travel time is usually listed as an extra charge.

It's unlikely that all your time will be billed to clients. Therefore, hourly or contract fees must be set high enough to cover expenses during slow periods. That is why one-half of the total normal working hours for a given year are used in figuring overhead rates. Try to obtain long-term, monthly, or contract assignments when possible.

Summary

Your price structure and policy are major components of your public image and are crucial to securing and keeping your clientele.

Pricing for service businesses may be more complex that retail pricing. The equation, however, is the same: Cost + Operating Expenses + Desired Profit = Price

The key to success is to have a well-planned strategy. Establish your policies and constantly monitor prices and operating costs to ensure a profit. Accuracy increases profits!

Developing An Advertising Program: A Basic Review

By developing an effective advertising plan, you increase the likelihood of a positive return on your advertising investment, regardless of the amount you spend.

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Advertising is an investment in your business, similar to other investments to improve and expand your business. The return you receive depends on the planning and thought that precede the actual commitment and expenditure of advertising dollars.

This Financial Guide is **not** intended to be an in-depth analysis of advertising principles and alternatives - that is beyond its scope. Rather, it is intended only to provide a basic review - to stimulate your thinking - of how to develop an effective advertising program. Unless you are very familiar with the opportunities in this area, you should seek the advice of an advertising professional.

The basic premise of an advertising plan requires you to thoroughly analyze the answers to key questions before you can make effective advertising decisions. There are four key questions to ask yourself:

1. What do I want my advertising to accomplish?
2. Whom should my advertising speak to?
3. What should my advertising say?
4. What advertising medium should I use?

In the specific business situation, each question has any number of potential answers. As you think about each question do not accept any answer until you have considered and explored the full range of possibilities.

What Do I Want My Advertising To Accomplish?

The first step in developing your advertising plan is to specify your advertising goals. Be as precise as you can as to why you are advertising and what you want to achieve. Everyone wants advertising to increase business, but for your advertising plan to work it requires you to be more precise. Some possible goals for your advertising are:

- Increase awareness of your business.
- Attract competitors' customers.
- Increase the likelihood of keeping current customers and developing their loyalty.
- Generate immediate sales or sales leads.

It is possible you may want your advertising to achieve all of these goals plus some others. What is important is that you prioritize your goals. Advertising works best when it is developed to meet one specific goal at a time.

Whom Should My Advertising Speak To?

Once you determine your advertising goals you can then select the target audience for your message. Advertising that tries to reach "everyone" rarely succeeds. Successful advertising is written with a specific customer in mind. Try to picture the person you must reach in order to achieve your advertising goals. Try to describe your target consumers in each of the following:

- Demographics: Gender, age, income, location of residence or business, etc.
- Behaviors: Current awareness of your business; the products, services or vendors they currently use; loyalty to either you or your competitor's business, etc.

- Needs or desires: What benefits consumers look for, the basis on which they will decide whether to use your product or service and how your business can fulfill those needs, etc.

What Should My Advertising Say?

Once you know who your target audience is and what they are looking for in terms of the product or service you offer, you can decide what your advertising will say.

Advertising should always be written to communicate a message that will be seen as important by your target customer. Your advertising should clearly and convincingly "speak" to your target audience, explaining the important benefits your product or service offers.

In deciding how to discuss the major benefits of your product or service in your advertising keep "AIDA" in mind: attract Attention, hold Interest, arouse Desire and motivate Action.

Where Should I Place My Advertising?

Every month new advertising options become available. Beyond "traditional" media you can place ads in airports, on ski lifts and on televisions monitors in the front of grocery carts. Where you place your advertising should be guided by a simple principle: go where your target audience will have the highest likelihood of seeing or hearing it. Many advertising media work well to reach a diverse range of target consumers. There is no single medium inherently good or bad. A good medium for one product or service may be a poor medium for another. As you consider media choices look for one that fits your advertising goals, reaches your target efficiently and cost-effectively and is within your advertising budget. Based on these considerations, the following summarizes the relative advantages and disadvantages of the advertising media most frequently used by small businesses:

Internet Marketing or Online Marketing

Internet marketing, online marketing or e-marketing are terms used for marketing your products or services over the Internet. Internet marketing is a great way to reach a wide, international audience at a relatively low cost. The nature of the medium allows consumers to find what they are looking for when they want, at their own convenience. It provides instant response and is very interactive. Internet marketing methods include search engine marketing, display advertising, email marketing, and interactive advertising, all completed through your website. Internet marketing can be very creative, cost effective and interactive.

Television

Television provides a means for reaching a great number of people in a short period of time. Small businesses will typically use either spot television or cable television. A spot television ad is placed on one station in one market. The number of people in your target audience who see your ad depends on how many viewers are tuned into the television station at a specific time. Cable advertising is placed either on a local cable television channel or on a cable network. The number of people reached by cable advertising depends on the cable penetration and cable/channel program viewership in a given market.

Beyond television's reach, an additional advantage is its ability to convey your message with sight, sound, and motion. The disadvantages of television advertising are: relatively higher cost - both the terms of airtime and production, limited length of exposure, short airtime (making it difficult to present a complex or detailed message) and the clutter of many other ads.

Television ads may require multiple exposures to achieve message retention and consumer action. Also, many commercials are considered intrusive, prompting viewers to switch channels to avoid them.

Radio

Radio, like television, has the ability to quickly reach a large number of consumers. The major advantage of radio lies in its ability to efficiently target narrowly defined segments of consumers. The vast array of radio program formats lets an advertiser gear ads to almost any target audience.

Beyond this advantage, radio is commonly used by small businesses because it is relatively inexpensive (both in terms of airtime and production costs) and because deadlines for placing radio advertising are relatively short, providing an advertiser with increased flexibility. The disadvantages of radio are: an advertiser is limited to an audio message so there is no visual product or service identification, ad clutter can be high and exposure to the message is short and fleeting. Finally, similar to television, multiple exposures may be required for message retention and consumer reaction. Also, listeners may change stations to avoid commercials.

Newspapers

Newspapers permit and advertiser to reach a large number of people within a specified geographic area. Newspaper advertising has several advantages for the small business. An advertiser has flexibility in terms of as size and placement within the newspaper. Exposure to the ad is not limited, so readers can take their time with your message. Short deadlines permit quick response to changing market conditions. Disadvantages of newspaper advertising include:

- Declining readership and market penetration
- Ad space can be expensive
- Clutter of competitive advertising and a relatively short lifespan (newspapers are typically read once, then discarded), thus requiring multiple insertions.

Magazines

Magazines provide an advertiser with the means to reach highly targeted audiences. Specific groups can be reached by placing an advertisement in a magazine whose editorial content specializes in topics of interest to that target. This is true both of consumer and business publications. Audiences can be reached by placing ads in magazines which have well-defined geographic, demographic or lifestyle focus.

- Beyond the ability to reach specific audiences, the advantage of magazines include:
- Relatively long ad life and repeated ad exposure (magazines are typically looked through several times before discard);
- Excellent reproduction quality and pass-along value.

The disadvantages of magazines include:

- Long lead time
- Limited flexibility in terms of ad placement and format
- The potential for high costs in production and placement.

Outdoor (Billboards)

Outdoor advertising is typically used to reinforce or remind the consumer of the advertising messages communicated through other media. The advantages of outdoor advertising are:

- The ability to completely cover a market
- High levels of viewing frequency.

The disadvantages of outdoor advertising are related to viewing time. Because target consumers are typically moving, an outdoor advertisement must communicate with a minimum of words. Messages must be simple, direct, and easily understood.

Direct Mail

Direct mail advertisers use targeted mailing lists to reach highly specialized audiences. In addition to low waste in ad exposure, direct mail provides an advertiser with great flexibility in the message presentation. The disadvantages of direct mail include:

- Relatively high cost per contact
- Obtaining updated, accurate mailing lists

- Difficulty in getting the audience's attention (direct mail is often considered "junk mail").

Yellow Pages

The Yellow Pages are an advertising medium that shares many of the strengths of other advertising media while at the same time avoiding some of the limitations or disadvantages. As such, the Yellow Pages are best used to complement or extend the effects of advertising placed in other media. Like other media, the Yellow Pages permit an advertiser to select a well-defined geographic area, ranging from a neighborhood to an entire metropolitan area.

The advantages of the Yellow Pages are:

- Once the geography is defined, an ad has permanence, i.e., the Yellow Pages are kept as a regular reference.
- They support your other advertising by providing a convenient way for consumers to contact sources and obtain information on the products or services they desire at the time they are ready to "take action."
- The Yellow pages are relatively low in cost in terms of both ad production and placement.

The disadvantages of the Yellow Pages include:

- Lack of timeliness (ads can be changed only once per year and, as a result, there is no opportunity for "price advertising")
- Potential clutter in some classifications
- Not as much creative flexibility as other print media.

Referrals: The Secret to Building a Better Business Faster

Who are the very best new customers you get? Who is most likely to buy from you and continue being a good customer in the future? Isn't it a prospective customer who was referred to you by another customer who is an advocate for your business?

Referrals are the best prospective customers because they have already developed some trust for you and your company. Their defenses are down, and their minds and hearts are open. These are the ideal conditions for doing business.

The most expensive customers to get are those in the "cold market," through advertising or other promotional activities. Yet that's where most of the marketing effort for companies seems to go. You can market much more effectively by devoting more of your organization's time and resources to developing referrals.

You can encourage your customers to give you more referrals.

1. You must deserve referrals. You have to deliver the products and awesome service that people can't help talking about.

2. You must ask for referrals. At the end of every sales interview, whether you make a sale or not, you must ask for referrals. When you make a sale, you have only completed one-half of your mission. The other half is to get referrals. Don't leave the job half done. To encourage the customer to make referrals, help him isolate people in his or her mind: Is there a business associate, like him or her, who you can talk to? A customer? A supplier? Is there a golf buddy? Listen for names that come up during your conversation.

Script a brief profile or description of what you are looking for in a prospective customer. Trigger the customer's mental search with the question, "Who do you know who... (give profile)? If he or she was here, right now, you wouldn't hesitate to introduce us, would you? That's all I'm asking you to do."

If the customer hesitates to give a name, say... "That's all right, Mr. Wright. I think I understand how you feel. Give me the name of someone you know, under fifty, who is making money. I promise you I'll never mention your name." "Mr. Wright, my name is John Smith. I'm in the life insurance business. A mutual friend gave me your name with the understanding that I wouldn't mention his name. He told me that you have been very successful and that you would be a good man for me to talk to. Could you spare five minutes now, or would you rather I stop by some other time?"

The prospective customers never asked who made the referral, and some of these people were John's best leads.

Part of our introductory procedure for new clients is to review a list of "Our Commitments To Each Other." The final client commitment is: "You will consider referring to us at least two other business persons whom you believe would benefit from an association from us." The expectation of providing referrals is planted at the beginning of our relationship.

3. Show appreciation. This is the real key to continuing receiving leads from a customer and cultivating him or her as a center of influence. Thank the customer for making the referral. Write a thank-you note. Call the customer with a report of the results of your interview. Make a big, appreciative fuss about the wonderful thing your customer has done. Give thank-you gifts in appreciation: send flowers, take him or her out to dinner, or give tickets to a show or athletic event.

What is appropriate considering the lifetime value of a customer for your business? Many people build their businesses with customer appreciation events. For example, marketing guru Dan Kennedy knows a chiropractor who has a monthly patient appreciation luncheon where he gives jeweled appreciation pins to patients who made referrals that month. There are different "levels" indicated by different jewels. Shades of Amway and Mary Kay! Patients are invited to bring family members to the luncheon to see them receive their award, which is given with an appreciative hug by the chiropractor. Photographs of the luncheons are posted in the reception room.

Important Questions:

- If this were your chiropractor, would you want to make a referral?
- How can you use this extremely powerful idea to build your business?
- If you use salespeople in your business, do you train them in how to get referrals from customers?
- Do you maintain a file of all customers who buy your products for follow up promotions encouraging referrals?
- We can work with you to help build strong referrals for your business.

How To Get Your Customers To Trust You

An extremely powerful marketing tool that we get "too busy" or "too smart" to use is the testimonial.

According to marketing guru Dan Kennedy, "What others say about you and your product, service, or business is at least 1000 percent more convincing than what you say, even if you are 1000 percent more eloquent."

The reason is obvious. Customers doubt what we say about ourselves, but believe other customers. And the more customers who say good things about us, the more prospective customers will believe them. Is this a new idea?

Frank Bettger discussed the power of testimonials in Chapter 18 of *How I Raised Myself From Failure To Success In Selling*, published in 1949, and I'm sure there are earlier examples.

When Ira Hayes of National Cash Register made sales calls, his presentation principally consisted of showing binders of testimonial letters to his customers.

Time management consultant Larry Dolan told marketing guru Dan Kennedy, that he closes every inquiry he gets for a speaking engagement. He has no brochure, no demo tape, no video tape. When a prospective client calls, Larry simply sends a hand-addressed box of copies of testimonial letters.

Can you imagine the power of hundreds of letters praising his presentation? This is more compelling and believable than anything Larry could say about himself.

So when you send a sales letter, include as many testimonials as possible. The testimonials are more likely to make the sale than your letter. When you make a sales presentation, have a supply of testimonial letters. If possible, get audio tapes and video tapes with testimonials.

Include testimonials in your advertisements. In some cases, an entire advertising campaign can be built around a series of testimonials. Those who are not permitted to use testimonials about the *results* of their products or services may be able to use testimonials about *how* they deliver their products or services. If these limitations apply to you, get legal counsel to advise you about what you can do.

For example, "The team at the Dr. Roth's office are so nice I would like to visit there for my summer vacation. They made me very comfortable when I had always been stressed out going to a dentist. Their office is so fun and oriented to patients that when I go there I feel like I'm at Disneyland! They took care of all of the paperwork for my insurance claims and helped me arrange a payment plan for my co-payment."

How To Get Testimonials

First, you must provide an outstanding product and service. Then, ask your customers for help. Interview your customers about what they really like about your product and the service you provide. What do they especially like about working with you and your company? Ask if they would write what they told you in a letter or if you can write it for them for their approval. Ask if you can tape record or video record your interview. If you make a presentation, request that the audience complete evaluation forms. Some of the comments could be valuable testimonials.

Another source of testimonials is a client/customer advisory board. We had a client advisory board for our firm last year. As a warm up, we asked the participants to tell about how they were involved with our firm. They responded with at least a half hour of beautiful testimonials, many of which we incorporated in our firm brochure. (Facilitating client/customer advisory boards is one of the services we offer.) Ask for, collect, and use testimonials for your business and you will see an improvement in your results!

The Nicest Way To Build Your Business

"People don't care how much you know until they know how much you care."

It's interesting to see how many small businesses try as soon as possible to follow the example of some large corporations to build an impersonal "corporate image."

People actually prefer to do business with people, not institutions. The last time you called an organization with a problem, weren't you frustrated and didn't you experience emotional pain while "going through voice mail hell" or being transferred until you got connected with a person who could solve your problem? Corporate leaders with good marketing sense understood this.

When we think of Hewlett Packard, we think of Bill and Dave. Lee Iacocca rebuilt Chrysler largely by being the corporate spokesperson in commercials. No advertising has been more successful for Wendy's than Dave Thomas telling us about his latest fast food offering. According to John Sculley, former president of Apple Computer, it requires 16 times the investment for an existing customer to replace the profits of one who is lost.

Keeping existing customers is a key to running a successful business.

Why we lose customers?

According to a study conducted by the Technical Assistance Research Project in Washington D.C., 3 percent leave for convenience, 9 percent because of a relationship, 15 percent because of product, price or delivery problems, and 5 percent for other miscellaneous reasons.

That leaves 68 percent for the most significant reason: perceived indifference. Customers want to feel important and appreciated. A key to building customer loyalty is to build a relationship with customers/clients/patients where they feel important and appreciated!

In any business, but especially a business where there is contact with a customer and a representative of the company either in person or on the telephone, the best way I know to cement that relationship is through personal notes - thank you notes!

Personalize thank you notes by hand addressing the envelope and using a real postage stamp. A hand-written note is best. But if your handwriting is terrible, be sure to sign the letter in blue ink.

When should you write thank you notes?

When you are getting started in business or in sales, you should write a note after any contact, including meeting someone at a seminar or when you exchange business cards. Learn to be sincerely appreciative and express that appreciation. If you deal with a problem, apologize personally with a personal note and be sure the problem is resolved as quickly as possible; maybe even sending another note after it's done.

You certainly will want to acknowledge major purchases and referrals with thank you notes. You can sometimes exploit or manipulate people and make a sale. But when you become an "assistant buyer," a friend who helps the customer make transactions in his or her best interest, and express your interest in the customer as a person, you are building a business or a sales career that will provide for you and your family for years to come.

Developing a Unique Selling Proposition

When developing your marketing message, it's helpful to develop a Unique Selling Proposition or USP.

What is a USP?

The USP very clearly answers the question, "Why should I do business with you instead of your competitors?"

The USP may be used repetitively in your marketing literature to build the customer's or client's identification of your company with your product or service.

The two major benefits of developing the USP

First, it clearly differentiates your business in the eyes of your current and potential customers or clients. Second, it focuses your team on delivering the promise of the USP, helping to improve your internal performance.

Here are some successful examples of USPs (some so successful they were used as slogans in advertising as well) that you are probably already familiar with:

- M&M's: "The milk chocolate that melts in your mouth, not in your hand"
- FedEx: "When it absolutely, positively has to be there overnight"
- Geico: "15 minutes could save you 15% on car insurance"
- Walmart: "Save money. Live better."
- DeBeers: "A diamond is forever"

Developing your USP

Developing your USP is not difficult, but it does require paying close attention to what your customers are thinking (or your target market if you're just starting out).
Think about it from your customer's perspective.

Let's say you opened a tiny patisserie in Philadelphia. You know your pastries are delicious, albeit pricey because you only use the highest quality ingredients. Your friends and family agree, and so do many of your customers. But what is it that keeps your customers coming back? Is it the ambience of your shop, the friendly service, or even the location tucked away in a tree-lined alley? The point is to build your USP around the features that best market your product.

Figure out what motivates your customers to buy your product or service.

To figure out - and understand - what motivates your customers to buy your product you'll need to go beyond basic demographics such as age, gender, and income. You'll need to employ psychology. People may be visiting your patisserie because it has an international flavor, because it makes them feel like trendsetters, or even because they've always wanted to visit France. Whatever the reason, make sure you incorporate it into your USP.

Ask your customers why they buy your product or service over a competitor's.

Once you have an established customer base, simply ask them why they visit your shop and buy your pastries instead of another bakery. You might be surprised at what you hear.

Once you have this information from your customers you can develop your USP.

Uncover Your Business's Most Valuable Hidden Asset

Quick! What is your most valuable business asset?

If you are like most business people, your mind might quickly fly over your balance sheet. Is it your equipment? Is it your location? Is it your accounts receivable?

For most businesses, the most valuable business asset isn't on the balance sheet.

It's their customer list. And those businesses for which this isn't the most valuable business asset should change their orientation to make it so.

The hardest, most expensive sale we ever make to a customer is the first one.

In that first, critical, transaction we earn or lose the trust of the customer. Once we have the trust of the customer, we open the door to many more sales and to referrals, which most of us agree are the very best new customers to get.

Many businesses frantically work at bringing in new businesses while they neglect developing the "acre of diamonds" at their doorstep represented by their customer list.

Why would you want to know the lifetime value of a customer?

The lifetime value of a customer is a measure of the value of the customer to your business. It is the potential contribution of the customer to your business over a period of time. When you know the lifetime value of a customer, you have a benchmark for how much you would or should be willing to invest to acquire a customer.

When you evaluate the effectiveness of your marketing, instead of focusing on the response ratio (how many responded compared to messages delivered), you should focus on the return received (number of customers times lifetime value) for the investment made (campaign cost). Suddenly you find you can justify a much greater promotion investment when you look at your returns in this way, and this provides the engine for significant business growth.

Chances are your competitors are too cheap to make the necessary investment, and this can give you a competitive advantage.

How can you quantify the "lifetime value of a customer?"

Estimate the profit for the transactions you expect to have with the customer over the period you expect to do business with him or her. If this is an unknown long term, use five years. You should collect statistics of the transactions done with customers and how long you keep customers. Also, factor in the benefit for referrals from your customers.

Here's an example:

At a computer software store, customers make average purchases each year of $500. The average gross profit is 30 percent. Most customers do business with the store for five years. One out of three customers refers a new customer.

Average purchases $ 500

Years X 5

Total purchases $2,500

Gross profit percent X .30

Total gross profit $750

Add 1/3 gross profit for referrals $250

Total lifetime value $1,000

If this business invested $1,000 to get a new customer, it would "break even."

Obviously the business wants to make a profit, but now it has a benchmark to work on based on its own situation. Also, advertising and promotion now represent an investment on which a return can be measured, instead of just an expense "thrown against the wall."

Try applying this lifetime value approach in your business as a growth strategy.

How to Profitably Grow Your Business With Less Stress

Do You Have A Business Or A Job?

Michael Gerber is a business consulting "guru" whose observations concerning small businesses have had a profound impact on how his students see their businesses and their role as a business owner.

Gerber observed that most people go into business for the wrong reason. They are skilled technicians. They do a good job of what the business provides to the customer. They believe they can earn more by doing it in their own business than for someone else. They leave and open their own shop. This is what Gerber calls an "*entrepreneurial seizure.*"

These technicians believe they will find more freedom in their business but they discover it is the hardest job in the world. There is no escape. They are the ones who are doing the work! *They are the "business!"* But if they are the business, they haven't really created a business at all. They have only created a job for themselves!

According to Gerber, the role of the owner is quite different. The role of the business owner is to create a *business that works* **independently of him or herself.** There is an "end point" where the business functions independently of the owner. At this point, the business owner may choose to sell it or not. By then, he or she will have created a ready-to-sell "money making machine" and may choose whether to devote effort to it or not. The business can also be duplicated from place to place.

The model for this effort is the "turnkey franchise," such as McDonalds. The franchise creator, by establishing, documenting, and testing detailed systems, Ray Kroc made a uniform business with a certain look, providing a consistent experience to the customer. Ray controlled the design of the restaurant, sold uniformly made food and equipment, and provided the "scripts" for the service people. These scripts contained detailed procedures for preparing the food.

Likewise, the business owner should start with an idea of what this business should look like. This includes an organizational chart that could start with the business owner in each box. The chart documents the organization with responsibilities for chief executive, marketing, accounting, finance, and production employees. Gradually, the business owner tests, measures, and documents procedures for each position then replaces them with others until he or she isn't needed at all.

The shorthand phrase for the business systems could be "Here's how we do it here."

The business becomes a learning place where each person finds satisfaction in performing their parts to the best of their abilities.

Small business owners should be grateful to Michael Gerber for his profound observations and the challenge he has presented to us. Each morning, we should ask ourselves: "Am I going to a business, or am I going to a job?" If we are going to a job, we have Gerber's model for change.

Employees must think in order to provide outstanding service. Gerber's approach can sometimes be inflexible when dealing with changes we deal with today.

More important than "Here's how we do it here," we need to know "What's important here." We need to define the values of our business. People need to be more important than the systems that are supposed to serve them. Systems shouldn't override common sense.

Raising Capital: How To Get Money For a Small Business

In addition to drive, ambition and a great deal of planning, starting and expanding a small business generally requires capital. Capital may come from family, friends, lenders or others. This Financial Guide provides an overview of how to get the capital you need to start or grow your business.

Table of Contents

- SBA Programs
- Quick Reference to SBA Loan Programs
- Government and Non-Profit Agencies

One key to successful business start-up and expansion is your ability to obtain and secure appropriate financing. Raising capital is one of the most basic of all business activities. But as many new entrepreneurs quickly discover, raising capital may not be easy. In fact, it can be a complex and frustrating process and professional guidance should be considered, especially with regard to financial information needed for the loan proposal. This Financial Guide focuses on ways a small business can raise money and explains how to prepare a loan proposal.

Finding Sources of Money

There are several sources to consider when looking for financing. It is important to explore all of your options before making a decision. These include:

- **Personal Savings.** The primary source of capital for most new businesses comes from savings and other forms of personal resources. While credit cards are often used to finance business needs, there may be better options available, even for very small loans.
- **Friends and Relatives.** Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest free or at a low interest rate, which can be beneficial when getting started.
- **Banks and Credit Unions.** The most common source of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound.
- **Venture Capital Firms.** These firms help expanding companies grow in exchange for equity or partial ownership.

Borrowing Money

It is often said that small business people have a difficult time borrowing money, but this is not necessarily true. Banks make money by lending money; however, the inexperience of many small business owners in financial matters often prompts banks to deny loan requests.

Requesting a loan when you are not properly prepared sends a signal to your lender. That message is: "High Risk!" To be successful in obtaining a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

Terms of loans may vary from lender to lender, but there are two basic types of loans: short-term and long-term.

A short-term loan generally has a maturity date of one year. These include working capital loans, accounts receivable loans, and lines of credit.

Long-term loans generally mature between one and seven years. Real estate and equipment loans are also considered long-term loans but may have a maturity date of up to 25 years. Long-term loans are used for major business expenses such as purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

How to Write a Loan Proposal

Approval of your loan request depends on how well you present yourself, your business and your financial needs to a lender. Remember, lenders want to make loans, but they must make loans they know will be repaid. The best way to improve your chances of obtaining a loan is to prepare a written proposal.

A good loan proposal will contain the following key elements:

General Information

- Business name, names of principals, social security number for each principal, and the business address.
- Purpose of the loan: exactly what the loan will be used for and why it is needed.
- Amount required: the exact amount you need to achieve your purpose.

Business Description

- History and nature of the business: details of what kind of business it is, its age, number of employees and current business assets.
- Ownership structure: details on your company's legal structure.

Management Profile

Develop a short statement on each principal in your business; provide background, education, experience, skills, and accomplishments.

Market Information

Clearly define your company's products as well as your markets. Identify your competition and explain how your business competes in the marketplace. Profile your customers and explain how your business can satisfy their needs.

Financial Information

- Financial statements: balance sheets and income statements for the past three years. If you are just starting out, provide projected balance sheets and income statements.
- Personal financial statements on yourself and other principal owners of the business.
- Collateral you would be willing to pledge as security for the loan.

How Your Loan Request Will Be Reviewed

When reviewing a loan request, the bank official is primarily concerned about repayment. To help determine this ability, many loan officers will order a copy of your business credit report from a credit-reporting agency. Therefore, you should work with these agencies to help them present an accurate picture of your business. Using the credit report and the information you have provided, the lending officer will consider the following issues:

- Have you invested savings or personal equity in your business totaling at least 25 to 50 percent of the loan you are requesting? (Remember, a lender or investor will not finance 100 percent of your business.)
- Do you have a sound record of credit-worthiness as indicated by your credit report, work history and letters of recommendation? This is very important.
- Do you have sufficient experience and training to operate a successful business?
- Have you prepared a loan proposal and business plan that demonstrate your understanding of and commitment to the success of the business?
- Does the business have sufficient cash flow to make the monthly payments on the amount of the loan request?

SBA Programs

The SBA offers a variety of financing options for small businesses. The SBA's assistance usually is in the form of loan guarantees; i.e., it guarantees loans made by banks and other private lenders to small business clients. Generally, the SBA can guarantee up to $3.75 million or 75 percent of the total loan value. The average size of an SBA-guaranteed loan is $368,737.

Whether you are looking for a long-term loan for machinery and equipment, a general working capital loan, a revolving line of credit, or a "microloan," the SBA has a financing program to fit your needs.

> The SBA guaranteed more than 50,000 loans totaling $19.2 billion to America's small businesses small businesses in fiscal year 2014 that otherwise would not have had such access to capital. It also provides assistance to small businesses and aspiring entrepreneurs through its Small Business Development Centers located throughout the United States and its territories.

The 7(a) Loan Guaranty Program, financing that can satisfy the requirements of almost any new or growing small business. The SBA offers a number of specialized loan and lender delivery programs.

- 7(a) Loan and 7(m) Microloan Programs
- CAPLines Program
- Export Working Capital and International Trade Loans
- Disaster Assistance Loans
- SBA Express
- Certified Development Company (CDC) 504 Loan Program

The 7(a) Loan Guaranty Program

The 7(a) Loan Guaranty Program is the SBA's primary loan program. The SBA reduces risk to lenders by guaranteeing major portions of loans made to small businesses. This enables the lenders to provide financing to small businesses when funding is otherwise unavailable on reasonable terms.

The eligibility requirements and credit criteria of the program are very broad in order to accommodate a wide range of financing needs.

When a small business applies to a lending institution for a loan, the lender reviews the application and decides if it merits a loan on its own or if it requires additional support in the form of an SBA guaranty. SBA backing on the loan is then requested by the lender. In guaranteeing the loan, the SBA assures the lender that, in the event, the borrower does not repay the loan, the government will reimburse the lender for its loss. By providing this guaranty, the SBA helps tens of thousands of small businesses every year get financing they would not otherwise obtain.

To qualify for an SBA guaranty, a small business must meet the 7(a) criteria and the lender must certify that it could not provide funding on reasonable terms except with an SBA guaranty. SBA can guarantee as much as 85 percent on loans of up to $150,000 and 75 percent on loans of more than $150,000. SBA's maximum exposure amount is $3,750,000. Thus, if a business receives an SBA-guaranteed loan for $5 million, the maximum guarantee to the lender will be $3,750,000 or 75 percent. SBA Express loans have a maximum guarantee set at 50 percent.

How The Procedure Works. You submit a loan application to a lender for initial review. If the lender approves the loan subject to an SBA guaranty, a copy of the application and a credit analysis are forwarded by the lender to the nearest SBA office. After SBA approval, the lending institution closes the loan and disburses the funds; you make monthly loan payments directly to the lender. As with any loan, you are responsible for repaying the full amount of the loan. There are no balloon payments, prepayment penalties, application fees or points permitted with 7(a) loans. Repayment plans may be tailored to each individual business.

Permissible Use of Proceeds. You can use a 7(a) loan to expand or renovate facilities; purchase machinery, equipment, fixtures and leasehold improvements; finance receivables and augment working capital; refinance existing debt (with compelling reason); finance seasonal lines of credit; construct commercial buildings; and/or purchase land or buildings.

Terms. The SBA's loan programs are generally intended to encourage longer term small-business financing. However, actual loan maturities are based on the ability to repay, the purpose of the loan proceeds and the useful life of the assets financed. However, maximum loan maturities have been established: 25 years for real estate, up to 10 years for equipment (depending on the useful life of the equipment) and generally up to seven years for working capital. Short-term loans and revolving lines of credit are also available through the SBA to help small businesses meet their short-term and cyclical working capital needs.

Interest Rates. Both fixed and variable interest rate structures are available. The maximum rate is composed of two parts, a base rate, and an allowable spread. There are three acceptable base rates (A prime rate published in a daily national newspaper, London Interbank One Month Prime plus 3 percent and an SBA Peg Rate).

Lenders are allowed to add an additional spread to the base rate to arrive at the final rate. For loans with maturities of shorter than seven years, the maximum spread will be no more than 2.25 percent. For loans with maturities of seven years or more, the maximum spread will be 2.75 percent. The spread on loans of less than $50,000 and loans processed through Express procedures have higher maximums.

Fees. Loans guaranteed by the SBA are assessed a guarantee fee. This fee is based on the loan's maturity and the dollar amount guaranteed, not the total loan amount. The lender initially pays the guaranty fee and they have the option to pass that expense on to the borrower at closing. The funds to reimburse the lender can be included in the overall loan proceeds.

On loans under $150,000 made after October 1, 2013, the fees will be set at zero percent. On any loan greater than $150,000 with a maturity of one year or shorter, the fee is 0.25 percent of the guaranteed portion of the loan. On loans with maturities of more than one year, the normal fee is 3 percent of the SBA-guaranteed portion on loans of $150,000 to $700,000, and 3.5 percent on loans of more than $700,000. There is also an additional fee of 0.25 percent on any guaranteed portion of more than $1 million.

Collateral. The SBA expects every 7(a) loan to be fully secured, but the SBA will not decline a request to guarantee a loan if the only unfavorable factor is insufficient collateral, provided all available collateral is offered. This means every SBA loan is to be secured by all available assets (both business and personal) until the recovery value equals the loan amount or until all assets have been pledged (to the extent that they are reasonably available). Personal guarantees are required from all owners of 20 percent or more of the equity of the business, and lenders can require personal guarantees of owners with less than 20 percent ownership. Liens on personal assets of the principals may be required.

Eligibility. SBA provides loans to businesses; so the requirements of eligibility are based on specific aspects of the business and its principals. As such, the key factors of eligibility are based on what the business does to receive its income, the character of its ownership and where the business operates.

SBA generally does not specify what businesses are eligible. Rather, the agency outlines what businesses are not eligible. However, there are some universally applicable requirements. To be eligible for assistance, businesses must:

- Operate for profit
- Be small, as defined by SBA
- Be engaged in, or propose to do business in, the United States or its possessions
- Have reasonable invested equity
- Use alternative financial resources, including personal assets, before seeking financial assistance
- Be able to demonstrate a need for the loan proceeds
- Use the funds for a sound business purpose

- Not be delinquent on any existing debt obligations to the U.S. government

Ineligible Businesses. A business must be engaged in an activity SBA determines as acceptable for financial assistance from a federal provider. For a list of businesses types are not eligible for assistance because of the activities they conduct visit the SBA website.

What You Need to Take to the Lender. Once you have decided to apply for a loan guaranteed by the SBA, you will need to collect the appropriate documents for your application. The SBA does not provide direct loans. The process starts with your local lender, working within SBA guidelines.

Use the checklist below to ensure you have everything the lender will ask for to complete your application. Once your loan package is complete, your lender will submit it to the SBA.

1. **SBA Loan Application** - To begin the process, you will need to complete an SBA loan application form. Access the most current form here: Borrower Information Form - SBA Form 1919
2. **Personal Background and Financial Statement** - To assess your eligibility, the SBA also requires you complete a Statement of Personal History and Personal Financial Statement.
3. **Business Financial Statements** - To support your application and demonstrate your ability to repay the loan, prepare and include the following financial statements:
4. Profit and Loss (P&L) Statement - This must be current within 90 days of your application. Also include supplementary schedules from the last three fiscal years.
5. Projected Financial Statements - Include a detailed, one-year projection of income and finances and attach a written explanation as to how you expect to achieve this projection.
4. **Ownership and Affiliations** - Include a list of names and addresses of any subsidiaries and affiliates, including concerns in which you hold a controlling interest and other concerns that may be affiliated by stock ownership, franchise, proposed merger or otherwise with you.
5. **Business Certificate/License** - Your original business license or certificate of doing business. If your business is a corporation, stamp your corporate seal on the SBA loan application form.
6. **Loan Application History** - Include records of any loans you may have applied for in the past.
7. **Income Tax Returns** - Include signed **personal** and **business** federal income tax returns of your business's principals for previous three years.
8. **Resumes** - Include personal resumes for each principal.
9. **Business Overview and History** - Provide a brief history of the business and its challenges. Include an explanation of why the SBA loan is needed and how it will help the business.

10. **Business Lease** - Include a copy of your business lease, or note from your landlord, giving terms of proposed lease.
11. **If You are Purchasing an Existing Business** - The following information is needed for purchasing an existing business:
12. Current balance sheet and P&L statement of business to be purchased
13. Previous two years federal income tax returns of the business
14. Proposed Bill of Sale including Terms of Sale
15. Asking price with schedule of inventory, machinery and equipment, furniture and fixtures

In addition to the standard loan guaranty, the SBA has targeted programs under 7(a) that are designed to meet specialized needs. Unless otherwise indicated, they are governed by the same rules, regulations, interest rates, fees, etc. as the regular 7(a) loan guaranty.

The 7(m) MicroLoan Program

The 7(m) MicroLoan Program provides small loans up to $50,000. Under this program, the SBA makes funds available to nonprofit intermediaries; these, in turn, make the loans. The average loan size is $13,000.

Use of Proceeds. Microloans can be used for working capital, inventory or supplies, furniture or fixtures, and machinery or equipment. Proceeds from an SBA microloan cannot be used to pay existing debts or to purchase real estate.

Terms Interest Rates and Fees. Loan repayment terms vary according to several factors such as loan amount, planned use of funds, requirements determined by the intermediary lender, and the needs of the small business borrower. The maximum repayment term allowed for an SBA microloan is six years. Interest rates vary, depending on the intermediary lender and costs to the intermediary from the U.S. Treasury. Generally, these rates will be between 8 and 13 percent.

Collateral. Each nonprofit lending organization will have its own requirements but must take as collateral any assets purchased with the microloan. In most cases, the personal guaranties of the business owners are also required.

Eligibility. Virtually all types of for-profit businesses that meet SBA eligibility requirements qualify.

The CAPLines Program

[The CAPLines Loan Program] is the program under which the SBA helps small businesses meet their short-term and cyclical working-capital needs. The maximum CAPLines loan is $5 million.

Four loan programs for small businesses are available under CAPLines:

1. **Seasonal Line.** Finances the cost associated with contracts, subcontracts or purchase orders. Proceeds can be disbursed before the work begins. If used for one contract or subcontract when all the expenses are incurred before the buyer pays, it will generally not revolve. If used for more than one contract or subcontract, or for contracts and subcontracts where the buyer pays before all work is done, the line of credit can revolve. The loan maturity is usually based on the length of the contract, but no more than 10 years. Contract payments are generally sent directly to the lender, but alternative structures are available.
2. **Contract Line.** Supports the buildup of inventory, accounts receivable or labor and materials above normal usage for seasonal inventory. The business must have been in business for a period of 12 months and must be able to demonstrate that it has a definite established seasonal pattern. The loan may be used over again after a "clean-up" period of 30 days to finance activity for a new season. These loans also may have a maturity of up to five years. The business may not have another seasonal line of credit outstanding but may have other lines for non-seasonal working capital needs.
3. **Builders Line.** Provides financing for small contractors or developers to construct or rehabilitate residential or commercial property that will be sold to a third party that is not known at the time construction/rehabilitation begins. Loan maturity is generally three years but can be extended up to five years, if necessary, to facilitate the sale of the property. Proceeds are used solely for direct expenses of acquisition, immediate construction and/or significant rehabilitation of the residential or commercial structures. Land purchase can be included if it does not exceed 20 percent of the loan proceeds. Up to five percent of the proceeds can be used for community improvements that benefit the overall property.
4. **Working Capital Line of Credit.** A revolving line of credit (up to $5,000,000) that provides short-term working capital. Businesses that generally use these lines provide credit to their customers or have inventory as their major asset. Disbursements are generally based on the size of a borrower's accounts receivable and/or inventory. Repayment comes from the collection of accounts receivable or sale of inventory. The specific structure is negotiated with the lender. There may be extra servicing and monitoring of the collateral for which the lender can charge additional fees to the borrower.

Use of Proceeds. CAPLines may be used to:

- Finance seasonal working-capital needs

- Finance direct costs needed to perform construction, service and supply contracts, subcontracts, or purchase orders
- Finance direct costs associated with commercial and residential building construction
- Provide general working capital lines of credit that have specific requirements for repayment

The Export Working Capital Program

The Export Working Capital (EWCP) Loan provides advances for up to $5 million to fund export transactions from purchase order to collections. This loan has a low guaranty fee and quick processing time.

Contact your local lender to see if they are approved to underwrite EWCP loans. You can apply for EWCP loans before finalizing an export sale or contract.

With an approved EWCP loan in place, you have greater flexibility in negotiating export payment terms. However, disbursements can only be made against firm purchase orders from a foreign buyer or to support foreign accounts receivable.

Use of Proceeds. Proceeds may be used for:

- Financing for suppliers, inventory, WIP, or production of export goods or services
- Working capital to support foreign accounts receivable during long payment cycles
- Financing for standby letters of credit used as bid or performance bonds or as down payment guarantees

The International Trade Loan Program

The International Trade Loan offers loans up to $5 million for fixed assets and working capital for businesses that plan to start or continue exporting.

Eligibility. International Trade Loans are available if your small business is in a position to expand existing export markets or develop new export markets. These loans are also available if your small business has been adversely affected by import competition and can demonstrate that the loan proceeds will improve your competitive position. Contact your existing lender to determine if they are an SBA-approved 7(a) lender. If so, they are authorized to underwrite an International Trade Loan. SBA will work with your lender to determine borrower eligibility.

Use of Proceeds. The borrower may use loan proceeds to acquire, construct, renovate, modernize, improve, or expand facilities and equipment to be used in the United States to produce goods or service involved in international trade and to develop and penetrate foreign markets. Funds also may be used to refinance an existing loan.

Disaster Assistance Loans Program

SBA provides low-interest Disaster Assistance Loans to businesses of all sizes, private non-profit organizations, homeowners, and renters. SBA disaster loans can be used to repair or replace the following items damaged or destroyed in a declared disaster: real estate, personal property, machinery and equipment, and inventory and business assets.

Types of loans include:

- Physical Damage loans - These loans to cover repairs and replacement of physical assets damaged in a declared disaster. Homeowners, renters, nonprofit organizations, and businesses of all sizes are eligible to apply for physical disaster assistance. There are two types of Physical Damage loans: Home and personal property loans and Business physical disaster loans.
  Home and personal property loans - If you live in a declared disaster area and have experienced damage to your home or personal property, you may be eligible for financial assistance from SBA — even if you do not own a business. As a homeowner, renter or personal property owner, you may apply to SBA for a loan to help you recover from a disaster.
  Homeowners may apply for up to $200,000 to replace or repair their primary residence. The loans may not be used to upgrade homes or make additions unless required by local building code. If you make improvements that help prevent the risk of future property damage caused by a similar disaster, you may be eligible for up to a 20 percent loan amount increase above the real estate damage, as verified by the SBA.
  Renters and homeowners may borrow up to $40,000 to replace or repair personal property such as clothing, furniture, cars, and appliances damaged or destroyed in a disaster.
  Business physical disaster - The SBA Business Physical Disaster Loan covers disaster losses not fully covered by insurance. If you own a business located in a declared disaster area that has experienced damage, you may be eligible for financial assistance from SBA. Businesses of any size and most private non-profit organizations may apply to SBA for a loan to recover after a disaster. The SBA Business Physical Disaster Loan covers disaster losses not fully covered by insurance.
  SBA makes physical disaster loans of up to $2 million to qualified businesses or

most private nonprofit organizations in a declared disaster area that have experienced damage to your business. Businesses of any size and most private nonprofit organizations may apply to the SBA for a loan to recover after a disaster. These loan proceeds may be used for the repair or replacement of real property, machinery, equipment, fixtures, inventory, and leasehold improvements.

- Economic Injury Disaster Loans - Small business, small agricultural cooperative, or most private nonprofit organizations. The SBA can provide up to $2 million (maximum term of 30 years, maximum interest rate of 4 percent) to help meet financial obligations and operating expenses that could have been met had the disaster not occurred. Your loan amount will be based on your actual economic injury and your company's financial needs, regardless of whether the business suffered any property damage.
- Military Reservists Economic Injury Loans (MREIDL) - Provides funds (up to $2 million, maximum 30 years, maximum interest rate of 4 percent) to help an eligible small business meet its ordinary and necessary operating expenses that it could have met, but is unable to, because an essential employee was called-up to active duty in his or her role as a military reservist.
  The amount of each loan is limited to the actual economic injury as calculated by SBA. The amount is also limited by business interruption insurance and whether the business and/or its owners have sufficient funds to operate. If a business is a major source of employment, SBA has authority to waive the $2 million statutory limit.
- Mitigation Assistance loans - These loans provide funding to cover small business operating expenses after a declared disaster. You can protect your home or business and reduce property damage with the help of SBA. If you've been affected by a disaster, you can rebuild a stronger business by increasing your SBA disaster assistance loan up to 20% of your verified physical damage to make mitigation improvements. Borrowers generally have two years after their loan approval to request an increase for higher rebuilding costs, code-required upgrades or mitigation. Projects covered by this type of loan include improvements related to flooding, wildfires, wind, and earthquakes.

SBA Express Loan Program

The SBA Express Loan Program features an accelerated turnaround time of 36 hours for SBA review in response to an application. Capital is available to businesses seeking loans of up to $350,000 without requiring the lender to use the SBA process. Lenders use their existing documentation and procedures to make and service loans plus SBA Form 1919. The SBA guarantees up to 50 percent of an SBA Express loan. Loans made under this program generally follow SBA's standards for the 7(a) Loan Program. Your local SBA office can provide you with a list of SBA Express lenders.

Lenders and borrowers can negotiate the interest rate. Rates can be fixed or variable and are tied to the prime rate (as published in The Wall Street Journal), LIBOR, or the optional peg rate (published quarterly in the Federal Register) and may be fixed or variable, but they may not exceed SBA maximums: lenders may charge up to 6.5 percent over the base rate for loans of $50,000 or less, and up to 4.5 percent over for loans over $50,000. Lenders are not required to take collateral for loans up to $25,000; may use their existing collateral policy for loans over $25,000 up to $350,000. For revolving credits, small business owners may take up to seven years after the first disbursement to repay the loan.

The Certified Development Company (504) Loan Program

The Certified Development Company (504) Loan Program enables a nonprofit corporation (Certified Development Company or CDC) to contribute to the economic development of its community. CDCs are located nationwide and operate primarily in their state of incorporation (Area of Operation). CDCs work with SBA and private-sector lenders to provide financing to small businesses through the CDC/504 Loan Program, which provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings.

The Role of CDCs is to market the 504 program; package and process 504 loan applications; close and service 504 loans in its Area of Operation. A portfolio must be diversified by business sector. CDCs should also provide small businesses with financial and technical assistance, or help small businesses obtain assistance from other sources, including preparing, closing, and servicing loans under contract with lenders in SBA's 7(a) Loan Program. Loan amounts to the borrower equal to the value of all or part of the borrower's contribution to a project in the form of cash or land, including site improvements.

Newly certified CDCs will be on probation for a period of two years.

Eligibility. A CDC must:

- Be a nonprofit corporation in good standing.
- Have at least 25 members representing government organizations responsible for economic development in the Area of Operation and acceptable to SBA; Financial institutions that provide commercial long-term fixed asset financing in the Area of Operation; Community organizations dedicated to economic development in the Area of Operation, such as chambers of commerce, foundations, trade associations,

colleges, or universities; Businesses in the Area of Operation; and Additional membership requirements are provided in 13 CFR 120.822.

- Have a Board of Directors chosen from the membership, and representing, at least, three of the four membership groups. Additional Board of Directors requirements are provided in 13 CFR 120.823.
- Have full-time professional management, including an Executive Director (or the equivalent) managing daily operations and a full-time professional staff qualified by training and experience to market the 504 Program; package and process loan applications; close loans; service, and, if authorized by SBA, liquidate the loan portfolio; and sustain a sufficient level of service and activity in the Area of Operation. CDCs may obtain, under written contract and with prior approval from SBA, marketing, packaging, processing, closing, servicing or liquidation services by qualified individuals and entities who live or do business in the CDC's Area of Operation.
- Meet a minimum level of lending activity, providing, at least, two 504 loan approvals each full fiscal year. A CDC's portfolio must reflect an average of one job opportunity per $65,000 of 504 loan funding.

Small Business Investment Company Program

There is a variety of alternatives to bank financing for small businesses, especially business start-ups. The Small Business Investment Company Program fills the gap between the availability of venture capital and the needs of small businesses that are either starting or growing. Licensed and regulated by the SBA, SBICs are privately owned and managed investment firms that make capital available to small businesses through investments or loans. They use their own funds plus funds obtained at favorable rates with SBA guarantees and/or by selling their preferred stock to the SBA.

SBICs are for-profit firms whose incentive is to share in the success of a small business. In addition to equity capital and long-term loans, SBICs provide debt-equity investments and management assistance.

The Small Business Investment Company (SBIC) Program, administered by the U.S. Small Business Administration (SBA), is a multi-billion investment program created in 1958 to bridge the gap between entrepreneurs' need for capital and traditional sources of financing. Over the past five years, the program has channeled $17 billion of capital to more than 5,900 U.S. small businesses representing a variety of industries across the country. These results were achieved through a proven public-private partnership that leverages the full faith and credit of the U.S. government to increase the pool of investment capital available to small businesses.

The SBIC Program provides funding to all types of manufacturing and service industries. Some investment companies specialize in certain fields while others seek out small businesses with new products or services because of the strong growth potential. Most, however, consider a wide variety of investment opportunities.

Surety Bond Program

By law, prime contractors to the federal government must post surety bonds on federal construction projects valued at $150,000 or more. Many state, county, city and private-sector projects require bonding as well. SBA helps small contractors by guaranteeing bid, performance, and payment bonds issued by participating surety companies for contracts up to $6.5 million. SBA can guarantee a bond for a contract up to $10 million if a Federal contracting officer certifies that SBA's guarantee is necessary for the small business to obtain bonding.

Fees. SBA charges the small business 0.729 percent of the contract price for a payment or performance bond. There is no charge for a bid bond. SBA charges the surety company 26 percent of the fee the surety company charges the small business.

Quick Reference to SBA Loan Programs

Click here for information on funding your business. If you are interested in obtaining further information for a specific loan program listed below, click on the loan program and you will be brought to the SBA Web site.

PROGRAM: 7(a) Loan Guaranty Program (the SBA's primary loan program).

- **Maximum Amount Guaranteed:** $3,750,000 in most cases Percent of Guarantee (Max.): 75 percent (85 percent if the total loan is $150,000 or less)
- **Use of Proceeds:** Expansion or renovation; construction of new facility; purchase land or buildings; purchase equipment, fixtures, leasehold improvements; working capital; refinance debt for compelling reasons; seasonal line of credit; inventory acquisition
- **Maturity.** Depends on ability to repay; generally working capital is up to 7 years; machinery/equipment is up to 10 years; real estate and construction, up to 25 years (not to exceed life of equipment) Maximum Interest Rates: Negotiable with lender: loans under 7 years, maximum prime + 2.25 percent; 7 years or more, maximum 2.75 percent over prime; under $50,000, rates may be slightly higher Guaranty and Other Fees: Paid by lender (usually passed onto borrower).

- Amount of **SBA** exposure (based on maturity): 1 year or less - 0.25 percent (0 percent for loans made after Oct. 1, 2013)
- Over 1 year and SBA share $150,000 - $700,000 - 3 percent;
- Over 1 year and SBA share more than $700,000 -3.5 percent
- Additional fee of 0.25 percent on any guaranteed portion of more than $1 million
- **Eligibility:** Must be operated for profit; meet SBA size standards; show good character, management expertise and commitment, and always show ability to repay; may not be involved in speculation or investment

PROGRAM: 7(m) MicroLoan Program

- **Maximum Amount Guaranteed:** $50,000 (total loan amount)
- **Percent of Guarantee** (maximum): NA
- **Use of Proceeds**: Purchase equipment, machinery, fixtures, leasehold improvements; finance increased receivables; working capital; may not be used to repay existing debt
- **Maturity:** Shortest term possible, not to exceed 6 years
- **Maximum Interest Rates:** Negotiable with intermediary
- **Guaranty and Other Fees:** No guaranty fee
- **Eligibility:** Same as 7(a)

PROGRAM: CAPLines, Short-Term and RLCs; Seasonal, Contract, Builders, Standard Asset-Based, Small Asset-Based

- **Maximum Amount Guaranteed:** $5 million
- **Use of Proceeds:** Finance seasonal working-capital needs; costs to perform; construction costs; advances against existing inventory and receivables; consolidation of short-term debts possible
- **Maturity:** Up to 10 years
- **Eligibility:** Existing businesses, see 7(a)

PROGRAM: Export Working Capital Program

- **Features:** Low guaranty fee and quick processing time
- **Maximum Amount Guaranteed:** $5 million (may be combined with the International Trade Loan)
- **Use of Proceeds:** Short-term working-capital loans to finance export transactions
- **Eligibility:** Small business exporters who need short-term working capital; see 7(a) for other qualifications

PROGRAM: International Trade Loan Program, Short- and Long-Term Financing

- **Features: Loans up to $5 million for fixed assets and working capital for businesses that plan to start or continue exporting.**
- **Maximum Amount Guaranteed:** $5 million
- **Use of Proceeds:** Working capital; improvements in U.S. for producing goods or services for international trade; finance an existing loan
- **Eligibility:** Small businesses engaged or preparing to engage in international trade or adversely affected by competition from imports; see 7(a) for other qualifications

PROGRAM: Disaster Assistance Loan Program

- **Features:** Low-interest loans to businesses of all sizes, private non-profit organizations, homeowners, and renters.
- **Maximum Amount Guaranteed:** $2 million
- **Percent of Guarantee** (maximum): Depends on whether done under 7(a) or 504; see both
- **Use of Proceeds**: Repair or replace real estate, personal property, machinery and equipment, and inventory and business assets damaged or destroyed in a declared disaster.
- **Maturity:** 30 years
- **Maximum Interest Rates:** 4 percent
- **Eligibility:** Declared disaster area; essential employee was called-up to active duty in his or her role as a military reservist.

PROGRAM: SBA Express

- **Features:** Lender approves loan, no additional paperwork for SBA, 36 hour turnaround
- **Maximum Amount Guaranteed:** $350,000 (total loan amount)
- **Percent of Guarantee** (maximum): 50 percent
- **Use of Proceeds:** Same as 7(a)
- **Maturity:** Term loan same as 7(a); no more than 7 years on revolving line of credit
- **Maximum Interest Rates:** Negotiable between lender and borrower
- **Guaranty and Other Fees:** See 7(a)
- **Eligibility:** See 7(a)

The Certified Development Company (504) Loan Program

- **Features:** CDCs work with SBA and private-sector lenders to provide financing to small businesses through the CDC/504 Loan Program, which provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. Must create or retain one job for every $65,000 provided by the SBA, except for small manufacturers, which have a $100,000 job creation or retention goal

- **Maximum Amount Guaranteed:** Limit on SBA portion of project is $4, $4.5, and $5 million
- **Percent of Guarantee** (maximum): 40 percent of project (100 percent SBA-backed debenture); private lender unlimited
- **Use of Proceeds:** Purchase of major fixed assets such as land, buildings, improvements, long-term equipment, construction, renovation
- **Maturity:** 10 or 20 years only
- **Maximum Interest Rates:** Pegged to an increment above the current market rate for 5-year and 10-year U.S. Treasury issues
- **Guaranty and Other Fees:** Fees related to debenture, approximately 3 percent. May be financed with the loan.
- **Eligibility:** Tangible net worth less than $15 million and an average net income less than $5.0 million after taxes for the preceding two years.

Government and Non-Profit Agencies

- U.S. Small Business Administration
  The SBA has offices located throughout the United States. For the one nearest you look under "U.S. Government" in your telephone directory, call the SBA Answer Desk at (800) 827-5722, or visit the SBA website for a list of SBA District Offices.