Business Development Advisor Certification

Version 2

In partnership with the Illinois Department of Commerce and Economic Opportunity (DCEO), the U.S. Small Business Administration, the U.S. Department of Defense, colleges, universities, and local economic development organizations, on behalf of the Illinois Small Business Development Center Network (Network,) the Illinois Entrepreneurship and Small Business Growth Association (IESBGA) provides prospective and existing business owners with a variety of business-related programs. The Centers, located throughout the state, include Small Business Development Centers (SBDC), Procurement Technical Assistance Centers (PTAC), International Trade Centers (ITC), Small Business Incubators (SBI), Technology, Innovation and Entrepreneurship Services (TIES,) and other small business centers and programs including Women's Business Centers and the Office of Minority Business Development.

Author: Katie Kunkel Holland

Originally published 1997

Claudia Pannell & Joanne Osmond

Modified 2015

Illinois SBDC Network

IESBGA provides professional development and training on behalf of the
Illinois Small Business Development Center Network Members (Members.)

Table of Contents

Publications & Business Guide

Below are the publications in both English and Spanish that were available on January 1, 2014 from DCEO. Links may change, as documents are updated or rewritten. You may receive a free copy of some of the guides by calling the IEN Business Information Center at 1-800-252-2923.

Resource Guide - Illinois Small Business Resource Guide

Starting Your Business in Illinois (PDF **English** / **Spanish**)

The Plan: A Step-By-Step Business Plan Workbook (PDF **English** / **Spanish**)

Financial Guidance

- A Simple Guide to Your Company's Financial Statements (PDF **English** / **Spanish**)
- The Small Business Owner's Guide To Financial Control (PDF **English** / **Spanish**)
- Understanding Commercial Lending: The Question and Answer Guide (PDF **English** / **Spanish**)

Grant Proposal Writing - This guide offers step-by-step instruction on how to create a winning grant proposal - Proposal Writing - The Basic Steps in Planning and Writing (PDF **English**)

Marketing - A Simple Guide To Your Small Business Marketing Plan (PDF **English** / **Spanish**)

Assessing Your Business - The Small Business Report Card: Is Your Business Making The Grade? (PDF **English** / **Spanish**)

Buying & Selling

- Buying & Selling A Small Business (PDF **English** / **Spanish**)
- Commercial Real Estate 04-11 (PDF **English**)

Child Care Setup - If you're thinking about starting a childcare center in your community, here are some useful guides that will help walk you through the process. You will learn how to obtain proper licensing, develop a business plan and lots more!

- Child Care Startup Profile (PDF **English** / **Spanish**)
- Starting a Center-based Child Care Program Introduction (PDF **English**)
- Starting a Center-based Child Care Program Information (PDF **English**)

For communities that lack ample or quality childcare, we've created this guide to help parents or parenting groups build a childcare system in their community. Download the guide to learn about building teams, exploring tax-exempt status and other important issues. Starting a Community Child Care Program Information (PDF **English**)

If you're thinking about becoming a family home childcare provider, this guide can help you plan a successful home childcare business with useful resources on acquiring licensing, creating budgets, preparing meal programs and more. Starting a Family Home Child Care Program Information (PDF **English**)

Employer Options for Child Care Programs - This publication outlines available options for assisting employees with child care needs and provides agency and organizational contacts who can provide technical assistance to employers throughout this process. Employer Options for Child Care Programs Information (PDF **English**)

Franchises - These three guides offered by the Illinois Attorney General's Franchise Bureau are designed to assist franchisors in selling franchises in Illinois and as well as to help prospective franchisees buy a franchise.

- Illinois Franchise Disclosure Act and Rules (PDF **English**)
- Franchisor Registration Tips (PDF **English**)
- Before You Buy a Franchise - Understand Your Risks (PDF **English**)

Retail and E-Commerce - The e-Commerce business profile shows you how to effectively use the Internet to expand your business. E-Commerce Business Profile (PDF **English**)

This guide offers tips on how to break into the retail market. Retailing in Illinois (PDF **English**)

This free guide offers future grocery/convenience store entrepreneurs resources to assist in the start-up process as well as lending support to existing store owners. Grocery/Convenience Store Start-up Profile (PDF **English**)

This free guide provides budding restaurateurs with resources to assist in the start-up process and support to existing restaurant owners. Restaurant Startup Profile (PDF **English** / **Spanish**)

Winery Startup - As the wine industry in Illinois continues to grow each year, the First Stop Business Information Center is making it easier for new and existing wineries to flourish. Included in this comprehensive guide are up-to-date industry facts, market and sales data as well as a business plan workbook created specifically for wineries. Cheers! Winery Startup Profile (PDF **English**)

DCEO Small Business Assistance - http://www.illinois.gov/dceo/SmallBizAssistance/Pages/default.aspx

Module 1

CODE OF PROFESSIONAL PERFORMANCE

PERFORMANCE GOAL

The Business Development Advisor will understand and comply with the policies and procedures established by the host institution, as well as by all appropriate federal and state agencies. The Business Development Advisor will also abide by the conflict of interest policies and client confidentiality requirements contained in the Certified Business Development Advisor eGuide.

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. Read Module 1 eGuide and eTraining in their entirety
2. Read and watch YouTube videos to gain and understanding of ethics and professional code of conduct
3. Observe Module One – Carol Clueless Counseling Session and answer questions related to the counseling session
4. If applicable, post observations and resources to the Business Development Advisors eForum
5. Counsel with Peer Coach observing and record observations on the Counseling Checklist. At the conclusion of the client's appointment, discuss the observations with your Peer Coach
6. Attend Business Development Advisor Roundtable OR discuss ethics with Peer Coach

EVALUATION PROCEDURES

The proficiency in code of professional performance will be evaluated by all of the following methods.

1. Completing the Module 1 eTraining and answer evaluation questions with 100% accuracy
2. Viewing Module 1 Counseling Session then answering Module's evaluation questions with 100% accuracy
3. Reviewing the Host Institution Policies and Procedures
4. Signing all required documents including the Conflict of Interest
5. If applicable, providing the Peer Coach with new resources identified through research and posting new resources in the Business Development Advisor eForum

INTRODUCTION

In partnership with the Illinois Department of Commerce and Economic Opportunity (DCEO), the U.S. Small Business Administration, the U.S. Department of Defense, colleges, universities, and local

economic development organizations, the Network provides prospective and existing business owners with a variety of business-related programs. The Centers, located throughout the state, include Small Business Development Centers (SBDC), Procurement Technical Assistance Centers (PTAC), International Trade Centers (ITC), Small Business Incubators (SBI), Technology, Innovation and Entrepreneurship Services (TIES,) and other small business centers and programs including Women's Business Centers and the Office of Minority Business Development.

It is the Network's mission to increase the competitiveness, profitability, and growth of Illinois business in a global economy. To this end, Illinois Entrepreneurship and Small Business Growth Association (IESBGA) on behalf of the Network:

1. Promotes high standards of conduct.
2. Communicates those standards to the public.
3. Certifies as Certified Business Development Advisors those individuals who have met performance standards of excellence and have agreed to uphold the Network's standards as a continuing condition of certification.

Those who complete training and meet performance standards become a "Certified Business Development Advisor" (Business Development Advisor.)

PURPOSE

This Code of Professional Performance acknowledges that the Certified Business Development Advisor will maintain professional self-discipline beyond the requirements of law. The Code notifies the public that the advisor will maintain a high level of professionalism and ethics, and requires that the advisor accept the obligation to conduct him or herself in a way that is beneficial to society.

The Network members enforce the Code of Professional Performance by receiving and investigating all complaints of violations. Disciplinary action, including revocation of certification, may be taken against any individual personally found to be guilty of Code violation. It is the desire for confidence and the respect of the profession and of society that motivates the individual to maintain the highest possible professional and ethical conduct.

ARTICLES OF PROFESSIONAL RESPONSIBILITIES

Prospective and existing owners and managers of small businesses in Illinois rely on the advice of Certified Business Development Advisors. This fact imposes upon us the obligation to maintain high standards of integrity and competence. In recognition of the public interest as well as the Certified Business Development Advisor's obligation to the profession, each advisor must agree in writing to comply with the following articles of professional responsibility.

1. Professional Behavior and Attitude

Certified Business Development Advisors will maintain a wholly professional behavior and attitude toward those they serve, including other members of the Network, clients, and the public.

2. Proprietary or Inside Information

Certified Business Development Advisors will not take personal, financial, or other advantage of material or inside information resulting from their professional relationship with clients. They will not provide material or information to others that might take advantage of clients.

Certified Business Development Advisors will not provide to clients proprietary information learned from previous clients or from other sources without first obtaining proper authorization.

Certified Business Development Advisors will not knowingly, without permission, use copyrighted material, proprietary data, procedures, materials, or techniques that others have developed but have not released for public use. They will not encroach upon others' (including their clients') rights.

3. Conflict of Interest

Certified Business Development Advisors will not accept any type of reward from individuals (including clients) or organizations for recommending equipment, supplies, or services of such individuals or organizations.

4. Understanding of Client Needs

Certified Business Development Advisors will first confer with a client in sufficient detail and gather sufficient facts that, together with the client, they may reach an understanding of the perceived problem, the objectives to be achieved, the scope of assistance needed, and the possible benefits that may accrue to the client.

5. Client Confidentiality

Certified Business Development Advisors will hold as strictly confidential the identity of a client, as well as all information concerning the business-related affairs of a client gathered during the course of a professional engagement. The only exception occurs when the client has provided written authorization for the release of information to the public.

6. Impartiality

Certified Business Development Advisors ensure advice to clients is based on impartial consideration of all pertinent facts and opinions. Their clients depend on them to provide objective solutions to their problems.

7. Outside Influences

Certified Business Development Advisors will immediately inform their clients, their host institutions, and any other the Network partners, as appropriate, of any special relationships, circumstances or interests that might influence, or give the appearance of influencing, their judgment or impair their objectivity. The Certified Business Development Advisor will offer to withdraw from the client relationship and refer the client to another advisor.

8. Recommendations

Certified Business Development Advisors will ensure that sufficient relevant information is evaluated in developing conclusions and recommendations. Solutions should be realistic and practical, clearly understood by the clients, and capable of being implemented by the client.

9. Quality Assurance

Certified Business Development Advisors will demonstrate a commitment to the quality of their advice, assistance, and resulting products through sufficient planning, reviews, and controls. To better serve their clients, they will continually seek to advance their own knowledge.

10. Avoiding Impropriety

Certified Advisors will strive to avoid not only improprieties, but also the appearance of improprieties. Integrity and honesty are critical personal characteristics of the Advisor.

11. Professional Contribution

Certified Business Development Advisors must recognize their responsibilities to the public interest and to their own professional development by contributing to the understanding of better ways to manage small businesses. This contribution may be through the development and dissemination of information to peers as well as to the public.

12. Supporting Professional Standards and the Code of Professional Performance

Certified Business Development Advisors will strive continuously to advance and protect the professional standards of the Illinois Small Business Development Center network and to support this Code by reporting rule violations to their supervisor.

13. Professional Image

Certified Business Development Advisors are expected to dress in business attire appropriate to the client's and individual host institution’s expectations.

14. Promptness

Certified Business Development Advisors do not keep clients waiting. It is extremely important to be on time and ready to begin. In the event of an emergency, the client is to be contacted immediately. In addition, all reports are to be completed in a timely manner.

These Articles of Professional Responsibility are in addition to the Conflict of Interest Policy for the Network which every counselor should have received upon being hired. This policy is included in this manual as a reminder, and as a way of keeping both policies in one place to which it is convenient for the Certified Business Development Advisor to refer.

Ethics Scenarios

Based upon your training in SBDC Code of Professional Performance and Conflict of Interest Policy, review the following situations and assess the ethics of each. The situations below and others that may be offered by Centers will be discussed during the Business Development Advisor Roundtable.

1. After the conclusion of your workshop presentation on business plans, you are approached by three of the seminar attendees. Two of them had simple questions to clarify some of the key points you made during the presentation. The third attendee, Joan Owner, wanted something more. She complained that she was so busy actually running her business that she just did not have the time or the talent to write her own plan. She then begins to plead with you to write it for her, and she is willing to pay you whatever it takes!
    - Is it a conflict of interest for you to write Joan Owner's plan for a fee?
    - Under what circumstances, if any, would you be able to do the work for Joan?
    - How do you respond to Joan?
2. François French has been your client for a year. You have helped him to write his business plan and advised him on how to prepare and submit a loan application to expand François' French Restaurant. At three o'clock on Friday, François calls you to tell you the great news. He got the loan! He insists that you come to dinner tonight to help him celebrate -- and dinner is "on the house."
    - Is it a conflict of interest for you to accept the free meal?
    - Under what circumstances, if any, would you be able to accept the free meal?
    - How do you respond to François?
3. When your new client, Judy Jumble, enters your office, you notice she has a large box with receipts and canceled checks falling out as she walks. You are not surprised to find she needs help setting up her record-keeping system. Your best friend, Nita Neat, has just started a bookkeeping business, and would love to have Judy as her client.
    - Is it a conflict of interest for you to refer Judy Jumble to Nita Neat?
    - Under what circumstances, if any, would you be able to make the referral?
    - How do you respond to Judy?
4. At a Chamber of Commerce meeting, you meet Bob Byte. Bob has a computer consulting company and sells hardware and software. Bob is immediately interested in what you do at the Center. He offers you a deal that is too good to be true! If you refer SBDC clients to him who then purchase from him, he will pay you a 10% referral fee.
    - Is it a conflict of interest for you to refer Network clients to Bob and accept the referral fee?
    - Under what circumstances, if any, would you be able to make the referral?
    - How do you respond to Bob?
5. Sally Sentinel is a newspaper reporter who writes all the small business articles in your local newspaper. Your Center has been trying to get her to acknowledge the existence of SBDC for months. Sally finally calls the office on the one day when you are the only Business Development Advisor in, so you take her call. You don't want to keep her waiting!

    Sally explains she has recently heard some good things about the SBDC and is hoping that you can help her. She is writing an article about women business owners and would like you to give her the names of two women clients so she can interview them and include information about their businesses in the paper. You immediately think of two fantastic women clients who would kill for an opportunity like this!
    - Is it a conflict of interest for you to give Sally the names and numbers of these clients?
    - Under what circumstances, if any would you be able to make the referral?
    - How do you respond to Sally?

6. Pat Pitiful is a client who has been struggling along for years contracting with the local school board for janitorial services. She is always on the verge of making it, but never quite seems to reach true success. One day she calls to tell you about the new contract she was awarded to provide services for the new, huge county building that was just built. The only problem is that she needs $10,000.00 for working capital in order to adequately service the contract. You suspect she will have a very difficult time finding financing because she declared bankruptcy four years ago, she has no collateral, and the company shows a loss on last year's financial statements.
   On the positive side, you know that Pat is a very hard worker, learns quickly, is very responsible and determined, and has taken all of the advice you have ever given her. You really like her as a person and sincerely want to see her succeed. You recently inherited some money from your uncle.
   - Is it a conflict of interest for you to finance Pat's business?
   - Under what circumstances, if any, could you help Pat?
   - How do you respond to Pat?
7. You have just completed a brief presentation on SBDC's free and confidential services at a Rotary Club meeting. At your table, you meet Don Tekkie, an engineer who started his own company researching and marketing new laser products. He recently developed a new product that will provide a major breakthrough in the medical laser market. In order to introduce this new product, Don needs approximately $750,000 to $1,000,000 in venture capital.
   Don is excited to learn about the SBDC and asks you to review his business plan and to advise him about how to find financing. He then offers you stock in his company if you can arrange for the financing.
   - Is it a conflict of interest for you to accept Don's offer?
   - Under what circumstances, if any, could you accept the offer?
   - How do you respond to Don?
8. Over the weekend, your best friend calls you at your home to refer Iris Returns to you. Iris wants to hire you to prepare her corporate tax return and you agree on a fee. After you have completed the work, you meet with Iris to deliver the return and to collect your fee. During the casual conversation, you discover to your complete surprise that Iris had been an SBDC client two years ago, but had not been in for at least the past year. You had never met Iris before and did not know of her previous relationship with the SBDC.
   - Is there a conflict of interest?
   - Under what circumstances, if any, could you perform the work for a fee?
   - How do you respond to Iris?
9. You are Larry Lawyer, Sr., Business Development Advisor. You take a phone call from Carrie Caller who wants the name of an attorney who can incorporate her business. Your Center's policy is to give the names of no less than three attorneys when answering such a question. Carrie insists she only wants one name, but you are determined to follow policy. The names you give are: Larry Lawyer, Jr., Alice Attorney, and Errol Esquire.
   - Is there a conflict of interest?
   - How do you respond to Carrie?
10. Like a light bulb turning on, you realize that the client sitting in front of you would undoubtedly find fame and fortune if she were to enter into a joint venture with another one of your clients! You decide you want them to meet each other and explore ways to partner in marketing and performing projects. How can you make the introductions without violating your confidentiality requirements?

Ethics Case Studies

Instructions:

The following cases are examples of actual situations encountered by Business Development Advisors. Please read each scenario and provide your solution(s). If you have questions about your solutions, contact your Peer Coach for some solutions suggested by other Business Development Advisors.

Case #1

A client approaches you for business counseling. The client has done little or no preparation (clueless). Sensing a needless, time-wasting, volatile session, you suggest that the client attend a seminar instead. The client declines the seminar idea and goes off--"I'm a taxpayer, and you are to provide counseling services!" How should this client have been handled?

Case #2

A client who owns a restaurant asks if you can pick up her business plan draft on your way to the office. It's close enough to lunch, so you order a $3.00 sandwich. The client refuses your money to pay for the sandwich. What do you do?

Case #3

The mayor refers his son to the SBDC. The son insists that you meet with him to complete the business plan, and also insists that the meeting take place at his exclusive summer cottage over the weekend. What do you do?

Case #4

A client has requested you accompany her to the bank for a meeting to discuss her business plan and a loan. Do you go with her?

Case #5

You are a full-time SBDC advisor who also has a marketing consulting business. You meet an individual needing services you can provide. This person is not a SBDC client or a client of your business. Do you accept this client for your personal business or for the SBDC?

Case #6

A Chicago-based company is expanding and needs a zoning change to facilitate the project. The client requests your assistance to intercede with the local alderman. Do you agree to assist?

Case #7

A client has received sufficient revenue to cover all business expenses and loan payments. However, he is requesting a restructuring in the loan because he is not reporting (skimming) all of the revenue. How do you handle the request (in the light of your knowledge of his skimming)?

Case #8

A client has utilized our services and is very appreciative. She wants to take us out to lunch to say, "thank you". What should we do? Do we let her take us to lunch?

Case #9

You're currently working with a small business client who has a viable project, but because of prior credit problems, he is unable to secure financing. The client is aware that you strongly believe in the project. He then asks you personally to loan him the money. The client is also aware that you have the necessary financial resources to make the loan. Do you loan him the money?

Case #10

If you suspect documentation or information in a business plan or proposal may be intentionally falsified, what do you do?

Illinois SBDC Network

Conflict of Interest

As a condition of my participation in an IESBGA Program at (Host Agency) ____, I agree that during the course of providing training or counseling (consulting) services to an active IL SBDC Network client, I will abide by the following:

1. I will not recommend the purchase of goods or services from sources in which I have an interest or represent.

2. I will maintain all client proprietary information on a confidential basis.

3. Upon completion of my service with the IESBGA Program, I shall not be precluded from performing, for compensation, consulting or contract services as requested by an IESBGA client.

______________________________________ ______________________

(Name) (Date)

Illinois SBDC Network

Policies and Procedures Review

I have read the Policies and Procedures established by: (Host Institution)

____

and agree to comply with them.

____________________________________ ________________

(Business Specialist) (Date)

Counseling Checklist

INSTRUCTIONS: Imagine you are the client who is being counseled as you observe the session. Answer the following questions by circling the number you feel most accurately measures how the client feels. Then note any comments or questions you would like to discuss after the client has left.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
The Business Development Advisor really listened to me.	5	4	3	2	1
He frightened me.	5	4	3	2	1
Her tone of voice was encouraging.	5	4	3	2	1
He talked too much.	5	4	3	2	1
Homework assignments were helpful.	5	4	3	2	1
He had a condescending attitude.	5	4	3	2	1
She insisted on always being right.	5	4	3	2	1
He was a warm, sincere, and friendly individual.	5	4	3	2	1
His remarks made things clearer for me.	5	4	3	2	1
He increased my general knowledge.	5	4	3	2	1
The terminology and language were confusing.	5	4	3	2	1
The types of questions he asked were good.	5	4	3	2	1
He was very patient.	5	4	3	2	1
My questions were answered to my satisfaction	5	4	3	2	1
She was uncertain of herself.	5	4	3	2	1
I felt I could be open and genuine with her.	5	4	3	2	1
Overall, the experience was good.	5	4	3	2	1
She exhibited professional dignity and bearing.	5	4	3	2	1
I feel free to come back.	5	4	3	2	1
The help was quite worthwhile.	5	4	3	2	1
She behaved as if the interview was a routine, mechanical process.	5	4	3	2	1
I felt she was really talking down to me.	5	4	3	2	1
I felt she would have jumped on me if I had said the wrong thing.	5	4	3	2	1
I distrusted him.	5	4	3	2	1
She used terms I could understand	5	4	3	2	1

Preparing for a Counseling Session

(To be used as an aid by the Business Development Advisor before any counseling session.)

Careful planning is an essential part of every counseling or coaching session. Oftentimes, when a session goes poorly, it is due to the lack of proper planning. Use the following checklist to assure that you are fully prepared to offer your client the best possible session.

- ☐ Am I sure that my client knows when and where the counseling session is to be held?
- ☐ Have I reviewed the past efforts of my client?
- ☐ Have I considered how many sessions may be needed, what degree of trust must be attained, and the probable confidence level of my client?
- ☐ Am I clear about the reason for the session and prepared to help define the goals?
- ☐ Have I allotted enough time for the appointment?
- ☐ Have I prepared a proper environment? (No outside distractions, phone interruptions, etc.)
- ☐ Have I removed physical obstructions between myself and my client? (Computer, desk clutter, etc. – it is actually best to position yourself and your client in such a way that your desk is not between the two of you.)
- ☐ Do I have a written “agenda”; have I rehearsed possible scenarios? (Keeping written notes in front of you will help you stay on track and maintain control of the session.)
- ☐ Am I set up and prepared to take notes during the session? (It is important to document everything that takes place in order to develop a record for future verification or evaluation purposes. However, note taking should not inhibit the flow of the counseling process.)

Notes:

Checklist for Self-Evaluation

Checklist to be used as an aid by the Business Development Advisor following a counseling session.

- ☐ Did I put the client at ease? Was I warm and friendly?
- ☐ Did I use positive body language and active listening?
- ☐ Did I help the client to define the reason for the session?
- ☐ Did I ask open-ended questions and encourage the client with positive reinforcement?
- ☐ Did I offer effective feedback by paraphrasing and encouraging review?
- ☐ Did I refrain from using condescending remarks or other negative criticism?
- ☐ Did I maintain good structure and guide the client in staying on track?
- ☐ Did I help the client to identify the primary problem or opportunity?
- ☐ Did I guide the client in discovering possible causes and determining effective action?
- ☐ Did I aid the client in finding possible solutions and choosing between the alternatives?
- ☐ Did I at all times offer empathy for the client's feelings and express confidence in the client's ability to solve the problem or grasp the opportunity?
- ☐ Did I recognize areas that were beyond my scope and refer the client to other resources?
- ☐ Did I allow the client to take ownership of the problem or opportunity, remaining objective and offering advice only when appropriate?
- ☐ Did I encourage the client to view all aspects of the problem, pointing out possible consequences, both good and bad?
- ☐ Did the client and I agree on a course of action?
- ☐ Did the client and I agree on a time schedule and establish the first measurable step?
- ☐ Did the client understand that the organization is not a "one-shot-deal" and that we want him or her as a client for years to come?
- ☐ Did I attempt to set up an appointment for the next counseling session?
- ☐ Did I assure the client that I am available for any questions or concerns?

Notes:

Module 1 Checklist

Code of Professional Performance

TRAINING TASKS

Check that the following activities were completed.

- ☐ Read Module 1 eGuide and viewed eTraining in their entirety
- ☐ Located and read the Policies and Procedures of your host institution
- ☐ Observed the recorded counseling session and answered questions related to the counseling session
- ☐ Watched YouTube videos that support the Module's goals

EVALUATION PROCEDURES

Check that the following procedures were completed.

- ☐ Completed the Module 1 eTraining and answered evaluation questions with 100% accuracy
- ☐ Viewed Module 1 Counseling Session and answered Session's evaluation questions with 100% accuracy
- ☐ Reviewed the Host Institution Policies and Procedures
- ☐ Signed all required documents including the Conflict of Interest

Additional Activities

- ☐ Used "Preparing for a Counseling Session," "Counseling Checklist," and "Checklist for Self-Evaluation" when counseling
- ☐ Participated in a Roundtable Discussion or discussed ethics with Peer Coach
- ☐ If applicable posted observations on Ethics in the Business Development Advisor eForum

Module 2

COUNSELING TECHNIQUES

PERFORMANCE GOAL

The Business Development Advisor will display knowledge and use of effective counseling techniques in order to identify and assess a client's background and current needs. These techniques will include interpersonal skills such as receptivity, active listening, empathy, and a positive attitude. The Business Development Advisor will also utilize effective guiding and coaching techniques in order to provide the client with options and tools for making sound business decisions.

SUGGESTED PREREQUISITE

Module 1: Code of Professional Performance

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. Read Module 2 eGuide and eTraining in their entirety
2. Read and watch YouTube videos to gain and understanding of counseling tools
3. Observe Module Two - Debbie Doubtful Counseling Session and answer questions related to the counseling session
4. If applicable, post observations and resources to the eForum
5. Counsel utilizing the techniques learned in this module with Peer Coach observing, if possible, and recording observations on the Counseling Checklist. At the conclusion of the client's appointment, discuss the observations with your Peer Coach
6. Attend Business Development Advisor Roundtable when available

EVALUATION PROCEDURES

The proficiency in Counseling Techniques will be evaluated by all of the following methods.

1. Completing the Module 2 eTraining and answer evaluation questions with 100% accuracy
2. Viewing Module 2 Counseling Session then answering Module's evaluation questions with 100% accuracy
3. Discussion with Peer Coach on Counseling difficult clients

INTRODUCTION

While technical expertise is a critical element of a Business Development Advisor's ability to assist clients, good human relations and communication skills are even more important. A Business Development Advisor who lacks effective counseling techniques will be unable to transfer the technical expertise and therefore be unable to motivate the incredibly independent entrepreneurs who come to the Network for knowledge.

Because these skills are so critical to the counseling process, three tools to aid you in this process are included in this module. There are two checklists, one to use as a guide in preparing for a counseling session, and the other to use as an evaluation after the session is completed. The exercise, Create a Case, allows you and your client to work through a particular issue, using one of the counseling tools provided in this module. The Counseling checklists are provided in an eGuide.

THE EFFECTIVE BUSINESS DEVELOPMENT ADVISOR

- You are skilled at reaching out to help clients communicate openly and honestly. This skill includes participating in active and involved listening, which is hard work. Active listening means concentrating fully on what is being said, in order to understand not only the content of what is being said, but also to perceive what is not being verbalized. Active listening means trying to understand what the other person is thinking, and why.
- You are a person who inspires feelings of trust, credibility, and confidence in the clients. When clients trust you, they sense that it is all right to risk sharing their concerns and problems openly.
- You are a person with empathy who is able to see problems and solutions from the client's point of view. You measure the client's abilities and weaknesses, and then suggest solutions that are within the client's grasp. You attempt to understand, not to judge, the client. When you find that you cannot communicate and empathize with a client (and there is always someone like that), you will refer the client to another Business Development Advisor.
- You have problem-solving skills that allow you to define the true problem, identify where the client needs to be, and determine the best route to get there.
- You communicate caring and respect for clients. You communicate that you care about what happens to the client's business, that you would celebrate the client's success. The opposite of caring is indifference. It is essential that you convey acceptance of the client as a person, as well as acceptance of what the client has to say.
- You are a person who has expertise that will be of special value to the client. You are a business generalist, first and foremost, with basic knowledge of business ownership. You probably have a specific area of business in which you have particular expertise. In addition, you have a grasp of world events, including changes in the economy, demographics, and political implications for small businesses. If the client needs help in a field in which you have little expertise, you will refer the client to another Business Development Advisor.
- You can reason systematically, help your client to determine a step-by-step course of action, and assign "homework" when necessary. You also understand that it is the client's decision to follow this course of action or to abandon it totally. You know when to let go of a client.

- You continually increase your knowledge of other sources of information and assistance to entrepreneurs. You know that networking never ends and that clients always need more help.
- You play the "Devil's Advocate" with tact, encouraging the client to recognize potential problems and to view the "real world." This is a good teaching skill when the client is aware that you are playing this role, and when you use it with restraint.
- You are careful to use language that the client understands. You avoid acronyms and terms with which the client is unlikely to be familiar.
- Finally, you believe the best counseling approach is "participative," one in which both parties work together in planning how to analyze and solve the problems.

THE TYPICAL CLIENT

No entrepreneur or small business is exactly like another. Entrepreneurs have different levels of ambition, education, motivation, and sophistication. Small businesses vary greatly in size, type, industry, and stage of development. The problems and issues that entrepreneurs will bring to you about their businesses will vary even more! The point is that you will rarely have a boilerplate solution that fits all clients.

Clients have the same human weaknesses as non-business owners.

- You will often find that the client has inaccurately defined the problem--she believes she has a cash flow problem when in reality she needs to increase sales.
- Some clients are inclined to hide important information--he wants to apply for a loan but won't tell you that he filed for bankruptcy two years ago.
- A client may strongly desire to accomplish something but is unwilling to do the necessary work--writing a business plan to present to an interested potential investor.

Clients also have needs that an effective Business Development Advisor will recognize.

- Clients need to be told how they are doing and to be reassured that they aren't doing everything wrong.
- They need to know about other sources of information and assistance. They look for answers to their problems and for sources of money.
- Clients need help to accomplish tasks with which they are unfamiliar, such as preparing a loan proposal.
- Clients often just need someone to listen to them when they become frustrated with something about their business.

Most clients will have limited resources, assets, and time available to implement solutions.

- Many will avoid formal planning and then be plagued by the problems that result.
- Procrastination is very common.
- They learn best by "doing" rather than by reading and/or listening.
- The entrepreneur's business is a function of their ego and is their "child."
- They are often suspicious of the government.
- Clients are often lagging far behind the technological times, or, at the other extreme, are very far in the lead.

IMPORTANCE OF COMMUNICATION SKILLS

Listening

One of the most important communication skills is listening. Effective listening is more than just hearing. It also involves the mental functions of organizing, analyzing, and confirming. We generally speak at a rate of 150 to 200 words per minute. However, we can listen at a rate of 450 to 600 words per minute. How well we effectively listen depends on what we do with all the unused “hearing” time. Effective listeners use the following four critical listening steps.

1. **Hearing:**
   Our physical activities contribute to listening. Our eye contact, posture, nodding and non-verbal reinforcement (uh-huh) all help us concentrate on the client. By concentrating we increase our attention, compensate for distractions, and hear the message more clearly. In addition to the actual verbal message, we also take in visual clues, such as facial expression and posture, and react to other vocal cues, such as voice tone. All three provide valuable information about what the client is saying in slightly different ways.
2. **Organizing:**
   As we take in information, we organize it into a framework that makes sense to us. Hopefully, the client has given us help by presenting the message in an organized way. If not, we need to establish our own organization. We quickly determine if time, priorities, cause & effect, or some other logical sequence applies. We frequently use our own past experience to organize information. This can be a help or a hindrance. If our experience is different than that of the client, we can misinterpret the message. As we organize the words, we also organize the visual and vocal information we take in.
3. **Analyzing:**
   Converting the input into a message requires analysis on our part. We review the sequence of information for logic and absence of gaps. We compare the verbal message with the visual and the vocal messages for consistency. We draw tentative conclusions about what the message is and see if there is consistency in the total message. Finally, we extrapolate the meaning of the communication.
4. **Confirming:**
   To insure that we have understood the client’s message, we confirm the message. We can use restatement, in which we repeat in our own words what we understood the client to say, or we present our own conclusions from the message. When we restate, we verify the accuracy of what we heard. By presenting conclusions, we move the conversation along quickly, but with less assurance that we have received the message accurately.

   Rather than spending your listening time preparing a rebuttal, or letting your mind wander, practice using these techniques to become a better listener.

Interviewing

Another important communication skill is that of “eliciting”-- of being able to get the information we need from the client. This skill is critical to the interviewing process. A productive client interview should include the following ingredients.

1. **Setting a Safe Environment:**
   Put the client at ease. Provide a succinct introduction of yourself and the Network to encourage the client’s trust. Ask the client to tell you about his or her business, then listen.
2. **Keeping Good Structure:**
   Use questions to keep the client on track and doing the bulk of the talking. Control the flow and direction by asking questions, by summarizing what the client has been telling you, and by using subtle, non-verbal signals to demonstrate that you are actively listening.
3. **Encouraging the Client:**
   Use positive body language. Indicate by eye contact that you are paying close attention. Use head or other movements to communicate enthusiasm and interest. Adopt attentive stances. Avoid or ignore unnecessary distractions.
4. **Seeking Information:**
   Ask open-ended questions that cannot be answered with a mere “yes” or “no.” Ask simple questions at a level that the client can understand. Listen actively without interrupting. Pick up “leads” from the conversation. Take notes sparingly.
5. **Giving Information:**
   Speak clearly, without using jargon. Give information in small quantities to avoid overloading the client. Use diagrams, outlines, or charts and have the client participate whenever possible.
6. **Summarizing and Testing Understanding:**
   Help the client to spot gaps in the plan. Test your own understanding of what the client means. Give the client ownership of the solution. Define opportunities for action. Assign one “piece” of the total task for the client to complete.
7. **Proposing:**
   Proposals should be action-oriented and should relate to the client’s capabilities for action. They should be stated firmly and clearly with reasonable timetables for action. Recognize the client’s resource constraints.
8. **Using Supporting Behavior:**
   Share enthusiasm and interest. Give supportive comments. Build on the client’s ideas. Explore solutions that give the client ownership. Avoid giving the client perceptions of threatening messages to his or her ego or plans for success. Avoid defensive statements, value judgments, and conscious disagreements. Avoid raising difficulties without offering solutions. Recognize your client’s and your own limitations. Be prepared to admit mistakes.

WHAT IS COUNSELING?

"Counseling" is helping a client with an important problem acquire the ability to handle it effectively. It is helping him or her to feel confident in locating and using relevant information. It is enabling the client to explore and consider available options, develop plans, and make important decisions to bring about a desired future. In order to have an effective relationship, the Business Development Advisor must have an unconditional positive regard for the client and approach him or her with non-judgmental caring.

Counseling and consulting are closely related activities. Counseling generally utilizes the client's ability to learn from the Business Development Advisor and then to apply this knowledge to solve his or her problem. Consulting often involves performing some type of work for the client, then preparing a report or recommendation that the client may or may not implement. Since we often provide both types of services for clients, we call ourselves Business Development Advisors.

There are three main aspects to the counseling function: attending the client, exploring and responding to the problem, and personalizing and understanding the issues.

1. **"Attending" the Client**

   Attend to the client by observing body language, tone of voice, and emotional state. Attend to your own body language, voice, and listening mode.

   - Body language - Read the client's body language and respond to it. For example, if his or her body language indicates tension, use confirming body language to put the client at ease.
   - Tone of voice - Use your own voice as a means of establishing a pleasant conversational environment. Whether your client's voice is calm or shrill will depend to a great degree on which tone of voice you choose for yourself.
   - Emotional state - Recognize and respond to the client's state. For example, if the client appears to be bored, use animated facial and verbal expressions to draw him or her out; if the client appears to be stressed, use a calm voice and affirming expressions. Be sure to monitor your own emotional state and portray neither stress nor boredom.
   - Type of listening - Use active listening techniques rather than just passively observing. (For more information on active listening, refer to the Listening section in this document.

2. **Explore and Respond**

   Explore and respond to what the client is communicating to you--reflect their feelings as well as their words.

   - Words - Hear the words, but listen for the rest of the message. If you are not sure of the message, repeat in your own words what you heard, and ask the client to confirm that you have understood the message.
   - Feelings - Remain non-judgmental throughout the process. Avoid condescending remarks, ridicule, or belittling humor. Convey acceptance of the client, and an understanding of the complexity of his or her concerns. Acknowledge the validity of the client's feelings and affirm them whenever appropriate. Remember, though, to avoid allowing either your client's or your own feelings to interfere with the counseling process.

3. **Personalize and Understand**

   Personalize and understand the client's words, problems and goals by sharing with the client what you have heard and observed, not only during this particular session but in other sessions as well.

   - Feedback - Encourage the client to review with you what you have accomplished so far. Is there a clear statement of the real problem or opportunity confronting the client? Is there agreement on the approach toward a solution? Is the client motivated to action? Can he or she define a clear set of action points? Remember to offer positive reinforcement as the client goes through this process. Refrain from offering negative criticism that can undermine the client's confidence and self-esteem.
   - Stories - Share stories of other clients who may have had this same problem. (Don't get carried away with war stories, though.) This shows the client that you have a strong understanding, respect, and empathy for his or her situation.

Once you have achieved a solid, comfortable relationship, move on to the Counseling phase.

WHAT IS COUNSELING

Counseling is a win-win interaction that fosters an atmosphere of teamwork in which a counselor with specific professional knowledge and experience helps a client acquire understanding and skills directly related to the client's business.

Effective Counseling:

- Helps clients set better goals and guides them in reaching those goals.
- Asks clients to do more than they would have done on their own.
- Helps clients to focus more accurately on the specific problem or opportunity.
- Provides the tools, support, and structure to obtain better results--and to obtain them more quickly.

There are many tools that can be used in counseling that enable the client to become more adept at analyzing specific needs and implementing processes to fill those needs. Three of those tools are presented here: (1) Work-Assignment, (2) Problem-Solving, and (3) Processing Information and Determining Effective Action. In order for you to coach a client in the use of these tools, the two of you will need to discuss them in advance and choose one as a means of attacking a particular need that the client has. The example, *Writing a Business Plan* is used in each of the three tools to give you a general idea of how to use them. The example, in each case, is simplified and is not meant to offer definitive answers, only to give brief guidelines.

Work-Assignment

This tool for counseling clients teaches them how to take a project or task and break it down into a step-by-step process. You and the client should:

1. **Provide the Proper Environment:**
   - Choose a reasonable, private, and quiet place in which to work.
   - Make sure the assignment fits the client's needs.
   - Tailor the assignment to the resources of the client.
   - If possible, prepare a "homework" assignment in advance of meeting with the client.

(Example – Does your office offer an environment conducive to writing a business plan? Does your client need to write one? Did you have the opportunity to discuss a "homework assignment" prior to the first counseling session? If not, have you thought about what the first "homework assignment" should be?)

2. **Determine the Objective of the Assignment:**
   - Establish the what, why, and when of the assignment.
   - Clearly define the desired end result.
   - Anticipate possible questions and objections.

(Have you gone over all the reasons for writing a business plan? Have you discussed the benefits? Were you ready with suggestions to get your client started?)

3. **Assure Understanding:**
   - Review with the client the "what" and "why" of the assignment.
   - Ask the client if he or she understands and agrees with the assignment.
   - Watch, listen, and get the client involved in the "how."
   - Clarify expectations.

(Does the client agree that a business plan is necessary? Does he or she understand what it will accomplish? Have you remained silent long enough for the client to voice his or her own ideas as to what items should be included in the plan? Have the two of you agreed on what you expect from each other and from the finished plan?)

4. **Set a Time Schedule:**
   - Establish the importance of a schedule.
   - Get mutual agreement on the target date for completion.
   - Recommend the setting of incremental milestones.
   - Reach mutual agreement on the steps and on possible "homework."

(Have you discussed breaking the business plan into smaller sections, with an expected completion time for each section? Does the client agree that a schedule will offer motivation for each increment, as well as positive reinforcement for completion of the total task? Have you agreed on a date for the first draft, no matter how "rough" it may be?)

5. Assure Acceptance:

- Review the "how" of accomplishing the assignment.
- Listen for new ideas that may have developed.
- Ask how you can help with the assignment.

(Have you and your client reviewed the steps involved in writing the plan? Did the client have new suggestions or ways to accomplish the task? Are there more questions? Have you made sure the client knows what his or her first step is and how you can help?)

6. Leave the Door Open:

- Suggest that the client come back at any time for any problem.
- Be available.
- Make sure the client feels that his or her questions are valid and are important to you.
- Check on the client's progress, as appropriate.

(Does the client feel free to call you? Have you assured him or her that there are no "stupid questions"? Have you made a note to call the client if you have not heard from him or her by the agreed-upon time?)

Using this Counseling approach to help a client with an assignment, no matter how routine it may seem, will improve both the ability to get the work done and your relationship with the client. It is important to remember not to overload the client with too much information or too much to do.

It is also important to review with the client the foregoing steps in this Work-Assignment Tool and how the two of you worked your way through them. Doing so will allow the client to understand how to use the tool for other needs in the future.

Problem-Solving

Another excellent Counseling tool is problem-solving. If a client can learn to look at problem-solving as a process and identify the stages within the process, he or she will be able to use this model over and over again as problems arise.

1. Define the Overriding Problem or Opportunity:

Identify what is standing in the way of achieving the desired goal. Ask the client what the "best-case-scenario" would be. Setting that "top line" often identifies where the problem currently lies and identifies the "gap" between the current situation and the top line.

(Example – Is the task of writing the business plan just too overwhelming? Is the best-case scenario that the plan would already be written? Has anything been put down on paper? If not, in this case, the "gap" is significant, and the problem lies in getting started.)

2. Identify Potential Causes or Barriers:

Getting the client to recognize the cause of the overriding problem or opportunity is not always easy. The Supervisor very often encounters answers that are only symptoms of the problem. It is important for the Supervisor to check the logic of the client's own analysis in order to establish the real problem.

(Does the client insist that he or she just hasn't had the time to write the plan, when you suspect the real problem is that he or she doesn't know what a business plan is or what it should include?)

3. **Select Most Likely Causes or Barriers:**
   There is generally no single barrier to the achieving of the desired result. Problems usually have multiple causes, some of which may be impossible to tackle. Sometimes there are extraneous factors beyond the control of the client. However, it is essential to guide the client in identifying these factors, and in prioritizing them as to degree of impact, before he or she can move to the next step in the process.

   (Does the client realize the importance of having a business plan? Does he or she know all the benefits of having a comprehensive plan? What to include? How to structure it? How to get started? Does he or she feel inadequate to do the actual writing? Are there true time or budget constraints?)

4. **Identify Possible Solutions:**
   At this stage, the client should have identified all the key causes of the problem. The next step, then, is to list all potential solutions. These solutions should be prioritized in some manner, such as feasibility of accomplishment, time required to complete, etc.

   (Possible solutions, not prioritized: Schedule a time to discuss in depth all the advantages and benefits of having a business plan, as well as all the major components and why they are important to the eventual success of the company. Offer suggestions and encouragement in regard to the actual writing of the plan. Help the client to get started by choosing one component of the business plan and working on it with them. Be sure that something is actually on paper before the client leaves. If the client still is uncomfortable, offer the names of several consultants--being careful to abide by the Professional Performance guidelines--who might be able to write it for the client. Help the client to recognize that, even though some uncontrollable constraints usually exist, positive steps can be taken in other areas.)

5. **Select Most Appropriate Solutions:**
   These solutions will depend on several factors. Sometimes the solution that would be the most effective is not currently possible due to limited resources. Therefore, all solutions have to be ranked according to their effectiveness in solving the problem or removing the barrier, and also by how much they can be controlled or influenced by the client.

   (Perhaps the hiring of a consultant would be the most effective, but due to the fact that the client has budget constraints, that solution would need to receive a lower ranking than some of the others. After ranking all of the solutions, perhaps the highest ranked one would be to simply get started by scheduling a session with the client for the purpose of actually writing a single component at that time. Perhaps, due to time constraints, the client will be unable to spend discussion time with you on advantages, benefits, key components, etc., and will need detailed information to take home.)

6. **Agree on Actions and Priorities:**
   Based on the criteria above, the client and Supervisor should agree on the actions to be implemented, as well as which ones to implement first.

   (The two of you agree to a time for the next session, and that the purpose of the session is to write the Customer Profile portion of the business plan. You provide the client with information on how to determine who the typical customer is, and ask him or her to think about it between now and the next session.)

7. **Monitor and Support:**

   The final stage in the process of problem solving is making sure that the implementation actually begins and that it remains on schedule. Just as in the work assignment process, the open door is very important. Make sure the client knows that he or she can come to you at any time with any problem.

   (Call the client the day before the appointment and remind him or her that the two of you are going to write the Customer Profile portion of the business plan. Ask if he or she has any questions or if there is anything else you can do to help.)

Remember to review with your client all the foregoing steps if you are using this Problem-Solving Tool as a means to coach the client for handling future needs.

Processing Information and Determining Effective Action

This Counseling tool provides a way of looking at a sequence of events and, based on what the information is "saying," determining what action is needed at each particular juncture in the process.

There are five major areas to be considered in determining the meaning of the information and deciding what kind of action is needed. Each of these areas is characterized by a key question. Guide the client in asking the following:

1. **What went wrong?**

   If the information is telling you that there is a serious deviation from expected performance or results, then the effective action is one of "problem-solving."

   (Information - Your client expected to be able to get a loan, based on the information contained in a one-page description of his or her business. The lending establishment insisted on a business plan before they would consider the client's request.)

2. **What should I do?**

   If the information is telling you that a decision needs to be made, then the effective action is one of "choice-making."

   (Information - Your client must decide whether to pursue other avenues of financing, continue operations as they are, or choose a method to comply with the lending establishment's requirement.)

3. **How do I do it?**

   If the information is telling you that the decision needs to be implemented, then the effective action is one of "planning."

   (Information - Your client has decided to find out how to go about creating a business plan. He or she wants to know what the next step is. Action – Review the module on Business Plan Development and discuss the steps involved.)

4. **What else could go wrong?**

   If the information is warning you that something could go wrong, then the effective action is one of "anticipating the problem."

(Your client has agreed to create a business plan, has discussed how to get started, but is still not sure that the plan will help him or her get the loan. Action – Review the module on Business Plan Development and point out areas that are potential trouble spots.)

5. **How am I doing?**

When the information is telling you that the plan is made and controls are in place, then the effective action is one of "implementation."

(Your client has decided to create the business plan, has discussed how to get started, has voiced concerns about the effectiveness of the plan, but is convinced it's the way to go, has actually formulated a "rough draft," and wants to know what to do next. Action – Review the module on Business Plan Development, provide reinforcement and discuss what needs to be done to finish the task.)

It is important for clients to recognize where they are in the sequence of events. They will need to gather additional information, and each situation will require different kinds of information. Knowing where they are in the sequence will help them know where to go for the information they need.

Remember to review the foregoing steps with your client if you are using this Processing Information and Determining Effective Action Tool as a means to coach your client for handling future needs.

DEALING WITH PROCRASTINATION

The preceding tools are valuable skills for any client to acquire. However, not one of them can be used effectively if the client has a tendency to procrastinate on a regular basis. Most procrastinators are hard workers. They also tend to be perfectionists, fear failure (or success), and are not clear about their priorities. They frequently doubt either their ability to do the job or the importance of doing the job. In any case, procrastination is self-defeating. Therefore, it is extremely important to Supervisor clients on the value of avoiding procrastination. Here are some good tips:

- Realize that Procrastination is Futile: Don't spend time and energy avoiding the task. Starting it and completing it will reduce your anxiety.
- Eat the Elephant. Take a large, overwhelming task, break it up into little pieces and do one piece at a time. You eat an elephant one bite at a time.
- Get the Unpleasant Out of the Way: You will never feel like doing an unpleasant task. There is never a good time to do it. Think of how relieved you will be when it is finished.
- Set Short Time Limits: Decide how long you will work at a task. If you decide on ten minutes and feel some accomplishment, you will probably continue.
- Do the Easy or Interesting Parts First: This will at least get you started. You might then decide to continue because you are part of the way to completion.
- Commit to Someone Else: Set a concrete time for completion with a friend or colleague. Because we don't like to let others down, this can motivate us to get to work.
- Remember the 80/20 Rule: 20% of our effort will complete 80% of our work. Decide on how "perfect" the task must be before putting in all the extra effort. Perfection can sometimes be too costly. Decide when the job is done.
- Be Your Own Cheerleader: Give yourself a pep talk. This can be the push towards getting started.
- Listen to Your Excuses: Verbalize your excuses. Say them out loud to yourself. If they sound lame, don't accept them. Treat your excuse as you would treat anyone else's.
- Thrive On Momentum: When you get started and are accomplishing a task, let the momentum move you forward. Postpone your other plans and keep working.
- Get in Touch With Your Feelings: Find out why you are procrastinating. What are you afraid of? What don't you like about doing the task? Realize that you are allowing these feelings to interfere with your accomplishments and that the results of procrastination can be more distasteful than doing the task.
- Reward Your Performance: Choose an appropriate reward that you will give yourself for completing the task.

Remember that all the above tips contain two common edicts of effective time management - DO IT NOW and COMPLETE WHAT YOU START. These tips will help deal with procrastination only if they are applied consistently. Keep this list and go back to it periodically as a reminder!

IMPORTANCE OF PROVIDING REINFORCEMENT

Remember that coaching and counseling need to be combined with positive reinforcement. Recognizing good performance involves giving praise to clients who meet or exceed the expectations that have been mutually agreed upon. In order for the praise or recognition to be effective, it needs to be received and internalized by the client. This action can be accomplished by linking the praise directly to a specific performance, to the behaviors that resulted in that performance, and to the results of the actions. The following is a three-step approach that will help you clearly recognize and affirm the performance.

1. **Describe the Situation or Task**
   Focus on the accomplishment or activity that had a positive result. Make sure the client knows which accomplishment or activity you are praising:

   "Pat, you did a great job on the first draft of your business plan..."

2. **Describe the Behavior**
   Focus on the behavior (what the client did or said) and the personal characteristics or values that contributed to achieving the result. Give specific examples so that the client knows which behaviors support the overall effort and can draw on them again in the future:

   "Pat, you did a great job on the first draft of your business plan. You really put a lot of time into researching your competition..."

3. **Describe the Result**
   Focus on how the performance and behavior benefit the client's efforts and lead to the desired result:

   "Pat, you did a great job on the first draft of your business plan. You really put a lot of time into researching your competition. Making that time commitment now and including the information in your business plan will really help you be ready for whatever your competition throws at you in the future!"

TEN GUIDELINES FOR EFFECTIVE COUNSELING

by Paul Nash, Ed.D. and Frederick P. Nader

Reprinted with permission from the Small Business Forum, The Journal of the Association of Small Business Development Centers.

This article offers support to Small Business Development Center counselors by presenting ten basic guidelines for effective counseling. These guidelines work for us in our practice, and we hope that they will help you too.

The counseling philosophy underlying these guidelines is based upon seven deeply-held assumptions about human nature, democracy, and adult learning. They include the following:

- Counseling implies change, and change often stimulates resistance.
- Adults learn best by participating actively in the learning process.
- People have the capacity to solve their own problems if appropriately supported.
- There is an inherent human drive towards health and the creative resolution of conflict.
- Attentive and caring listening can help people to grow in their capacity to manage their lives effectively.
- In a democratic value system, people should be valued and respected. That is, they should not be manipulated or indoctrinated in ways that inhibit their freedom and personal power.
- The counseling relationship should result in the increased empowerment of the client. Here, then, are our ten guidelines:

1. Pay attention to the context of the meeting.

By context, we mean all that precedes, surrounds, and influences the process and outcomes of the encounter between the counselors and the clients.

Included in the context might be:

- The day of the week and time of day. Friday's energy level may differ from Monday's. Five p.m. level of attention may differ from nine a.m. level.
- Physical condition of counselor and clients. Are they in good health? Hungry? Tired?
- The setting. Is the room hot? Cold? Are chairs comfortable? Light adequate?
- Expectations and assumptions of counselor and clients. Why are your clients here? What do they seek? What are their hopes, concerns, and anxieties?

As a counselor, take all available means to make the physical conditions as comfortable as possible without being distracting or conducive to drowsiness. Favorable outcomes are more likely in an environment that is conducive to learning.

Remember, first impressions are powerful. Your appearance, manner, welcome, and control of the physical setting can create an atmosphere in which your clients feel comfortable, confident, and relaxed.

2. **Beware of nonverbal signals.**

   It is becoming more widely accepted now that much communication occurs on a nonverbal level. The way we walk, move our bodies, gesture, change posture, twist, or slouch in our seats, grimace, frown, smile, and in a thousand other ways express ourselves, are all revealing.

   Be aware of the nonverbal messages you might be giving your clients by leaning forward in your chair (which tends to be interpreted as showing interest and energy), the distance you place between yourself and your clients, and the abruptness or smoothness of your movements.

   Be attentive also to the nonverbal behavior of your clients. Some of what they intend to convey may be carried in their body language rather than in their words. It is common to hear a verbal message that contradicts the speaker's body language. This is a sign of internal conflict, struggle, or division. Which message do you believe - the words or the physical signals? If you are wise, you will pay attention to both, for people are not always wholly integrated. They may be driven by internal contradictions, which reveal themselves in mixed messages.

   If the nonverbal message you are receiving seems both ambiguous and important to the matter under discussion, test your hypothesis by asking the client for clarification. For example, you might say, "You seem to be angry about that. Am I correct?" or "This topic seems to make you sad. Is that right?" Don't be sidetracked by an extended analysis of "feelings." Instead, check out your assumptions quickly and in a non-threatening way, and then move on.

3. **Empower the client.**

   The counseling relationship should be based upon the belief that your clients, given appropriate support, have the capacity to solve their own problems. This is a belief with powerful consequences, for it means that the solution lies within your clients, not within you as the counselor. Empower your clients, instead of taking power from them. The most common fault of inexperienced or unskilled counselors is to take the problems away from clients by solving them. Counselors may mistakenly assume that they know the problem, or have "been there before," or have experienced something "exactly like it." You do not know the problem; you know only that tiny aspect of the problem that the client has chosen to share with you. You have not been in the same situation, for you are not the client. We each have our own unique background, strengths, limitations, aspirations - all of which affect both our view of our situation and our capacity to act upon it.

   Moreover, you should not "solve" your clients' problems even if you could, for you will not be there when they implement your solution. Solving this problem actually renders them weaker, more dependent, and less able to deal effectively with the next problem. Treat your clients as equals and with respect. Operate from the assumption that, given appropriate help, resources, and support, they have the power to live their lives effectively and to overcome difficulties. Don't come across as a guru. Be honest. Don't hesitate to admit that you don't know. Keep the focus on your clients' stories. Don't take the focus away by telling stories of your own experience, which purport to show that you've already solved similar problems in your own life. So, what can you say or do that is helpful? Express your confidence in your clients' ability to solve the problems themselves. Ask questions that encourage them to analyze the situation, to express their feelings and thoughts. Get them to begin to develop their own solutions.

4. **Be open to the unpredictable.**

   One of the most valuable qualities of the effective counselor is an open mind. Your own experience, background, philosophy, preferences, personality, and style will, of course, affect your responses and ideas. But try to remain open to the unforeseen. And try to see your clients as unique individuals, rather than as stereotypes.

   This attitude stems from respect. Respect includes the belief that clients are worth listening to, and that they may be in touch with insights that are not apparent to you .Consequently, you must be open to change and persuasion. This is not possible if you approach the interaction in the spirit of the traditional evangelist, seeking the conversion of the other from a base of absolute certainty about the rightness of your own position. The "evangelist" or "salesman" is far from the counselor model that works effectively with adult clients. You should seek to be a catalyst, who strives to collaborate with clients to bring forth the ideas or proposals or solutions.

   Be ready to be surprised by your clients. You should not have a "package" that you want to "sell" to the clients. Regard them as the experts regarding the problems and their solutions. Your expertise lies in your skills in the process of the encounter and in the quality of your interaction.

5. **Listen with the whole of yourself.**

   Listening is both the most important and the most difficult part of the counseling encounter. It is important because caring and attentive counselors can release the clients' ability to solve the problems. Clients often experience a clarification of thought and feeling by talking with a sympathetic listener. Problem solving is enhanced by discussion of the problem with a focused, neutral person who pays careful attention and reflects the client's thoughts and feelings in appropriate ways. Effective listening involves being focused, concentrated, with the whole of yourself available. Have you ever tried to talk with someone who was going through the mail while you spoke? Chances are you felt shut out. Good listening requires you not only to be attentive to the clients' words, but also to try to gauge the feelings behind their words, using all available clues of body, gestures, tone, manner, and mood.

   Why is good listening so rare? Because it is difficult and because its difficulties are commonly underestimated. What we call "listening" is often merely a polite waiting of one's turn while we allow the other person to express trifling or bumbling views, as we rehearse our own golden nuggets of wisdom. Listening is hampered by our own internal filtering equipment that screen out or distort much that is said to us. Our filters screen out the unfamiliar, especially proposals for action. It is easier to find reasons why unfamiliar proposals will not work than it is to change our existing pattern of thought or belief.

   Other filters screen out threatening material. We find ways of not hearing, or rejecting, or defending ourselves against anything that threatens us, especially if it threatens our established sense of identity. A third type of filter uses our previous experience to trick us into premature closure. We hear something that sounds familiar and we jump to link it with patterns we have already established. We dash ahead along the superhighways that we have traveled frequently before, even when our clients intend to take a side road. However, our rapid anticipatory closing of their presentations prevent us from really hearing what they are saying.

Effective listening is a very active process. As a counselor, you should accompany your clients every step of the way. Active listening means reflecting back to the clients what they say in such a way that its meaning becomes clear to them -- often for the first time. You do this by paraphrasing or summarizing their remarks and feeding them back to them. "So, what you seem to be saying is..." "In other words, what you want is..." "Let me see if I understand your intention..."

Put your assumptions or hypotheses about their wishes, hopes, fears, plans into your own words, and check whether you're on track or not. The process of hearing you state what they are trying to say can be a wonderfully clarifying and revealing experience. They may never have done this before, and the beneficial effects of your reflecting and clarifying can be startling.

6. **Talk simply and clearly.**

What do you say to your client? Listening is the most important part of the counseling encounter, but speaking clearly also matters. You need to express yourself in a non-threatening way, so that your clients can remain open to what you suggest, and perhaps be influenced by it.

Help your clients clarify their intentions. You do this by reflecting back to them possible inconsistencies or internal contradictions in what they are proposing or seeking. Help them to explore what appear to be areas of conflict, moving them to deeper levels of feeling and belief.

When you talk, speak clearly and simply. Avoid all jargon, technical, or esoteric language, and convoluted arguments. Estimate your clients' level of education and try to match their level of preferred discourse, without being patronizing. Do not try to impress your clients by your erudition, expertise, or authority. You are not there to impress, but to help. It does not help to be threatening in any way. Your approach should be supportive, affirmative, and optimistic.

Your task is to translate your inner convictions and opinions about your clients' problems into outer clarity. It is wise to try to establish a degree of "distance" or objectivity from their views and aspirations, so that you do not overlay their needs and problems with a covering of your own inner unfinished business and unresolved issues. If you find that you continually get hooked by, or have difficulty with, the same issue, you should note it and regard it as a useful warning signal that this is an issue that you probably need to work on elsewhere.

The best guideline is to speak briefly and to address only one point at a time. Don't attempt to say everything that needs to be said on the subject. Be content with incompleteness. Remember that most people can listen with close attention for only a few minutes at a time. When speakers continue for some length, most listeners "tune out" frequently, going on daydreams or mini-vacations sparked by a word or idea or gesture. They will then return some minutes later. The speaker is in a different place but tends to assume that the listeners have been following the whole time. This is a dangerous and often costly assumption.

It is a major communication error to assume that what has been spoken has been heard. Don't make that error. Instead, speak briefly. Make a simple point. Then wait for or invite reaction, questions, comments. Ask your clients to state in their own words what they heard you say, especially if it is an important or summarizing point. Then, in light of the clients' reaction, you can continue.

7. Ask and answer questions effectively.

One of the most common activities in the counseling encounter is asking and answering questions. This is a very important mode of communication, and it deserves special attention.

Questions are customarily misused and overused in counseling. Be aware of why you are asking the client a particular question: what is your underlying purpose?

Occasionally, in workshops or seminars that we are leading, we ask the participants to communicate by using statements only. Most people are usually very uncomfortable during the experience. One reason is that they are engaging in unfamiliar behavior. Another is that statements tend to be more self-revealing, and hence riskier, than questions. The usefulness of the exercise lies in the discovery of the variety of roles that questions can play in communication, from clarification to concealment.

There is a genuine place for good questions in the counseling situation. Through sensitive questioning, you can link your clients' present problems or dilemmas with past situations and contextual conditions affecting the present. Such questioning involves honest and real questions. Real questions are those to which you don't already know the correct answer.

There are many forms of inappropriate questions. For example, don't ask questions that are really disguised statements; make the statement instead. "Do you really believe that...?" "How can you say that...?" "Do you know how many times I have had to answer that question?" These are not helpful questions. They are self-protective disguised statements. They tend to put your clients on the defensive and increase your discomfort.

Nor should you test your clients by asking questions to which you already know the answer. This is a time-honored device in classrooms, but it has no place in effective counseling. It is equally harmful to try to manipulate or control or trap your clients through a series of leading questions. This may enhance your feeling of superiority or power, but it ruins good counselor-client relations.

The worst questions put your clients on the spot or make them look foolish. "You mean to say that you went into that audit with no preparation?" Such questions destroy the delicate fabric of trust on which a good counseling relationship depends.

You in your turn will be asked questions by your clients. Some of their questions will be attempts to find out your credentials. Can they trust you? What experience do you bring to the situation? It is best to answer simply, honestly, briefly, and not defensively. Don't go into a lengthy personal history, but recognize that the success of the meeting will depend partly on your clients' confidence in you. Be prepared to state succinctly, if asked, your background and experience.

Other client questions may attempt to put you into the position of guru or problem-solver by asking you for "solutions" to their problems. You must take care to avoid this trap, for to respond as they wish merely increases their dependency (which may be a major part of their problem) and does nothing to empower them for future success. Do not appear rejecting or cold. But gently turn the question back to them by asking them what solutions they have already tried. Did their plans work? If not, do they know why? What other alternatives are there? You must have your own hypotheses or suggestions, but it is wise to hold these back for a summary statement.

8. Expect, meet, and deal with resistance to change.

As you move through the counseling process, you will normally travel from exploration, through clarification, to resolution (partial or complete), and to a plan of action based upon the new insights and resolution. You should be clear that, once your clients begin to consider action, they are facing the need for change. Recognize that any prospective change may appear threatening and may result in resistance.

The stakes are very high because your clients may be betting their own - and perhaps others' - financial future on the outcome of the change. It is vital to establish honest communication with your clients and to identify and remove barriers to that communication. Resistance to change can be a powerful barrier if not recognized and managed.

The change that we refer to may be behavioral (how to manage a business effectively); it may be how your clients think about a problem (pricing, marketing, new business development); or it may be a lesson that your clients need to learn about themselves (that they base their decisions upon a need to be liked rather than on objective data). But in one form or another, change is always part of the situation.

Resistance to change may include:

- Inconvenience. "I've already studied the field: don't upset me with new data." Often clients will come to you looking for validation rather than a business consultation.
- Sunk costs. "I've put so much time and money into this that I can't change now."
- The client simply disagrees with your assessment of the situation and may value some things differently.
- The client has a low tolerance for change and ambiguity.
- The client may not trust you.
- The clients are afraid to change because the new is unknown, or they may not have the new skills necessary for success or it may represent a loss of control.

It is essential for you, as the counselor, to understand resistance and to manage it competently. The steps to success in this endeavor are:

- Anticipate resistance. Change always generates resistance. Don't be surprised or dismayed by its appearance.
- Recognize and explore it in a non-threatening way with your clients. Don't use pejorative labeling, such as stubbornness, naiveté, mental confusion. Such labeling will lead your clients away because they will think you're not listening to what's really going on.
- Welcome resistance and use it in a creative way. Demonstrate to your clients that you are in fact listening, that you understand their aspirations, doubts, and fears. Express confidence in their ability to move beyond the stage of resistance to creative action on the other side.

9. Build a resolution.

One of the most exciting, and perhaps the most satisfying, phases of the counseling encounter is building a resolution of the client's issues. This resolution may be a solution to their presented problem. Or, it may be the clarification of where the clients should go from here.

The satisfaction in this building phase often comes from the experience of working with your clients in an act of invention. Building is the opposite of what we are trained to do in academic seminars, that is, to point out the flaws and weaknesses in others' facts and ideas, depreciate others' hypotheses and suggestions, and put down others in an attempt to show one's intellectual superiority. To build means to see the potentially creative part in the other's contribution, to relate one's own contributions to it, and to add to it in such a way that something new emerges that neither person could have created alone. This synergy or collaborative creativity is what makes the counseling encounter worthwhile and important.

The atmosphere that best motivates people to think creatively is one in which there is real listening, openness, trust, constructive feedback, and free speculation. There must be great tolerance of new ideas, metaphorical thinking, fantasies, and ambiguity. People must explicitly give each other credit for their contributions and point out the strengths and good points in even crazy-sounding notions. Instead of some winning (those whose ideas prevail) and some losing (those whose ideas are rejected), all win, because ideas are built upon others' ideas and all participants feel they have a stake in the final outcome.

Find ways to support your clients' drive toward creative ideas and the resolution of conflict. Encourage innovative thinking. Don't look for a simple right answer. This tends to keep you from exploring less obvious alternatives that might be more creative solutions. Ask "What if...?" questions. Play around with ideas. Reverse direction. Stretch the rules. Rephrase the problem. Postpone closure until you and your clients are ready for a resolution. If you find a locked door, don't push on it. Instead, ask your client to find a window to climb through.

Don't let your clients evade essential difficulties, but don't assault them with such difficulties so brutally that their energy and motivation flag. A sensitive and supportive counselor can help to moderate the influence of a client's overactive superego that demands perfection and the "one best way" to solve a problem. Maintain a consistently positive belief in the client's ability to arrive at a satisfactory outcome.

Towards the end of your time with your clients, feel increasingly free to intervene with suggestions or recommendations. These are best when they represent merely a summary of what your clients themselves have reached. But you may at this time identify resources for your clients or bring up things that have not been mentioned before and of which your clients seem unaware.

Avoid the indoctrinating approach that says, "This will be good for you, and you should do it." Instead, try the more liberating and self-disclosing approach that suggests, "This has worked for me. You might want to look into it, bearing in mind that your situation is unique." As counselor, you should not impose your personal values on your clients. But you need not hesitate to disclose your own values, as long as the timing and manner of your disclosure do not close down or discourage a free exploration of options.

10. Give and invite feedback on the process.

Conclude the counseling session or sessions by inviting your clients to give you feedback on your handling of the process. Ask them whether the process was helpful. If they answer affirmatively but generally, ask them if anything was particularly useful. Inquire if anything happened that was difficult or awkward or unhelpful. Again, invite specificity. Ask them if there were any matters they would like to have covered but did not, or what they would like to pursue in the future. Encourage them to think concretely about the next steps, including names, dates, and places. Small, specific goals are more achievable than global, abstract ones.

If your clients invite it, or if you believe they would welcome it, you can give them feedback on how they handled the session. It is very important to recognize that there are identifiable skills to being an effective client. Some clients are much easier to help than others.

Working with the client is pleasant, stimulating, and productive. With others, massive resistance, dependence, or passivity may render the encounter difficult. Congratulate yourself if even modest progress is made in such cases. It can be helpful to your clients to let them know in what ways they made it easy or difficult for you to assist them.

Above all, retain a sense of humor and modesty about your efforts. Acknowledge your own limits and don't be hard on yourself. A sense of humor is the ability of being able to perceive the oddity and even absurdity of our human situation, the comic that is the other side of the tragic in life. It prevents us from taking ourselves too seriously. It helps us to avoid an attitude of arrogance about our own powers and responsibilities. It enables us to enjoy the process in the present and to anticipate the next encounter with zest.

DESIRED OUTCOMES FROM THE FIRST INTERVIEW

The following conditions will exist as a result of effectively applying the interpersonal skills, coaching and Counseling tools described above.

- A clear statement of the real problem or opportunity confronting the client.
- Client will have confidence in the Business Development Advisor.
- A clear set of action points.
- Concurrence from the Business Development Advisor.
- The client is motivated to action.
- The client has learned how to approach a problem of this kind in the future and find a solution.
- The client feels that he or she has learned something.
- The Business Development Advisor has a clear assessment of the client’s position (business and personal) and has made a judgment of competency to act.
- Decisions have been clearly made as to whether the client will return (after completing the agreed-upon action).
- The client understands the role and potential of the Business Development Advisor.
- The client is satisfied.

WHAT WOULD YOU SAY IN THESE DIFFICULT SITUATIONS?

The editors asked SBDC counselors to pose questions that clients often ask. The authors offer several types of responses, noting that the context will determine the tone of the response.

Client: "But can't you just tell me what I'm supposed to do? You're the expert."

Counselor: "It's true that I'm here because I have some skills and experience that might be helpful to you. But I'm not as knowledgeable as you are about the details and background of your situation, let alone your own motivations and feelings. And, when you come to implement an idea, I'm not going to be around to make it work for you. After listening to you, I'm convinced that you have the ability and wisdom to solve this problem. I'm happy to work with you in clarifying it and exploring what might work for you. But, ultimately, you are the one who must be in charge of your life and your problem-solving."

Alternative Response: "But you're the expert on your own situation. Let's talk together on what you might do."

Client: "Tell me about your background. Have you ever counseled cases like this one before? Have you ever run a business yourself - or did you just get this stuff out of a book?"

Counselor: "Yes, I'll be glad to tell you about myself. I have seven years of business experience, including three years managing my own small consulting firm. I have to meet a regular payroll, supervise employees, and collaborate with partners. I have an M.B.A. degree and teach organizational development for the SBDC. While each case is unique, your case raises issues that are similar to many that I've met before."

"I've learned a lot from books, as well as from lecturers and counselors, but I believe there's no substitute for hands-on experience. I enjoy using my experience, knowledge, and training to think about business problems in general and help individuals like yourself, who bring their special and unique problems to me."

Alternative Response: I'm getting the sense that you don't think I'll be able to be helpful to you."

The client looks out the window and doesn't appear to be listening.

Counselor: "Are you with me so far?"

Client: "Yeah."

Counselor: "Perhaps you could let me know what you've heard me say about this issue so far? I often find it helpful to stop periodically in a session like this and take stock of where we are. One of the best ways to do this is to have the client summarize what she thinks the counselor is saying." (Then wait in silence for the client's response.)

Alternative Response: "I'm getting the feeling that you don't really want to be here."

Alternative Response: It's difficult to try to deal with these problems, isn't it?"

Alternative Response: "What would be most helpful to you at this point?"

Client: "Well, you've given us a lot of good ideas but we don't have time to implement them."

Counselor: "I can understand your concern about the lack of time to implement good ideas. You're right to be aware that time is a vital factor to consider if you want an implementation to be successful. If you think an idea is good, it seems that there is something in it that might help you. Try to analyze the idea and see if there is a small piece of it that you could implement in the near future. Take this small piece, set up a plan and timetable for implementation, and try it out. If it works for you, try another piece.

Alternative Response: "It sounds as if you're rather overworked. You've been so pressed you haven't had time to put the ideas we discussed into action." (Then wait for client's response.)

Counselor: "Let's look at your balance sheet."

Client: "I think that would be a waste of time. I don't think it really could tell us anything anyway." (The counselor suspects that the client may not know what balance sheets are all about.)

Counselor: "My reason for suggesting that we look at your balance sheet is that the bottom line has a way of rising up and hitting you if you don't pay attention to it. I'd be glad to take a look at your financial situation today or at a later session. Or, you might want to hire someone to come in and give you a reading on your firm's financial health. It's like getting a physical check-up. It's nice to know you're in good health. It's also to your advantage to know if there are any signs of impending trouble." (This does not confront or corner the client, but let's him know there may be a cause for concern.)

Alternative Response: "You don't think looking at the balance sheet would be helpful. The reason I suggested doing so was that I thought it might give us some useful information. And if you agree, I'd like to talk to you about how to use a balance sheet to your advantage."

When the client didn't show up for an appointment, the counselor called to see what happened.

Client: "Oh, I don't know why I scheduled it for Monday. Mondays are always bad for me." (Sometimes clients assume that since they don't pay for SBDC counseling, they don't have to show up because they are not charged for missed appointments.)

Counselor: "I'll be glad to schedule a new appointment for you at a time that would be convenient. How about next Tuesday at five p.m.? It's helpful for me if clients who must cancel or reschedule an appointment call this office in advance because the time slot is held for them. On Monday, for example, I held that time for you, even though another client had requested it, because you and I had agreed on that hour and day. I'll look forward to seeing you on Tuesday at five p.m. If you find you cannot make that appointment please call this office as soon as possible. Thank you."

Alternative Response: "Let's plan more carefully next time so that we schedule our meeting at a time when you really want and are able to come."

Alternative Response: "Did someone suggest that you seek me out or was this your own idea?"

A client seems enthusiastic during the meeting, but when you call her a month later, she says she has not followed through on any of the suggestions.

Counselor: How do you feel about that?" (If she says, "Fine.") "I wish you good fortune in your future activities. Call us again if we can be of help."

(If she says, "Badly.") "Is there anything in particular you would like to have followed through with by this time?"

(If she identifies some change.) "Can you think of a strategy to start the change - or a part of it? I suggest that you set a time-table for the implementation. Would it be helpful for you to schedule another session with me or another counselor to renew your examination of the situation?"

When you talk to a prospective client on the phone, you can tell that he really needs help. How do you convince him to come in?

Counselor: "I believe your problem is manageable, that improvements can definitely be made in your situation. In my experience, clients find much help by sitting down and exploring their problems with a sympathetic listener. I'd be glad to listen. Nothing will be demanded of you other than a willingness to share your questions, needs, or problems with me. I have confidence in your ability to solve your own problems, with appropriate help and feedback."

Alternative Response: "The issues you've mentioned are ones I've worked on quite a lot. I think that between us we might come up with some strategies that would make your work situation more manageable. Is there some time next week when you might come in?"

Counseling Observations – While observing counseling sessions, use the appropriate form to monitor the conversation. After each session, discuss the session with the peer coach.

a. **Preparing For a Counseling Session**. This checklist consists of a number of steps that the Business Development Advisor should take before meeting with a client in order to assure a productive session.
   http://www.smallbusinessspokenhere.com/IESBGA/Doc/PreparingforaCounselingSession.pdf
b. **Self-Evaluation Checklist.** This checklist is designed as a tool to give the Business Development Advisor a quick review of the counseling session just completed in order to assess the results.
   http://www.smallbusinessspokenhere.com/IESBGA/Doc/CounselingChecklist.pdf
   http://www.smallbusinessspokenhere.com/IESBGA/Doc/ChecklistforSelfEvaluation.pdf
c. **Create A Case. (Optional)** This exercise allows the Business Development Advisor to choose a particular Counseling tool and match it with a module topic (client issue) for a counseling session to create a “hands-on” case study.

Module 2 Checklist

Counseling Techniques

TRAINING TASKS

Check that following training activities were completed.

- ☐ Read Module 2 eGuide and eTraining in their entirety
- ☐ Read and watch YouTube videos to gain an understanding of counseling tools
- ☐ Observed the counseling session and answer questions related to the counseling session
- ☐ Counseled utilizing the techniques learned in this module and recording observations on the Counseling Checklist. At the conclusion of the client's appointment, discussed the observations with your Peer Coach

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 2 Assessment with 100% accuracy.
- ☐ Viewed Module 2 Counseling Session then answered Module's assessment questions with 100% accuracy

Additional Activities

- ☐ Completed "Preparing for a Counseling Session", "Counseling Checklist" , and "Checklist for Self-Evaluation" when counseling
- ☐ Participated in the Roundtable Discussion or discussed topic with Peer Coach
- ☐ If applicable, posted observations and resources to Business Development Advisors eForum.

Module 3

CROSS-SELLING NETWORK SERVICES

PERFORMANCE GOAL

The Business Development Advisor will demonstrate knowledge and understanding of the services offered by all the partners of the Network, as well as any specialty programs that may be offered. The Business Development Advisor will be able to assess a client's needs, identify which services answer those needs, and make the appropriate referrals.

SUGGESTED PREREQUISITES

Module 1	Code of Professional Performance
Module 2	Counseling Techniques

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. Complete Module 3 eTraining and eGuide in their entirety
2. View Network Member's videos and visit their web sites to gain a better understanding of their services
3. Complete Case Study / Counseling Session and answer questions about cross-selling services
4. If possible, observe organizations including other Network Services, such as:
    1. Observe Business Development Advisors and support staffs that are responsible for coordinating the services offered by Network Members. Become familiar with their services through research and observation. Observations may be in-person, via conference calls, or recorded as a video
    2. Spend the day at the reception desk at a Center, observing the person responsible for fielding phone calls and walk-in clients. Take note of the questions asked and the referrals made to other Network services
    3. If requested, co-counsel with other Business Development Advisors. While observing the sessions, list the services that are cross-sold. After each session, confer with the Business Development Advisor to find out why specific services were recommended. The secret to successful referrals is an understanding of the client's needs and the matching of those needs with the appropriate services
5. Post observations and resources that assist in cross-selling network services or discuss with peer coach
6. Attend a Network Meeting, participating in the lecture on Member services

EVALUATION PROCEDURES

The proficiency in cross-selling services and specialty programs will be evaluated by all of the following methods.

1. Completing the Module 3 eTraining and answering evaluation questions with 100% accuracy
2. Viewing Module 3 Case Study / Counseling Session then answering Module's evaluation questions with 100% accuracy
3. Preparing a Network Matrix of services, discuss with a Peer Coach or Supervisor
4. Providing the Peer Coach with new resources identified through research and posting new resources in the Business Development Advisor eForum if applicable

INTRODUCTION

Your knowledge of other Illinois SBDC Centers' services and your willingness to refer clients to these services is necessary for four basic reasons:

- To serve the client's best interests.
- To serve the Center's best interests.
- To serve the Network's best interests.
- To make your own work within the Network more personally rewarding.

Client Benefits

Clients who take advantage of all the Network services applicable to their businesses are more likely to resolve problems, overcome obstacles, and be more successful. For example, let's use a woman business owner who approaches your SBDC for marketing help.

Mary Money may be guided by her Business Development Advisor to profile her customers, do some market research, and develop a marketing plan. She may even be guided in purchasing advertising. Mary is very pleased with the help she has received, and her initial need has been met after three appointments. But you should NOT stop here!

Mary might be interested in marketing to the government or in exporting. She might need additional information on hiring employees or on federal taxes. Mary could be interested in your Center's upcoming women's business ownership conference. Or perhaps she would like to know how her business fares financially, as compared to industry standards. When Mary's success becomes well known, she will love to be interviewed by the local media!

Illinois SBDC Network's and Center Benefits

The Network's mission is "to increase the competitiveness, profitability, and growth of Illinois business in a global economy." The ambitious components of this mission cannot be accomplished with one or two counseling sessions. Your Director must report statistics that document the delivery of services (12 or more counseling hours) and increases in client sales and employees. Your Center will more easily meet or exceed its "deliverables" if you take the time and make the effort to refer clients to other Network services and programs.

When you have assisted a client who achieves some measure of success, you must allocate time to write and submit his or her success story. Successes include actually starting a new business, completing a business plan, obtaining a loan, or increasing sales or number of employees.

When your Center is credited with a client's success, the positive publicity that is generated for your Center and its services, as well as for Network as a whole, attracts attention and interest from potential clients. Perhaps more importantly, these success stories impress the state and federal legislators who have significant control over our funding process. In addition, when clients are referred to seminars or workshops, your Center and the Network may benefit from increased program income. This increase will certainly provide positive publicity for the host institution and enhance the Center's relationship with the host institution.

Personal Benefits

You will enjoy personal reward when you see that a client has succeeded, knowing that the success is partially due to your own ability to effectively counsel, advise, and make appropriate referrals. Money cannot buy this feeling! You will become more valuable to your Center and to the Network. You may even foster positive publicity for all parties involved (you, your Center, the Network, the program) if your client is interviewed by the news media. And, of course, your host institution will benefit as well.

Services and Special Programs

The Illinois Small Business Division of the Department of Commerce and Economic Development (DCEO), in partnership with the U.S. Small Business Administration (SBA), provides prospective and existing owners of businesses in the state of Illinois with a variety of invaluable business resources. It is essential that you, as a Business Development Advisor, be thoroughly familiar with all these services and programs and be able to describe and recommend them to your clients. The services and programs are listed below.

Small Business Development Centers (SBDC)

http://www.illinois.gov/dceo/SmallBizAssistance/BeginHere/Pages/SBDC.aspx

These Centers provide businesses with management, marketing, and financial counseling in order to help them succeed. Counseling is offered in either a one-on-one session with a client or in a group training session. The Centers are located at community colleges, universities, chambers of commerce, and business development organizations. The services offered include:

- General Business Assistance
- Access to Management Resources
- Technical and Training Resources
- Marketing Information
- Financing Opportunities
- Assistance with Financial Analysis
- Business Education and Workshops
- Licensing Information
- Productivity Assessment

Procurement Technical Assistance Centers (PTAC)

USA – http://www.aptac-us.org/
Illinois - http://www.illinois.gov/dceo/SmallBizAssistance/BeginHere/Pages/PTAC.aspx

These Centers provide detailed, comprehensive technical assistance to Illinois companies interested in selling their goods and/or services to various government entities. Their services include:

- Help targeting appropriate government agencies
- Automated bid lead matching services
- Access to government specifications and standards
- Guidance with quality assurance issues
- Assistance with certifications
- Identification of Sub-contracting opportunities
- Bar Code and Packaging Information
- RFID (Radio Frequency Identification)
- UID (Unique Identification)
- Contract Administration Information
- System for Award Management (SAM) Assistance
- Review of Bid Packages

International Trade Centers (ITC) and NAFTA Opportunity Centers (NOC)

Illinois - http://www.illinois.gov/dceo/SmallBizAssistance/BeginHere/Pages/ITC.aspx

These International Trade Centers provide prospective or existing business owners with professional advice and resources to enter the global marketplace. The Centers help identify specific foreign markets in which a company's product or service would have the greatest demand, provide guidance in meeting U.S. Government export criteria and foreign government requirements, and assist in obtaining visas, licenses, copyrights, and patents. NAFTA Opportunity Centers (NOCs) are specialized International Trade Centers (in response to the North American Free Trade Agreement), offering contact information and business assistance to current and potential exporters to Canada and Mexico. Due to the link between The Network and the Illinois DCEO Division of International Business, a company is able to receive a variety of export programs and services through a three-level export infrastructure comprised of local, state, and overseas resources. The ITC and NOC services include:

- International market research data to evaluate key overseas opportunities.
- Identification of potential foreign buyers, agents, and distributors through trade leads.
- Information and training programs on export procedures, distribution, methods of payment, and foreign business practices.
- An extensive collection of international trade reference materials.
- Access to the Illinois Department of Commerce and Economic Opportunity's International Business Division.
- Business assistance provision on export opportunities in Mexico and Canada.

TIES - Illinois SBDC Technology, Innovation and Entrepreneurship Services

http://www.illinois.gov/dceo/SmallBizAssistance/BeginHere/Pages/SBDC_TIES.aspx

The Technology, Innovation, and Entrepreneurship Specialty (TIES) services are provided through the Illinois Small Business Development Center (SBDC) Network. Illinois SBDC TIES staff helps entrepreneurs and small businesses commercialize new ideas into innovative products, services, and business models. Client projects range from early stage, pre-revenue concepts to established business operations generating cash flow.

TIES staff engage clients in multiple ways. Staff provides one-on-one business advice to clients, team up with other SBDC staff to assist clients, and refer clients to other service providers. These providers may include: other tech-based companies, industry associations, tech vendors, the investment community, intellectual property attorneys, and universities and colleges that provide outreach services. This includes an excellent network of Illinois-based expertise for assisting entrepreneurs and small businesses.

TIES staff provide services and training to help clients:

- Assess the product, service, and/or business model concepts; including “go-no go” analysis.
- Pursue early stage product development and access prototyping labs (e.g., http://www.eigerlab.org/)
- Evaluate intellectual property strategies; including patent filings.
- Raise early stage capital.
- Conduct customer and market research.
- Develop business models and plans.
- Network with other companies and individuals as possible collaborators, customers, investors, partners, and vendors.
- Pursue federal research and development funding opportunities through programs like Small Business Innovation Research / Small Business Technology Transfer (SBIR/STTR).

In January 2014, TIES services were provided at five Illinois SBDC offices (Carbondale, Champaign-Urbana, Chicago, Peoria, and Rockford).

Small Business Innovative Research Centers (SBIR)

http://www.sbir.gov/state-contacts?state=Illinois

These Centers provide counseling, training, and technical assistance to technology-oriented entrepreneurs to enhance their opportunities to compete for federal research and development awards. The Centers promote the formation, growth, and development of small, innovative firms by helping them understand and access the SBIR contracting opportunities.

Small Business Incubators

Illinois - http://illinoisincubators.org/

The Illinois Small Business Incubator Program was developed to provide businesses with sheltered environments during their early stages of development. Incubators provide shared services to prospective and new business owners throughout the state. An incubator facilitates the growth of innovative startup companies by providing a collaborative and structured environment for development. Low rents, free business services, and technical support are all offered.

Women's Business Centers

Illinois - http://www.wbdc.org/ National - http://www.wbenc.org/

Women's Business Centers (WBCs) represent a national network of nearly 100 educational centers designed to assist women start and grow small businesses. WBCs operate with the mission to "level the playing field" for women entrepreneurs, who still face unique obstacles in the world of business.

Through the management and technical assistance provided by the WBCs, entrepreneurs (especially women who are economically or socially disadvantaged) are offered comprehensive training and counseling on a variety of topics in many languages to help them start and grow their own businesses.

Find the Women's Business Center nearest you or visit the SBA Office of Women's Business Ownership to learn more about their program and how they can help your business. The Women's Business Development Center (WBDC) is a one of a kind non-profit focused on fueling the economy through entrepreneurship. As the oldest, largest and most comprehensive women's business assistance center in the United States, we have programs designed to help individuals in every phase of the business development and growth process.

The Women's Business Development Center (WBDC) is a proud member of the Illinois Small Business Development Center (SBDC) network. As a part of that network, the WBDC offers services to meet the needs of small business owners and those looking to start their small business.

WBDC SBDC services include:

- Access to business education and training opportunities
- Small group and one-on-one business counseling
- Assistance with the development of business plans
- Help with accessing market information and the development of marketing plans
- Assistance accessing business financing programs
- Assistance with financial analysis and planning

Illinois Hispanic Chamber of Commerce

Illinois - http://www.ihccbusiness.net/sbdc/

The Illinois Small Business Development Center (SBDC) located at the Illinois Hispanic Chamber of Commerce provides services to all Illinois based businesses and is not limited to Hispanic owned businesses.

The SBDC is dedicated to help new entrepreneurs realize their dream of business ownership and existing businesses access networks and resources to grow their business and deliver long-term positive economic impact. Our center assists entrepreneurs in all phases of their business growth.

SBDC services include:

- Individual counseling
- Business licensing and formation assistance
- Get businesses on track to be "bankable," loan packaging
- Business Education and Workshops
- Business Plan Assistance
- Sales and Marketing Assistance
- These services are offered to all communities in both English and Spanish.

U.S. Small Business Administration (SBA) - http://www.sba.gov/

From the SBA's web site on January 18, 2014.

"Since its founding on July 30, 1953, the U.S. Small Business Administration has delivered millions of loans, loan guarantees, contracts, counseling sessions and other forms of assistance to small businesses.

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist, and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation. We recognize that small business is critical to our economic recovery and strength, to building America's future, and to helping the United States compete in today's global marketplace. Although SBA has grown and evolved in the years since it was established in 1953, the bottom line mission remains the same. The SBA helps Americans start, build, and grow businesses. Through an extensive network of field offices and partnerships with public and private organizations, SBA delivers its services to people throughout the United States, Puerto Rico, the U. S. Virgin Islands, and Guam."

Resource Guides: National Resource Guide 2013 (English) National Resource Guide 2012 (Spanish)

ASBDC - http://www.asbdc-us.org/index.html

From the ASBDC's web site on January 18, 2014.

"America's Small Business Development Center Network is the most comprehensive small business assistance network in the United States and its territories. The mission of the Network is to help new entrepreneurs realize their dream of business ownership, and assist existing businesses to remain competitive in the complex marketplace of an ever-changing global economy.

Hosted by leading universities, colleges and state economic development agencies, and funded in part through a partnership with the U.S. Small Business Administration, approximately 1,000 service centers are available to provide no-cost business consulting and low-cost training.

The mission of America's SBDC is to represent the collective interest of our members by promoting, informing, supporting, and continuously improving the SBDC network. America's SBDC network delivers nationwide educational assistance to strengthen small/medium business management, thereby contributing to the growth of local, state, and national economies.

Small business is the engine of economic growth. There are more than 22 million small businesses in America. Small business accounts for 99% of all U.S. businesses. Small businesses employ 53% of the private sector workforce and contribute over half of the nation's private gross domestic product.

The America's SBDC association is a partnership program uniting private enterprise, government, higher education, and local nonprofit economic development organizations. We are dedicated to the sound development of small business throughout America. Founded in 1979, America's SBDC provides a vehicle for continuous improvement of the Small Business Development Center program, exchange of information among members regarding objectives, methods and results in business management and technical assistance, and advocacy of America's small business community.

More than one million businesses are assisted by America's SBDC member programs each year. A sizeable number of them are in the dynamic start-up mode; while a majority are existing businesses searching for stability or planning for growth.

Small business owners and aspiring entrepreneurs can go to their local SBDCs for free, face-to-face business consulting and at-cost training on writing business plans, accessing capital, marketing, regulatory compliance, international trade and more. America's SBDC network is a cost-effective way to create jobs, grow the economy, enhance American competitiveness, and fulfill the American dream.

SBDCNet serves the information needs of SBDCs, the SBA and other related organizations. SBDCNet offers clients information in response to research requests, referral to experts and regional sources of information, training in information access techniques, access to business-related information via the SBDCNet web site and SBA publications.

Go to SBDCNet Web Site for more information http://www.sbdcnet.org/ SBDCNet - The SBDC National Information Clearinghouse serving the Small Business Development Center Network and America's small business community.

SCORE - http://www.score.org/

From WIKIPEDIA on 1/18/2014, "SCORE or the SCORE Association was previously known as the Service Corps of Retired Executives, but is now recognized as SCORE, "Counselors to America's Small Business." It is a 501(c)(3) nonprofit organization that provides free business Peer Coaching services to entrepreneurs in the United States. The organization also presents business workshops and seminars for a fee. Business Peer Coaching services are provided by both active and retired business executives and entrepreneurs who donate their time and expertise as Peer Coaches to assist new and established small businesses. SCORE is a resource partner with the U.S. Small Business Administration. It is based in Herndon, Virginia."

From the SCORE's web site on January 18, 2014. SCORE is a nonprofit association dedicated to helping small businesses get off the ground, grow, and achieve their goals through education and Peer Coaching. We have been doing this for nearly fifty years. Because our work is supported by the U.S. Small Business Administration (SBA), and thanks to our network of 11,000+ volunteers, we are able to deliver our services at no charge or at very low cost. We can provide:

- Volunteer PEER COACHS who share their expertise across 62 industries
- Free, confidential business COUNSELING in person or via email
- Free business TOOLS, templates and tips here online
- Inexpensive or free business WORKSHOPS (locally) and webinars (online 24/7)

Our 340+ chapters hold events and workshops locally across the U.S. and its territories, and match up entrepreneurs with local, volunteer Peer Coaches. For more information about SCORE, go to their web site http://www.score.org/

Vendor Partnerships

ASBDC Gateway - http://www.asbdc-us.org/ASBDCGateway.php

From the ASBDC's web site on January 18, 2014.

Search America's SBDC Gateway for special offers, discounts and opportunities for members and Small Business Development Center (SBDC) clients.

America's SBDC understands the importance of small businesses in today's marketplace. That is why we work closely with our exhibitors, sponsors, and alliance partners to provide you with real values on today's most sought after products.

Google AdWords & Google Apps for Business By: Google Inc., Google AdWords is Google's online advertising program, that can help your clients attract new customers online. The Google Engage program supports counselors and professionals like you with training, marketing tools and AdWords vouchers, to help you offer AdWords services to your clients. Interested in helping your small business clients learn how Google tools can help them succeed? Download the two-page Google Apps for Business Overview to distribute locally to your small business clients. Your clients can learn more about Google Apps from the Google Apps Small Business website.

Business and Financial Management Solutions, By: Intuit Inc., Intuit Inc. creates business and financial management solutions that simplify the business of life for small and mid-sized businesses, consumers and accounting professionals. Its flagship products and services include QuickBooks®, Quicken® and TurboTax®, which make it easier to manage small businesses and payroll processing, personal finance, and tax preparation and filing. Mint.com provides a fresh, easy and intelligent way for people to manage their money, while Demandforce® offers marketing and communication tools for small businesses.

Microsoft Office Training, By: Microsoft, Do you know the top Tips and Tricks for Microsoft Office? Microsoft is proud to offer FREE Office training for all small businesses! This training is available on demand for all SBDC Centers or clients and includes quick tutorials for Beginner, Intermediate and Advanced.

Business Plan Pro, LivePlan, Sales and Marketing Pro; By: Palo Alto Software, Business Planning Just Got Easier. Three out of four businesses choose Business Plan Pro to save time, avoid mistakes, and create winning plans that get results. With over 500 sample business plans and expert advice and guidance everywhere you need it, Business Plan Pro takes the guesswork out of writing a plan.

Constant Contact SBDC, By: Constant Contact, Over 450,000 small businesses and organizations trust Constant Contact to help them stay in touch with their customers and prospects. Because you're a client of your local SBDC, you're eligible for discounts on Constant Contact's Email Marketing, Event Marketing, Social Media Marketing and Online Survey tools. See why our coaching, knowhow, and products let us guarantee your success.

SBDCGlobal.com, By: SBDCGlobal, SBDCGlobal.com is a free tool that links small businesses with trade opportunities, business information and integrated assistance from their SBDC counselors. Whether your SBDC clients are starting international operations or are experienced, SBDCGlobal.com will help them grow their international sales, reduce costs, and become globally competitive.

GoDaddy Websites, By: GoDaddy, GoDaddy has the innovative, easy-to-use products you need to build a complete digital identity. Create a professional website with GoDaddy Website Builder® – simply choose a design, personalize and publish. Then use Outright® to simplify your business bookkeeping and track expenses online. Start finding more new customers today with Web essentials from GoDaddy.

Growth Wheel, By: GrowthWheel , GrowthWheel® is a tool for decision-making in start-up and growth companies. It helps entrepreneurs and advisors get focus, set agenda, and take the next step. Join us for a free webinar to get a better idea if GrowthWheel is the right tool for your organization to improve one-to-one consulting and group training sessions.

WebCATS / Neoserra, By: Outreach Systems, OutreachSystems offers a customer relationship management (CRM) system, called WebCATS / Neoserra, which is designed specifically for economic and business development. WebCATS / Neoserra tracks detailed demographic and economic information about your clients, as well as the assistance you provide to these clients. WebCATS / Neoserra has an integrated scorecard module and can be enhanced with eCenterDirect, a client Web portal where clients can request services, register for training events, or complete your surveys. Come visit us at the America's SBDC Conference to learn more about WebCATS / Neoserra and how it can help track and measure the impact of your business development efforts.

Franchising, By: FranNet, FranNet is an international company of business experts that works with individuals seeking self-employment through business ownership. A proud partner of the ASBDC, FranNet's methodical approach of matching individuals with franchise opportunities has proven successful for more than 25 years as we have placed thousands of people into rewarding opportunities in franchise ownership. And because we are paid by the franchisors, our services are completely free to our clients.

Global Classroom - http://www.globalclassroom.us/sbdc-network

Global Classroom and America's SBDC have joined to develop the nation's largest education network for small business. Seeking to be a platform and catalyst for business success, America's SBDC and Global Classroom are building a learning ecosystem for small and developing businesses. Much like Apple's App Store, America's SBDC will provide the tools for SBDC consultants, subject experts, training companies and innovators to seamlessly integrate their courses and products into the SBDC eLearning Network so that small business owners can create value and learn about doing business in the 21st Century.

Global Classroom is a cloud-based eLearning company that brings together thousands of subject experts and students every day on a local and national level, through a vast array of learning centers and marketplaces that focus on learning, professional development, and skills based education to create opportunity for a better life.

Palo Alto – http://www.paloalto.com/

From the Palo Alto's web site on January 18, 2014.

"Since its creation in 1988, Palo Alto Software has grown to a respected provider of small business tools worldwide with the single goal of helping other small businesses grow and become successful. They offer several software products and an extensive library of free expert content to help small businesses succeed.

LivePlan - Online Planning

- Produce a complete business plan
- Access examples and help
- Use LivePlan anytime, anywhere
- Create your plan with PC or Mac
- No contract or hidden fees

Stand out from the crowd with a professional info-graphic that tells the story of your business. Highlight the most important parts of your business on a single page. LivePlan's step-by-step process makes it easy to get your plan completed quickly with professional results. Over 500 sample business plans included. Sync your accounting data with your projections and get insight into how well your business is doing. LivePlan makes it easy to track your business performance anytime, from anywhere.

Business Plan Pro – Standard and Premier Editions

- Produce a complete business plan
- Access examples and help
- Advanced financial forecasting options
- Import from Excel
- Installed software for Windows

Writing your business plan just got easier. With the right tools, anyone can produce a professional business plan. Business Plan Pro is packed with the features and advice you need to forget your fears and write your plan with the confidence of an expert. And get expert results!

Sales and Marketing Plan

Close more sales or get your marketing messages in front of the right people. From seasoned sales teams looking for an edge to small business owners who need dynamic marketing plans, Sales and Marketing Pro is the solution to help you grow your business like crazy!

- All the tools you need in one place, saving you tons of time
- Includes the best-selling marketing plan software (worth $179)
- Includes over $900 of exclusive extras not available anywhere else"

Profit Mastery - http://www.brs-seattle.com/sbdc

From the Profit Mastery's web site on January 18, 2014.

"SBDC Centers who offer the Profit Mastery curriculum have experienced positive client response, including significant sales growth, measurable job creation/retention, increased bank lines of credit, and the expansion of businesses into new locations.

In just the past four years, SBDC counselors nationwide have trained over 3,500 clients using the Profit Mastery financial education online video curriculum. There are now over 350 Profit Mastery/SBDC Certified Facilitators or Consultants in over 35 states/regions.

The counselor testimonial quotes on this page represent the experiences of SBDC center directors who have offered the program in 2012. They tell the Profit Mastery story much better than we can!

Profit Mastery has proven to provide SBDC centers with the ability to effect a "cultural change" achieving the goal of serving larger businesses that can drive greater economic impacts, significantly increasing referrals from banks to the SBDC, and in general, significantly improving the overall perception of the business community about the SBDC network that is offering the Profit Mastery curriculum on a regular basis.

What is Profit Mastery?

Profit Mastery is a financial performance system that provides the differentiating point in the market that can catalyze your client's success. Over the years, we have worked extensively with hundreds of companies, universities, trade associations, banks, pharmacies, and franchise networks — large and small — to bring the Profit Mastery resources to thousands of their staff, customers, and prospects.

Profit Mastery has an international reputation for providing unparalleled financial management and business planning education and resources to owners, managers, advisors, and bankers of independent business. We have developed a unique way of providing education thousands of business owners have described as "the best program they have ever attended" and "they will never look at their businesses the same way again!" We accomplish this by utilizing a unique combination of information, motivation…and humor!"

To learn more about Profit Mastery, visit their web site - http://www.brs-seattle.com/

NxLeveL - http://www.nxlevel.org/index.htm

From the NxLeveL's web site on January 18, 2014.

"These days, almost everyone wants to be an entrepreneur. Women, immigrants, corporate refugees, minorities, and even young adults are realizing the American dream of starting, owning, and operating a small business. People everywhere recognize the entrepreneurial spirit as an equalizing force that offers social mobility, economic opportunity, and personal freedom.

There is no better way to achieve the dream of business ownership than by researching and writing a business plan. During this process, an entrepreneur can examine all the pros and cons of a business opportunity, analyze the consequences of different strategies and tactics, and determine the human and financial requirements for turning an inspired idea into a viable business venture. Studies show that entrepreneurs who complete business plans are six times more likely than others to build a successful small business. Writing a business plan also teaches strategic thinking skills, which have important implications for virtually every aspect of our lives, including personal and family relationships, career planning, financial decisions, and community involvement.

Since 1994, NxLeveL has helped entrepreneurs launch and grow thriving small businesses. NxLeveL is the nation's largest and most effective entrepreneurial training network, with more than 300,000 graduates and more than 7,500 certified instructors. NxLeveL offers training in all 50 states, as well as American Samoa, the Virgin Islands and Puerto Rico. NxLeveL courses are also available in Canada and Mexico.

NxLeveL offers a practical, hands-on approach to preparing a business plan. Participants learn from certified instructors, expert guest speakers, and finance, marketing, and banking professionals. They also learn by working collaboratively and sharing ideas with other participants.

NxLeveL comprises a dedicated group of professional authors, marketers, and training professionals with decades of expertise in small-business education and development. In addition, we are experts in the field of adult education, with curricula rooted in adult learning characteristics, preferences, and collaborative techniques.

To learn how NxLeveL can help you start or grow your business, or to find out to become a certified NxLeveL instructor, please contact us today."

To learn more about NxLevel, visit their web site - http://www.nxlevel.org/

FastTrac - http://fasttrac.org/

From the FastTrac's web site on January 18, 2014.

"Helping People Pursue their Entrepreneurial Dreams

FastTrac programs serve existing and aspiring entrepreneurs in non-academic environments. In addition, college students in their academic environment earn credit for completing courses using FastTrac materials. FastTrac has served more than 300,000 entrepreneurs since 1993.

FastTrac programs are delivered by a variety of affiliate organizations—non-profit and for-profit alike—including chambers of commerce, business development centers, local and regional economic development councils, colleges, universities, consulting firms, and many others. FastTrac is offered throughout the United States and in selected countries around the world.

By helping entrepreneurs succeed, FastTrac programs contribute to building and sustaining strong, vibrant communities and economies. Want to learn more about FastTrac?

Be the Entrepreneur You Want to Be

Whether you're starting or growing a company, these FastTrac ® programs will help you live your dream at each stage of business:

FastTrac New Venture - I have an idea for a business but I need a plan and a framework for successfully launching my company.

FastTrac Growth Venture - I currently own a company and am looking for proven strategies and processes for healthy growth.

FastTrac Tech Venture - I am developing a technology or science-based business and need help navigating the factors that go in to starting a business like acquiring funding and intellectual property protection."

To learn more about FastTrac, visit their web site - http://fasttrac.org/

QuickBooks for Start-Ups - https://www.intuit.com/

From the Intuit's web site on January 18, 2014.

"It's not just a better way to run your finances; it's a better way to run your whole business."

"**Intuit: Going Beyond Innovation -** As the world evolves, so do we. Yet we remain driven by our passion for inventing solutions to solve important problems, perfecting those solutions and delighting our customers."

"Intuit's array of flagship brands is expanding to reflect the growing number of ways we help people solve their important problems. Whether helping balance a checkbook, run a small business, or pay income taxes, our innovative solutions have simplified millions of people's lives. In a world where emerging technology and market trends are changing the way people live and work, we'll continue to develop new products that offer the same ease and delight that are a hallmark of Intuit's pursuit of customer-driven innovation.

QuickBooks - The backbone of Intuit's small business product ecosystem, QuickBooks offers a portfolio of products and services that go beyond accounting. Whether brick-and-mortar or on the Web, from home-based businesses to firms with hundreds of employees, more small business owners choose QuickBooks products and services to help them manage and market their companies and succeed than any other product.

TurboTax - The leading name in tax preparation software, TurboTax applies Intuit's legendary ease to make taxpaying simpler. Whether helping first-time taxpayers find deductions or guiding investor through complex stock transactions and business deductions, TurboTax's desktop and Web-based products are the definitive source for finding and taking deductions."

To learn more about Intuit products, visit their web site - http://www.intuit.com/

Growth Wheel - http://www.growthwheel.com/

From the Growth Wheel's web site on January 18, 2014.

GrowthWheel® is a tool for decision-making in start-up and growth companies. It helps entrepreneurs and advisors get focus, set agenda, and take the next step.

GrowthWheel is a visual toolbox for decision-making and action planning for start-up and growth companies.

It helps entrepreneurs build their businesses through a simple action-oriented process that stays true to the way most entrepreneurs think and work.

For the Business Development Advisor, the absolute flexibility of the toolbox means that it can be fully adapted to existing advisory tools and client needs, and it can even be used by clients themselves, thereby saving time for the advisor. 360° Perspective Made Simple. Everything about business in one single toolbox.

GrowthWheel was designed around the observation that all businesses – in all industries and life stages – have four lasting challenges in common: They must create an attractive Business Concept, build a strong Organization behind it, develop lasting Client Relations, and do so while maintaining profitable Operations.

More information about GrowthWheel is available at http://www.growthwheel.com/

Cross-Selling IESBGA Services Matrix

Web Site	Information I Found There

SBDC Network Services and Special Program Matrix

Instructions: Duplicate this page as necessary for the Business Development Advisor to record all the services and programs observed.

Service or Special Program:	
Peer Coach or Specialist:	
Services and/or seminars offered	
Profile of the typical client who should be referred to this service or program:	
Referral method:	

Notes:

Module 3 Checklist

Illinois Small Business Development Center Network Resources

TRAINING TASKS

Check that following activities were completed.

- ☐ Completed Module 3 eTraining and eGuide in their entirety
- ☐ Viewed Network Member's videos and visited their web sites to gain a better understanding of their services
- ☐ Viewed Module 3 Counseling Session and answered questions about cross-selling services
- ☐ If possible, observed organizations including other Network Services, such as:
    - Observed Business Development Advisors and support staffs that are responsible for coordinating the services offered by Network Members. Become familiar with their services through research and observation. Observations may be in-person, via conference calls, or recorded as a video
    - Spent the day at the reception desk at a Center, observing the person responsible for fielding phone calls and walk-in clients. Take note of the questions asked and the referrals made to other Network services
    - If requested, co-counseled with other Business Development Advisors. While observing the sessions, list the services that are cross-sold. After each session, confer with the Business Development Advisor to find out why specific services were recommended. The secret to successful referrals is an understanding of the client's needs and the matching of those needs with the appropriate services

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 3 assessment with 100% accuracy.
- ☐ Viewed Module 3 Counseling Session then answered Module's assessment questions with 100% accuracy
- ☐ Completed the Cross-Training Matrix, discussed with peer coach or supervisor

Additional Activities

- ☐ Used "Preparing for a Counseling Session", "Counseling Checklist" , and "Checklist for Self-Evaluation" when counseling
- ☐ Participated in a Roundtable Discussion or discussed cross-selling services with peer coach
- ☐ If applicable , posted observations and resources to Business Development Advisors eForum

Module 4

GOVERNMENT REGULATIONS

PERFORMANCE GOAL

The Business Development Advisor will demonstrate the ability to distinguish the appropriate business need for regulations and to identify the specific regulation(s) that apply to the client's business. The Business Development Advisor will also demonstrate knowledge of sources of information regarding the appropriate regulations and the ability to coach the client in accessing these sources.

SUGGESTED PREREQUISITES

Module 1	Code of Professional Performance
Module 2	Counseling Techniques
Module 3	Network Members' Services and Partnerships

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. Complete Module 4 eTraining and eGuide in their entirety
2. Complete Government Regulations eTraining in its entirety
3. Watch YouTube videos that support the Module's goals
4. Visit government agencies designated by your Peer Coach. Collect literature and discuss agency procedures and services during the visit as a means of updating your Center's information
5. Review the government agency materials located within your Center
6. Review Case Study/Counseling Session and determine what regulations apply
7. Review relevant government agency Web Sites on the Internet and record on a Matrix
8. Log clients with whom you discussed government regulations
9. Attend a Network meeting and participate in any sessions addressing government regulations

EVALUATION PROCEDURES

Knowledge of government regulations and the ability to locate and access the appropriate source of information will be evaluated by all of the following methods.

1. Completing the Module 4 eTraining and answering evaluation questions with 100% accuracy
2. Viewing Module 4 Case Study / Counseling Session then answering Module's evaluation questions with 100% accuracy
3. Preparing a government client log
4. Providing the Peer Coach with new resources identified through research and posting new resources in the Business Development Advisor eForum if applicable

INTRODUCTION

The Illinois Small Business Development Center Network is committed to provide potential business owners with extensive information concerning all regulations, requirements, and aspects of operating a business. You, as a Business Development Advisor, must make sure that your client is aware of the necessity to obtain all necessary licenses, permits, and registrations before he or she opens for business. Therefore, it is essential that you be familiar with the many publications and other sources of information that are available to you and to your client. Knowing where to find the information you need and how to access that information is an important skill that must be transferred to your client to ensure his or her business success.

This module provides a detailed listing of publications, phone numbers, addresses, and internet web sites where you and your client may obtain information. Remember that legal rules and regulations are constantly changing. It is a good practice to check periodically with the agencies that are listed here, as well as with your city and county clerk to obtain any updates. Web sites generally contain the latest information, also.

DCEO Business Information Center services include:

- For start-up businesses, DCEO offers:
  - A detailed handbook, "Starting Your Business in Illinois," which includes a feasibility checklist and business plan outline, as well as all regulations and issues facing new business ventures.
  - An abbreviated start-up guide, which is immediately available by fax.
- For existing businesses, DCEO:
  - Identifies all applicable regulations and services. Its database inventories virtually every business license, permit, certificate, and registration required by the state of Illinois.
- For all businesses, DCEO:
  - Links (through its database of more than 500 entries, inventoried from more than 40 state agencies and offices) your client's company to state services and assistance programs, from financing to free consulting.
  - Provides information on how to apply these programs.

DCEO Resources (Illinois Resources)

We have a wealth of resources to help businesses grow.

Startup Resources

- Business Information Center
- Starting Your Business In Illinois Handbook (PDF)
- Step by Step Guide to Starting a Business in Illinois
- SBA Starting A Small Business

Small Business Resources

- BusinessUSA
- Illinois Small Business Development Center
- SBA
- SCORE - Counselors To America's Small Businesses

Licenses / Registrations

- Search Illinois business requirements

Tax Websites

- Illinois Department of Revenue
- Internal Revenue Service
- Tax Information for Small Construction Businesses

Census and Market Data / Community Profile

- Bureau of Labor Statistics
- US Census Bureau
- Fedstats
- USAGov
- State Data Center Partners US Census Bureau

Sources of Financing

- DCEO Small Business Financing Options
- SBA Loan Programs
- Illinois Finance Authority
- Financing Options for Environmental Compliance

Workforce Development

- IllinoisJobLink.com

Incentive Programs

- Tax Relief
- Recycling Program

Government Links

- USAGov
- State and Local Government Websites
- City of Chicago - Small Business Assistance Center
- Illinois Secretary of State Business Services
- Division of Professional Regulation

U.S. Department of Commerce / Minority Business Development Agency (MBDA)

National - http://www.mbda.gov/

Illinois - http://www.illinoisinnovation.com/minority-business-development-agency-mbda-business-center-chicago

In 2011, MBDA successfully launched a redesigned MBDA Business Center program. The new nationally focused program combined the traditional Minority Business Enterprise Center (MBEC) and Minority Business Opportunity Center (MBOC) programs into one. Significant changes include an increase in funding and the elimination of geographic borders, allowing business centers to provide services to minority-owned businesses anywhere in the Nation. Additional changes include longer funding terms, reduced paperwork burdens, the addition of merger, acquisition, joint venture, strategic partnering support, and enhanced export services.

Today, the importance of minority-owned businesses as a key component of U.S. international trade has never been greater. Minority-owned firms have the most favorable export attributes of any sector of the U.S. economy and represent the future of export growth. They are:

- twice as likely to export their products and services;
- six times more likely to transact business in a language other than English;
- three times more likely to generate 100% of their revenues from exporting;
- more likely to have international operations than non-minority owned firms; and
- substantial contributors to exports in manufacturing, retail trade, technology, and educational services.

Environmental Assistance Program

http://www.illinois.gov/dceo/SmallBizAssistance/EnvironmentalAssistanceProgram/Pages/SBEAP-ProgramInfo.aspx

Located in the non-regulatory agency, this program provides free confidential information and services to help small businesses understand their environmental obligations. Call 800-252-3998 or e-mail at dceo.sbeap@illinois.gov.

Services and information available include:

- Toll-free helpline to answer environmental questions: 800-252-3998
- Free quarterly newsletter, Clean Air Clips, to provide timely alerts about rule changes, reporting deadlines, and other articles of interest
- Directory of environmental consultants
- Easy-to-read fact sheets and guides
- Industry-specific compliance assistance workshops
- On-site consultation
- Permit applications on the Web site

The Illinois Compliance Advisory Panel is a federally mandated advisory group under the Clean Air Act Amendments of 1990. In recognition that small businesses do not have the staff nor resources of larger companies, Congress mandated that each state provide a regulatory compliance assistance program for small businesses consisting of three components: a technical assistance program, an ombudsman and a compliance advisory panel.

Illinois Business Gateway - An excellent web site that has a comprehensive guide to incorporation, complete with forms that can be downloaded from the site.
http://www.cyberdriveillinois.com/departments/business_services/home.html

Links to Illinois Business Services including resources and forms on January 18, 2014 are below.

Agriculture Cooperatives
Cemetery Care
Federal Tax ID Number (FEIN)
Illinois Attorney General (Charities)
Notary
Professional License
State Tax ID Number (EIN/IBT)

Authenticate a Certificate
Business/Not-for-Profit Corporations
Corp Annual Report
Corp Articles of Amendment
Corp Articles of Incorporation
Corp Assumed Name Adoption
Corp Certificate of Good Standing
Corp Change of Registered Agent and/or Registered Office
Corp/LLC Search
How Do I?
NFP Annual Report
NFP Articles of Incorporation
NFP Certificate of Good Standing
Quarterly Business Entity Filing Statistics

Limited Liability Companies
LLC Annual Report
LLC Articles of Organization
LLC Assumed Name Adoption
LLC Certificate of Good Standing
LLC Name Change Amendment
LLC Registered Agent or Address Change
LP/LLLP/LLP
Publications and Forms
Trademark/Servicemark
Uniform Commercial Code
Uniform Commercial Code (UCC) Filings

Trademarks, Servicemarks, patents - http://www.uspto.gov /
Copyrights – http://www.copyright.gov/ - Forms for trademarks, servicemarks, and copyrights are filled online. Library of Congress, web site http://www.loc.gov/index.html will take you to indexes allowing you to choose the area or topic in which you are interested.

Environmental Protection Agency - http://www.pneac.org / http://www.epa.gov/
Web sites created by the EPA, in conjunction with trade groups, for small businesses. Offers regulations, lists of vendors, primers on pollution prevention techniques, and areas for companies to talk to "other companies facing the same challenges." (The first one is for printers, and the second is for farmers.)

International Trade Agency - http://www.trade.gov/index.asp
This site belongs to the Trade Development's Advocacy Center, which works in conjunction with 19 federal agencies of the Trade Promotion Coordinating Committee (TPCC) to promote the interest of U.S. companies abroad.

Government Regulations Web Matrix

Web Site	**Information I Found There**

Module 4 Checklist

Government Regulations

TRAINING TASKS

Check that following activities were completed.

- ☐ Completed Module 4 eTraining and eGuide in their entirety
- ☐ Completed Government Regulations eTraining in its entirety
- ☐ Watched YouTube videos that support the Module's goals
- ☐ Visited government agencies designated by your Peer Coach. Collect literature and discuss agency procedures and services during the visit as a means of updating your Center's information
- ☐ Reviewed the government agency materials located within your Center
- ☐ Reviewed Case Study / Counseling Session and determine what regulations apply
- ☐ Reviewed relevant government agency Web Sites on the Internet and record on a matrix
- ☐ Logged clients with whom you discussed government regulations
- ☐ Attended a Network meeting and participated in a sessions addressing government regulations

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 4 eTraining and answered evaluation questions with 100% accuracy
- ☐ Viewed Module 4 Case Study / Counseling Session then answered Module's evaluation questions with 100% accuracy

Additional Activities

- ☐ Used "Preparing for a Counseling Session", "Counseling Checklist" , and "Checklist for Self-Evaluation" when counseling
- ☐ Participated in a Roundtable Discussion or discussed Government Regulations with peer coach
- ☐ If applicable, posted observations and resources to Business Development Advisors eForum

Module 5

MARKETING

PERFORMANCE GOAL

The Business Development Advisor will describe to the client the basic components of marketing, including pricing, product/service design, distribution, and promotional methods. He or she will assess the client's capacity and potential and determine an appropriate feasibility analysis. Based on these results, the Business Development Advisor will assist the client to develop a marketing plan and facilitate the plan's implementation through periodic evaluation and feedback.

SUGGESTED PREREQUISITES

Core Module 1 – Module 4

Download – Documents located on the DCEO Website. The actual link may change when documents are updated or rewritten.

Starting Your Business

- ***Starting Your Business in Illinois*** (PDF **English** / **Spanish**)

Marketing Guidance

- ***A Simple Guide To Your Small Business Marketing Plan*** *(PDF* **English** */* **Spanish***)*

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. View the Module 5 eTraining and read the eGuide in their entirety
2. Attend appropriate SBDC seminar(s) as assigned
3. Read documents from DCEO links
4. Watch YouTube videos that support the Module's goals
5. Review the Case Study / Counseling Session and answer the questions with 100% accuracy
6. Visit the host institution's library to review the publications listed in this module then update the list of resources available to the Center
7. Review marketing web sites and post observations and resources in the Business Development Advisor eForum if applicable
8. Analyze the marketing sections of a business plan and review it with your Peer Coach

EVALUATION PROCEDURES

Knowledge of marketing and the ability to locate and access the appropriate source of information will be evaluated by all of the following methods.

6. Completing the Module 5 eTraining and answering evaluation questions with 100% accuracy
7. Viewing Module 5 Case Study / Counseling Session then answering Module's evaluation questions with 100% accuracy
8. If applicable, providing the Peer Coach with new resources identified through research and posting new resources in the Business Development Advisor eForum
9. Submitting a marketing plan you wrote or assisted in writing

INTRODUCTION

"Nothing happens until the product is sold" is an old adage that is still very true. Employees will be idle, records will be blank, and inventory will sit on the shelves. The purpose of this module is to provide a basic blueprint from which to guide your client -- not to teach marketing to you. If you find you are not familiar with the concepts in this module, you must make an effort to gain the appropriate knowledge before counseling a marketing client. This can be accomplished by taking marketing courses offered by your college or university, co-counseling with your marketing Peer Coach, participating in the other activities required in this module, and attending SBDC or other marketing workshops.

Marketing may be the most demanded topic of assistance from SBDCs. Clients may either be ready to rush out and spend thousands of dollars on advertising or they may be afraid to spend a dime. In either case, chances are that they have no idea of what their typical customer profile may be, whether they should advertise in the newspaper, or if they should hire a salesperson. Your job will probably be to slow the client down, to do some planning first, and then some budgeting.

When you first start working with a marketing client, you may find that you can best learn and understand their marketing efforts by developing a rough marketing plan. This will give you the blueprint from which you can then begin guiding the client to successful marketing. You may first need to assist the client to research their market or industry.

Most clients seem to have great difficulty preparing and presenting market research and analysis that leads to a sales forecast that is convincing and attainable. Many clients are disinclined to take the time and make the effort to accumulate and organize this critical information. When you have a client who needs to do this work, be prepared for their reluctance. (Refer to Module 2, Counseling Techniques for suggestions on motivating and counseling client.)

To aid you and your client in this process, a Sample Marketing Plan Outline is included in the appendix at the end of this module. The outline corresponds to the information contained in the marketing plan beginning on the following page.

MARKETING PLAN

Market Research and Planning

Customers and Clients:

It is very important to draw a demographic portrait of the typical customer or client. Classify potential customers by relatively homogeneous groups or by major market segments that have common, identifiable characteristics. For example, a new automotive invention might be sold to auto manufacturers or to auto parts retailers.

Who and where are the major purchasers for the product or service in each market segment? Is their purchase decision based on price, quality, service, personal contacts, political pressure, or some combination of these factors? List any potential customers who have already expressed an interest in the product or service and indicate why. List any potential customers who have shown no interest in the product or service and explain why. Explain what can be done to overcome negative customer reactions. Existing business owners should list their current principal customers and discuss their sales trends.

It is extremely important to document the sources of each statistic. If the market analysis is to be included in a business plan, lenders and investors will want to be reassured that the author of the business plan did some homework instead of just writing down assumptions! Trade associations are usually a good source of customer profiles.

Market Size and Trends:

Determine the total size of the current market. Market size should be determined from available market data sources and from knowledge of the purchases of competing products by potential customers in each major market segment. Discussions with potential distributors, dealers, sales representatives, and customers can also be particularly useful in establishing the market size and trends. Describe the size of the total market (whether national, regional or local) in both units and dollars.

Describe the potential annual growth of the total market for the product or service for each major customer group. Total market projections should be made for at least three years into the future. Include major factors affecting market growth, such as industry trends, socio-economic trends, government regulations and policies, and population changes. Previous trends in the market should also be reviewed. Remember to document the sources of information!

Product Life Cycle:

Another important factor to be considered in market research and planning is the life cycle of the product or service, as well as the life cycle of the industry within which the product exists. The marketing strategy will need to change during the different stages of the cycle. Remember that there are four major stages in the product life cycle: introduction, growth, maturity, and decline. The same holds true for the industry, although the product and the industry may not be in the same stage at the same time.

Stage 1 – Introduction:

- Sales are low.
- Customers don't know about the product, so aren't looking for it.
- Information promotion is needed.
- Customer needs to be told in detail about the features and qualities of the product or service.
- Now is the time to create customer demand.

Stage 2 – Growth:

- Sales are growing fast.
- If the industry is also in Stage 2, then competitors are entering the market at a rapid rate.
- Customers need to be told about the unique features and qualities of the product or service.
- Now is the time to really establish competitive advantage.

Stage 3 – Maturity:

- Sales level off.
- Competitors are still entering the market.
- Persuasive promotion becomes more important.
- Customers need a valid reason to be loyal.

Stage 4 – Decline

- Sales decline.
- New products or services need to be introduced.
- New ways to use old products or services need to be developed.
- Product loyalty needs to be emphasized.

Analysis of the Business Environment:

Review the general business environment in which your client's company will compete. A "SWOT" analysis is always recommended to review the strengths, weaknesses, opportunities, and threats to the business. Research should be conducted to determine the SWOT of suppliers and competitors. Research psycho-social issues and trends. Contingency plans should be developed to prepare the client to react to threats.

Clients must make a realistic evaluation of the strengths and weaknesses of competing products, services, and companies. One organized method of doing this analysis is to create a competitive matrix, listing three or four major competitors across the top, and important factors down the left side. Competitive Matrix:

Factor	Competitor 1	Competitor 2	Competitor 3
Price	*High:* *$27.50 to $45*	*Medium to high:* *$18.50 to $29.95*	*Medium:* *$8.75 to $19.50*
Quality	*Excellent:* *Won national awards*	*Very good:* *Rating by local news*	*Poor:* *Word of mouth reports.*
Service/warranty	*Excellent service*	*Service quality occasionally unreliable.*	*Poor:* *Word of mouth reports.*
Location	*Downtown*	*Mall location in north end of town.*	*Near downtown*

This matrix provides a logical format for the client to use to collect the same information about these key competitors. This kind of comparison should be done approximately every six months. A competitive matrix allows the client to compare these factors, competitor-to-competitor, as well as comparing his or her own business with that of competitors. When used in a business plan, a written description of the analysis of the matrix is necessary. This discussion should address the advantages and disadvantages of the competitors, how the client's business rates in comparison, and how the client will use this information to capture a share of their market.

Marketing Strategy

The client's marketing strategy is developed from the information accumulated by the marketing research and analysis. The Overall Marketing Strategy, Product or Service Strategy, Pricing Strategy, Distribution Channel Strategy, and Promotion Strategy will document how the business will achieve the estimated market share and Sales Forecast.

Overall Marketing Strategy:

A summary of the firm's marketing philosophy and strategies should include the following issues:

- Profile of initial customers or clients targeted.
- Profile of customers or clients to be targeted later.
- How these customers will be identified and contacted.
- Product or service features and factors that will be emphasized to generate sales.
- Innovative concepts used to enhance customer acceptance.
- Seasonal trends, along with methods to promote sales during off-season.

Product or Service Strategy:

Your client should describe how the products or services meet customers' unique needs. Why is the product or service better than that of the competition? If the client is selling a product, a description should be provided of the basic product, as well as available options. How will the product be packaged (how many products are packaged together) and displayed? Insure that your client describes the necessary patents, copyrights, and trademarks that have been obtained.

Pricing Strategy:

The price must "fit" the product or service in order to penetrate the market, maintain a market position, and produce profits. Too many business owners jump to the conclusion that a low price is the only way to go in spite of having a very high-quality product! Others do not consider their expenses before setting their prices.

There are several strategies that can be used when deciding how to price a product. The client will need to examine them and choose which one best accomplishes the desired result. For example, a penetration strategy might be chosen to forcefully enter the market. This strategy would require pricing the product low enough, relative to the competition, that the customer would take notice and "try out" the product. Other strategies to consider might be "skimming" or "cost-plus-overhead." Remember: Price - variable costs = equals contribution to overhead and profit.

The ultimate goal is to price the product or service according to market demand, to cover all expenses of getting the product or service to market, and to make a profit. While it is fairly easy to determine a price that will cover expenses and make a profit, it is much more difficult to determine the highest price the market will pay! The client's market research should have this question answered.

A discussion should be provided to explain why the client's prices are higher or lower than competitors' prices. Also discuss discount pricing, such as special sales or coupons, and when it is appropriate to use this special pricing. Discuss the relationship of price, market share, and profits. A higher price may reduce volume but result in a higher profit. If the prices are lower, the client should explain how the business intends to cover costs and earn a profit. Be sure the client knows how to calculate the break-even point.

Distribution Channel Strategy:

Describe the methods that will be used to move the product or service to the customer. Will your client sell to, or purchase from, wholesalers? Will your client use sales representatives or distributors? Describe both the initial plans and the long-range plan. What margins will be given to retailers, wholesalers and others who move a product to the customer? How does the client's plan compare with competitors?

If distributors or sales reps are to be used, the client should determine how they are to be screened and selected. Develop a table that shows the addition of dealers or reps by month, along with the expected sales to be made by each dealer. Describe any special policies regarding discounts, exclusive distribution rights, and other incentives.

If a direct sales force is to be used, indicate how it will be structured and at what rate it will be developed. If it is to replace an existing dealer or sales-rep organization, discuss why and how the transition will be made. A determination should be made of the expected sales per year for each salesperson, as well as the commissions, bonuses, and salary for each. These figures should be compared to the industry average.

The client should also determine a sales budget to document all marketing promotion and service costs. It should also document the time lapse between a sale and the delivery of the product or service, if any.

How important are service and warranties to customers in making the decision to purchase your client's products or services? How will the client handle service problems? What warranties will be offered? How does this compare with competitors?

Promotion Strategy:

What approaches will the client use to bring products/services to the attention of potential customers? How will the client develop loyalty from customers? What does the client expect to get back from the advertising campaign? Encourage the client to establish written goals and objectives before trying to decide which method or combination of methods to use in the promotion of the product.

Which of the following specific methods will be used, and how will the mix be coordinated?

Advertising	Trade Show Exhibiting	Direct mail
Publicity	Networking/Word of Mouth	Promotional Literature
Internet Marketing	Sales Aids	Missionary Promotion
Push/Pull	Company Image	Loss Leaders
Personal Sales	Coupons/Discounts	

Indicate which promotional methods are selected, why they are selected, and how they are specifically targeted to the customer profile. Develop a schedule and cost of each method on a monthly and annual basis. Incorporate these costs into a promotional budget. Compare the promotion strategy to that of competitors.

Sales Forecast:

Forecasting sales for a new business is difficult and imprecise. However, it is essential to project estimated sales in order to determine the feasibility of the new business or the expansion of an existing business.

The accuracy of the sales forecast is directly dependent on the quality of the research collected. In order to improve the accuracy, several different methods of forecasting sales should be used. These may include information obtained from:

- Trade or professional associations.

- Trade magazine or popular business magazines.
- Owners of similar businesses located outside of the trading area.
- Calculating the forecast based on market research information.

There are three methods to calculate the forecast based on information uncovered during the market research. The forecast can be based on the advertising plan, on the sales force, or on the number of potential customers.

1. One of the most popular (though not necessarily most accurate) methods of forecasting sales is based on the advertising plan. This is especially true if direct mail is being used.

   N x R x C x AP = Forecast

   N = Number of mail pieces sent per year

   R = Response rate (shown as a percent; normally 1.5% to 2%)

   C = Closure rate of sales (% contacted who actually buy)

   AP = Average Purchase per customer per year

2. Another method of forecasting sales is based on the company's sales force.

   N x CT x C x AP = Forecast

   N = Number of sales people CT = Number of Contacts per year

   C = Closure rate of sales AP = Average Price per order per year

3. The final method depends heavily on having an as-accurate-as-possible estimate of the number of potential customers in the trading area. It also assumes that all competitors are equivalent or equal to each other.

   (N x R x AP)/T = Forecast

   N = Number of customers R = Ratio likely to buy

   AP = Average Purchase per customer per year

   T = Total number of competitors in the market (including the client)

Any individual sales estimate is likely to be imprecise at best. Therefore, you can serve your client most by developing as many forecasts as possible in order to compare them. The wisest choice will be the most conservative estimate.

Building a Business Without a Budget

The following ideas are intended to help our clients find new customers and cultivate relationships by: (1) promoting themselves and their businesses with an effective message and (2) enlisting the help of network contacts. These ideas offer three different ways of viewing a business and "selling" it: (1) Elements of a Networking Marketing Program (2) Building a Reputation, and (3) Using Networking Effectively.

Elements of a Marketing Program

Increase the number of high-potential customers:

Assuming the 80/20 rule, these high-potential customers will furnish 80% of your client's business. Take a look at your client's present situation in relation to his competition. Help him to distinguish himself from the rest of the pack by concentrating in a niche where he has a competitive advantage in delivering better products or services. Help him to identify the "risk and opportunity" niches early, to focus on new solutions for old problems, to become involved, and to gain a name for himself in the growing market sectors. Assess your client's customer base in order to spot weaknesses due to a lack of diversity of customers or due to business cycles or trends that are harmful to growth with his current customers.

Project your client's future and set customer objectives:

Look at your client's revenues, number of customers, and the ability of their business to sustain itself. Take a look at the following list of customer objectives. Expand your thinking to include long-term possibilities.

1. Increase the number of high-potential customers (20/80 Rule).
2. Obtain a set of "hit list" customers.
3. Gain name recognition.
4. Specialize in a given niche.
5. Change the mix of customers by industry sector.
6. Build a stronger presence in the market.
7. Enter a new niche with a business cycle that countervails the current list of customers.
8. Increase profitability by offering higher-priced services.
9. Make the client indispensable by cultivating (x) number of customers per quarter.
10. Gain visibility for the client or their firm.

Determine sources of business:

Consider activities to increase your client's customer base, such as identifying an "account profile" for targeted customers or setting numeric goals per niche, customer type, or market. Select a "hit list" of accounts to pursue and decide how much (in terms of dollars or billable hours) your client wants to attain from them. Set priorities among the possible markets.

Decide the best way to reach your client's decision makers:

Profile the decision maker, and decide who and what can influence them. Where can your client reach them and what is the message that the client will put out? Which of the following methods will they use?

- For Initial Word: Networking, Advertisements, Tradeshows, Mailers, Seminars, Cold Calls
- For Follow Up: Phone call, Information Package, Personal Meeting

Remind your client that the first meeting is the best opportunity for them to establish them self and their product, so they need to prepare in advance!

Assign Accountabilities:

Your client should clearly delegate tasks. Who will pursue what markets? Who will work which networks? Who will attend what functions, trade shows, conferences, etc.? They should set goals and quantify expected results numerically.

Review results on a regular basis:

The smart client will put a system in place for tracking results. Some effective ways to measure success:

Number of contacts	Number of appointments
Number of proposals	Number of new customers

Follow-up is equally important in reviewing results:

Was the plan carried out?	Was the information sent?
Were the phone calls made?	Were the requests fulfilled?

Assess the effectiveness of the current plan:

Help your client to record and review lessons learned about customers, markets, and possible opportunities. Go back to step one, increase the number of high potential customers, and consider any necessary changes to the current plan. Now that you and your client have analyzed the marketing effectiveness under the current “no-budget” plan, consider whether developing a budget at this point is a good idea.

Building a Reputation

Establish a clear picture of who the client is:

Ask yourself the following questions about who the client is.

What does she do and what values does she bring to market? What problems does she solve? What is the basic purpose for her firm’s existence? Who does she serve and why do those customers buy from her? What benefits does she offer? Does she provide a unique or distinguishing value? Who does she compete with and how can she beat her competition? What is her competitive advantage?

Build a strong reputation:

The strongest reputations are based on the personal characters of the people running the business. Your client’s customers will brag about him to their associates or friends based on the reasons that they like him. What does he want to be remembered for?

When people want to know why your client is better than the rest, this is what he wants them to hear:

1. Why his best customers like dealing with him.
2. Why he is good at what he does.
3. What he does that makes him reliable.

If one of your client’s current customers were speaking about him to a prospective customer, what would he like them to say about him? What is his philosophy towards serving his customer’s best interest? How does he ensure that he lives by that idea?

Using Networking Effectively

In order for your client to get the most out of her Networking organizations, she needs to remember to work on introductions and relationships rather than on selling. She needs to meet as many people as she can and keep track of who she has met. She should make it easy for people to know her, and she should be cooperative--others are there to Network, also. Your client should get to know the staff and participate regularly. She should use care in choosing the associations with which she Networks.

Follow up:

One of the most important tools in networking is following up after the initial contact. Help your client to be creative in finding reasons to re-contact prospective customers after the first meeting. Some possibilities:

Thank you for the referral.
Thank you for the recent job.
Thank you for the check.
Refer a possible job candidate.
Congratulations on a promotion.
Congratulations on winning a bid.
Request a name of a vendor.
Offer free consultation.

Provide Counseling on a prospect.
Provide information on a potential customer.
Provide help on a professional association project.
Provide an article clipped from a paper.
Offer lead.
Offer bid opportunities.

What the client needs to know to help someone else:

Remind your client that networking is a two-way street! By helping others, he is expanding the network and ultimately helping himself. In order for your client to help other network contacts, he will need to know something about them. Who are their clients or customers? How big is their company and where are they located? Who makes the decision to buy their product or service? How do they identify customer needs? What are some typical indicators that a client or customer can use their service or product? What questions could your client ask to uncover a need for that person's service? Who are their major competitors and how do they distinguish themselves? How do they go about finding leads, and how can your client help them?

Identify your client's best contacts:

Finally, don't forget to help your client to help herself! When she needs something and decides to tap into the network, she should be able to identify the contacts that will help her. Consider this set of questions as a way to pinpoint those who will be most likely to help.

Who can your client help?
Who has sought her help in the past?
Who do her competitors network with?
Who else sells to your client's customers?
Who has she helped in the past?
Who has helped her in the past?
Who is really good at networking?
Who buys from your client's customers?
Who stands to benefit from the same events/circumstances that your client does?
Who wants to help your client?

Market Research - What is it and how do I start?

Primary vs. Secondary Market Research

Market research can be conducted at any phase of operating a business. How well will my product sell in this market? How much should I charge for this service? What will my annual sales be if I go into this business? Whether you are pursuing a possible new business or whether you are a Fortune 100 company wanting to introduce a new product, you need to do market research to answer these questions.

Basically, there are two kinds of market research: primary and secondary.

Primary research is research conducted by you or your agent to answer your specific questions that cannot be answered by using only secondary research. Primary research utilizes surveys (mail and/or telephone), focus groups, in-depth interviews, case studies and observation methods. A good example of primary research would involve the following scenario in identifying your competition. To gather information regarding your competition, the first place you should look is the yellow pages in your phone book. Check out who is advertising, what they are advertising and how they are doing it. Once you do that, call your competitor and ask them about their prices, hours, and service. Also, check with suppliers, business associates, and, if you are in business -- your customers. All of this research will answer your questions about your competition but, as you can see, the disadvantage to doing primary research is that it is usually time and/or dollar consuming.

Secondary research is research that was conducted by other people usually for other reasons (for example, census data collected by the Bureau of the Census). Be careful! The major disadvantage of using secondary research is that the data may not be specific enough for your questions or the data may be out of date. Be sure you are comparing apples to apples.

Many sources of secondary research are available free of charge in public collections and libraries. Other sources of secondary information that you should be aware of include: your local trade and professional organizations (which may have conducted extensive research on specific topics) and the Government Printing Office in Washington, D.C. (which has available a wealth of government documents with statistics, etc. by the various federal agencies). Locally and on the state level, you may want to try the Chamber of Commerce, the State Department of Commerce, the Bureau of Economic and Business Research, or the Planning Council in your projected community. Refer to Section 10: Sources of Assistance for further information.

Getting Started in Secondary Research

You have made the decision that you need to do some marketing research for your company. You have even decided to research existing data because you are sure the information you want to know is just normal, everyday statistics that should be available somewhere. You also hope to save money by eliminating the need for, or reducing the work for, the professional market research companies. Now, where do you start, and how do you find the specific information you want that must be out there somewhere? Well, that all depends on what specific questions you want answered and what you plan to do with the information once you have it in hand.

For the sake of saving time and energy, be sure that you are asking the correct questions. Nothing is more frustrating than to do a lot of research and fact gathering only to discover that the information you have accumulated does not really answer your questions. One way to focus your efforts is to create a page with two columns -- on one side list your research questions and on the other side list what you hope to learn from the answers. Having problems identifying your questions? Maybe you should step back and try to look at the overall purpose of the research. What was the initial reason you wanted to do the research? Once you are satisfied with your questions, you can focus on which source or sources of assistance will be able to help you best.

Where to find the answers

The rest of this section identifies some common research questions and at least two sources of assistance where you might find answers to those questions. The list of questions is by no means complete, nor is the list of suggested sources mentioned the only place where you might find the answers you are seeking. These questions and sources are presented only as a starting place.

1. ***How do I do my market research?***
   - Refer to current market research books (from the library or a bookstore)
   - Try the business section at the city or county public library, or the university library
   - Attend any market research seminar offered by the Small Business Development Center

2. ***How do I find journals pertaining to my industry?***
   - Small Business Sourcebook
   - Business Periodicals Index
   - F and S Index
   - Readers' Guide to Periodical Literature
   - Ulrich's International Periodicals Directory

1. ***What are the demographics of the market (age, sex, education, marital status, household size, etc.) within the zip code where I want to set up my business?***
   - Sourcebook of Demographics and Buying Power for Every Zip Code in the U.S.A.
   - The Sourcebook of ZIP Code Demographics, Census Edition
   - Census of Population report from the most current Census data

2. ***I am interested in expanding my business to (any city, IL). What are some additional sources of demographic information for that county?***
   - Illinois County Profiles
   - Duns Marketing Identifiers
   - Illinois Occupational Information Coordinating Committee (IOICC) Files
   - Survey of Buying Power

3. ***I am interested in expanding my business to (any city/any state). Where can I find demographics for that state?***
   - Illinois Manufacturers Directory
   - Sourcebook of Demographics and Buying Power for Every County in the USA
   - State and Local Statistics Source
   - State and Metropolitan Area Data Book

4. ***What trade organizations or professional organizations are available in my industry area so I can get specialized data for my company's product?***
   - Business Organizations, Agencies and Publications Directory
   - Encyclopedia of Associations
   - National Trade and Professional Associations of the United States
   - Small Business Sourcebook

5. ***I might be interested in starting a certain type business. Where can I find information?***
   - Small Business Sourcebook
   - Almanac of Business and Industrial Financial Ratios
   - Targeted Industry Profiles (TIPS)
   - Entrepreneur Magazine

6. ***I will need a company to manufacture my product. Where can I find them?***
   - Illinois Manufacturers Directory
   - Thomas Register of American Manufacturers
   - U.S. Manufacturers Directory

7. ***I think I know who my competition is but I want to be sure. Where can I find out about them?***
   - Local Yellow Pages in the telephone book
   - IOICC Files
   - Million Dollar Directory
   - Ward's Business Directory of U.S. Private and Public Companies

8. ***Where can I find out about the size and market trends of my industry?***
   - Simmons … Study of Media and Markets
   - Standard and Poor's Industry Surveys
   - U.S. Industrial Outlook
   - The Official Guide to the American Marketplace
   - Census of Retail Trade/ Wholesale Trade/ Manufacturers
   - Illinois Department of Employment Security (IDES)

9. ***What is the future outlook for the area?***
   - IDES Employment Projections File
   - Regional Economic Models, Inc. (REMI)
   - WEFA, an economic forecasting service
   - Date Resources, Inc. (DRI)

10. ***What are the industry standards of sales, number of employees, etc. for my business type?***
    - Almanac of Business and Industrial Financial Ratios
    - Annual Statement Studies
    - Census Bureau Reports
    - Annual Survey of Manufacturers

11. ***What government activities should I be aware of that will impact my business?***
    - Congressional Information Service Annual
    - Business Periodicals Index
    - U.S. Central Data Bank

12. ***Where can I find out the education/skill level of my projected employees?***
    - IOICC Files
    - IDES Local Area Unemployment Statistics (LAUS)
    - State and Metropolitan Area Data Book

13. I need to locate my warehouse or office facility in a certain area of town. How can I find out what facilities are available?

- Illinois Services Directory
- American Business Information (ABI)

14. I need to know what kind of building activity is currently taking place and is being projected for the area where I want to locate my business. Where can I look?

- Building Permit Activity in Illinois
- Revenue Property Tax Reports
- Revenue New Business Registration File
- Market Profile Analysis: Consumer and Business Demographic Reports

15. I want to locate publications that provide statistical data for my (state/county/area). Where can I look?

- State and Local Statistics Sources
- Guide to United States Government Statistics
- American Statistics Index
- F and S Index
- Statistical Reference Index

16. What data bases could I reference to assist my market research efforts?

- IOICC Files
- Duns Marketing Identifiers (DMI)

Sample Marketing Plan Outline

I. Market Research and Planning
  A. Customers and Clients
    1. Target Market: demographics, segmentation, and niche
    2. Estimate demand and purchasing power: primary and secondary sources
  B. Market Size and Trends
    1. Calculation: estimate and document assumptions of numbers of potential customers and potential dollar volume.
    2. Potential future growth
  C. Product or Industry Life Cycle
    1. Proper approach for current stage
    2. Stages: Introduction, Growth, Maturity, Decline
  D. Analysis of the Business Environment
    1. SWOT Analysis
      a. Suppliers: product line, reputation and history, terms, location, shipping, other buyers, alternate suppliers.
      b. Competitors: price, product, distribution channels, promotion, target market, current market share.
    2. Consider other factors
      a. Cultural, social, political, legislative, economic, and technical environment.
      b. Contingencies: plans concerning how to react if threats become reality

II. Marketing Strategy
  A. Overall Marketing Strategy
    1. Profile customer – now and later
    2. Identify special product features and seasonal implications
  B. Product or Service Strategy
    1. How product meets customer needs
    2. How to display and package
    3. What legal documents are needed
  C. Pricing Strategy
    1. Strategies: penetration, skimming, cost plus overhead
    2. Costs: fixed, variable, contribution margin:
    (Price - Variable Costs = contribution to overhead and profit.)
    3. Discounts: special sales, price sheets
    4. Break-Even Point
  D. Distribution Channel Strategy
    1. How to move product to customer
    2. Sales budget to cover distribution method
    3. Service policy and warranties
  E. Promotion Strategy
    1. Goals: written objectives for campaign
    2. Advertising: media selection, message
    3. Public Relations: coordination with advertising
    4. Schedule: calendar
    5. Budget: costs, time required, human resources required
  F. Sales Forecast
    1. Where to find comparisons
    2. How to estimate sales

Sources of Marketing Research

Many of the resources we use today are readily available online. However, there are resources that are exclusively available through a library or organization that purchases a services or access to specific resources. New resources that are discovered are posted on the Business Development Advisor eForum.

List research sources the following clients should be referred to in order to find the information necessary to solve their problems. Since there may be more than one source of information, the Business Development Advisor should plan to list as many references as he or she feels a typical client should utilize. Discuss the steps you would recommend to the client.

1. Cathy has been in business for about a year as a costume jewelry distributor. She specializes in Austrian crystal necklaces, earrings and bracelets, but carries other types of jewelry as well. She asks you for help in finding new suppliers, as she is concerned that she is too dependent on her one and only supplier. She also wants to know how to find more customers.
2. Jim is a veteran of the construction industry, having recently retired as a general contractor. While puttering at home, he developed a design for a new energy-efficient window that is now patented. He is working on the marketing section of his business plan and wants to know how to investigate the industry to estimate demand for the product.
3. Joyce has recently been laid off from her job as a dog groomer when the pet shop where she was employed went out of business. Instead of looking for a new job, she wants to start her own grooming business. While she has a list of all her previous customers from the shop, she wants to know how many people in her city are potential customers.
4. Rose and Ellen have been in business for three years retailing clothing for women and children who are taking dance lessons and aerobics classes. After having several customer requests for ballroom dancing shoes and apparel, they decide to investigate adding these items to their line. They have come to you asking how to locate manufacturers. They also are concerned that this might be a passing fad that would leave them with unsold inventory.
5. After having a heart attack, Rick recently sold the successful barbecue restaurant he started five years ago. Too young to retire, he now is interested in starting a new restaurant with a healthier menu. He is concerned about the economy, as well as if there are enough customers who want to eat such meals in a restaurant.
6. Wes has a six-year-old company that manufactures and sells to retail merchants a variety of concrete products, such as benches, birdbaths, outdoor sculpture, and stepping stones. His sales have begun to decline and he does not know why.
7. Matt is considering purchasing a retail bicycle franchise. He is concerned about several marketing issues:
    - is there already too much competition,
    - are there enough potential customers, and
    - what gross sales could he expect?
8. When Wyatt moved here from Jamaica, he brought old family recipes for a wonderfully-spicy hot sauce and for a barbecue sauce. He wants to manufacture and market the sauces himself and appears to be able to self-finance the venture on a limited scale. He wants to estimate the demand for the sauces so he can determine a sales forecast.
9. Diane has a county and city certified minority owned business. As a painter, she has performed contracts to paint several city buildings. Because of cash flow problems, she wants to diversify away from doing strictly government work to do commercial jobs, but has no idea how.

10. Elaine owns a dry cleaning store. She is considering offering a pick-up and delivery service at the major office buildings in your city. How can she find out who the major employers are and the number of people they employ?

Module 5 Checklist

Marketing

TRAINING TASKS

Check that following activities were completed.

- ☐ Viewed the Module 5 eTraining and read the eGuide in their entirety
- ☐ Attended appropriate SBDC seminar(s) as assigned
- ☐ Read documents from DCEO links
- ☐ Watched YouTube videos that support the Module's goals
- ☐ Reviewed the Case Study / Counseling Session and answered the questions with 100% accuracy
- ☐ Visited the host institution's library to review the publications listed in this module then updated the list of resources available to the Center
- ☐ Reviewed marketing web sites and review findings with Peer Coach
- ☐ Analyzed the marketing sections of a business plan and reviewed it with your Peer Coach

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 5 eTraining and answered evaluation questions with 100% accuracy
- ☐ Viewed Module 5 Case Study / Counseling Session then answered Module's evaluation questions with 100% accuracy
- ☐ Submitted for review a marketing plan you wrote or assisted in writing

Additional Activities

- ☐ Used "Preparing for a Counseling Session", "Counseling Checklist" , and "Checklist for Self-Evaluation" when counseling
- ☐ Participated in the a business roundtable OR discussed marketing with peer coach
- ☐ If applicable, posted observations and resources to Business Development Advisors eForum

Module 6

RECORD KEEPING AND BUDGETS

PERFORMANCE GOAL

The Business Development Advisor will, as a part of the first counseling session with a new client, assess the client's knowledge of budgeting and record keeping. The Business Development Advisor will explain the importance of budgeting and of keeping complete and accurate records and will define the necessary elements of a complete system.

SUGGESTED PREREQUISITES

Core Module 1 – Module 4

Download – Documents located on the DCEO Website. The actual link may change when documents are updated or rewritten.

Starting Your Business

- ***Starting Your Business in Illinois*** (PDF English / Spanish)

Financial Guidance

- ***A Simple Guide to Your Company's Financial Statements*** (PDF English / Spanish)
- ***The Small Business Owner's Guide To Financial Control*** (PDF English / Spanish)
- ***Understanding Commercial Lending: The Question and Answer Guide*** (PDF English / Spanish)

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. View Module 6 eTraining and read the eGuide in their entirety
2. Review Case Study / Counseling Session and answer the questions provided
3. Watch YouTube videos that support the Module's goals
4. Complete the tutorial for computer-based financial software available to your Center
5. Assist at least one client in developing a cash flow statement or budget
6. Visit at least two Web Sites on the Internet that provides information on Budgeting and Record Keeping
7. Attend applicable seminars as determined by your supervisor or Peer Coach

EVALUATION PROCEDURES

The knowledge of the necessary elements of a complete record-keeping system and the implications for budgeting purposes will be evaluated by all of the following methods:

1. Completing the Module 6 eTraining and answering evaluation questions with 100% accuracy
2. Viewing Module 6 Case Study / Counseling Session then answering the assessment questions with 100% accuracy
3. Providing the Peer Coach with new resources identified through research and posting new resources in the Business Development Advisor eForum if applicable
4. Preparing a cash flow statement and budget (or) assisting a client in creating a cash flow statement and budget

INTRODUCTION

The importance of accurate and systematic record keeping cannot be overemphasized to your client. It is at this level that all the necessary information for the health and success of a business begins. Without complete and accurate records there can be no logical projections for budgeting, no evidence of profitability, and no valid documentation for tax purposes.

This module and Module 7, Financial Statements, go hand-in-hand. Without adequate record keeping, financial statements are unable to present an accurate picture of the business, either in the short-term or the long-term. Profit and Loss Statements (Income Statements), Balance Sheets, and Cash Flow Statements are compilations of business activities, and these activities must be accurately recorded in order to produce valid statements.

This module deals with the records that need to be kept and how record keeping affects the budgeting process. It also includes a brief section on cash flow forecasting. Module 7 will deal with the actual accounting process, as well as the analysis of the various statements.

WHY KEEP RECORDS?

Records provide accurate, timely information whenever and wherever it may be needed. The following list is only a small representation of the varied and valuable uses of records.

- To prepare necessary statements of financial condition
- To prepare necessary tax returns
- To apply for loans or credit
- To know how the business is performing
- To prepare a pro forma budget
- To compare current status with projections
- To track all cash-flow transactions
- To maintain up-to-date data base
- To assure timely ordering and delivery
- To track past-due accounts
- To prevent sudden budget adjustments

WHAT RECORDS SHOULD BE KEPT?

The answer to this question will depend on the type of business your client is operating, as there are specific records of sales transactions, inventory, etc., depending on the particular type of business. However, there are also certain records that should be maintained for every business.

Sales and Income Records

In addition to their use in preparing the basic financial statements of your client's business, records documenting income are also required by the IRS, any state or local taxing agency, insurance companies, and lending institutions. These records usually take the form of invoices, sales slips, or cash register tapes. If the business also operates on a credit payment basis, the appropriate customer files will need to be maintained. All cash and credit sales should be documented in detail, listing at least the product or service provided and the date of the sale.

Purchase Records

These records, too, are important for more reasons than just the preparing of statements. Records documenting business expenses are crucial for tax-reporting purposes. If your client's business is ever audited by the IRS, one of the first areas to be examined will be that of expenses. Controlling business expense is also critical to the long-term success of your client's business. These records usually take the form of purchase orders, cash receipts, or invoices requesting payment. It is extremely important to document all cash transactions. Your client should never just take cash from the business, whether for business expense or for personal business expense. It is recommended that a petty cash fund be established, by check, and maintained and replenished with check-entry documentation. Every record of disbursement should contain the date, the payee, the purpose of the expense, and the amount of the expenditure. If the business also has regular expenses that are paid on a credit basis, complete and accurate information must be kept in each of these accounts. Include at least the date of purchase, the amount paid and amount still due, the invoice number, and the credit terms. Please note that considerable savings may be obtained by taking advantage of those suppliers who offer discounts for payment within a limited period of time.

Other Applicable Records

In addition to the two categories above, most businesses will also need to keep records in Inventory, Payroll, Depreciation, and Equipment.

General Ledgers

All the information listed above should be journalized in a general ledger. General ledgers are kept for the purpose of recording transactions and balances of individual accounts within the whole system. The general ledger provides the day-to-day financial activity of the business and allows for the periodic transferring of this information to the financial statements used for evaluating and analyzing the health of the business.

HOW LONG SHOULD I KEEP RECORDS?

This common question is difficult to answer. Taxing authorities frequently change retention-time requirements; therefore, it is a good idea for your client to consult with a legal or accounting professional in this regard. The following list is offered as a guideline and contains items that may not be applicable to your client.

Keep Permanently

Audit reports	Bills of sale (major purchases)
Cancelled checks (large/important purchases)	Capital stock, bonds, etc.
Checkbooks	Charts of accounts
Contracts & leases (major or current)	Correspondence (legal/important)
Credit history	Deeds and mortgages
Financial statements (year-end)	General ledgers
Insurance records	Journals
Minutes, by-laws, certificate of incorporation	Property appraisals
Property records	Tax returns (include worksheets and related documents)
Trademark registrations	

Keep for 7 Years

Accident reports and claims	Accounts payable ledgers
Accounts receivable ledgers	Cancelled checks (lesser purchases)
Contracts & leases (expired)	Expense records (analyses & schedules)
Distribution Expired option records	
Inventories (products, materials, supplies)	Invoices (customer and vendor)
Payroll records (pension payments, etc.)	Purchase orders (purchasing dept. copy)
Royalty computations	Sales records
Scrap and salvage records	Subsidiary ledgers
Time books	Payment vouchers (vendors or employees)

Keep for 5 Years

Excise tax computations	Internal audit reports

Keep for 3 Years

Correspondence (general)	Employment applications
Insurance policies (expired)	Miscellaneous internal reports
Petty cash vouchers	Physical inventory tags

Keep for 2 Years

Proxies of voting security holders

Keep for 1 Year

Bank reconciliations	Duplicate bank deposit tickets
Purchase orders (not purchasing dept. copy)	Receiving sheets
Requisitions	Stockroom withdrawal forms

HOW DO I KEEP TRACK OF ALL THESE RECORDS?

It is imperative that your client have some kind of organized method for keeping up with all the necessary records. Depending on the size of the business, in the beginning it may be enough to simply have a large envelope or folder to hold each month's records. However, you should strongly recommend to your client that he or she consult with an accounting professional and establish an overall record keeping/accounting system that suits the particular size and scope of the business. You should also recommend to your client that he or she be able to make manual bookkeeping and accounting entries and to understand the mechanics of the process before investing in a computerized system.

FORECASTING CASH FLOW

In any cash-flow system, funds are constantly being generated by the sales/revenue side of the business and drained by the operations/expense side. The challenge for your client is in trying to maintain a balance in that flow.

Funds need to be available to meet expenses as they are due and to replenish inventories. In some cases, extra cash may be available. If your client develops and uses a cash flow pro forma statement to help anticipate these occasions, idle cash can be invested and become another source of revenue.

Pro formas are guidelines that help measure estimates against reality. If your client has no operating history to use in developing this process, he will need to arrive at a beginning cash-flow forecast using standard industry ratios. These ratios are developed from data reported to government units or to trade organizations and can be used as a benchmark by your client.

This information is available from trade associations, government agencies, and commercial services, such as Dun & Bradstreet and Robert Morris Associates (RMA). Module 7 also contains (under Additional Readings) information on Cash Flows and Sources of Industry Standards, a Sample Cash Flow Statement, and a List of Further Resources.

The following form, taken from Managing for Profits, published by the Government Printing Office for the U.S. Small Business Administration, is a good tool for tracking and forecasting cash flow. Of course it will need to be tailored to the unique characteristics of your client's business.

CASH FORECAST FORM

	January		February		March		April	
	Est.	**Act.**	**Est.**	**Act.**	**Est.**	**Act.**	**Est.**	**Act.**
Cash balance beginning of month	_____	_____	_____	_____	_____	_____	_____	_____
RECEIPTS:								
Accounts-receivable collections	_____	_____	_____	_____	_____	_____	_____	_____
Bank loan proceeds	_____	_____	_____	_____	_____	_____	_____	_____
TOTAL CASH AVAILABLE	___	_____	_____	_____	_____	_____	_____	_____
DISBURSEMENTS:								
Trade payables	_____	_____	_____	_____	_____	_____	_____	_____
Payroll-hourly	_____	_____	_____	_____	_____	_____	_____	_____
Payroll-salary	_____	_____	_____	_____	_____	_____	_____	_____
General expenses	_____	_____	_____	_____	_____	_____	_____	_____
Selling expenses	_____	_____	_____	_____	_____	_____	_____	_____
Capital additions	_____	_____	_____	_____	_____	_____	_____	_____
Income taxes, local, state, federal	_____	_____	_____	_____	_____	_____	_____	_____
Bank loan repayment	_____	_____	_____	_____	_____	_____	_____	_____
TOTAL DISBURSEMENTS	_____	_____	_____	_____	_____	_____	_____	_____
CASH BALANCE END OF MONTH	_____	_____	_____	_____	_____	_____	_____	_____
Less minimum balances	_____	_____	_____	_____	_____	_____	_____	_____
ESTIMATED AMOUNT OF								
CASH AVAILABLE	_____	_____	_____	_____	_____	_____	_____	_____

WHY DO I NEED A BUDGET?

A budget contains the same items and information found in the income statement and balance sheet. However, the budget is not an identical document. The balance sheet and income statements are historical documents, and represent actual activity. The Budget is a proposed or preliminary document that strives to plan for future specific activity. It is a powerful tool to coordinate and control the direction of the business. The budget sets limits based on past performance while projecting future capabilities. Although budgets are universally accepted and utilized, each budget is specifically tailored to meet the needs and expectations of a specific business.

One of the best reasons for making a budget lies in the doing. Before a budget can be formulated, time and thought must be given to all areas of the business. Exactly what are the sources of income, how often can they be expected to be received, and how reliable are the sources? Exactly what are the expenditures, how often must they be expended, and how long must they be paid? The more detailed and more thorough the process of determining the budget, the greater the chance of success. The accuracy and completeness of previous record keeping will increase the chances that the budget is a valuable tool for forecasting and controlling future financial stability. A budget is generally prepared for one year in advance, with shorter time frames designated as check points, usually quarterly or monthly.

For a business that is starting up, the budget cannot be based on past records and will therefore need some other means of forecasting. Your client will need to do research and use indicators such as industry norms, government estimates of rate of inflation, etc. Sample forms for projecting cash-flow statements, income statements, and balance sheets are available.

LIMITATIONS OF A BUDGET

Even though a budget is a necessary tool in coordinating and controlling the activities of your client's business, one important factor should be kept in mind: a budget is still only a guide.

All budgets depend on estimates of future activity. They cannot accurately predict what may actually happen. There are always unavoidable changes that will cause the actual dollars to deviate from the projected dollars, both in income and in expenditures. Documenting these variances and analyzing their impact will enable your client to formulate a more accurate budget for the next financial period.

A budget also cannot account for the intangible ingredients that can be an important factor in the profitability of a business--it cannot accurately predict, for example, the skill level of the entrepreneur or the impact of synergistic teamwork.

Still, with all its limitations, the budget is one of the most important documents your client can have, both in terms of keeping track of the progress of the business and in terms of offering proof of financial stability.

ELEMENTS OF A COMPLETE SYSTEM

In order for a system to be effective, it must be simple to use and easy to understand. A good system must also be accurate and reliable.

According to generally accepted accounting principles, any good system will contain a standard Chart of Accounts that includes assets, liabilities, owner's equity, revenues, and expenses as the major categories. However, as previously stated, each system must be tailored to suit the needs of your client's business. The Chart of Accounts must be inclusive enough to represent your client's particular activities, both in sources of income and in expenditures. Too many entries dumped into a miscellaneous account will make it difficult to track actual operations. A drawing account should also be included to represent the amount of withdrawals made by an owner of a sole proprietorship.

In addition, no system will work well unless it is maintained properly--entries must be made regularly and in a timely manner. Use the following checklist as a guideline for record maintenance.

To do daily:

- Be sure that all monies paid out, either in cash or by check, have been recorded.
- Balance checkbook
- Verify cash on hand
- Summarize sales and cash receipts

To do weekly:

- Update all payroll records
- Review accounts receivable and address late accounts
- Review accounts payable and take advantage of special discount terms
- Review tax payments, both deposits and remittances

To do monthly:

- Reconcile bank statement
- Balance petty cash account
- Classify journal entries and post to general ledger

- Prepare income statement
- Prepare balance sheet
- Update fixed asset record
- Verify that all federal and state tax deposits have been made
- Do aging of accounts receivable and work on slow accounts
- Do inventory control (move/remove slow stock and order new stock based on sales)
- Analyze financial statements and budget variances

Record keeping and budgeting for a small business is really not much different than what many people do to track their personal finances. Much of it is just plain common sense!

Module 6 Checklist

Record Keeping

TRAINING TASKS

Check that following activities were completed.

- ☐ Viewed Module 6 eTraining and read the eGuide in their entirety
- ☐ Review Case Study / Counseling Session and answered the questions provided
- ☐ Watched YouTube videos that support the Module's goals
- ☐ Completed the tutorial for computer-based financial software available to your Center
- ☐ Assisted at least one client in developing a cash flow statement or budget
- ☐ Visited at least two Web Sites on the Internet that provides information on Budgeting and Record Keeping
- ☐ Attended applicable seminars as determined by your supervisor or Peer Coach
- ☐ Attended Business Development Advisor Forum or discussed Record Keeping/budget with peer coach

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 6 eTraining and answering evaluation questions with 100% accuracy
- ☐ Viewed Module 6 Case Study / Counseling Session then answered Module's evaluation questions with 100% accuracy
- ☐ If applicable, provided the Peer Coach with new resources identified through research and posted new resources in the Business Development Advisor eForum
- ☐ Prepared a cash flow statement and budget (or) assisted a client in creating a cash flow statement and budget

Module 7

FINANCIAL STATEMENTS

PERFORMANCE GOAL

The Business Development Advisor will assist the client to identify and review financial statements. Particular attention will be given to the explanation and comparison of profit and loss statements, cash flow statements, and balance sheets. The Business Development Advisor will also be able to assist the client in identifying and using other financial information such as the break-even point, debt-to-equity ratio, comparison to industry standards, and capital required.

SUGGESTED PREREQUISITES

Core Module 1 – Module 4

Download – Documents located on the DCEO Website. The actual link may change when documents are updated or rewritten.

Starting Your Business

- ***Starting Your Business in Illinois*** (PDF English / Spanish)

Financial Guidance

- ***A Simple Guide to Your Company's Financial Statements*** (PDF English / Spanish)
- ***The Small Business Owner's Guide To Financial Control*** (PDF English / Spanish)
- ***Understanding Commercial Lending: The Question and Answer Guide*** (PDF English / Spanish)

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. View Module 7 eTraining and read the eGuide in their entirety
2. Watch YouTube videos that support the Module's goals
3. Attend available seminars or workshops on topics related to this module
4. Review online resources including the documents on the DCEO website
5. Review the case study and answer the questions related in financial statements
6. Complete a financial competence computer-based training program available to you
7. Calculate the breakeven point with a client or as an assignment
8. Meet with center's resources (CPA and Tax Accountants) then update center's contact list

EVALUATION PROCEDURES

The proficiency in financial statement analysis will be determined by:

1. Completing the Module 7 eTraining and answering evaluation questions with 100% accuracy
2. Viewing Module 7 Case Study / Counseling Session then answering Module's evaluation questions with 100% accuracy
3. Preparing a cash flow statement and budget (or) assisting a client in creating a cash flow statement and budget
4. Providing the Peer Coach with new resources identified through research and posting new resources in the Business Development Advisor eForum if applicable

INTRODUCTION

Financial statements provide small business owners with the basic tools for determining how well their operations perform at all times. Many managers do not realize that financial statements have a value that goes beyond their use as supporting documents to loan applications and tax returns.

These statements are concise reports designed to summarize financial activities for specific periods. Managers can use financial statement analysis to evaluate the past and current financial condition of their business, diagnose any existing financial problems, and forecast future trends in the firm's financial position.

Evaluation pinpoints, in financial terms, where the firm has been and where it is today.

Diagnosis determines the causes of the financial problems that statement analysis uncovers and suggests solutions for them.

Forecasts are valuable in statement analysis for two reasons:

- You can prepare forecasts that assume that the basic financial facts about a company will remain the same for a specified period in the future. These forecasts will illustrate where you are likely to stand if the status quo is maintained.
- Or, you can gain insights into the impact of certain business decisions by calculating the answers to "what if" questions. When you test the consequences of changes you are contemplating, or that may occur because of changing market conditions, customer tastes, etc. you achieve a greater understanding about the financial interrelationships at work in a business.

The two reports for all sizes and categories of business are the Balance Sheet and the Income Statement (Profit and Loss Statement.) The Balance Sheet is an itemized statement that lists the total assets and the total liabilities of a business, and gives its net worth on a certain date (such as the end of a month, quarter, or year). The Income Statement records revenue versus expenses for a given period of time.

Regular preparation and analysis of financial statement information helps business managers and owners detect the problems that experts continue to see as the chief causes of small business failure--such as high operating expenses, sluggish sales, poor cash management, excessive fixed assets, and inventory mismanagement. By comparing statements from different periods, you can more easily spot trends and make management decisions and budget revisions before small problems become large.

This module is intended to provide you with a basic understanding of the components and purposes of financial statements. The Balance Sheet and Income Statement formats are designed as general models and are not complete for every business operation. Computation of income for financial accounting purposes is done according to the rules of Generally Accepted Accounting Principles (known as GAAP). Be aware that income and losses computed using GAAP rules will not necessarily be the same as those calculated to comply with the Internal Revenue Code.

WHY ARE FINANCIAL STATEMENTS REQUIRED?

Many business experts and accountants recommend that you prepare financial statements monthly--quarterly at a minimum. Some companies prepare them at least once a week, sometimes daily, to stay abreast of results. The more frequently a company prepares a financial statement, the sooner timely decisions can be made.

There are four types of financial statements; reviewed, compiled, audited, and unaudited. The reviewed statement includes an analysis of the statement by a CPA in which unusual items or trends in the financial statement are explained. A compiled statement contains financial data from a company reported in a financial statement format by a certified public accountant (CPA); it does not include any analysis of the statement. An audited statement (also prepared by a CPA) contains any analysis which includes confirmation with outside parties, physical inspection and observation, and transactions traced to supporting documents. An audited statement offers the highest level of accuracy. An unaudited statement applies to public companies. It is information prepared by the company which has not been reviewed or audited.

Small business owners must be aware that they may be required to submit financial statements in the following circumstances:

- Virtually all suppliers of capital, such as banks, finance companies, and venture capitalists, require these reports with each loan request, regardless of previous successful loan history. Banks may need CPA compiled or reviewed statements and, in some cases, audited statements. They may not accept company or individually prepared financial statements, unless they are backed by personal or corporate income. Typically, as a condition of granting a loan, a creditor may request periodic financial statements in order to monitor the success of the business and spot any possible repayment problems.
- Information from financial statements is necessary to prepare federal and state income tax returns. Statements themselves need not be filed.
- Prospective buyers of a business will ask to inspect financial statements and the financial/operational trends they reveal before they will negotiate a sale price and commit to the purchase.
- In the event that claims for losses are submitted to insurance companies, accounting records (particularly the Balance Sheet) are necessary to substantiate the original value of fixed assets.
- If business disputes develop, financial statements may be valuable to prove the nature and extent of any loss. Should litigation occur, lack of such statements may hamper preparation of the case.

- Whenever an audit is required--for example by owners or creditors--four statements must be prepared: a Balance Sheet, Reconcilement of Equity*, Income Statement, and Statement of Changes in Financial Position.
- A number of states require corporations to furnish shareholders with annual statements. Certain corporations, whose stock is closely held, that is, owned by a small number of shareholders, are exempt.
- In instances where the sale of stock or other securities must be approved by a state corporation or securities agency, the agency usually requires financial statements.
- The Securities and Exchange Commission (SEC) requires most publicly held corporations (such as those whose stock is traded on public exchanges) to file annual and interim quarterly financial reports.

*Called "Statement of Retained Earnings" for corporations.

DATA COLLECTION AND MANAGEMENT

The language and principles of modern accounting have evolved from the centuries-old need for accurate record keeping. Today, the Financial Accounting Standards Board (FASB), the SEC, and the American Institute of Certified Public Accountants (AICPA) continue to refine and revise concepts and practices. Regardless of how complex a financial statement may seem, it is based on logic and practicality.

Collecting information for financial statements begins with the daily arithmetic of business and follows a continuing process called the audit trail. First, figures from original documents such as invoices are journalized, or recorded, daily in the book of original entry, which is called the journal. Items that are not normally recorded in the daily operations, such as those for depreciation and amortization, are called end-of-the-period adjustments and are calculated and journalized periodically. All of these detailed transactions are then posted to the general ledger. Amounts are balanced (credits must equal debits) and used then to prepare financial statements.

In a number of small businesses, bookkeepers or owners themselves prepare these reports. Frequently, they use textbook samples as models or standard bank forms provided by loan officers. But a growing number of small operations retain accountants on at least an occasional basis. Accountants typically tailor statements to a specific enterprise, so statement formats vary somewhat.

Computer technology can play a major role in small business today. It significantly cuts the time it takes to manage your finances and, in turn, might produce higher sales and better profit margins because of improvements in analysis and information.

A lot of the time, tedium, and human error in financial accounting is disappearing as microcomputers become more powerful and affordable to smaller companies. Software that automates the accounting function, records the audit trail, and feeds financial statements and other management reports is readily available. Accountants use microcomputers in increasing numbers and sometimes are qualified to assist small business clients with a conversion to computerized accounting.

Computers simplify and streamline financial analysis. For instance, a “what if” forecast with just one set of simple variables may take an entire day or longer to figure manually. Today, with an electronic spreadsheet, complex calculations with many variables can be produced quickly to test the effects of certain decisions.

The potential benefits of electronic accounting include the following:

- Produce more accurate accounting information faster.
- Improve timeliness and accuracy of financial status reports.
- Identify potential business or budget problems sooner.
- Implement better management controls.
- Reduce labor costs and outside consultants' fees.
- Speed collection of receivables.
- Reduce interest expense and improve cash flow.
- Reduce lost sales (as result of fewer stock outs).
- Reduce inventory (and inventory carrying costs).
- Realize higher return on investment.

INCOME STATEMENT

Business revenue, expenses, and the resulting profit or loss over a given period of time are detailed in the Income Statement. It is also called the Statement of Income and Expense or the Profit and Loss Statement. This report reflects the company's chosen fiscal year. For tax purposes, you may need to prepare a second Income Statement based on the calendar year, if your fiscal year is different. Check with a tax advisor about Internal Revenue Code requirements.

The following terms are commonly found on an income statement.

1. Heading

The first facts to appear on any statement are the legal name of the business, the type of statement, and the day, month, and year.

2. Column Headings

If you include both current month and year-to-date columns on the Income Statement, you can review trends from accounting period to accounting period and compare previous similar periods. Also, it is often helpful to show the dollar amounts as percentages of net sales. This helps you analyze performance and compare your company to similar businesses. Remember, you can choose any length of time to analyze.

3. Revenue

All income flowing into a business for services rendered or goods sold comes under this category. In addition to actual cash transactions, the revenue figure reflects amounts due from customers on accounts receivable as well as equivalent cash values for merchandise or other tangible items used as payment.

4. Less Sales Returns and Allowances

The value of returned merchandise and allowances made for defective goods must be subtracted from gross sales to determine net sales.

5. Cost of Goods Sold

Cost of goods sold equals the amount of goods available for sale minus the inventory remaining at the end of the accounting period. (Total goods available = beginning inventory + cost of purchasing or manufacturing new merchandise during the accounting period). Cost of goods sold includes all costs directly related to the production of the product invoiced during the accounting period. Service businesses generally have no cost of goods sold.

6. Gross Profit

Also called gross margin, this figure is the difference between the cost of goods sold and net sales (Net Sales - Cost of Goods Sold = Gross Profit). It is the business's profit before operating expenses and taxes.

7. Operating Expenses

The expenses of conducting business operations generally fall into two broad categories: selling and general administrative. Examples of each are shown on the sample statement. Note: Manufacturers normally include some operating expenses, such as machinery and labor depreciation, as part of cost of sales (Item 5).

8. Total Operating Income

Total operating expenses are subtracted from gross profit to show what the business earned before financial revenue and expenses, taxes, and extraordinary items.

9. Other Revenue and Expenses

Income and expenses that are not generated by the usual operations of a business and that are not considered extraordinary (see Item 11) are recorded here. Typically included in this category are financial revenue, such as interest from investments, and financial expenses, such as interest on borrowed capital. (Loan principal is considered an expense. It is a liability and is listed as such on the Balance Sheet).

10. Pretax Income

To derive this figure, also called pretax profit, total financial revenue (minus total financial expenses) is added to total operating income. Taxes are subtracted from pretax income if the business is a corporation. Proprietorships and partnerships do not pay business taxes on income; the income is reported on the owners' personal returns. (For tax planning purposes, accountants estimate the annual taxes due, then project the monthly portion.)

11. Extraordinary Gain [Loss] Net of Income Tax [Benefit]

Within the framework of an individual business type and location, any occurrence that is highly unusual in nature, could not be foreseen, is not expected to recur, and that generates income or causes a loss is considered an extraordinary item. The extraordinary gain or loss is shown after calculating tax liability (or tax benefit, as would be the case with an extraordinary loss) on the Income Statement. Examples: A court award to a business not previously involved in lawsuits would be an extraordinary gain; a major casualty would be an extraordinary loss.

12. Net Income

Also called net profit, this figure represents the sum of all expenses (including taxes, if applicable). Net income or profit is commonly referred to as the bottom line.

13. Earnings per Share

Total outstanding common stock (the number of shares currently owned by stockholders) is divided into net income to derive this figure. It is not applicable to partnerships and proprietorships, but must be shown on the Income Statements of all publicly held corporations.

BALANCE SHEET

A Balance Sheet records the total assets, liabilities, and equity (net worth) of a business as of a specific day. This statement is divided to provide two views of the same business: what resources the business owns, and the creditor and owner investments that supplied these resources. These divisions are generally set up in the two-column account form, with assets on the left, liabilities and equity on the right. An alternative -- the one column statement form or report form -- lists assets on top, liabilities and equity below.

The backbone of the Balance Sheet is the fundamental accounting equation: Assets = Liabilities + Equity (transposed: Assets - Liabilities = Equity). This equation is based on the accounting principle that every business transaction, such as selling merchandise or borrowing capital, has a dual effect. Any increase or decrease on one side of the equation always requires a corresponding change to the other side of the equation. If the sides do not balance, faulty arithmetic or inaccurate or incomplete records may be the cause.

The following is an example of the principle of balance: If a business owner purchases $2,000 worth of new merchandise on credit, assets are increased by the value of new inventory. Liabilities are increased $2,000 at the same time because the company has an accounts payable obligation to the suppliers of the merchandise.

To further illustrate the principle: If the same business had $2,000 cash and used it to buy new merchandise, assets would be increased by the inventory value, but decreased by the cash outlay. Thus, total assets would be unchanged, and liabilities and equity would not be affected.

The following terms are commonly found on a balance sheet.

1. Heading

The legal name of the business, the type of statement, and the day, month, and year must be shown at the top of the report.

2. Assets

Anything of value that is owned or legally due the business is included under this heading. Total assets include all net realizable and net book (also called net carrying) values. Net realizable and net book values are amounts derived by subtracting from the acquisition price of assets any estimated allowances for doubtful accounts, depreciation, and amortization, such as amortization of a premium during the term of an insurance policy. Appreciated values are not usually considered on Balance Sheets, except, for example, when you are recording stock portfolio values.

3. Current Assets

Cash and resources that can be converted into cash within 12 months of the date of the Balance Sheet (or during one established cycle of operations) are considered current. Besides cash (money on hand and demand deposits in the bank, such as regular savings accounts and checking accounts), these resources include the items listed below. They are ranked in a generally accepted order of decreasing liquidity--that is, the ease with which the items could be converted to cash.

- Accounts Receivable: The amounts due from customers in payment for merchandise or services.
- Inventory: Includes raw materials on hand, work in process, and all finished goods either manufactured or purchased for resale. Inventory value is based on unit cost and is calculated by any of several methods (see Inventory Valuation below).
- Temporary Investments: Interest- yielding or dividend-yielding holdings expected to be converted into cash within a year. Also called marketable securities or short-term investments, they include certificates of deposit, stocks and bonds, and time deposit savings accounts. According to accounting principles, they must be listed on the Balance Sheet at either their original cost or their market value, whichever is less.
- Prepaid Expenses: Goods, benefits, or services a business pays for in advance of use. Examples are insurance protection, floor space and office supplies.

4. Long-Term Investments

Also called long-term assets, these resources are holdings that the business intends to keep for a year or longer and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

5. Fixed Assets

Fixed assets, frequently called plant and equipment, are the resources a business owns or acquires for use in operations and does not intend to resell. Examples of such properties are listed on the sample statement. Regardless of current market value, land is listed at its original purchase price, with no allowance for appreciation or depreciation. Other fixed assets are listed at cost, minus depreciation. Fixed assets may be leased rather than owned. Depending on the leasing arrangement, both the value and liability of the leased property may need to be listed on the Balance Sheet.

6. Other Assets

Resources not listed with any of the above assets are grouped here. Examples include tangibles, such as outdated equipment which can be sold to the scrap yard, and intangibles, such as trademarks and patents.

7. Liabilities

This term covers all monetary obligations of a business and all claims creditors have on its assets.

8. Current Liabilities

All debts and obligations payable within 12 months or within one cycle of operations are detailed here. Typically, they include the following, which generally are listed in the order due.

- Accounts Payable: Amounts owed to suppliers for goods and service purchased in connection with business operations.
- Short-Term Debt: The balances of principal due to pay off short-term debt for borrowed funds.
- Current Portion of Long-Term Debt: Current amount due of total balance on notes whose terms exceed 12 months.
- Interest Payable: Any accrued amounts due for use of both short-and long-term borrowed capital and credit extended to the business.
- Taxes Payable: Amounts estimated by an accountant to have been incurred during the accounting period. For accounting purposes, this total may differ from the actual tax total required by the Internal Revenue Codes, since taxes payable are based on accounting income and not taxable income. (Note: Income taxes are business obligations for corporations; proprietorships and partnerships do not pay income taxes; the income is reported on the owners' personal returns.)
    - Accrued Payroll: Salaries and wages currently owed but not yet paid.

9. Long Terms Liabilities

Long-term liabilities are notes, payments, or mortgage payments due over a period exceeding 12 months or one cycle of operations. They are listed by outstanding balance (minus the Current Portion due).

10. Equity

Also called net worth, equity is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment, plus any earnings after withdrawals.

In a corporation, the owners are the shareholders--those who have invested capital (cash or other assets) in exchange for shares of stock. The corporation's equity is the sum of contributions plus earnings retained after paying dividends. It is detailed as follows:

- Capital Stock: The total amount invested in the business in exchange for shares of stock at value up to the par value. Par is the per-share price assigned to the original issue of stock, regardless of subsequent selling prices.
- Capital Paid-In in Excess of Par: The amount in excess of par value that a business receives from shares of stock sold at
- a value above par.
- Treasury Stock: When a company buys back its own stock or when a closely held business buys out other owners. The value of the stock is recorded here and ordinarily does not receive dividends.

- Retained Earnings: The total accumulated net income minus the total accumulated dividends declared since the corporation's founding. These earnings are part of the total equity for any business. However, the figure is usually listed separately from owner investments only on corporate Balance Sheets which are done for the benefit of shareholders.

11. Total Liabilities and Equity

The sum of these two amounts must always equal Total Assets.

RECONCILIATION OF EQUITY OR STATEMENT OF RETAINED EARNINGS

This statement reconciles the equity shown on the current Balance Sheet. It records equity at the beginning of the accounting period and details additions to or subtractions from this amount made during the period. Additions and subtractions typically are net income or loss and owner contributions and/or deductions.

Figures used to compile this statement are derived from previous and current Balance Sheets and from the current Income Statement.

STATEMENT OF CHANGES IN FINANCIAL POSITION

The fourth main document of financial reporting is the Statement of Changes in Financial Position, also called the Statement of Sources and Applications of Funds. The statement can be prepared frequently (monthly, quarterly) and is a valuable tool that summarizes the relationship between the Balance Sheet and the Income Statement and traces the operational flows of funds through the assets and liabilities of the firm. It also shows the increase or decrease in working capital from beginning to end of the accounting period and what caused the change. The statement accomplishes this by listing the sources of company funds (such as from revenue, investors' contributions, and borrowed capital) and the uses of these funds (such as repayment of long-term debt, equipment purchases, and declaration of cash dividends.)

Business Analysts can rely on the Statement of Changes in Financial Position for information on a firm's financial history because it is a near-perfect summary of the changes in financial position, as well as the results of a firm's operations.

By understanding the amounts and causes of changes in working capital, management can realistically budget for continued business operations and growth. For example, the Statement of Changes helps answer such questions as: Will present working capital allow the business to acquire new equipment, or will financing be necessary?

Many small businesses never need to prepare the Statement of Changes. However, according to GAAP, it should be prepared whenever an operation's financial statements are compiled, reviewed, or audited by a CPA. In addition, creditors, investors, new owners or partners, and the Internal Revenue Service may require the information it provides. Whenever this technical document is needed, professional accounting assistance generally is necessary, even when your internal accounting is automated.

NOTES TO FINANCIAL STATEMENTS

If an important factor does not fit into the regular categories of a financial statement, it should be included as a note. Also, anything that might affect the financial position of a business must be documented. Three major types of notes are:

1. **Methodology**
   Discussion of the accounting principles used by the company. For example, accrual basis of accounting vs. cash basis of accounting.

2. **Contingent Liabilities**
   Circumstances that have occurred as of the statement date and which represent potential financial obligations must be recorded by type and estimated amount. Example: A business owner cosigns a bank note. If the primary borrower should default, the business owner who cosigned would become liable.

3. **Required Disclosures**
   It is necessary that all significant information about the company be described in a disclosure statement. Example: If the business has changed accounting procedures since the last accounting period, the change must be described.

FINANCIAL RATIOS

Financial ratios are a valuable and easy way to interpret the numbers found in statements. Ratio analysis provides the ability to understand the relationship between figures on spreadsheets. It can help your client to answer critical questions such as whether the business is carrying excess debt or inventory, whether customers are paying according to terms, and whether the operating expenses are too high.

When computing financial relationships, a good indication of the company's financial strengths and weaknesses becomes clear. Examining these ratios over time provides some insight as to how effectively the business is being operated.

Many industries compile average industry ratios each year. Average industry ratios offer the small business owner a means of comparing his or her company with others within the same industry. In this manner they provide yet another measurement of an individual company’s strengths or weaknesses. Following are the most critical ratios for most businesses, though there are others that may be computed.

1. **LIQUIDITY**
   Measures a company’s capacity to pay its debts as they come due. There are two ratios for evaluation of liquidity.

   Current Ratio - Gauges how able a business is to pay current liabilities by using current assets only. Also called the working capital ratio. A general rule of thumb for the current ratio is 2 to 1 (or 2:1, or 2/1). However, an industry average may be a better standard than this rule of thumb. The actual quality and management of assets must also be considered.

$$\frac{\textbf{Total Current Assets}}{\textbf{Total Current Liabilities}}$$

Quick Ratio - Focuses on immediate liquidity (i.e., cash, accounts receivable, etc.) but specifically ignores inventory. Also called the acid test ratio, it indicates the extent to which you could pay current liabilities without relying on the sale of inventory. Quick assets, are highly liquid--those immediately convertible to cash. A rule of thumb states that, generally, your ratio should be 1 to 1 (or 1:1, or 1/1).

Cash + Accounts Receivable (+ any other quick assets)
Current Liabilities

2. SAFETY

Indicates a company's vulnerability to risk--that is, the degree of protection provided for the business' debt. Three ratios help you evaluate safety:

Debt to Worth - Also called debt to net worth. Quantifies the relationship between the capital invested by owners and investors and the funds provided by creditors. The higher the ratio, the greater the risk to a current or future creditor. A lower ratio means your company is more financially stable and is probably in a better position to borrow now and in the future. However, an extremely low ratio may indicate that you are too conservative and are not letting the business realize its potential.

Total Liabilities (or Debt)
Net Worth (or Total Equity)

Times Interest Earned – Assesses your company's ability to meet interest payments. It also evaluates the capacity to take on more debt. The higher the ratio, the greater your company's ability to make its interest payments or perhaps take on more debt.

Earnings Before Interest & Taxes
Interest Charges

Cash Flow to Current Maturity of Long-Term Debt - Indicates how well traditional cash flow (net profit plus depreciation) covers your company's debt principal payments due in the next 12 months. It also indicates if your company's cash flow can support additional debt.

Net Profit + Non-Cash Expenses
Current Portion of Long-Term Debt

3. PROFITABILITY

Measures the company's ability to generate a return on its resources. Use the following four ratios to help your client answer the question, "Is my company as profitable as it should be?" An increase in the ratios is viewed as a positive trend.

Gross Profit Margin - Indicates how well you can generate a return at the gross profit level. It addresses three areas: inventory control, pricing, and production efficiency.

Gross Profit
Total Sales

Net Profit Margin - Shows how much net profit is derived from every dollar of total sales. It indicates how well the business has managed its operating expenses. It also can indicate whether the business is generating enough sales volume to cover minimum fixed costs and still leave an acceptable profit.

<u>Net Profit</u>

Total Sales

Return on Assets - Evaluates how effectively the company employs its assets to generate a return. It measures efficiency.

<u>Net Profit</u>

Total Assets

Return on Net Worth - Also called return on investment (ROI). Determines the rate of return on the invested capital. It is used to compare investment in the company against other investment opportunities, such as stocks, real estate, savings, etc. There should be a direct relationship between ROI and risk (i.e., the greater the risk, the higher the return).

<u>Net Profit</u>

Net Worth

4. EFFICIENCY

Evaluates how well the company manages its assets. Besides determining the value of the company's assets, you and your client should also analyze how effectively the company employs its assets. You can use the following ratios:

Accounts Receivable Turnover - Shows the number of times accounts receivable are paid and reestablished during the accounting period. The higher the turnover, the faster your business is collecting its receivables and the more cash you generally have on hand.

<u>Total Net Sales</u>

Average Accounts Receivable

Accounts Receivable Collection Period - Reveals how many days it takes to collect all accounts receivable. As with accounts receivable turnover (above), fewer days means your company is collecting more quickly on its accounts.

<u>365 Days</u>

Accounts Receivable Turnover

Accounts Payable Turnover - Shows how many times in one accounting period your company turns over (repays) its accounts payable to creditors. A higher number indicates either that your business has decided to hold on to its money longer, or that it is having greater difficulty paying creditors.

<u>Cost of Goods Sold</u>

Average Accounts Payable

Payable Period - Shows how many days it takes to pay accounts payable. This ratio is similar to accounts payable turnover (above.) Your business may be losing valuable creditor discounts by not paying promptly.

<u>365 Days</u>

Accounts Payable Turnover

Inventory Turnover - Shows how many times in one accounting period your company turns over (sells) its inventory. This ratio is valuable for spotting understocking, overstocking, obsolescence, and the need for merchandising improvement. Faster turnovers are generally viewed as a positive trend; they increase cash flow and reduce warehousing and other related costs. Average inventory can be calculated by averaging the inventory figure from your monthly Balance Sheets. In a cyclical business, this is especially important since there can be wide swings in asset levels during the year. For example, many retailers might have extra stock in October and November in preparation for the Thanksgiving and Christmas holiday sales.

$$\frac{\textbf{Cost of Goods Sold}}{\textbf{Average Inventory}}$$

Inventory Turnover in Days - Identifies the average length of time in days it takes your inventory to turn over. As with inventory turnover (above), fewer days mean that inventory is being sold more quickly.

$$\frac{\textbf{365 Days}}{\textbf{Inventory Turnover}}$$

Sales to Net Worth - Indicates how many sales dollars are generated with each dollar of investment (net worth). This is a volume ratio.

$$\frac{\textbf{Total Sales}}{\textbf{Average Net Worth}}$$

Sales to Total Assets - Indicates how efficiently your company generates sales on each dollar of assets. A volume indicator, this ratio measures the ability of your company's assets to generate sales.

$$\frac{\textbf{Total Sales}}{\textbf{Average Total Assets}}$$

Debt Coverage Ratio - An indication of your company's ability to satisfy its debt obligations, and its capacity to take on additional debt without impairing its survival.

$$\frac{\textbf{Net Profit + Any Non-Cash Expenses}}{\textbf{Principal on Debt}}$$

KEY TERMS AND CONCEPTS

The following are brief descriptions and explanations of terms and concepts related to financial statements. (Items defined elsewhere in the text are not listed here.)

Accrual Basis of Accounting

By this long-established and widely used principle, revenue and expenses are recognized when a service is performed or goods are delivered, regardless of when payment is received or made. This method allows what accountants call the matching of revenues and associated expenses.

Revenue example - If a store sells $500 worth of radios in a day, $500 of revenue is earned and entered in the books even though the proceeds of the sale may not be collected for a month or longer.

Expense example - If the store clerk earns a $10 commission on the day of the radio sale, this expense to the business is recorded that day even though it may not actually be paid until the next payroll day.

Receivables Aging

This report lists a customer's name, credit limit, total balance, and any amounts 30, 60, 90 or more than 90 days past due. By preparing this report once a month, an owner can spot trends and plan next month's collection efforts.

Amortization

The gradual reduction of debt by means of equal periodic payments sufficient to meet current interest and liquidate the debt at maturity; also, the process of writing off against expenses the cost of a prepaid, intangible asset over a fixed period.

Appreciation

Any increase from the acquisition price of a fixed asset or investment to current appraised market value. However, for financial statement purposes, appreciation is not considered because of four accounting concepts:

- the objectivity principle - which would necessitate an appraisal of each asset's market value per accounting period--a costly and highly variable endeavor.
- the continuity assumption - that fixed assets are acquired for continuing business operations and not for resale.
- the principle of conservatism - which states that, given a choice of values, an accountant always chooses the more conservative.
- that financial statements reflect the original costs.

Cash Basis of Accounting

As its name implies, this method recognizes revenue and expenses only when cash payment is actually received or made. Because it does not properly match income and expenses (see Accrual Basis of Accounting in this section), the cash basis does not always provide an accurate picture of profitability and is less commonly used than the accrual basis. The Internal Revenue Code places certain restrictions on the use of cash basis accounting for computing income tax liability. For further information, contact your tax advisor.

Cash Flow

Cash flows fall into two categories: inflows and outflows. Inflows include revenues from sales, proceeds from loans, and capital injections by owners. Outflows include costs of sales, operating expenses, income taxes, repayment of loans and distribution to owners. Cash is used to purchase materials, to pay for overhead expenses, to pay labor, and to market merchandise.

By studying a business's individual cash flow cycle, a manager can determine the working cash needs of the company. These will include day-to-day needs, as well as possible increases in the costs for materials, labor, and overhead. By being aware of these cash needs, the manager can achieve a balance between cash use and profits.

Common-Size

A term applied to financial statements that use 100 percent of one category as the basis for determining the proportion that other statement items represent. Net sales is used as the basis figure for Income

Statements, total assets for Balance Sheets. Since the total always sums to 100 percent, the statements prepared in this manner are referred to as “common-size.” This form of comparative statement enables the analyst to see at a glance the Balance Sheet trends and the proportionate changes taking place in the individual accounts form one statement period to the next.

Depreciation

A universal accounting assumption holds that all fixed assets--with the exception of land--deteriorate, wear out, or become obsolete.

This process represents a decline in value that is called depreciation. It is calculated by apportioning an asset’s original acquisition price, minus any expected salvage value, over the asset’s expected years of useful life. (For accounting purposes, land is always valued at its original purchase price.) On the Income Statement, depreciation incurred during the accounting period is detailed as an expense. On the Balance Sheet, depreciation is reflected by an asset’s listed net book or net carrying value (cost less accumulated depreciation).

The simplest and most common means of calculating depreciation is by the straight-line method. Using it, accountants divide the estimated useful life of an asset into its purchase price minus any applicable salvage value. Example: An $11,000 machine has a $1,000 salvage value and an expected useful life of 10 years. Annual depreciation = ($11,000 - $1,000) ÷ 10 = $1,000. In five years, straight-line accumulated depreciation would be $5,000.

There are other common calculation methods that allow more accelerated depreciation of fixed assets. These methods distribute the original acquisition cost more heavily during an asset’s early years. Accountants can show owners the various means to determine this depreciation, which is more complex than straight-line.

Depreciation computed according to the GAAP rules is not necessarily the same as that computed to comply with the Internal Revenue Code. For further information, consult your tax advisor

Inventory Valuation

Because inventory units are usually purchased at varying prices, methods have been established to calculate the cost of goods sold and the value of remaining inventory. Three widely used methods are:

Average Cost - The total number of units of goods available is divided into the total manufacturing or acquisition cost (including freight charges to get the raw materials to the manufacturer's or supplier's location).

FIFO - An acronym for “first in, first out.” This method is based on the assumption that the inventory acquired first is sold first. Consequently, the ending (remaining) inventory consists of the most recently purchased items. An advantage of this method of valuation is that it reflects recent costs of inventory on the Balance Sheet.

LIFO - An acronym for “last in, first out.” This method of valuation assumes that those items of inventory most recently acquired are sold before the older acquisitions. As a result, the ending inventory figure consists of the older purchases. Proponents of this valuation method argue that by representing current prices in the cost of goods sold, matching is more accurately accomplished.

Example: The first item in costs $100, the second costs $300, and the third costs $500. Two of these units are sold.

Calculated by average cost: $100 + $300 + $500 = $900 ÷ 3 = $300. Therefore, the cost of goods sold = $600 (2 units x $300); the remaining inventory is valued at $300.

Calculated by FIFO, the cost of goods sold is $100 + $300 = $400; the remaining inventory is valued at $500.

Calculated by LIFO, the cost of goods sold is $500 + $300 = $800; the remaining inventory is valued at $100.

Leverage

The concept of borrowing heavily for financing needs in order to minimize the capital investment and maximize the return on investment.

Liquidate

To convert non-cash assets into cash; also, to close the business by selling all assets and paying all debts.

Liquidity

The ease with which items can be converted into cash without loss.

Negative Cash Flow

Cash receipts that are insufficient to meet ongoing costs and other cash needs, such as necessary investment in fixed assets or expanded inventory.

Working Capital

The difference between total current assets and total current liabilities; the resulting pool of resources readily available to maintain normal business operations.

Acknowledgement: The foregoing information was used with permission from Bank of America NT&SA 1980, 1987.

FINANCIAL STATEMENTS AS A MANAGEMENT TOOL

Kenneth M. Macur and Lyal Gustafson

Reprinted with permission from the Small Business Forum, the Journal of the Association of Small Business Development Centers, which is published by the University of Wisconsin-Extension Small Business Development Center.

This article shows you how to use your financial statements to answer ten important questions. In addition, three case studies provide examples of how financial statement analysis works. Figure 1 shows several ratios that are commonly used for analyzing financial statements. Keep in mind that the ratios shown in Figure 1 are only a sample of dozens of widely-used ratios in financial statement analysis. Many of the ratios overlap.

To illustrate financial statement analysis, we will use the financial statements of K-L Fashions, Inc. K-L Fashions is a direct mail order company for quality “cut and sewn” products. Their financial statements are presented in Figure 2. Like most small businesses, they have a relatively simple capital structure and their income statement reflects typical revenues and expenses. Inventory consists primarily of merchandise obtained under contract from approved garment makers and held for resale. K-L Fashions uses trade credit for purchases, but its sales consist almost entirely of credit card sales. Consequently, we see a very low accounts receivable balance compared with accounts payable. Some of the items that would normally be seen on financial statements have been consolidated to simplify the presentations.

Financial statement analysis can be applied from two different directions. Vertical analysis is the application of financial statement analysis to one set of financial statements. Here, we look "up and down" the statements for signs of strengths and weaknesses. Horizontal analysis looks at financial statements and ratios over time. In horizontal analysis, we look for trends -- whether the numbers are increasing or decreasing; whether particular components of the company's financial position are getting better or worse.

We will look at the financials from the perspectives of four different groups: owners, managers, short-term creditors and long-term creditors.

Owners

Although owners of small businesses often are also the managers, the initial concern is with owners as investors in the business. Owners use financial statement data as a way to measure whether their money is working as hard in the business as it would be in an alternative investment. The data can also tell how well you or your managers have managed the firm's assets. Thus, the ratios that are of greatest interest to you as owner/investor are those that measure profitability relative to (1) your own investment in the firm and (2) the total amount invested in the firm from both your capital and borrowed funds.

1. How well is the company doing as an investment? - The Return on Investment (ROI) [Net Income ÷ Owners' Equity (Average)] measures the profitability of the firm on owner-invested dollars. Net income is the after-tax return. The owners' equity (or capital) account is the investment. It is the amount you have contributed directly to the business and amounts that you have reinvested via undistributed profits.

   ROI gives an indication of the past earning power of your investment and can be used to compare the company's performance in this regard to other companies in the industry. It should also be compared with other investment opportunities open to you. If your company typically generates a return of 10 percent and you can invest elsewhere at 15 percent, it doesn't make sense from a purely economic standpoint to keep your funds tied up in the company.

   K-L Fashions' ROI for fiscal 1991 was about 12.7 percent [$147,430 ÷ $1,157,150]. Average owners' equity is used as the denominator to approximate the amount available for use in generating net income over the course of the entire year. Taken by itself, this figure is neither impressive nor disturbing. The median "return on net worth" calculated by Dun and Bradstreet (D&B) for catalog and mail-order houses was 22.3 percent. The trend established over the last three years is more important. Comparing the 1991 return with the two preceding years, there is a sharp drop from 43.4 percent in 1989, to 28.2 percent in 1990, to 12.7 percent in 1991.

2. How well has management employed the company's assets? - The Return on Assets (ROA) [Net Income ÷ Average Total Assets] measures the profitability of the firm on all invested dollars. That is, it measures how well the firm's assets have been employed in generating income. This measure is somewhat broader than the return on equity because it compares the returns on total capital. This includes the capital that you and the creditors have provided.

What constitutes a satisfactory ROA? It depends on the type of assets and their end use. Once again, since companies within a given industry tend to employ similar assets, your ROA should be measured against industry norms.

K-L Fashions' ROA for fiscal 1991 was 8.4 percent [$147,430 ÷ $1,761,660] compared with a median of 10 percent for the industry for the most recent period. Again, K-L Fashions falls short. We also see a declining ROA over a three year period: 25 percent for 1989, 18.3 percent for 1990, and 8.4 percent for 1991.

Managers

Managers, too, are interested in measuring the operating performance in terms of profitability and return on invested capital. If they are not owners, managers must still satisfy the owners' expectations in this regard. As managers, they are interested in measures of operating efficiency, asset turnover, and liquidity or solvency. These will help them manage day-to-day activities and evaluate potential credit customers and key suppliers. Manager ratios serve as cash management tools by focusing on the management of inventory, receivables and payables. Accordingly, these ratios tend to focus on operating data reflected on the profit and loss statement and on the current sections of the balance sheet.

3. Are profits high enough, given the level of sales? - In other words, how efficiently is management conducting operations? The Net Profit Margin [Net Income ÷ Sales (or Return on Sales) is a measure of the relative efficiency of the company's operations after deducting all expenses and income taxes. It measures the proportion of each sales dollar that results in net income.

   The average for this ratio varies widely from industry to industry. To serve as an aid in management, the company's net profit margin should be compared with that of similar companies in the same industry, and with the company's past figures. The manager should monitor this ratio and investigate potential problems when the ratio begins to fall below the industry average or has shown continued deterioration during the most recent quarter or two. If both conditions exist, management is likely facing a problem that requires immediate attention. Incidentally, most bank loan officers use the return on sales ratio as a key indicator in making term loan decisions. A deteriorating ratio is often seen as an indication of impending business distress.

   The fiscal 1991 net profit margin for K-L Fashions was 2.4 percent [147,430/6,039,750]. By comparison, the median return on sales for the industry, as reported by D&B, was 4.0 percent, meaning that another of the company's profitability measures is below the industry norm. Equally troubling is the downward trend in the net profit margin since 1989. In fiscal year 1990, the net profit margin was 5.3 percent, down from 7.1 percent for 1989. Over this period, profits declined 54.3 percent, despite a 32.5 percent increase in sales. If the company were maintaining operating efficiency, increases in sales would result in increases in profits (This scenario is generally an indication that some operating expenses are getting out of hand.) An examination of K-L Fashions' income statement suggests that selling, general and administrative expenses, which grew by 55 percent over the past two years, could be the cause of the decreased profitability. Because the financials for K-L Fashions only provide general categories, it is difficult to assess the cause of the increase in this expense category.

4. How well are the company's assets being employed to generate sales revenue? - The Asset Turnover ratio [Sales ÷ Average Total Assets] indicates the relative efficiency with which managers have used the firm's assets to generate output, and thus, it helps answer this question. Here again, what is acceptable or appropriate varies from industry to industry. Usually, however, a higher ratio is better. A very high turnover rate could signal an opportunity for expansion or the need for early replacement of assets. It could also mean that the company is in a high-volume, low-margin industry.

   K-L Fashions' asset turnover ratio was 3.4 times [$6,039,750 ÷ $1,761,660] for fiscal 1991 and, despite a decrease from fiscal 1990, remains at a level comparable with fiscal year 1989. This means little by itself; but compared with the industry average of 3.1 times, we might conclude that sales performance is probably satisfactory for the amount of resources available.

   Neither the profit margin nor the asset turnover by itself provides an adequate measure of operating efficiency or profitability. But multiplying the profit margin by the asset turnover ratio gives us the "Return on Assets" ratio or earnings power on total assets. This ratio is the same as the ROA computed for the owners but is presented in a form that managers often find more useful. It blends, in one number, all the major ingredients of profitability; yet it allows the manager to see how the individual components contribute. Thus, there are two basic ingredients to profitability; asset turnover and profit margin. An improvement in either -- without changing the other -- will increase the return on assets.

   What can managers do to increase the returns on assets and owners' investments? The return on assets will increase by either an increase in the asset turnover or an increase in the profit margin. Three separate items are involved in the calculation: sales, net income, and assets. However, since net income is simply sales minus expenses, the three individual items subject to management control are sales, expenses and assets. Either increasing sales, decreasing expenses, or decreasing assets, while holding the others constant, will improve the ROA and with it the ROI. Given K-L Fashions' most recent financial statement, it appears the most fruitful efforts would consist of controlling costs to increase both profits and the profit margin.

   Notice that it doesn't require sophisticated analysis to come to this conclusion. This illustrates, however, one role of financial statement analysis: to highlight areas that need management attention. Once problem areas are highlighted, solutions can be obvious. This is why a common-sense approach of increasing sales and lowering expenses works to improve profitability.

5. Are receivables coming in too slowly? - The Average Collection Period [(Average A/R ÷ Annual Credit Sales) x 365] of receivables tells how many days, on average, customers' trade accounts (A/R) are outstanding. The average collection period is a measure of both liquidity and performance. As a measure of liquidity, it tells how long it takes to convert accounts receivable into cash. As a measure of performance, it indicates how well the company is managing the credit extended to customers.

   Whether the average collection period is too high will depend on what kind of credit terms the company extends to its customers and how appropriate those terms are. If accounts are expected to be paid in 30 days, a 34 day average would be considered very good. Most customers tend to withhold payment for as long as the credit terms allow. This practice, along with some ever-present slow accounts, can cause the average collection period to exceed the stated limit by a week to 10 days and should not be a matter of concern. An average collection period of 48 days in this case, however, could be a danger signal. Customers who are slow in paying their bills, may never pay at all.

As the balance sheet shows, K-L Fashions' accounts receivable are insignificant. The average collection period relating to all sales was .5 days [($7,785 ÷ $6,039,750) x 365] for 1991 and less than one-half day for each of the prior two years. This rapid turnover of receivables is understandable, because K-L Fashions' "credit sales" are largely bank credit card sales. Cash management in this area seems to be good in that no time is wasted in getting credit card invoices and personal checks credited to the company's account.

Because accounts receivables balances for K-L Fashions comprise a minor portion of the company's total assets, this ratio is not particularly useful as a cash management tool to its managers. And, as stated previously, a common-sense approach to financial statement analysis must be maintained. If, like K-L Fashions, your business has few receivables, then analysis of them would not be worthwhile. Another example is service industries that have no inventory. With no inventory, the next section of analysis is irrelevant.

6. Is too much cash tied up in inventories? - The Inventory Turnover [Cost of Goods Sold Expense ÷ Average Inventory] ratio is used to measure the speed with which inventories are being sold and is useful in managing inventory levels. How much inventory should the company keep on hand? The answer depends on making a delicate trade-off between anticipated near-term sales, the costs of ordering and holding inventory, the cost of stock-outs, etc. It also depends on the expected future availability of goods from the company's suppliers. In either case, excessive cash tied up in inventories reduces a company's solvency.

   This ratio is vital for small-business managers who must make very effective use of the limited capital available to them. Just what is an appropriate turnover rate depends on the industry, the inventory itself, and general economic conditions. For example, the Brokaw Division of Wausau Papers (in Brokaw, Wisconsin) often has one to three years' worth of raw material inventory (logs) on hand. Because the road and weather conditions limit the time when wood can be received in Northern Wisconsin, Wausau Papers is forced to have a very slow inventory turnover rate for raw materials at that particular plant. However, finished goods (cut, colored paper) turn over every 28 days.

   If inventory turnover for the firm is consistently much slower than the average for the industry, then inventory stocks probably are either excessively high or contain a lot of obsolete items. Excessive inventories simply tie up funds that could be used to make needed debt payments or to expand operations. An extremely high turnover rate could be a sign of stock-outs -- not being able to fill a customer's order because the goods are not on hand. However, on the positive side, if neither stock-outs nor collections are a problem, then a high ratio can be good.

   K-L Fashions' balance sheet also shows that, other than plant and equipment, more dollars have been invested in inventory than any other asset category. Given the type of firm, this is not unusual. However, the inventory turnover rate for the company is only 4.5 items per year [$3,573,070 ÷ $797,860], meaning that it takes an average of 81.5 days [365 ÷ 4.5] for the company to sell its inventory once it is purchased. This translates into about 81 days of inventory. Does this indicate too much inventory for the rate at which it is selling? On the surface it might seem excessive, considering that inventory balances should be at a low point after the Christmas sales rush. A look at similar companies, however, reveals that K-L Fashions' turnover is not much slower than the industry average of 5.1 times (or 72 days). Even with this level of inventory, management stated in its annual report that the company was able to fill only 82 percent of orders from goods on hand.

Short-terms creditors

Short-term creditors, including managers who extend credit to trade customers, are interested in the solvency of borrowers or customers. As a result, they tend to focus on the current section of the balance sheet. The same calculations that a manager does on his/her own financial statements can also be done on a debtor's financial statements. The most widely used financial ratios used to answer questions of short-term solvency are the current ratio and quick ratio.

7. Does this customer have sufficient cash or other liquid assets to cover its short-term obligations? - The Current Ratio [Current Assets ÷ Current Liabilities] is one of the most frequently used measures of solvency. It shows the relationship between current assets and current liabilities. Current liabilities are obligations that will come due in the next 12 months. Current assets are assets that are expected to be converted to cash in the same period. This ratio is widely used to provide one indication of whether a prospective customer or borrower is a good short-term credit risk. An old rule-of-thumb says that the current ratio should be at least 2.0 to provide an adequate margin of safety. Whether this ratio is high enough, however, depends on the type of company involved and, to some extent, on the time of year. (Airlines often have current ratios under 1.)

   What constitutes a good ratio also depends on the composition of the current assets relative to the due dates for the current obligations. If inventory makes up a significant portion of current assets and it is moving slowly, a higher-than-average ratio may hide potential liquidity problems. Thus, the quick ratio should also be evaluated.

   The Quick Ratio [Cash + Marketable Securities + A/R ÷ Current Liabilities] (or acid test) is a somewhat more accurate guide to short-term solvency. This ratio is the same as the current ratio except that it excludes inventory and prepaid expenses -- the least liquid of the current assets. It provides a more penetrating measure of solvency than does the current ratio. If receivables turn over rapidly, a quick ratio of 1.0 or a little higher is probably adequate. A grocery store will often have quick ratios of .25 to .50 and current ratios that exceed 2.

   Suppose we are a supplier to K-L Fashions. K-L Fashions' current ratio at the end of fiscal year 1991 was 1.8 times ($1,078,240 ÷ $607,740), down from 2.3 times the previous year and below the industry median of 2.5 times. However, if the latest current ratio were 2.3 or better, alone it would not provide much comfort because inventory comprises much of the company's current assets.

   K-L Fashions' latest quick ratio is .5 times ($284,730 ÷ $677,740) compared with an industry average of 1.0 times. This is a more stringent and valid test of liquidity in this case. If the ratio is at least 1.0 times (which means that liquid assets equal current liabilities), we can usually assume that the company has few short-term payment problems. At .5 times, however, we would want to look at other indicators of future cash flows. Any small company with these kinds of numbers may be required by creditors to provide a short-term projection of future cash receipts and disbursements.

8. How quickly does the prospective credit customer pay its bills? - Suppose that, on balance, we find the company's short-term solvency to be acceptable. Before agreeing to supply the company on a credit basis (or establishing credit terms for the company), we should try to determine how quickly

the company normally pays its bills. The Average Age of Payables [(Average Payable ÷ Net Purchases) x 365] helps answer this question. That is, having determined that a company has the capacity to pay its short-term obligations as they come due (through the current or quick ratios), it is also important to evaluate its payment practice. In a manner similar to calculating the average collection period for accounts receivable, one can compute the average “age” of a company’s payable, which is the average number of days it takes to pay its invoices. The age of the potential customer’s payable will give a reasonable estimate of how soon a creditor can expect to be paid. This is particularly important for the small business that has just landed a major customer.

A large corporation is likely to use very effective (from its own standpoint) cash management procedures to ensure prompt payment from its customers while delaying payment to its suppliers as long as possible. Unless the small business is a critical suppler of its large corporate customer, that corporation may not accelerate its payment cycle to meet the supplier’s cash flow needs. That’s why it is critically important for the decision-making process of the small-business owner/manager to be able to estimate the potential customer’s payment cycle.

To calculate the average age of payables for K-L Fashions, we need to estimate purchases because they are not reported directly in the statements. Cost of goods sold (which is on the income statement) equals beginning inventory, plus net purchases, minus ending inventory. Therefore, purchases equal the cost of goods sold ($3,573,070) minus beginning inventory $857,090) plus ending inventory ($738,630), or about $3,454,610. Using this calculation, we can calculate that the average age of K-L Fashions’ payables is [($311,060 ÷ $3,454,610) x 365] = 32.9 days. If K-L Fashions were a potential customer, we should not expect it to pay our invoices much sooner than 33 days.

Long term creditors

Bankers and other long-term creditors want to be assured of receiving interest and principal when each become due. These creditors are particularly interested in the earning power and the present and future financial capacity of the borrower.

9. As a potential or present long-term borrower, is the company's debt load excessive? - If the company’s debt load is too high -- it is highly leveraged -- it means that creditors of the firm have a disproportionately high share, and owners have a disproportionately low share, of the inherent risk of being in business. A simple measure of the “risk loan” is the Debt-to-Equity (D/E) [Total Debt ÷ Total Equity] ratio. This ratio relates the investment provided by creditors to that provided by owners. It indicates who is the major risk-bearer in this business. That is, if the D/E ratio is 10:1, it means that creditors have $10 invested in this business for every $1 that the owner has invested. Since the owner is making the decisions, the creditor in this case is in an extremely precarious position. The creditors in this case stand to lose 10 times as much as the company’s owners. Therefore, the owner might be more willing to take more speculative risks.

   Conversely, if the ratio is 1:10, it means that the owner has more to lose. The creditors for this type of company would feel safer knowing the owner has a bigger personal stake. From a creditor’s standpoint, a lower D/E ratio is better. A long-term creditor tends to be skeptical of borrowers’ good intentions or judgment when the company is highly leveraged or is seeking new funds that will cause it to become highly leveraged. Owners should use this ratio to view their companies as a long-term creditor would, and should seek to keep the debt-to-equity relationship within industry norms.

K-L Fashions' D/E is .6 ($685,740 ÷ $1,168,260), compared with a median D/E of .6 for the industry. This would normally indicate relative financial strength. However, we should note that those liabilities that do not need to be paid or settled in the near term, constitute only about 11 percent of total liabilities. Except for advance payments on orders, the other 89 percent are short-term obligations. Consequently, this ratio is less important in this case than the short-term solvency measures -- even to the company's long-term creditors. This reinforces the concept that ratio analysis should be applied with common sense.

10. Are earnings and cash flow sufficient to cover interest payments and provide for some principal repayment? - The Times Interest Earned (TIE) [Income + (Interest + Taxes) ÷ Interest Expense] ratio may be used to help answer this question. Note that this ratio uses income before interest and income taxes are subtracted because this is the amount of income available to cover interest. The larger the number, the easier it will be for the debtor company to suffer an earnings depression, and still make its interest payments. The TIE measures the bank's safety in terms of the likelihood that it will continue to receive periodic interest payments. The TIE does not, however, indicate how well total debt payments are covered.

    The Cash Flow to Total Liabilities [Operating Cash Flow ÷ Total Liabilities] ratio is preferred by many bankers as a measure of earnings power relative to all debt. This debt coverage ratio depicts a company's debt repayment capability and is one of the more important indexes of long-term solvency. The cash flow figure in the numerator refers to net cash provided by operations as reported on the statement of cash flows in Figure 2. For small companies that don't prepare a cash flow statement, operating cash flow can be estimated by taking income before interest and taxes and adding back depreciation and other significant non-cash charges.

    The industry average for this ratio is not likely to serve as a particularly useful benchmark. Bankers are more interested in the trend of the ratio. Increasing levels of debt without commensurate increases in cash generated by profitable operations is a sure sign of financial problems ahead. This could occur if the ROA is less than the borrowing rate.

    K-L Fashions' earnings before interest and taxes are $259,610, compared with interest expense of $10,180. Thus, its interest coverage in terms of the times interest earned ratio is 25.5 times [$259,610 ÷ $10,180]. Although this ratio has declined substantially over the past three years, it has not declined as sharply as earnings because interest charges have declined. Furthermore, it is still quite large, indicating to creditors that interest payments are well covered.

    K-L Fashions' cash flow statement shows that net cash provided by operations during fiscal year 1991 was $512,020, a substantial increase over both 1990 and 1989. Compared to the downward trend in net income, the cash flow from operations suggests the company has been reporting a large amount of non-cash expenses like depreciation and amortization. A likely cause in the increased non-cash charges is the large increases in land and buildings and in fixtures and equipment. Furthermore, it appears from the balance sheet that the expansion was financed by internally generated cash and without the assistance of long-term creditors. As these investments became productive, the company began depreciating them, resulting in the downward trend in net income. When these factors are considered, the decline in net profit margins does not look so serious.

    The cash flow to total liabilities ratio [Operating Cash Flow ÷ Total Liabilities] is therefore $512,020 ÷ $685,740 = 74.7 percent. Standing alone, this ratio suggests that the company is conservatively capitalized and generates sufficient cash to cover its future obligations. The ratio is particularly healthy considering the fact that more than half of total debt is in the form of accounts payable, used to finance inventory and receivables.

Three Case Studies

Case 1: Is a critical supplier in good financial condition?

A manager should not overlook the use of financial statement data in selecting key suppliers of raw material and component parts if the information is available. For small companies that depend upon other companies for critical raw materials or merchandise, the ability to determine the availability of those items could mean the difference between success and failure. This is particularly important for the smaller companies that do not have the purchasing clout of their larger competitors. Yet this is one of the most overlooked aspects of inventory management in most companies.

One of the key criteria to consider in evaluating potential or existing suppliers is financial health. Unless a suppler has staying power, all of its other fine qualities won't mean much. Here we look to the supplier's financial statements for some answers. Four easily obtainable ratios are probably sufficient to evaluate a supplier's financial health adequately: (1) profit margin, (2) inventory turnover, (3) quick ratio and (4) debt-to-equity.

The profit margin (return on sales) should be used in evaluating a supplier the same way it was used to evaluate the manager's own company. It should be compared with other companies in the industry to evaluate the supplier's relative operating efficiency. More important, however, is to look at the trend of this ratio. Even if the current year's profit margin is within industry norms, a declining ratio could indicate that the supplier is facing serious competition or even a financial crisis.

The inventory turnover ratio can be used to determine whether the supplier's inventories are moving, on the one hand, and whether its inventory levels may be too low, on the other. A key is to consider the industry average. A low turnover could indicate that inventory is not moving, leading to a future liquidity crisis. An exceptionally high turnover could indicate that the supplier is maintaining very low inventory levels, which could mean that goods will not be available when a manager orders them.

The observation that high turnover could be either good or bad reinforces the point that ratio computation is the starting point for financial statement analysis -- not the final point. Out-of-line ratios are "red flags" that call for an explanation. Any ratio that is too high or too low needs to be examined closely for its causes.

The quick and debt-to-equity ratios are used extensively by short-term creditors and long-term creditors, respectively, to assess a debtor's liquidity and debt structure. Although we are not concerned with being paid on time by the supplier, we want reasonable assurance that the supplier can discharge his financial obligations, both short-term as well as long-term, and will not be forced into bankruptcy. As noted earlier, the current ratio provides only a rough measure of the supplier's short-term debt paying ability. The quick ratio is a better test and usually is just as easily obtainable from the supplier's balance sheet. Cash and cash equivalents (marketable securities), plus receivables, are frequently listed separately among the current assets. For this purpose, we would be satisfied with a quick ratio of 1.0 or higher, or at least equal to the industry norm.

The debt-to-equity ratio provides an indication of how heavily the supplier is in debt, relative to the amount of capital provided by the owners. The higher the ratio, the more concerned one should be about the long-term welfare of the supplier. As a customer, we probably wouldn't be too concerned as long as the supplier's D/E ratio is less than 100 percent, which would indicate equal amounts of debt and equity capital.

How would we assess K-L Fashions if it were a potential supplier or raw materials or component parts instead of a direct mail retailer? If we want to establish a relationship with this company and rely on it to make timely deliveries of critical items we want to be sure it is in good financial condition. We have suggested four ratios that should be adequate for this purpose: the profit margin, inventory turnover, quick ratio and debt-to-equity ratio. Because we have calculated these ratios already, we will simply comment on them in the present context.

Recall that the profit margin was below average for the type of company involved and was declining. Looking at this measure alone, one might conclude that the supplier will soon be facing a serious financial crisis. However, the inventory turnover ratio was only slightly below the industry average and does not show a definite trend. Still, the inventory has been turning over only once every 80 days or so. This relatively low turnover ratio appears to be due primarily to a higher-than-average level of inventory as a percent of total assets. This could be viewed as favorable from our standpoint as customer, since high inventory levels should result in fewer back orders. However, high levels of slow moving inventories reduce the liquidity of a company's current assets and working capital.

The quick ratio of .5 times is substantially below the industry average -- and the general benchmark -- of 1.0 times. Since we are a customer in this case, we are not concerned about being paid by this company; but we might wonder about the company's ability to discharge its short-term debts as they come due. On the other hand, the debt-to-equity ratio of .6 times indicates that the company is not highly leveraged and still has a fair amount of financial flexibility. The company can probably obtain additional long-term funds to make up for near-term shortfalls. So, while the first three ratios indicate that our potential supplier may be facing a liquidity squeeze, the last indicates that the company's total debt position is relatively solid. On balance, if this were one of a limited number of potential suppliers of critical materials, we would find little difficulty in establishing long-term commitments.

We based our evaluation of K-L Fashions solely upon information reported in its financial statements. Although we attempted to address the questions from the standpoint of an insider making a self-evaluation, we clearly do not have all of the specific knowledge that is available to management. Thus, while we might have expressed concern about the company's liquidity and profitability--particularly recent trends in these measures--it is possible that management has everything under control. The point of the illustration is that managers can use ratio and trend analysis to uncover danger signs and to point to areas that need attention.

Case 2: When sales decline, what can I do to weather the storm? Can I do anything to change it around? - For this case, there are two broad questions to examine:

- Looking back, did any of management's decisions cause the downturn?
- Looking forward, what can management do to get through the slump, and what can management do to reverse the slump?

In the previous case, financial statement analysis was used to answer a question and help make a decision. For this case, we use financial statement analysis to help manage the crisis, or point to sources for possible intervention.

What caused sales to go down? Obviously, external factors can cause sales slumps. However, it should be equally obvious that management's decisions can also affect sales. Where do these show up in financial statement analysis?

- Sales returns: Although not discussed above, if sales returns as a percentage of sales increases, it could be a sign of poor product quality or general customer dissatisfaction. If product quality diminishes, you could be losing not just the current sales, but also sales well into the future. If you find that you are sending more raw materials or products back to your supplier, it could mean that too many inferior items are slipping through, and the quality of products you make or sell is suffering. Lost sales due to poor quality products can be very hard to turn around.
- Net profit margin: While it's always nice to have a high net profit margin, a profit margin that grows too quickly could be a signal that some financial corners have been cut. For example, continuing with the sales return discussion, you could save money by buying cheaper goods. This would show up as a lower cost of goods sold, and a higher margin. However, cheaper goods could then result in dissatisfied customers and lost sales. You could also increase the profit margin by cutting advertising expense. This may also result in lower sales. Finally, a high profit margin could be a sign that prices are artificially high.
- Accounts receivable turnover: It's nice to have a fast turnover of receivables. However, like the profit margin, a turnover ratio that changes too dramatically or too fast, could be a signal for lost sales. Potential sales could be lost if your sales instrument's credit and collection policy is too tight. For example, American Express requires the total balances on its charge cards to be paid upon receipt of the invoice. As a result of this policy, some customers prefer to pay with Visa, which allows periodic repayment, rather than with American Express. In American Express' case, their repayment policy might improve collections, but it also may result in lost sales.

Looking forward, what can management do to correct the declining sales pattern? Obviously, the first tack would be to fix any problems identified by the previous analysis. However, if this yields little help, there are other things management can do.

- Inventory turnover: This is perhaps the most important ratio to monitor when sales decline. By effectively managing inventory levels, a manager can minimize the cost of lower sales. Because it costs money to buy and hold inventory, maintaining or increasing inventory turnover (by buying less and letting the stock run down) can save money and prevent losses.

Case 3: I can't pay my bills on time. What should I do first?

As in Case 2, we can look to the financial statements for causes and cures. You may have a liquidity problem if the current and quick ratios are too low. The causes of cash flow problems include: declining sales, poor pricing, poor accounts receivable turnover and poor inventory turnover. Poor inventory turnover also means you are buying inventory, but that inventory isn't selling quickly enough.

- Net profit margin: Looking at the net profit margin can give you insights on whether or not the product is priced adequately to cover overhead expenses. In the K-L Fashions case, sales were increasing, but the profit margin was decreasing. If the product is priced too low, then sales revenues may not be sufficient to cover all of the other operating expenses, like advertising, salaries, etc.
- Inventory turnover: Even small changes in turnover ratios can have a significant impact on the earnings of a company. For example, in the K-L Fashions illustration, inventory turned over every 81.5 days. If K-L Fashions could reduce inventory and reduce turnover to the industry average of 72 days, then average inventory would decline to $704,825 [72 days x $3,573.070 (cost of goods)/365 days = $704,825] from $797,860. That amounts to $93,035 that could be invested elsewhere and save $9,304 in interest costs (using a 10 percent interest rate).
- Accounts payable turnover: Similarly, the accounts payable turnover is presently 33 days. If K-L Fashions slows payment down by just one day, average accounts payable would rise to $321,799 [34 days x $3,454,610 (purchases)/365 = $321,799] from $311,060. The difference of $10,739 translates into a $1,074 interest savings.

To improve cash flow from receivables without adjusting your credit or collection policy, consider borrowing against the receivables through an assignment or factoring arrangement.

Ratio	Formula	What is measures	What it tells you
Owners: Return on Investment (ROI)	Net Income / Average Owners' Equity	Return on owners' capital When compared with return on assets, it measures the extent to which financial leverage is being used for or against the owner.	How well is this company doing as an investment?
Return on Assets (ROA)	Net Income / Average Total Assets	How well assets have been employed by management.	How well has management employed company assets? Does it pay to borrow?
Managers: Net Profit Margin	Net Income / Sales	Operating efficiency. The ability to create sufficient profits from operating activities.	Are profits high enough, given the level of sales?
Asset Turnover	Sales / Average Total Assets	Relative efficiency in using total resources to product output.	How well are assets being used to generate sales revenue?
Return on Assets	Net Income / Sales x Sales / Total Assets	Earning power on all assets; ROA ratio broken into its logical parts: turnover and margin.	How well has management employed company assets?
Average Collection Period	Average A/R x 365 / Annual Credit Sales	Liquidity of receivables in terms of average number of days receivables are outstanding.	Are receivables coming in too slowly?
Inventory Turnover	Cost of Goods Sold Expense / Average Inventory	Liquidity of inventory; the number of times it turns over per year.	Is too much cash tied up in inventories?
Average Age of Payables	Average A/P x 365 / Net Purchases	Approximate length of time a firm takes to pay its bills for trade purchases.	How quickly does a prospective customer pay its bills?
Short-Term Creditors: Working Capital	Current Assets – Current Liabilities	Short-term debt-paying ability.	Does this customer have sufficient cash or other liquid assets to cover its short-term obligations?
Current Ratio	Current Assets / Current Liabilities	Short-term debt-paying ability without regard to the liquidity of current assets.	Does this customer have sufficient cash or other liquid assets to cover its short-term obligations?
Quick Ratio	Cash+Mktble Sec.+A/R / Current Liabilities	Short-term debt-paying ability without having to rely on sale of inventory.	Does this customer have sufficient cash or other liquid assets to cover its short-term obligations?
Long-Term Creditors: Debt-to-Equity Ratio	Total Debt / Total Equity	Amount of assets provided by creditors for each dollar of assets provided by owner(s)	Is the company's debt load excessive?
Times Interest Earned	Net Income+(Interest+Taxes) / Interest Expense	Ability to pay fixed charges for interest from operating profits.	Are earnings and cash flows sufficient to cover interest payments and some principal repayments?
Cash Flow to Liabilities	Operating Cash Flow / Total Liabilities	Total debt coverage. General debt-paying ability.	Are earnings and cash flows sufficient to cover interest payments and some principal repayments

Figure 2. K-L Fashions, Inc. Financial Statements

K-L Fashions, Inc.
Statement of Cash Flows
(Major component totals only)

For the year ended January 31:

(Dollars in thousands)	**1991**	**1990**	**1989**	**1988**
Net cash flows from operating activities	$ 512,020	$ 95,200	$ 255,600	$ 217,030
Net cash flows from investing activities	(175,410)	(250,560)	(226,690)	(52,310)
Net cash flows from financing activities	(146,510)	(83,490)	10,730	(43,290)
Net increase (decrease) in cash and cash equivalents	$ 190,100	$(238,850)	$39,640	$121,430

Balance Sheet
January 31:

(Dollars in thousands)	**1991**	**1990**	**1989**	**1988**
Assets				
Current Assets:				
Cash and Cash Equivalents	$272,640	$82,540	$321,390	$281,750
Receivables	12,090	3,480	7,550	2,740
Inventory	738,630	857,090	668,200	464,440
Prepaid Expenses	54,880	54,030	39,670	33,630
Total Current Assets	1,078,240	997,140	1,036,810	782,560
Property, Plant & Equipment (at cost):				
Land and Buildings	531,270	383,350	312,670	151,140
Fixtures and equipment	476,460	411,230	251,920	219,740
Leasehold improvements	16,460	15,120	12,340	9,080
Construction in progress	----	46,370	32,800	6,740
Less Accumulated Depreciation	(248,430)	(183,890)	(135,020)	(99,470)
Property, Plant & Equipment, net	775,760	672,180	474,710	287,230
Total Assets	$1,854,000	$1,669,320	$1,511,520	$1,069,790
Liabilities and Stockholders' Equity				
Current Liabilities:				
Accounts Payable	$377,970	$244,150	$259,040	$212,223
Advance Payment on Orders	4,460	1,030	3,500	4,530
Income Taxes Payable	70,800	53,020	103,970	53,940
Other Current Obligations	154,510	139,950	148,790	117,900
Total Current Liabilities	607,740	439,150	515,300	388,600
Long-Term Debt	78,000	84,130	76,740	86,670
Stockholders' Equity:				
Common Stock; 20.1M, 20.1M &20.0M Shares, respectively, at par	2,010	2,010	2,000	2,000
Additional Capital, net	311,360	307,810	293,080	223,080
Retained Earnings	983,810	875,160	624,400	341,666
Less Treasury Stock, at cost	(128,920)	(38,940)	----	----
Total Stockholders' Equity	1,168,260	1,146,040	919,480	566,740
Total Liabilities and Equity	$1,854,000	$1,669,320	$1,511,520	$1,069,790

Figure 2. (Cont.)

K-L Fashions, Inc. Financial Statements
Statements of Operations

(Dollars in thousands)	**For the year ended January 31: 1991**	**1990**	**1989**	**1988**
Net Sales	$6,039,750	$5,452,010	$4,558,060	$3,362,910
Cost of Goods	3,573,070	3,135,730	2,616,710	1,903,480
Gross Profit	2,466,680	2,316,280	1,941,350	1,459,430
Selling, General and Administrative Expenses (including depreciation)	2,221,540	1,849,100	1,434,860	1,076,990
Income from Operations	245,140	467,180	506,490	382,440
Other Income (expenses):				
Interest and other income	14,470	19,510	27,250	14,410
Interest Expense	(10,180)	(13,990)	(12,320)	(13,570)
Income Before Income Taxes	249,430	472,700	521,420	383,280
Income Tax Provision	102,000	181,990	198,600	162,080
Net Income	$147,430	$290,710	$322,820	$221,200
(As a Percentage of Sales)				
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Goods	59.2	57.5	57.4	56.6
Gross Profit	40.8	42.5	42.6	43.4
Selling, General and Administrative Expenses (including depreciation)	36.8	33.9	31.5	32.0
Income from Operations	4.0	8.6	11.1	11.4
Other Income (expenses):				
Interest and other income	.3	.4	.6	.4
Interest Expense	(.2)	(.3)	(.3)	(.4)
Income Before Income Taxes	4.1	8.7	11.4	11.4
Income Tax Provision	1.7	3.4	4.3	4.8
Net Income	2.4%	5.3%	7.1%	6.6%

Module 7 Checklist

Financial Statements

TRAINING TASKS

Check that following activities were completed.

- ☐ Viewed Module 7 eTraining and read the eGuide in their entirety
- ☐ Watched YouTube videos that support the Module's goals
- ☐ Attended available seminars or workshops on topics related to this module
- ☐ Reviewed online resources including the documents on the DCEO website
- ☐ Reviewed the case study/counseling session and answered the questions related in financial statements
- ☐ Completed a financial competence computer-based training program available to you
- ☐ Calculated the breakeven point with a client or as an assignment
- ☐ Meet with center's resources (CPA and Tax Accountants) then updated center's contact list

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 7 eTraining and answered evaluation questions with 100% accuracy
- ☐ Viewed Module 7 Case Study / Counseling Session then answered Module's evaluation questions with 100% accuracy
- ☐ Satisfactorily completed the financial competence computer-based training program available to your Center
- ☐ Prepared a cash flow statement and budget (or) assisted a client in creating a cash flow statement and budget
- ☐ Attended a business roundtable or discussed using financial statements with Peer Coach

Module 8

SOURCES AND REQUIREMENTS FOR FINANCING

PERFORMANCE GOAL

The Business Development Advisor will accurately assess the client's potential for obtaining financing and counsel the client on the requirements for attaining such financing. The Business Development Advisor will match resources to the client's needs and will document the client's success or failure to obtain financing.

SUGGESTED PREREQUISITES

Core Module 1 – Module 4

Module 7 – Financial Statements

Download – Documents located on the DCEO Website. The actual link may change when documents are updated or rewritten.

Starting Your Business

- ***Starting Your Business in Illinois*** (PDF English / Spanish)

Financial Guidance

- ***A Simple Guide to Your Company's Financial Statements*** (PDF English / Spanish)
- ***The Small Business Owner's Guide To Financial Control*** (PDF English / Spanish)
- ***Understanding Commercial Lending: The Question and Answer Guide*** (PDF English / Spanish)

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. View Module 8 eTraining and read eGuide in their entirety
2. Complete Case Study/Counseling Session and answer questions about funding
3. Watch YouTube videos that support the Module's goals
4. Interview a commercial bank loan officer to update your Center's information on that institution's lending policies
5. Attend appropriate SBDC or SBA seminars as specified by your supervisor or Peer Coach
6. Review DCEO's database of federal and state programs, DCEO's procedures guide, SBA online, and local databases or resource listings. Post new resources on Business Development Advisors eForum
7. Document the success or failure of your clients to obtain financing

EVALUATION PROCEDURES

The Business Development Advisor will demonstrate proficiency in sources and requirements for financing by completing all the following tasks.

1. Completing the Module 8 eTraining and answering evaluation questions with 100% accuracy
2. Viewing Module 8 Case Study / Counseling Session then answering evaluation questions with 100% accuracy
3. Satisfactorily completing the SBA or SBDC funding seminar if applicable
4. Attending Business Development Advisor Forum or discussing Sources for Financing with Peer Coach

INTRODUCTION

Many clients come to us believing that we have the money they need to start or grow their businesses. Some may even be surprised to find that you are not going to write a check after they tell you about their businesses! Your role as a Business Development Advisor is to examine the financial health of an existing business or assess the strengths and weaknesses of a start-up venture (for more information on evaluating a business' financial health, please refer to Modules 6 and 7.) Once you have a clear picture of the business, your next position is to educate the client on the sources of financing (including advantages and disadvantages of each) as well as the requirements to obtain such financing. Understanding basic credit issues is the first step in determining whether or not a client needs, or qualifies for, financial assistance.

SOURCES OF FINANCING

There are two basic avenues of financing: debt and equity. Debt Financing is funding provided by a bank or private lender. Equity Investment or Financing is funding provided by the owners of the business. An entrepreneur who chooses equity financing typically sells shares of stock in the corporation or ownership in a partnership. In either case, the probability of obtaining equity financing is greater if the firm currently has a low level of debt.

Debt vs. Equity Financing

Determining whether the company's level of debt is appropriate requires an analysis of the company's expected earnings and the variability of these earnings, as well at the ratio between total debt and equity. High equity and low debt levels provide protection to help a firm weather periods of operational adversity. The Business Development Advisor must carefully examine the debt-to-worth ratio of a company before encouraging a client to seek equity financing. (For more information, review Module 7.)

Sufficient equity is particularly important to new businesses. Business loan applicants must have a reasonable amount invested to insure that, along with any borrowed funds, the business can operate on a sound basis. A strong equity position insures that owners will remain committed to their business. Most lenders require an entrepreneur to have invested 30% to 50% of the total amount needed.

EQUITY		DEBT	
Advantages	**Disadvantages**	**Advantages**	**Disadvantages**

Offers additional knowledge, advice, management assistance, and contacts.	Weakens ownership and control.	Offers full control; no shared ownership.	No one to share risk.
Improves financial position in view of lenders; improves ability to raise debt level.	Investors may require high rate of return; may want representation on board.	Interest payments are tax deductible; cash flow management is simplified.	Fixed payments of principal and interest create constant demand on cash flow.
Better long-term outlook and acceptance of risk; additional funding available if needed.	Potential for disagreement on management issues, operations, and future direction of company.	Planning future direction of company and managing operations is simplified.	Reduces company's flexibility to borrow additional funds when needed.

EARNINGS REQUIREMENTS

Financial obligations are paid with cash, not profits. When cash outflow exceeds cash inflow for an extended period of time, a business cannot continue to operate. As a result, cash management is extremely important. In order to adequately support a company's operation, cash must be at the right place, at the right time, and in the right amount. A company must be able to meet debt payments as they come due.

WORKING CAPITAL

Working Capital is the excess of current assets over current liabilities. Because working capital is the excess of the more liquid, working assets over the obligations of a firm which are due within one year, it measures the funds available to finance a company's current requirements and represents the cushion or margin of protection for a company's short term creditors.

Working capital is essential for a company to meet the continuous operational needs of doing business. The adequacy of working capital directly influences the firm's ability to meet its trade and short-term debt obligations, and ultimately its ability to remain financially viable.

COLLATERAL

To the extent that worthwhile assets are available, adequate collateral is required as security on any loan. However, a SBA loan generally will not be declined where inadequacy of collateral is the only unfavorable factor. In the event real estate is to be used as collateral, borrowers should be aware that banks and other regulated lenders are now required by law to obtain third-party appraisals on real estate-related transactions of $50,000 or more. Certified appraisals are required for loans of $250,000 or more. When commercial real estate represents the major piece of collateral for a loan, SBA will require a third party appraisal.

- Owner-occupied residences are generally used for collateral when:
- The participating lender requires the residence as collateral.
- The equity in the residence is substantial and other credit factors are weak.

- Such collateral is necessary to assure that the principal(s) remain committed to the success of the venture for which the loan is being made.
- The applicant operates the business out of the residence or other buildings located on the same parcel of land.

RESOURCE MANAGEMENT

The ability of a potential borrower to manage resources is a prime consideration when determining whether or not a loan will be made, and in what amount.

Managerial capacity is an important factor involving such areas as education, experience, and motivation. Proven ability in resource management is also a large consideration. Mathematical calculations based on information provided in financial statements provide an illustration of how resources have been managed in the past. It is important to understand that no single ratio will provide a whole illustration, but several used in conjunction with one another will provide an overall picture of management performance.

APPLYING FOR A LOAN

The following information may help you to prepare your client for the actual process of meeting with the lender. Sometimes getting the loan request approved is as much a matter of sales ability as it is a matter of proper qualifications. The manner in which the information is presented, and the completeness of the information are two very important factors in winning approval.

A lender evaluates the loan using the “five C’s of Credit”:

1. **Character** – the most important factor by far. The person or establishment who is doing the lending must feel that your client can be trusted; otherwise they will not want to do business with him, no matter how good the company or venture may appear.
2. **Capacity** – The lender needs to know your client’s current financial strength, as well as her past record of performance.
3. **Capital** – How much of your client’s own money is invested?
4. **Collateral** – What is your client’s primary resource to ensure repayment?
5. **Conditions** – What are the current economic conditions, and how do they affect your client?

When establishing a relationship with a lender, your client:

Should	Should not
Make an appointment and allow plenty of time.	Arrive without an appointment; be impatient.
Have a well-defined plan, be prepared; know how much ($) is needed and what it is to be used for.	Ask how much the lender can loan.
Ask questions to ensure complete understanding.	Allocate the funds before the loan has been approved.
Present a true picture of the business (a business plan does this well.)	Make promises that can’t be kept.
Negotiate interest rates after presenting all the information	Select the lender or change lenders based solely on the interest rate.
Keep the lender apprised of any changes	Surprise the lender with unexpected changes or conditions.

What the Lender is Looking For

Help your client to know ahead of time what the lender will need in order to evaluate the loan request. The following preliminary information is excerpted from a booklet prepared by the American Bankers Association and the National Federation of Independent Business, and describes and explains the steps your client will need to follow to obtain financing.

Planning For a Loan:

Before your client ever sits down with the lender, he should take time to think through questions such as:

1. How do I plan to use the money?
2. How much do I need? (Be specific as to why that amount is needed.)
3. How long will I need these funds?
4. How do I plan to generate enough cash flow to repay the loan?

Types of Loans:

Be sure your client knows there are many kinds of loans to choose from:

1. **Short-term** – such as Line of Credit or Seasonal Line. This type of loan allows the borrower to access funds repeatedly, up to a certain amount, and to repay and borrow as often as needed. These loans can help maintain an even cash flow and ease the fluctuations of business operations.
2. **Intermediate-term** – which may run as long as three years. These loans are good for start-ups or for an increase in working capital. They are usually repaid in monthly or quarterly payments and require collateral.
3. **Long-term** – typically runs for more than three years and is usually secured. This type of loan is generally granted for major purchases of land or equipment or for extensive expansion. It is usually repaid on a monthly or quarterly basis, and may contain provisions that place limits on your client's ability to acquire other debt or equity financing.

(You will need to have a good understanding of the SBA Loan Program, which is discussed in detail in the next section of this module.)

Selecting a Lender:

Your client's decision in choosing the bank for her loan should be a careful one. It shouldn't be based on relatively superficial criteria, such as convenience of location. Your client should base her decision on criteria such as reputation, quality of service, and interest-rate spread. You and your client should take the time to check out several banks in the area. Find out which banks have a specialty of lending to small businesses. Check with other small business owners and with colleagues for their information and suggestions.

Searching for the right bank is time consuming, but it is worth the task. If you and your client can find the proper fit for her needs, the benefit can be a relationship that is similar to that of an experienced partner.

Supplying the Right Information:

Your client should provide the lender with a complete and accurate picture of himself and his venture. Of all the bank's customers, only 1% brings that kind of information to the appointment.

Doing so will guarantee a favorable and enthusiastic response and greatly increase the chances of approval. The following outline should be used in preparing the loan proposal. A start-up business will likely be required to submit a formal business plan. (See Module 9.)

I. Loan Request
   Purpose of Loan
   Amount Required
   Term Desired
   Source of Repayment
   Collateral Available
II. History and Nature of the Business
   Brief and succinct one or two paragraphs describing the business.
III. Management
   Age, Experience, Education
   Other Key Advisors
IV. General Information
   Employment (number, skills required, labor relations)
   Products
   Customers & Marketing
   Sources of Supply
   Competition
   Facilities
V. Financial Information
   Three Years Spread Sheets of Balance Sheets & Income Statements
   Three Years Financial Statements and Tax Returns
   Ratio Analysis with Appropriate Comments
   Personal Financial Statement (Dated within 90 days of loan request.)
   Pro Forma Income Statement (for at least one year.)
   Pro Forma Balance Sheet (for at least one year.)
   Cash Budget (for at least one year.)

For the latest information about SBA programs and financing - http://www.sbaonline.sba.gov/

Module 8 Checklist

Sources and Requirements for Funding

TRAINING TASKS

Check that following activities were completed.

- ☐ Viewed Module 8 eTraining and read eGuide in their entirety
- ☐ Reviewed Case Study/Counseling Session and answered questions about funding
- ☐ Watched YouTube videos that support the Module's goals
- ☐ Interviewed a commercial bank loan officer to update your Center's information
- ☐ Attended appropriate SBDC or SBA seminars as specified by your supervisor or Peer Coach
- ☐ Reviewed DCEO's database of federal and state programs, DCEO's procedures guide, SBA online, and local databases or resource listings. Posted new resources on Business Development Advisors eForum
- ☐ Documented the success or failure of your clients to obtain financing

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 8 eTraining and answered evaluation questions with 100% accuracy
- ☐ Viewed Module 8 Case Study / Counseling Session then answered evaluation questions with 100% accuracy
- ☐ Satisfactorily completed the SBA or SBDC funding seminar if applicable
- ☐ If applicable, provided the Peer Coach with new resources identified through research and posted new resources in the Business Development Advisor eForum
- ☐ Attended a business roundtable or discussed funding methods with Peer Coach

Module 9

BUSINESS PLANNING

PERFORMANCE GOAL

The Business Development Advisor will, as a part of the first counseling session with a client, communicate the importance of a business plan. He or she will explain the various purposes for writing the plan and will also identify and define the basic requirements of the plan, including business description, marketing, management, operations, and financing. The Business Development Advisor will be able to identify key terms and will demonstrate the ability to assemble and evaluate a complete business plan.

SUGGESTED PREREQUISITES

Core Module 1 – Module 4

Download – Documents located on the DCEO Website. The actual link may change wh7en documents are updated or rewritten.

Starting Your Business

- ***Starting Your Business in Illinois*** (PDF English / Spanish)
- ***The Plan: A Step-By-Step Business Plan Workbook*** (PDF English / Spanish)

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. View Module 9 eTraining and read eGuide in their entirety
2. Complete the Case study/Counseling Session including answer the questions on business planning
3. Watch YouTube videos that support the Module's goals
4. View relevant video online and computer software materials available to your Center
5. Review business-plan development web sites and post changes to eForum
6. Analyze sample business plans as assigned, including the one furnished as part of material provided by DCEO, Starting Your Business in Illinois
7. Prepare a Business Plan for yourself or assist a client in preparing a Business Plan

EVALUATION PROCEDURES

The proficiency in business planning will be evaluated by all of the following methods

1. Completing the Module 9 eTraining and answering evaluation questions with 100% accuracy
2. Viewing Module 9 Case Study / Counseling Session then answering evaluation questions with 100% accuracy
3. Providing a comprehensive evaluation of the business plans reviewed
4. Providing the Peer Coach with new resources identified through research and posting new resources in the Business Development Advisor eForum if applicable
5. Attending Business Development Advisor Forum or discussing business planning with Peer Coach

INTRODUCTION

Someone once said, "Half the worry in the world is caused by people trying to make decisions before they have sufficient knowledge on which to base a decision." Starting or expanding a business is such a monumental decision that a business plan is critical to gaining this "sufficient knowledge."

Clients are advised to prepare a business plan in order to judge the feasibility of the idea, to create a written document, and to guide business operations for the coming year.

A business plan provides a logical format for exploring all aspects of starting and managing a business. The market analysis will help determine the market for the products or services. Other sections develop plans for the operation of the business. Together, these will provide the basis for estimating financial requirements and anticipated profitability of the client's business.

The plan provides the basis for a client's decision of whether or not to start or expand a business. Owning a business requires a major commitment of time, effort and money. This decision also affects the client's family life and should only be made after careful consideration.

Other people require a written plan to evaluate a business proposal. Investors or lenders want to learn more about the company before providing funding or assistance. Attorneys, accountants, insurance agents, and advertising Advisors need information developed in the plan in order to tailor their efforts to meet the business' needs. Key managers may want to learn more about the company prior to accepting offers for employment.

The plan should be used as a basis for evaluating performance so corrective action can be taken where problems occur. Performance bonuses to managers and key employees could be determined by using the plan's projections as a base. It is much more than just a loan proposal that is forgotten in a drawer after financing has been raised!

A business plan can be presented to private investors for initial information. A Private Placement Disclaimer must be included as the first page of the business plan before any other section. This disclaimer is available from some of the major national accounting firms, but should be used only with an attorney's advice. After receiving a business plan, a formal prospectus must then be offered to serious investors.

While there are many business plan formats available, all of them have more similarities than differences. Most SBDCs have extensive information and assistance in business planning. Clients will find business planning books in the library and for sale in bookstores. There are also several computer software packages available.

The Internet

There are some interesting sites on the Internet for more information on business plans. Most of these have up-to-date information and many have sample business plans.

http://www.sbaonline.sba.gov/smallbusinessplanner/index.html

http://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/how-write-business-plan

http://www.sba.gov/tools/business-plan/1

http://www.entrepreneur.com/businessplan/index.html

http://www.bplans.com/sp/

http://www.ntia.doc.gov/opadhome/mtdpweb/busplano.htm

Add other Internet sites here:

DEMYSTIFYING THE BUSINESS PLAN: AN INTRODUCTORY GUIDE

by Donald F. Kuratko

This article, reprinted with permission from the Small Business Forum, the journal of the Association of Small Business Development Centers, provides an excellent discussion of business plans.

The world does not need another article on business plans. If you have decided to write a business plan, you probably already know that there are too many books, tapes, videos, software programs and seminars already. It has been called the "business plan jungle" because unsuspecting entrepreneurs have been known to get lost in the rows of resources at their local bookstore, never to be heard from again.

How is this article different? It is designed to be your starting point - the first source to read before wading through the stacks of lengthier resources. By providing an overview of the standard sources, and the insights I have gained by working with literally hundreds of plans, I hope to help you determine whether you should write a business plan. And, if you decide to proceed, the information given here will help you take the next step.

WHAT IS A BUSINESS PLAN?

A business plan:

- Describes every aspect of a particular business.
- Includes a marketing plan.
- Clarifies and outlines financial needs.
- Identifies potential obstacles and alternative solutions.
- Establishes milestones for continuous and timely evaluation.

- Serves as a communication tool for all financial and professional sources.

The business plan is the major tool used in guiding the formation of the venture, as well as the primary document in managing it.

But it is also more than a written document - it is a process that starts when entrepreneurs begin to gather information and then continues as projections are made, implemented, measured and updated. It is an on-going process.

THE BENEFITS

Financing: Venture capitalists and most banks require business plans. Generally, when our national economy declines, it becomes harder to obtain financing, and financiers increase their demands for documentation. Many entrepreneurs say that they wrote a business plan because their bankers or venture capitalists required them to.

Increased knowledge: But many of these same entrepreneurs say that just as important as getting the financing was the process of actually having to put the plan together. Writing the plan forced them to view the business critically, objectively and thoroughly.

Prevent poor investments: Business plans help entrepreneurs avoid projects that are poor investments. As Joseph Mancuso says in How to Write a Winning Business Plan, “If your proposed venture is marginal at best, the business plan will show you why and may help you avoid paying the high tuition of business failure. It is far cheaper not to begin an ill-fated business than to learn by experience what your business plan could have taught you at a cost of several hours of concentrated work.”

Planning: Business plans force you to plan. Because all aspects of the business venture must be addressed in the plan, the entrepreneur develops and examines operating strategies and expected results. Goals and objectives are quantified, so that the entrepreneur can compare forecasts with actual results. This type of planning can help keep you on track.

As a final note about the benefits, let’s acknowledge that entrepreneurs who do all or most of the work themselves are the ones who tend to benefit most from the plans. Those who delegate this job tend to gain the least.

THE COMPONENTS

Here is a brief description of the ten components of a business plan:

Executive Summary:

This is the most important section because it has to convince the reader that the business will succeed. In no more than three pages, you should summarize the highlights of the rest of the plan.

The Executive Summary must be able to stand on its own. It is not simply an introduction to the rest of the business plan. Investors who review a lot of business plans may read only the Executive Summary. If the Executive Summary is not successful in gaining the investor’s confidence, the plan will be rejected and will never be read in its entirety.

This section should discuss who will purchase the product or service, how much money is required, and what the payback is expected to be. You should also explain why you are uniquely qualified and skilled in managing the business. Because this section summarizes the plan, it is often best to write this section last.

Description of the Business:
This section should provide background information about your industry, a history of your company, and a general description of your new product or service.

Your product or service should be described in terms of its unique qualities and value to consumers.

Specific short-term and long-term objectives must be defined. You should clearly state what sales, market share, and profitability objectives you want your business to achieve.

Marketing:
There are two major parts to the marketing section. The first is research and analysis. Here, you should explain who will buy the product or service - or, in other words, identify your target market. Measure your market size and trends, and estimate the market share you expect to capture. Be sure to include support for your sales projections. For example, if your figures are based on published marketing research data, be sure to cite the source. Do your best to make realistic and credible projections.

Describe your competition in considerable detail, identifying their strengths and weaknesses. Finally, explain how you will be better than your competitors.

The second part is your marketing plan. This critical section should include your market strategy, sales and distribution, pricing, advertising, promotion and public awareness.

Demonstrate how your pricing strategy will result in a profit. Identify your advertising plans, and include cost estimates to validate the proposed strategy.

Research, Design and Development:
This section includes developmental research leading to the design of the product. Industrial design is an art form that has successfully found its way into business, and it should not be neglected. Technical research results should be evaluated.

Include the costs of research, testing and development. Explain carefully what has already been accomplished (e.g., prototype development, lab testing, early development.)

And finally, mention any research or technical assistance that has been provided for you.

Manufacturing:
Explain the process steps to be used in producing your product or service. A simple flowchart is often used to show how a product will be assembled.

This section should also describe the advantages of your location in terms of zoning, tax laws, wage rates, labor availability, proximity to suppliers and transportation systems.

Outline also the requirements and costs of your production facilities and your equipment. (Be careful - too many entrepreneurs underestimate this part.)

Organization:
Start by describing the management team, their unique qualifications, and how you will compensate them (including salaries, employment agreements, stock purchase plans, levels of ownership and other considerations.) Discuss how your organization will be structured and consider including a diagram illustrating who will report to whom.

Also include a discussion of the potential contribution of the board of directors, advisors and consultants.

Finally, carefully describe the legal structure of your venture (i.e., sole proprietorship, partnership, or corporation.)

Critical Risks:

Discuss potential risks before investors point them out. Here are some examples: price-cutting by competitors, potentially unfavorable industry-wide trends, design or manufacturing costs that could exceed estimates, sales projections that are not achieved, production development schedules that are not met, difficulties or long lead times in procuring parts or raw materials, and greater-than-expected innovation and development costs to keep pace with new completion.

Outside consultants can often help identify risks and recommend alternative courses of action. Your main objective is to show that you can anticipate and control (to a reasonable degree) your risks.

Financial:

This section of the business plan will be closely scrutinized by potential investors, so it's imperative that you give it the attention it deserves. Three key financial statements must be presented: a balance sheet, an income statement, and a cash flow statement. These statements typically cover a three-year period. Be sure you state all the assumptions you made when calculating the figures.

Determine the stages where your business will require external financing and identify the expected financing sources (both debt and equity sources). Also, clearly show what return on investment these sources will achieve by investing in your business. The final item to include is a break-even chart. This chart should show what level of sales will be required to cover all costs.

If the work is done well, the financial statements should represent the actual financial achievements expected from the business plan. They also provide a standard by which to measure the actual results of operating the enterprise. They become a very valuable tool for managing and controlling the business in the first few years.

Milestone Schedule:

This is an important segment of the business plan because it requires determining what tasks must be accomplished in order to achieve your objectives. Milestones and deadlines should be established and monitored while the venture is in progress. Each milestone is related to all the others and together they comprise an overview of the entire project. It may be helpful to summarize this section in a chart.

Appendix:

This section includes important background information that was not included in the other sections. This is where you would put such items as: resumes of the management team, names of references and advisers, drawings, documents, agreements, and any materials that support the plan. You may also wish to add a bibliography of the sources you drew information from.

WRITING YOUR PLAN

The best way to start your plan is to find out what information you will need to acquire. The preceding outline is a good sketch; now go after complete information. (Editor’s note - this outline is offered in text form in Components, but the actual outline is A Business Plan Checklist at the end of the article.)

But you don't have to go into the business plan jungle unarmed. ... "Suggested Resources for Business Plan Development," (below) can help you decide where to start looking. Another alternative is to consider enrolling in a seminar offered by your local college or university. In my experience, the two most common stumbling blocks when writing business plans are: finding the information and writing the document.

Acquiring your information will probably be the most time-consuming part of the business plan process. Here is a brief sampling of the types of places that may have the kind of information you will need.

DATA SOURCES FOR YOUR BUSINESS PLAN

Sources of Internal Data:

- Accounting records
- Marketing studies
- Customer complaint files
- Sales records
- Other company records

Sources of External Data:

General guides (these guides provide direction on where to go to find data on a particular topic.):

- American Statistics Index
- Business Information Sources
- Consultants and Consulting Organizations Directory
- Directories in Print
- Directory of Industry Data Sources
- Directory of On-Line Databases
- Encyclopedia of Associations
- Encyclopedia of Business Information Sources
- Small Business Sourcebook
- Statistical Reference Index

Indexes to books and articles:

- Applied Technology and Sciences Index
- Books in Print
- Business Periodicals Index
- Computer Database Information Searches
- Reader's Guide to Periodical Literature
- Standard Periodical Directory
- Wall Street Journal

Government publications:

- Census Reports (agriculture, construction, housing, manufacturers, mineral industries, population, retail trade, service industries, transportation, wholesale trade)
- County and City Data Book
- County Business Patterns
- Economic Indicators

- Guide to Foreign Trade Statistics
- Guide to Industrial Statistics
- International Industrial Outlook

Organizations and people:

- American Marketing Association
- Friends, relatives, and other small-business owners
- Librarians
- Local Chamber of Commerce Offices
- Local and regional newspapers
- Marketing research firms
- Small Business Development Centers (SBDCs)
- State, local, and federal government offices
- Trade associations
- Universities

DRAWBACKS AND LIMITATIONS

If business plans are so great, how come a lot of old, successful businesses don't have one?

Some business owners succeed without this tool because they are geniuses, they are lucky, or because they have an incredibly great product or service. What you don't see are all the businesses that didn't make it but might have done better if they had put a plan together.

Many established business owners, quite frankly, could benefit from going through the process. I know of one 110-year old business that decided to write a business plan because its owners needed to re-define their target markets. For three months, they met weekly with an outside consultant, and they said they literally "turned the business inside out." They're pleased with the results. Two years after going through the process, their sales are up 80 percent and their profits are up 300 percent.

Perhaps the main reason that some businesses don't have a business plan is that this type of planning goes against the nature or personality of many entrepreneurs. They would much rather be "doing something" than planning, projecting and calculating. The thought of spending three months (or even three full days) doing research makes them uneasy.

Finally, some entrepreneurs may feel skeptical about the value of a plan that is, after all, based upon estimates. If you are writing a plan for a new business or a new product, all of your calculations will, of course, be guesswork. The value of your "guesswork" depends upon what you are basing your assumptions on. Your research needs to be thorough, accurate and applicable to your own situation.

Even though business plans should take risks into account, it is impossible to identify all the unforeseen circumstances that may arise. Who can predict natural disasters or sudden serious illnesses? Insurance can help cover some losses, but it cannot ever put you back in exactly the same position you were in before.

And it can be hard to know when you have satisfactorily answered such questions as, "Who are my customers?" and, "How much of my product will they buy in a given period of time?" A common limitation of all of the resources I've listed is that they are not interactive. In other words, they cannot ask you questions like, "Have you considered this as a possible market? Have you thought about this drawback?" That's why I highly recommend that you talk with someone about your plan before you consider it finished. Doing a business plan won't guarantee success. It won't remove risk or uncertainty. And it won't always result in financing.

But business plans can help entrepreneurs make informed decisions. For that reason alone, they almost always prove to be a good investment in terms of time and effort.

EMERGING BUSINESS FORUMS

There is a growing trend in formal business plan presentations today.

Business forums are developing in major cities all across the United States. M.I.T. established its first business forum in 1978 in Boston. Since that time, Chicago, Milwaukee, and Indianapolis are examples of cities that have followed with similar forums.

One type of forum, known as Emerging Business Forum, offers entrepreneurs constructive critiques of their business plans by experienced business executives, venture capitalists, consultants and fellow entrepreneurs.

These Forums offer evaluation and counsel to growth enterprises. Entrepreneurs typically have 30 minutes to present their business plans before the review panel and a live audience. Members of the panel offer candid comments, pointing out both strengths and weaknesses of the plan. Audience participation follows. Presenters have the opportunity to respond to the evaluations and suggestions offered. They also receive written evaluations of the oral presentation from audience members. (The entrepreneur doesn't make the written plan available to the audience.) The Forum allows for individual contact between the audience, panelists, and presenters.

A COMMON STUMBLING BLOCK: THE WRITING PROCESS

Your desk is covered with pieces of information that you want to put into your business plan. You've had your coffee. Your phone is off the hook. But you spend the next fifteen minutes staring out the window...unable to get going.

You're not alone. Most people experience some form of writer's block when faced with a particularly important or large-scale job.

Why? Most researchers who study the act of writing currently believe that many of our writing problems are caused by our approach. They say that all writers - whether they are conscious of it or not - go through this five-stage process when they write: pre-writing, writing, revising, editing and proofreading. The majority of writing problems are caused, the researchers say, when the writer tries to do all of the steps at once. Let's take a closer look at each of these steps:

Pre-writing:

This is the stage where you decide what you're going to say. You may write or review your notes, assemble facts, organize your thoughts, establish your goals, or draft an outline. The more you have to say, the more important this stage is. Generally, the more time you spend here, the less time you will spend in the revising stage.

Writing:
After you know in broad terms what you need to say, you can start saying it. This is the stage where you just get it down. Resist the temptation to try to say everything perfectly. Don't correct grammar or punctuation. Don't stop after every sentence to critique yourself. Just keep going.

Revising:
When you're done, you can start revising for clarity. Re-work your sentences until you are sure that your reader will understand them.

Then, take a break from the project. At the very least, return a phone call or stand up and stretch. The next stage will require you to switch gears dramatically, and it will be much easier if you approach it from a fresh perspective.

Editing:
This is the most crucial - and most difficult - stage of the writing process. At this point, you should take a very objective look at your business plan and ask yourself:

- Does it do what it should do?
- Is it convincing?
- Do I need to include more information? Less?
- Have I supported all of my most important statements?
- Is it well-organized?
- Is it readable?
- Is the tone appropriate? Is the style appropriate?

Proofreading:
All that is left to do now is to look for typographical errors, minor grammatical errors, and to make sure that the business plan is spaced correctly on the page. It helps if someone else can take a look. Keep in mind that minor errors could undermine the impact of the whole business plan.

The most important applications of the process approach are: Don't correct yourself while you write, and don't wait for "the perfect opening sentence" to come to you.

Speaking from my own experience as a professional writer (who hates to write), this process approach makes a lot of sense. I consciously go through the steps about 90 percent of the time. While I taught this at the University of Wisconsin-Milwaukee, about 75 percent of my students said that this approach saved them time and was especially helpful when they had tight deadlines.

--Catherine Stover, Editor

A BUSINESS PLAN CHECKLIST

Answering the questions below as you complete your business plan, is a simplified method of writing the draft of your business plan.

I. Executive Summary

- Why will the business succeed?
- What do you want to start (or change)?
- How much money is required?
- What is the return on the investment?
- Why is the venture a good risk?

II. Business Description

- What type of business are you planning?
- What products or services will you sell?
- What type of opportunity is it (new, part-time, expansion, seasonal, year-round)?
- Why does it promise to be successful?
- What is the growth potential?
- How is it unique?

III. Marketing

- Who are your potential customers?
- How large is the market?
- Who are your competitors? How are their businesses positioned?
- What market share do you anticipate?
- How will you price your product or service?
- What advertising and promotional strategies will you use?

IV. Research, Design, and Development

- Have you carefully described your design or development?
- What technical assistance have you received?
- What research needs do you anticipate?
- Are the costs involved in research and design reasonable?

V. Manufacturing

- Where will the business be located? Why?
- What steps are required to produce your product or service?
- What are your needs for production (e.g., facilities and equipment)?
- Who will be your suppliers?
- What type of transportation is available?

- What is the supply of available labor?
- What will it cost to produce your product or service?

VI. Organization

- Who will manage the business?
- What qualifications do you have?
- How many employees will you need? What will they do?
- How will you structure your organization?
- What are your plans for employee salaries, wages and benefits?
- What consultants or Advisors will you need? How will you use them?
- What legal form of ownership will you choose? Why?
- What licenses and permits will you need?

VII. Critical Risks

- What potential problems could arise?
- How likely are they?
- How do you plan to manage these potential problems?

VIII. Financial

- What is your total estimated business income for the first year? Monthly for the first year? Quarterly for the second and third years?
- What will it cost you to open the business?
- What will your personal monthly financial needs be?
- What sales volume will you need in order to make a profit during the first three years?
- What will be the break-even point?
- What will be your projected assets, liabilities, and net worth on the day before you open?
- What are your total financial needs?
- What are your potential funding sources? How will you spend it?
- How will the loans be secured?

IX. Milestone Schedule

- What timing have you projected for this project?
- How have you set your objectives?
- Have you set up your deadlines for each stage of your venture?
- Is there a relationship between events in this venture?

X. Appendix

- Have you included all important documents, drawings, agreements, and references?

Module 9 Checklist

Business Planning

TRAINING TASKS

Check that following activities were completed.

- ☐ Viewed Module 9 eTraining and read eGuide in their entirety
- ☐ Completed the Case Study/Counseling Session, answered the questions on business planning
- ☐ Watched YouTube videos that support the Module's goals
- ☐ Viewed relevant video online and computer software materials available to your Center
- ☐ Reviewed business-plan development web sites and posted changes to eForum
- ☐ Analyzed sample business plans as assigned, including the one furnished as part of material provided by DCEO, Starting Your Business in Illinois
- ☐ Prepared a Business Plan for yourself or assisted a client in preparing a Business Plan

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 9 eTraining and answered evaluation questions with 100% accuracy
- ☐ Viewed Module 9 Case Study / Counseling Session then answered evaluation questions with 100% accuracy
- ☐ Provided a comprehensive evaluation of the business plans reviewed
- ☐ If applicable, provided the Peer Coach with new resources identified through research and posted new resources in the Business Development Advisor eForum
- ☐ Attended a business roundtable or discussed business planning with Peer Coach

Module 10

HOW TO START YOUR NEW BUSINESS

PERFORMANCE GOAL

The Business Development Advisor will assess the start-up client's need for information and identify and explain the basic requirements for starting a new business. The Business Development Advisor will also match the client's needs to the corresponding Network resource and refer the client to the appropriate Network partner for further counseling.

SUGGESTED PREREQUISITES

Core Module 1 – Module 4

Download – Documents located on the DCEO Website. The actual link may change when documents are updated or rewritten.

Starting Your Business

- ***Starting Your Business in Illinois*** (PDF **English** / **Spanish**)
- ***The Plan: A Step-By-Step Business Plan Workbook*** (PDF **English** / **Spanish**)

TRAINING TASKS

The Peer Coach supports the certification process as the Business Development Advisor completes the following training assignments:

1. View Module 10 eTraining and read eGuide in their entirety
2. Review Case Study/Counseling Session and answer the questions on how to start your business
3. Watch YouTube videos that support the Module's goals
4. Attend at least one seminar concerning how to start a new business
5. Compile a list of typical literature to be provided to a new business client
6. Review business start-up web sites on the Internet and post new resources on Business Development Advisors eForum
7. Interview one of the attorneys on the resource list provided to new clients and update the contact information

EVALUATION PROCEDURES

The proficiency with the basic issues of starting a new business will be evaluated by all of the following methods.

1. Completing the Module 10 eTraining and answering evaluation questions with 100% accuracy
2. Viewing Module 10 Case Study / Counseling Session then answering evaluation questions with 100% accuracy
3. Providing the Peer Coach with new resources identified through research and posting new resources in the Business Development Advisor eForum if applicable
4. Attending Business Development Advisor Forum or discussing starting a new business with Peer Coach

INTRODUCTION

Every year millions of Americans decide to become entrepreneurs, and Illinois is home to many of them. According to the 1992 Economic Census, at least eighty-five percent of the new jobs created in Illinois were created by small businesses. That's the good news; but the bad news is that 30% to 50% of new businesses close by the end of their first year. You can help your clients who are ready to pursue the great American dream -- business ownership -- to be part of the other 50% to 70% by emphasizing the importance of the following Eight Essential Elements of Starting A Business.

Always begin your appointment by asking the client to tell you about the business she or he would like to start. Then work your way through the Eight Essential Elements.

EIGHT ESSENTIAL ELEMENTS OF STARTING A BUSINESS

1. Know Thyself

The following "success traits" seem to be common to successful entrepreneurs:

- Self-starter
- Hard worker
- People-oriented
- Decisive
- Leader
- Trustworthy
- Enjoy responsibility
- Determined
- Organized
- Healthy

Past working experience should determine the type of business a client should start. Business operation is easier if the client is familiar with the products or services and the industry. New business start-up is much more complicated when the client tries to learn both simultaneously.

If a client is lacking in these aspects, they should take the time to improve the chances for success by working in the type of business they want to own and take classes or seminars to increase knowledge. Good traits include patience, determination, willingness to listen to advice, and realistic expectations of the time and money required. Many start-up clients will have seemingly outrageous ideas that, in your opinion, will never work. Keep this opinion to yourself! Who would ever have thought that the 'Pet Rock' or the 'Chia Pet' would become national bestsellers?

Our mission is not to discourage clients: we are here instead to educate and train them how to evaluate their own business ideas. Therefore, the best way to guide clients is to assist them in business planning. All of the problems with a new business concept will be discovered by the client during this process. As a result, the clients have the opportunity to revise their ideas or to see the reasons why the ideas are not feasible.

2. Planning

A good business plan is the best guarantee for success. According to SBA surveys, proper planning is the major factor for business survival and growth. A business plan is prepared for three very basic reasons: to determine feasibility, to provide a written document, and to guide actual business operations. (For more information on business planning, refer to Module 9.)

A business plan should document the marketing, organizational, and financial aspects of the business. Clients should plan the company start-up to determine if the firm will have profits or losses -- on paper -- before they quit their jobs, take second mortgages on their homes, and commit their families. Clients should determine how much capital is needed to start and operate the business until it can support itself. Clients should also closely examine their personal financial needs, as most new businesses cannot pay the owner's salary for a while!

Lenders and investors expect to see a business plan. A formal written plan will demonstrate that clients have done their "homework" and have developed a workable business idea.

3. Financing

The client's next step is to locate these funds. They must expect to first commit their own savings (equity) and use personal assets as collateral for a loan. Lenders and investors look for the following credentials:

- Major personal financial commitment,
- Business income sufficient to repay the loan,
- Collateral in the amount of the loan, and
- Managerial experience in a similar type of business.

For more information on financing, see Module 7, Sources and Requirements for Financing.

4. Legal Issues

The client should get advice from an attorney, insurance agent, and accountant before deciding on sole proprietorship, partnership, or incorporation. Exposure to liability is perhaps the most important consideration in choosing the legal form. If the client will have investors, incorporation will likely be necessary.

There are other legal issues to be considered, such as:

- Sole proprietorships and partnerships must register their fictitious names with their local County Clerk's Office. A fictitious name is a business name that is not the owner's legal name. Corporations must also register with the Illinois Secretary of State's Business Division.

- Occupational licenses may need to be obtained from the city or county where it is located.
- Businesses that collect sales taxes must register with the Illinois Department of Revenue.
- Businesses with employees must obtain workers' compensation insurance from their insurance agent.
- Businesses with employees must also register with the Illinois Department of Employment Security.
- Businesses (other than sole proprietorships with no employees) must obtain a federal employer identification number.
- To register trademarks, servicemarks, or copyrights, clients should contact their attorney.
- Many professionals, such as barbers or CPAs must register with the Department of Professional Regulation.

There may be other licenses and permits required for building renovations, food service inspections, fire inspections, etc. For more information on governmental requirements, please see Module 5.

5. Record Keeping

A good record keeping system is essential in order to provide information required by the IRS, investors, and lenders (as well as to know how one's business is progressing.) Records are extremely important for planning and control. The client must know how much money was made, what the expenses were, if there was a profit or loss, what money is owed to the business, and who is owed money by the business. All are questions answered by a good record keeping system.

The basic records that a new business must keep include:

- A check register that shows each check disbursed, check date and amount, payee, and a brief description of the expenditure;
- A cash receipts journal that shows money received, receipt date and amount, payer, and a description of the receipt;
- An accounts receivable ledger which lists outstanding monies owed to your business by your customers;
- An accounts payable ledger which is a record of outstanding bills that your business owes to its vendors;
- A payroll journal which is used to track employee payroll and includes such items as gross and net earnings, payroll taxes, and various other payroll deductions; and
- An inventory control ledger which tracks inventory purchased, inventory sold, and inventory on hand. This ledger is only applicable to those businesses with significant inventories.

There are many manual and computerized bookkeeping systems available that may make record keeping easier. Some Business Development Advisors recommend that clients begin by using a manual system in order to thoroughly understand the 'linkages' before moving up to a computer software package. For more information on record keeping, see Module 6, Record Keeping and Budgets.

The next step, after basic record keeping, is to translate the appropriate figures into a trial balance first, and then into financial statements. For more information on financial statements, see Module 7, Financial Statements.

6. Insurance

The client must be certain to have all necessary insurance coverage in place before opening for business. The client should talk with an insurance agent about property, liability, worker's compensation, auto, business interruption, health, and life insurance. The client should get quotes from several agents, then purchase all insurance from one agent. Better service can be obtained this way. All policies need to be reviewed every three years -- as the business grows, so will the firm's insurance needs.

7. Taxes

"Don't mess with the IRS" is a common refrain among business owners. Clients should start out on the right foot by learning what is required. Attend seminars and workshops and meet with an accountant. The client may need a Federal Employer Identification Number (IRS), a Sales Tax Number (Illinois Department of Revenue) and an Unemployment Compensation Number (Illinois Department of Employment Security.)

8. Find Help

Clients should begin by forming the mindset that they don't know it all. They should develop a "professional team" of advisors, consisting of a small business counselor from the SBDC, SCORE, and other appropriate Network Partners, as well as an attorney, an accountant, a banker, and an insurance agent.

Successful business owners often get guidance from other successful entrepreneurs they meet at Chamber of Commerce meetings and other business-related organizations. If the client will ask for advice and listen to it, the chances for success will be greatly increased.

Another good source of help can be found on the Internet. In addition to excellent sites for all kinds of information relating to starting a new business, your client can also take advantage of the opportunity to interact with other entrepreneurs and share information online. As a beginning point, check out the following sites. There are also many other sites listed throughout this manual.

http://www.sbaonline.sba.gov

http://www.bizoffice.com/

CONCLUSION

"Those who fail to plan, plan to fail." The client should take advantage of all the information furnished in First Stop's Starting a Business in Illinois. He or she should carefully review the feasibility checklist included in that publication, take the time to write a business plan, and learn as much as possible before making the monumental decision to start a new business. Then the American dream can come true!

ROLE PLAY EXERCISE: SIX START-UPS

Instructions

The supervisor or Peer Coach should review previous client files to select six different examples of typical start-up scenarios. Reviewing client files will refresh your memory as to their needs and the assistance you provided to them. Plan to spend about 10 minutes on each role play.

You will then role play three of the counseling sessions with your Business Development Advisor. Choose three that are relatively easy. This will require the Business Development Advisor also review so they can role play the part of the client. First have the Business Development Advisor play the part of the client so you can demonstrate the correct information and literature to be provided in each circumstance. At the end of each of these role plays, debrief with the Discussion Questions.

After you are satisfied the Business Development Advisor has a basic knowledge of how to conduct such a counseling session, you will turn the tables. Using three more difficult client scenarios, you will play the part of the client and the Business Development Advisor will play the part of the counselor. Do your best to act as the client acted. This will give you the opportunity to evaluate how well the Business Development Advisor has learned this information. Use the Discussion Questions to debrief after each scenario.

Discussion Questions

1. How did you evaluate the client's needs and potential for success?
2. How did you determine the literature to give to the client?
3. What referrals were made within the SBDC, to other Network partners, and outside the Network?
4. What "homework" was given to the client?

Module 10 Checklist

Business Planning

TRAINING TASKS

Check that following activities were completed.

- ☐ Viewed Module 10 eTraining and read eGuide in their entirety
- ☐ Reviewed Case Study/Counseling Session and answered the questions on how to start your business
- ☐ Watched YouTube videos that support the goals
- ☐ Attended at least one seminar concerning Module's how to start a new business
- ☐ Compiled a list of typical literature provided to a new business client
- ☐ Reviewed business start-up web sites on the Internet
- ☐ Interviewed one of the attorneys on the center's resource list provided to new clients

EVALUATION PROCEDURES

Check that following procedures were completed.

- ☐ Completed the Module 10 eTraining and answered evaluation questions with 100% accuracy
- ☐ Viewed Module 10 Case Study / Counseling Session then answered evaluation questions with 100% accuracy
- ☐ If applicable, provided the Peer Coach with new resources identified through research and posted new resources in the Business Development Advisor eForum
- ☐ Attended a business roundtable or discussed starting a business with Peer Coach

Counseling Checklist

INSTRUCTIONS: Imagine you are the client who is being counseled as you observe the session. Answer the following questions by circling the number you feel most accurately measures how the client feels. Then note any comments or questions you would like to discuss after the client has left.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
The Business Development Advisor really	5	4	3	2	1
He frightened me.	5	4	3	2	1
Her tone of voice was encouraging.	5	4	3	2	1
He talked too much.	5	4	3	2	1
Homework assignments were helpful.	5	4	3	2	1
He had a condescending attitude.	5	4	3	2	1
She insisted on always being right.	5	4	3	2	1
He was a warm, sincere, and friendly	5	4	3	2	1
His remarks made things clearer for me.	5	4	3	2	1
He increased my general knowledge.	5	4	3	2	1
The terminology and language were confusing.	5	4	3	2	1
The types of questions he asked were good.	5	4	3	2	1
He was very patient.	5	4	3	2	1
My questions were answered to my	5	4	3	2	1
She was uncertain of herself.	5	4	3	2	1
I felt I could be open and genuine with her.	5	4	3	2	1
Overall, the experience was good.	5	4	3	2	1
She exhibited professional dignity and bearing.	5	4	3	2	1
I feel free to come back.	5	4	3	2	1
The help was quite worthwhile.	5	4	3	2	1
She behaved as if the interview was a routine,	5	4	3	2	1
I felt she was really talking down to me.	5	4	3	2	1
I felt she would have jumped on me if I had	5	4	3	2	1
I distrusted him.	5	4	3	2	1
She used terms I could understand	5	4	3	2	1

Preparing for a Counseling Session

(To be used as an aid by the Business Development Advisor before any counseling session.)

Careful planning is an essential part of every counseling or coaching session. Oftentimes, when a session goes poorly, it is due to the lack of proper planning. Use the following checklist to assure that you are fully prepared to offer your client the best possible session.

- ☐ Am I sure that my client knows when and where the counseling session is to be held?
- ☐ Have I reviewed the past efforts of my client?
- ☐ Have I considered how many sessions may be needed, what degree of trust must be attained, and the probable confidence level of my client?
- ☐ Am I clear about the reason for the session and prepared to help define the goals?
- ☐ Have I allotted enough time for the appointment?
- ☐ Have I prepared a proper environment? (No outside distractions, phone interruptions, etc.)
- ☐ Have I removed physical obstructions between myself and my client? (Computer, desk clutter, etc. – it is actually best to position yourself and your client in such a way that your desk is not between the two of you.)
- ☐ Do I have a written “agenda”; have I rehearsed possible scenarios? (Keeping written notes in front of you will help you stay on track and maintain control of the session.)
- ☐ Am I set up and prepared to take notes during the session? (It is important to document everything that takes place in order to develop a record for future verification or evaluation purposes. However, note taking should not inhibit the flow of the counseling process.)

Notes:

Checklist for Self-Evaluation

Checklist to be used as an aid by the Business Development Advisor following a counseling session.

- ☐ Did I put the client at ease? Was I warm and friendly?
- ☐ Did I use positive body language and active listening?
- ☐ Did I help the client to define the reason for the session?
- ☐ Did I ask open-ended questions and encourage the client with positive reinforcement?
- ☐ Did I offer effective feedback by paraphrasing and encouraging review?
- ☐ Did I refrain from using condescending remarks or other negative criticism?
- ☐ Did I maintain good structure and guide the client in staying on track?
- ☐ Did I help the client to identify the primary problem or opportunity?
- ☐ Did I guide the client in discovering possible causes and determining effective action?
- ☐ Did I aid the client in finding possible solutions and choosing between the alternatives?
- ☐ Did I at all times offer empathy for the client's feelings and express confidence in the client's ability to solve the problem or grasp the opportunity?
- ☐ Did I recognize areas that were beyond my scope and refer the client to other resources?
- ☐ Did I allow the client to take ownership of the problem or opportunity, remaining objective and offering advice only when appropriate?
- ☐ Did I encourage the client to view all aspects of the problem, pointing out possible consequences, both good and bad?
- ☐ Did the client and I agree on a course of action?
- ☐ Did the client and I agree on a time schedule and establish the first measurable step?
- ☐ Did the client understand that the organization is not a "one-shot-deal" and that we want him or her as a client for years to come?
- ☐ Did I attempt to set up an appointment for the next counseling session?
- ☐ Did I assure the client that I am available for any questions or concerns?

Notes:

Certification Requirements

Upon completion of all certification requirements, the Business Development Advisor will be awarded the designation of "Certified Business Development Advisor."

The ultimate goal of this program is to create both a common body of knowledge and a standard of performance among a diverse group of professionals. All counselors must achieve a common standard of performance and quality. Therefore, a certain amount of flexibility is required to accommodate individual differences, **without changing the standards.**

In order to allow for differences in individual backgrounds, certification credits will be awarded for achievements both within the framework of the professional program (through the completion of training modules) and outside the framework (through other professional accomplishments.)

Certification Credits

Each Business Development Advisor must earn a minimum of 100 certification credits in order to become eligible for the designation of Certified Business Development Advisor.

Depending on the education and experience of a Business Development Advisor, all training modules may or may not be required. Business Development Advisors who meet minimum hiring qualifications should be required to complete the four core modules to become a candidate for certification.

Certification Process

Each Business Development Advisor within the network is expected to complete the Certification Application or Re-Certification Application to analyze his or her eligibility. Each new Business Development Advisor is evaluated by a Peer Coach, using the Certification Application. Upon completion of the four core modules and acquiring of 100 total credits, a Certification Application is completed with other required documentation, to the Center Director for confirmation. Upon confirmation, the Director sends the completed application to the Program Administrator with the following documents:

- A letter of recommendation for certification
- The candidate's current resume
- Any other pertinent information

Eligibility

All individuals, regardless of education and experience, are required to complete the four core modules to become a candidate for Certified Business Development Advisor.

All full-time and part-time Business Development Advisors are required to be certified Business Development Advisors. Volunteer and student Business Development Advisors are required, at a minimum, to complete the four core modules. The Center Director may require that all advisors become fully certified.

Certification Requirements (100 Pts)

The aim of the certification program is to certify that Business Development Advisors are well-rounded and competent in multiple facets of small business ownership including marketing, finance, budgeting, record keeping, funding, and business planning.

a. **Core Modules**: Required four core modules – 20 pts each
   1) Module 1 (Code of Professional Performance): Within 30 days
   2) Module 2, 3, and 4: Within 90 days of employment or volunteer appointment

b. **Education**: 5 credits for a degree (bachelor's, master's, doctorate) in a business related field (See chart below) (Max 5)

c. **Experience**: 5 credits relevant business experience i.e. business owner/manager, CPA, banker, attorney, etc. (See chart below) (Small business ownership must be clearly defined for each function i.e. marketing budget of $1000/month; Managed $200,000 annual gross profit utilizing QuickBooks; Wrote Business Plan and updated it annually)

d. **Additional Modules**: 5 credits for each module 5 – 10 completed.

Business Function	**Education (See Below)**	**Experience (See Below)**	**Module**
Marketing			
Record Keeping			
Finance			
Funding Sources			
Business Planning			

Examples of Degrees and Experience

Note: working in a business, even as a manger, does not indicate the level of experience needed to effectively counsel others in small business functions. Likewise, borrowing money from a bank does not qualify as experience in Funding Sources. If there is even the slightest doubt, taking the module is the easiest way to earn the additional points needed for certification.

Module	**Degrees**	**Experience**
Module 5: Marketing	Marketing	Advertising, Business Owner
Module 6: Record Keeping	Finance, MBA	CPA, Business Owner
Module 7: Financial Reporting	Finance, MBA	CPA
Module 8: Funding	Finance	Banker, Loan Officer
Module 9: Business Planning	MBA	Attorney, Business Owner

Re-Certification Requirements (100 Pts)

Every five years, Re-Certification will be granted to the candidate upon accumulation of 100 re-certification credits. The candidate must be a regular or associate member of IESBGA. Only the Certification Committee has the authority to waive any of these requirements.

a. Purely based on Professional Development
   i. Required once during five years
      1. Ethics Module
      2. Cross selling Network Services
   ii. Electives totaling 100 pts. (Center director to confirm attendance)
      1. Additional Modules (5 pts. Each) (Max 40)
      2. Approved list - Global Classroom classes (5 pts. Each) (Max 50)
      3. Approved list - State Conference (5 pts. Each) (Max 25)
      4. National Conference attendance (10 pts. Each) (Max 50)
   iii. Peer Coach – 5 pts / year (Max 25)
   iv. Presentation/Workshop (minimum 2 hour class) – 5 pts / class (Max 25)
   v. Performance – State Evaluation from records and director recommendation

   Note: If major changes have occurred in state or federal law, Module 4 - Government Regulations may be recommended.

About the Facilitators

As Illinois Small Business Development Center certified Business Development Advisors with over ten years of experience, Joanne Osmond and Claudia Pannell helped hundreds of small business owners find their path to success. Offering one-on-one consulting targeted to small businesses and entrepreneurs, they are dedicated to providing the best advice and resources. They are trusted business partners offering expert advice on business plans and development, loan readiness, financial, marketing, and operations. They have facilitated a variety of business workshops to sharpen the entrepreneur's skills and developed their own courseware and workbooks for in-person classes before turning their focus to online training and counseling. Today, they combine online and in person programs together by offering blended learning experiences; the best of both worlds.

Pannell holds an undergraduate degree in business and a MBA from the University of Dallas. Osmond received an undergraduate degree in education from Purdue University and an MBA from Webster University.

Please contact us if you have any questions or changes you would like to see in this program.
Instructor@SmallBusinessSpokenHere.com