Welcome to Wells Fargo’s Hands on Banking® program!

This fun, interactive, and engaging financial education program is designed for both self-paced, individual learning and group use. These Instructor Guides will help you share this valuable program with groups of any size.

In these guides, you’ll find everything you need to lead participants through real-life scenarios, group discussions, and activities that will encourage them to apply these lessons to their daily lives.

By sharing the Hands on Banking program with others, you’ll help them to take control of their finances and build a brighter financial future.

Program Overview
The Hands on Banking program covers all the basics of smart money management. The curriculum is designed for four age groups: Adults, Young Adults (ages 15–21), Teens (grades 6–8), and Kids (grades 4 and 5).

The Hands on Banking program is an easy and enjoyable way to teach and learn the essentials of financial education: the basics of bank services, the importance of saving, smart money management, using credit responsibly, investing, wealth building, and more. Whether it’s opening a checking account, avoiding identity theft, paying for college, buying a home, or starting a small business, the Hands on Banking program provides real-world skills and knowledge everyone can use.

Using the Instructor Guides
The Instructor Guides can be used alone or as an adjunct to the online/CD-ROM program; however, we strongly encourage you to review the program online or request a free CD-ROM. Even if participants will not experience the program online, gaining familiarity with the online program will help you present it more effectively. The most up to date content can always be found online at www.handsonbanking.org.

Each topic in the Hands on Banking program has its own Instructor Guide which follows the organization of the online program and includes much of the same content. The Adults’ version of the Hands on Banking program includes six topics:

3. Protect Yourself Financially.
4. Using Credit to Your Advantage.
5. Planning Your Future.

Each Instructor Guide includes:

• A glossary of all the relevant terms introduced in the topic.
• A lesson introduction which includes:
  » An overview.
  » Learning objectives.
  » Sample discussion questions to start the lesson.
  » “The Basics”—a list of bullet points outlining the key concepts of the lesson.
• A lesson summary of all the key concepts of the lesson.
• Activities, quizzes, discussion questions, handouts and important tips for key concepts.
• A topic summary that lists all the major concepts of the topic.
• Additional activities designed to extend the concepts presented in the topic to the real world.
• A Library Resource section that includes additional reference materials and handouts.
Lesson Concepts and Icons
Each lesson of a topic will present several key concepts. These concepts are introduced to your participants in a variety of ways which are represented in the guides by these icons.

**Activity**
An activity usually involves some sort of class participation, whether it is a matching game, a fill in the blank exercise, or worksheet completion. Typically after an activity you will have the opportunity to lead a discussion.

**Discussion**
Discussions allow you to introduce key concepts while involving your participants in the conversation and making the information relevant to them. In some places, sample discussion questions are included to help you guide the discussion.

**Quiz**
Throughout all the topics, there are short quizzes designed to start discussions or quickly test participants' knowledge of certain concepts.

**Handout**
All of the Instructor Guides include handouts that are designed as a resource for your participants to use outside the classroom in their daily lives. For example, one handout includes a list of web links for participants to use as they start, grow and manage their small business.

**Activity and Discussion Handouts**
Sometimes during a lesson, an activity or discussion will also use a handout to teach key concepts. In these cases the Handout icon is placed below the Activity or Discussion icon.

**Transition**
The Transition icon will let you know when the next concept is related to or follows up on the concept you’re presently discussing or covering with your participants.

**Library Articles**
The online/CD-ROM version of the Hands on Banking program includes a vast library with relevant articles, checklists, and worksheets for each topic and lesson.

Relevant library articles are recommended at the end of each lesson. These articles provide additional information to use in teaching key concepts (look for the library icon as seen above). We encourage you to review the full library selection online or on the CD-ROM. Feel free to enrich your sessions with additional articles from the library.

You can photocopy these articles and distribute them to participants to start a discussion, or you may want to give them away as handouts for participants to read on their own time. These library articles expand the topic content.
Pre-and Post-tests for Adults and Young Adults
When you use the Adults’ and/or Young Adults’ courses with a group or in a classroom setting, we invite you to use the *Hands on Banking* pre and post test we’ve developed. They can be accessed in the “Instructional Resources” section of handsonbanking.org.

- The Pre-test will help you to determine what topics to emphasis with your group.
- The Post-test will help you assess participants progress.

We’d like to request that you report the anonymous results of these tests to our *Hands on Banking* team. Your input will help us to continue to improve the program.

How to Access the Interactive Program
The *Hands on Banking* program is available free of charge in both English and Spanish.

- Available for free on CD-ROM—all four age groups are included.
- You may order a CD at HOBCD@wellsfargo.com. There is no charge for small quantities of the CD-ROM. Please email for information regarding high-volume requests. Allow two weeks for delivery.

Once again, Thank You!
Thank you for sharing these valuable financial education programs with students and adults in our communities. As an instructor, your training and guidance will provide others with the knowledge and skills they need for a brighter financial future.

We welcome your comments and suggestions for future versions of the *Hands on Banking* curriculum and the Instructor Guides. And, we would very much like to hear your success stories. Please contact us via email at HOBinfo@wellsfargo.com.

The *Hands on Banking* program is sponsored and developed by Wells Fargo to serve our communities. The products and services mentioned are those typically offered by financial institutions and do not represent the specific terms and conditions of Wells Fargo’s products and services. The site contains no advertising and does not require or collect any personal information.
Starting a Small Business

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

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

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

This instructor guide is based on and follows the structure of the online Hands on Banking® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants' experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit www.handsonbanking.org to access the program. Should you require a CD ROM to access the program you may request a free copy at HOBCD@wellsfargo.com.
# Topic 1 — Starting a Small Business

**Instructor’s Guide — Entrepreneurship**

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Glossary

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

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

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjustable-rate loan</strong></td>
<td>A loan that allows the lender to make changes in the interest rate, and the resulting principal and interest payments charged to the borrower. These rate changes are usually tied to the rise and fall of a financial statistic (called an index), such as the prime rate or Treasury Bill rate. The initial interest rates on ARMs are lower than rates on fixed-rate mortgages, as the borrower is taking the risk of the interest rate rising over time. The borrower is protected by a maximum interest rate, which the lender may reset annually. There may be a limit on the number and amount of increases or decreases to the interest rate at each change date or over the life of the loan.</td>
</tr>
<tr>
<td><strong>Debt financing</strong></td>
<td>Borrowing money that is repaid over a period of time, usually with interest. This can either be short-term (less than one year) or long-term financing.</td>
</tr>
<tr>
<td><strong>Entrepreneur</strong></td>
<td>An individual who launches a business or product venture.</td>
</tr>
<tr>
<td><strong>Equity financing</strong></td>
<td>An exchange of money for a share of business ownership.</td>
</tr>
<tr>
<td><strong>Personal guarantee/guaranty</strong></td>
<td>When a business owner gets a loan for his or her company, and makes a promise that legally requires him or her to repay the debt if the business fails to do so.</td>
</tr>
<tr>
<td><strong>Secured credit</strong></td>
<td>The ability of an individual or a business to borrow money using assets, such as cash or real estate, as collateral. This means that if the borrower does not repay the debt as agreed, the lender has the right to take ownership of the assets.</td>
</tr>
<tr>
<td><strong>Small Business Administration (SBA)</strong></td>
<td>An independent agency of the Federal Government whose purpose is to help people get in business, stay in business, and grow.</td>
</tr>
<tr>
<td><strong>Small Business Development Centers (SBDC)</strong></td>
<td>Locally operated SBA training centers for new and small business owners.</td>
</tr>
</tbody>
</table>
Lesson 1: Are You Ready?

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

Learning Objectives
After completing this lesson, participants will be able to:

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

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

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

The Basics

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

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

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

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

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

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

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

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

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

Notes/questions

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

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

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

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

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

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

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

- [ ] Takes initiative
- [ ] Driven to achieve
- [ ] Positive mental attitude
- [ ] Sets goals
- [ ] Plans ahead
- [ ] Resourceful
- [ ] A leader
- [ ] Good communicator
- [ ] Always learning
- [ ] Capitalizes on strengths
- [ ] Has technical knowledge
- [ ] Organized
- [ ] Objective
- [ ] Uses money well
- [ ] Realistic
- [ ] Persistent
- [ ] Bounces back
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Articles: Consider Entrepreneurship and Pursing Your Ideas

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Topic 1 — Starting a Small Business

Lesson Summary

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

Key Points from the Are You Ready? lesson:

- Starting and managing your own business can take more time, energy, and talent than most jobs ever do.
- It may require a significant investment of your own money and it might be risky. But it may prove much more rewarding, too.
- Running your own business can give you the satisfaction of using your talents and doing work you enjoy. If you're a good money manager, it can be financially rewarding, as well.
Lesson 2: Writing a Business Plan

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

Learning Objectives
After completing this lesson, participants will be able to:

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

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

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

The Basics

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

**Instructor note:**
Photocopy the activity handout on the following page. Discuss the main components of the business plan.

<table>
<thead>
<tr>
<th>Plan Component Name</th>
<th>The Plan Component Includes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive summary</strong></td>
<td>• Business concept&lt;br&gt;• Key success factors&lt;br&gt;• Financial situation/needs</td>
</tr>
<tr>
<td><strong>Company profile</strong></td>
<td>• The inspirational vision statement describing the business you want to create&lt;br&gt;• Definition of who your customers will be, what and how you plan to sell to them&lt;br&gt;• A mission statement describing why your business exists and why customers will buy your product or service. (The best mission statements briefly but powerfully convey a company's commitment to its customers.)</td>
</tr>
<tr>
<td><strong>Products and services</strong></td>
<td>• Description of your product/services&lt;br&gt;• Positioning of products/services&lt;br&gt;• Competitive evaluation of products/services</td>
</tr>
<tr>
<td><strong>Competitive analysis</strong></td>
<td>• Industry overview&lt;br&gt;• Competition&lt;br&gt;• Competitor products and services&lt;br&gt;• Opportunities; key strengths and weaknesses compared to your competitors</td>
</tr>
<tr>
<td><strong>Market analysis</strong></td>
<td>• Market overview, market segments, and target market and customers.&lt;br&gt;• Reasons why the venture could fail, and your strategies for addressing these risks (shows investors or lenders that you have researched the market and understand the challenges)</td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td>• Your highest priority goals in the key areas of your business, including finance marketing, and operations.&lt;br&gt;• Answers to these questions:&lt;br&gt;  o “What do you want to accomplish in the near-term future?&lt;br&gt;  o Where will you focus your time and resources?&lt;br&gt;(The best objectives are clearly-stated, specific, and measurable.)</td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td>• General approaches you will take to achieve your goals.&lt;br&gt;• Strategies that describe how you will make your business successful over time given the strengths and weaknesses inside your business and the opportunities and threats in the marketplace.</td>
</tr>
</tbody>
</table>
### The Elements of a Business Plan (Instructor Copy) (continued)

<table>
<thead>
<tr>
<th>Plan Component Name</th>
<th>The Plan Component Includes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plans</strong></td>
<td>• Specific action steps you will take to achieve your objectives.</td>
</tr>
<tr>
<td></td>
<td>• A clear statement describing “who will do what by when.”</td>
</tr>
<tr>
<td><strong>Management qualifications and operations</strong></td>
<td>• Key personnel, organizational structure, product/service delivery, customer service/support, facilities. (To get bank financing or investors, management experience is a critical element of your plan because investors generally invest in people, not products. A lot of businesses have great product ideas, but not all have the skills and experience to succeed.)</td>
</tr>
<tr>
<td><strong>Financial information</strong></td>
<td>• Assumptions and comments</td>
</tr>
<tr>
<td></td>
<td>• Starting balance sheet and projection</td>
</tr>
<tr>
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<td>• Profit-and-loss projection</td>
</tr>
<tr>
<td></td>
<td>• Cash flow projection</td>
</tr>
<tr>
<td></td>
<td>• Ratios and analyses</td>
</tr>
</tbody>
</table>

**Tip!**

Review your business plan twice a year to see if it still fits your company or if you need to make changes to your strategic direction.
### The Elements of a Business Plan

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<td>Strategies</td>
<td>• General approaches you will take to achieve your goals.&lt;br&gt;• Strategies that describe how you will make your business successful over time given the strengths and weaknesses inside your business and the opportunities and threats in the marketplace.</td>
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</table>
Topic 1 — Starting a Small Business

The Elements of a Business Plan, Continued

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<tbody>
<tr>
<td>Plans</td>
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</tr>
<tr>
<td></td>
<td>• A clear statement describing “who will do what by when.”</td>
</tr>
<tr>
<td>Management qualifications and operations</td>
<td>• Key personnel, organizational structure, product/service delivery, customer service/support, facilities.</td>
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<td></td>
<td>(To get bank financing or investors, management experience is a critical element of your plan because investors generally invest in people, not products. A lot of businesses have great product ideas, but not all have the skills and experience to succeed.)</td>
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</tbody>
</table>

Tip! Review your business plan twice a year to see if it still fits your company or if you need to make changes to your strategic direction.
Identify Business Plan Components Activity (Instructor Copy)

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

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

**Word Bank:**
- Company profile
- Competitive analysis
- Executive summary
- Financial information
- Management qualifications and operations
- Market analysis
- Objectives
- Plans
- Products and services
- Strategies

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

**Tip!**
A good business plan tells your banker, potential investors/partners, and employees where your business is headed and how you plan to get there. Be clear, specific, and inspiring.
## Identify Business Plan Components Activity

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

### Word Bank:
- Company profile
- Competitive analysis
- Executive summary
- Financial information
- Management qualifications and operations
- Market analysis
- Objectives
- Plans
- Products and services
- Strategies

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

### Tip!
A good business plan tells your banker, potential investors/partners, and employees where your business is headed and how you plan to get there. Be clear, specific, and inspiring.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Write a Business Plan

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Writing a Business Plan lesson:

- The purpose of a business plan is to serve as a map for the present and a vision of the future.
- A business plan typically includes several key components that list specific information about your company, your goals, your financing and other important information.
- A business plan can help you attract investors.
- There are many available resources to help you write a business plan—the SBA or local Small Business Development Center are two examples.
Lesson 3: Types of Start-up Financing

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

**Learning Objectives**

After completing this lesson, participants will be able to:

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

**Start the Discussion**

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

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

**The Basics**

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

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

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

<table>
<thead>
<tr>
<th>Definition</th>
<th>Key Benefit</th>
<th>Key Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debt Financing</strong></td>
<td>Borrowing money that is to be repaid over a period of time, usually with interest.</td>
<td>The lender does not gain an ownership interest in your business and your obligations are limited to repaying the loan.</td>
</tr>
<tr>
<td>An exchange of money for a share of business ownership.</td>
<td>Allows you to obtain funds without taking on debt (in other words, without having to repay a specific amount of money at any particular time).</td>
<td>The major disadvantage is that you no longer have 100% ownership of your business, and must therefore share some degree of control of the business with additional investors.</td>
</tr>
</tbody>
</table>
Two Types of Business Financing Activity

**Instructions:**
List some benefits and challenges for debt and equity financing.

<table>
<thead>
<tr>
<th>Definition</th>
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<th>Key Challenges</th>
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</thead>
<tbody>
<tr>
<td><strong>Debt Financing</strong></td>
<td>Borrowing money that is to be repaid over a period of time, usually with interest.</td>
<td>Can be short-term (full repayment due in less than one year) or long-term (repayment due over more than one year).</td>
</tr>
<tr>
<td><strong>Equity Financing</strong></td>
<td>An exchange of money for a share of business ownership.</td>
<td></td>
</tr>
</tbody>
</table>
Sources of Funding Activity (Instructor Copy)

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

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

<table>
<thead>
<tr>
<th>Sources of Funding</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal savings</td>
<td>If you don't have enough money saved, you'll need to combine your own investment with funds from other sources. A lender will have greater confidence in your commitment to succeed when they know you have your own personal investment in the business. Many lenders, including the SBA, often require this.</td>
</tr>
<tr>
<td>Loans from family and friends</td>
<td>Your family and friends may be willing to loan you funds. Be prepared to show them how and when you'll be able to repay.</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>Loans and lines of credit from financial institutions can be a source of start-up funding. You'll need good credit. Secured credit is ideal if you're just starting out and want to build good credit history. Develop a good working relationship with your banker or lender. The more they know about you and your business, the better they can advise and assist you.</td>
</tr>
</tbody>
</table>
| SBA                         | The U.S. Small Business Administration (SBA) is an independent agency of the Federal Government. Its purpose is to help people get in business, stay in business, and grow. The SBA offers a large number of resources to help you start, finance, and manage your business, and find new business opportunities. It can help you write a business plan, obtain start-up capital, purchase real estate, and much more. The SBA has offices throughout the United States to assist you. Learn more by visiting the SBA Web site at www.sba.gov. Examples of SBA services:  
  - Starting your business: Small Business Start-up Kit; training and counseling; business planning tutorial; special assistance programs for minorities, women, the disabled, veterans, and other groups; workshops; shareware  
  - Financing your business: Loan programs, including those that focus on: microloans (up to $35,000) for start-up, newly established, or growing small businesses; low and moderate income areas. Working capital lines of credit. |
| Client commitments to contracts | Your customers (or future customers) may be willing to sign contracts, or even pre-pay, for products or services that you commit to deliver to them. |
| Investors                   | Most potential investors will request certain financial statements and a business plan from you before investing in your business. Be prepared for their questions by analyzing the creditworthiness and investor appeal of your business before you develop a business plan. While the plan should reflect your personal business goals, keep your audience in mind and draft the plan so that it sells your ideas to people who are in the business of making money. |
### Sources of Funding Activity

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

**Instructions:**
Fill in the blanks as you listen to the discussion.

<table>
<thead>
<tr>
<th>Personal savings</th>
<th>If you don’t have enough money saved, you’ll need to combine your own investment with funds from _______ and _______. A lender will have greater confidence in your commitment to succeed when they know you have your own personal investment in the business. Many lenders, including the SBA, often require this.</th>
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<td>Loans from family and friends</td>
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<td>Loans and _______ from financial institutions can be a source of start-up funding. You'll need good credit. _______ is ideal if you're just starting out and want to build good credit. Develop a good working relationship with your _______ or lender. The more they know about you and your business, the better they can advise and assist you.</td>
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| SBA | The U.S. Small Business Administration (SBA) is an independent agency of the Federal Government. Its purpose is to help people get in business, stay in business, _______. The SBA offers a large number of resources to help you start, finance and manage your business, and find new business opportunities. It can help you write a business plan, _______, purchase real estate, and much more. The SBA has offices throughout the United States to assist you. Learn more by visiting the SBA Web site at [www.sba.gov](http://www.sba.gov). Examples of SBA services:  
  - **Starting your business:** Small Business Start-up Kit; training and counseling; business planning tutorial; special assistance programs for minorities, women, the disabled, veterans, and other groups; workshops; shareware  
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| Client commitments to contracts | Your customers (or future customers) may be willing to sign _______, or even pre-pay, for products or services that you _______ to deliver to them. |
| Investors | Most potential investors will request certain information and a business plan from you before investing in your business. Be prepared for their questions by analyzing the _______ and investor appeal of your business before you develop a business plan. While the plan should reflect your personal business goals, keep your _______ in mind and draft the plan so that it sells your ideas to people who are in the business of making money. |
Topic 1 — Starting a Small Business

Lesson Summary

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

Key points from the Writing a Business Plan lesson:

The Basics

- Almost every business needs at least some money to get started.
- Many small business owners look for additional funding at various times after their businesses are up and running.
- There are two types of business financing—debt and equity financing.
- There are many ways to get the money to start a small business, including family and friends, personal savings, financial institutions, and the U.S. Small Business Administration (SBA).
Lesson 4: Getting Down to Work

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

Learning Objectives
After completing this lesson, participants will be able to:

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

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

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

The Basics

• Using a checklist is a great way to get your new small business up and running.
• Hiring a first employee is a big step, but could have financial benefits or disadvantages.
## New Business Checklist Activity (Instructor Copy)

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

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

<table>
<thead>
<tr>
<th>Legal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Create a name for the business.</td>
</tr>
<tr>
<td>2. Register your business name. This is known as filing a “DBA” or “doing business as” statement, sometimes called a “fictitious name filing.” (The appropriate way to register depends on the state where you live. Check the Web sites of your secretary of state, county clerk’s office, or municipal government. Or, ask at your local Chamber of Commerce or public library.)</td>
</tr>
<tr>
<td>3. Obtain necessary licenses/permits from federal, state, and local governments.</td>
</tr>
<tr>
<td>4. File for taxes to be paid at a federal, state, and local level.</td>
</tr>
<tr>
<td>5. Talk to legal or accounting experts. Decide whether to trademark your business name and whether to incorporate your company for tax purposes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consider hiring a bookkeeper or accountant to set up your company books.</td>
</tr>
<tr>
<td>2. Visit the bank. Set up business bank accounts separate from personal accounts. Set up a merchant service account to accept credit and debit card payments from customers.</td>
</tr>
<tr>
<td>3. Visit local small business development agencies and contact the Small Business Administration to explore loans and financing from SBA-approved lenders.</td>
</tr>
<tr>
<td>4. Discuss business insurance needs with several agencies and get price quotes to compare.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Develop a business plan, including vision, goals, action steps, timeline, and budget.</td>
</tr>
<tr>
<td>2. Visit a local business development center for advice.</td>
</tr>
<tr>
<td>3. Consider joining your local Chamber of Commerce.</td>
</tr>
<tr>
<td>4. Hire independent contractors or employees if extra help is needed.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Create a brand identity for the business, including logo, business cards, and letterhead.</td>
</tr>
<tr>
<td>2. Get listed in local phone book and consider placing an ad.</td>
</tr>
<tr>
<td>3. Create a Web site.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Research equipment to buy.</td>
</tr>
<tr>
<td>2. Set up telephone service.</td>
</tr>
<tr>
<td>3. Set up your computer with needed software.</td>
</tr>
</tbody>
</table>

**Important note:** Participants should consult with their legal or financial advisors for more information.
# New Business Checklist Activity

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Finance</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td></td>
</tr>
</tbody>
</table>
New Business Checklist

| Legal | 1. Create a name for the business.  
2. Register your business name. This is known as filing a “DBA” or “doing business as” statement, sometimes called a “fictitious name filing.” (The appropriate way to register depends on the state where you live. Check the Web sites of your secretary of state, county clerk’s office, or municipal government. Or, ask at your local Chamber of Commerce or public library.)  
3. Obtain necessary licenses/permits from federal, state, and local governments.  
4. File for taxes to be paid at a federal, state, and local level.  
5. Talk to legal or accounting experts. Decide whether to trademark your business name and whether to incorporate your company for tax purposes. |
| Finance | 1. Consider hiring a bookkeeper or accountant to set up your company books.  
2. Visit the bank. Set up business bank accounts separate from personal accounts. Set up a merchant service account to accept credit and debit card payments from customers.  
3. Visit local small business development agencies and contact the Small Business Administration to explore loans and financing from SBA-approved lenders.  
4. Discuss business insurance needs with several agencies and get price quotes to compare. |
| Management | 1. Develop a business plan, including vision, goals, action steps, timeline, and budget.  
2. Visit a local business development center for advice.  
3. Consider joining your local Chamber of Commerce.  
4. Hire independent contractors or employees if extra help is needed. |
| Marketing | 1. Create a brand identity for the business, including logo, business cards, and letterhead.  
2. Get listed in local phone book and consider placing an ad.  
3. Create a Web site. |
| Technology | 1. Research equipment to buy.  
2. Set up telephone service.  
3. Set up your computer with needed software. |

Important note: Always consult with your legal or financial advisors for more information.
The First Employee Activity (Instructor Copy)

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

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

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

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

| Fill a gap. | Consider hiring someone who can add a skill you don’t have or who can allow you to concentrate on what you do best. |
| • The money you spend on salary should be less than the additional income you can make by adding to your team. For example, perhaps you love sales and marketing but tend to let paperwork pile up. Hire someone who can handle the paperwork, so you’re free to sell even more. |

| Hire knowledge and experience. | In a small business, it’s important to hire people you enjoy working with, but make sure they have the education, skills, experience, and natural talent to do the job. |

| Consider part-time specialists. | As an alternative to employing one full-time worker to handle multiple tasks, consider hiring a few part-time specialists in bookkeeping, administration, or communications. |
| • You can benefit from individuals who specialize in a particular skill. |
| • You also can pay an hourly rate and avoid expenses such as health insurance and vacation compensation. |

| Follow the law. | After selecting a candidate, be sure to follow the laws governing U.S. workers. |
| • The employee must fill out Form W-4, which determines federal income tax withholding, and Form I-9, which certifies that the person is eligible to work in this country. |
| • Employers must have workers’ compensation and an unemployment insurance account in place. |
| • They also need to pay payroll taxes, which include Social Security, Medicare, and unemployment benefits. |
The First Employee

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

| Fill a gap.                          | • Consider hiring someone who can add a skill you don’t have or who can allow you to concentrate on what you do best.  
|                                   | • The money you spend on salary should be less than the additional income you can make by adding to your team. For example, perhaps you love sales and marketing but tend to let paperwork pile up. Hire someone who can handle the paperwork, so you’re free to sell even more. |
| Hire knowledge and experience.     | • In a small business, it’s important to hire people you enjoy working with, but make sure they have the education, skills, experience, and natural talent to do the job. |
| Consider part-time specialists.    | • As an alternative to employing one full-time worker to handle multiple tasks, consider hiring a few part-time specialists in bookkeeping, administration, or communications.  
|                                   | • You can benefit from individuals who specialize in a particular skill.  
|                                   | • You also can pay an hourly rate and avoid expenses such as health insurance and vacation compensation. |
| Follow the law.                    | • After selecting a candidate, be sure to follow the laws governing U.S. workers.  
|                                   | • The employee must fill out Form W-4, which determines federal income tax withholding, and Form I-9, which certifies that the person is eligible to work in this country.  
|                                   | • Employers must have workers’ compensation and an unemployment insurance account in place.  
|                                   | • They also need to pay payroll taxes, which include Social Security, Medicare, and unemployment benefits. |
Lesson Summary

**Instructor note:**
Summarize this lesson by reviewing these key points with your participants.

Key points from the Getting Down to Work lesson:

- Using a checklist is a great way to get your new small business up and running.
- Hiring a first employee is a big step, but could have financial benefits or disadvantages.
Lesson 5: Helpful Resources

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

**Instructor note:**
*Photocopy the handout on the following page and discuss the list of resources with your participants.*

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

<table>
<thead>
<tr>
<th><strong>U.S. Department of Labor—Wage and Hour Division</strong></th>
<th>Information about: employment law; workers’ rights</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><a href="http://www.dol.gov/whd">www.dol.gov/whd</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>U.S. Patent and Trademark Office</strong></th>
<th>Information about: Patent and trademark laws and procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><a href="http://www.uspto.gov">www.uspto.gov</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>U.S. Small Business Administration (SBA)</strong></th>
<th>Starting, financing, and managing a small business; Finding new business opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><a href="http://www.sba.gov">www.sba.gov</a></td>
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</table>

<table>
<thead>
<tr>
<th><strong>Wells Fargo</strong></th>
<th><a href="http://www.wellsfargo.com">www.wellsfargo.com</a></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th><strong>Wells Fargo Credit Resource Center</strong></th>
<th><a href="http://www.wellsfargo.com/credit_center">www.wellsfargo.com/credit_center</a></th>
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<tr>
<th><strong>Wells Fargo Small Business Website</strong></th>
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<table>
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<tr>
<th><strong>Wells Fargo Retirement Planning for All Ages</strong></th>
<th><a href="http://wellsfargo.com/goals-retirement">wellsfargo.com/goals-retirement</a></th>
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<table>
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<tr>
<th><strong>Wells Fargo Tax Resource Center</strong></th>
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</tbody>
</table>
Topic 1 — Starting a Small Business

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

Key points from the Starting a Small Business Topic

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

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

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

Library Articles & Additional Topic Resources

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

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

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

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

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

Key attributes of successful entrepreneurs

- **Driven to achieve.** Has desire and passion to succeed. Enjoys competition. Has energy and stamina. Willing to work more than forty hours a week. Willing to sacrifice to achieve goals and dreams.
- **Sets goals.** Creates a vision of success. Works with focus and intention.
- **Plans ahead.** Creates plans and follows them. Updates plans periodically. Good at anticipating new developments.
- **A leader.** Takes responsibility and accepts accountability. Like to make decisions. Shows an attitude of respect for others. Motivates and inspires others. Gives other the opportunity to be great. Shares the credit for success. Gains the respect of peers.
- **Good communicator.** Likes people. Has great people skills. Good listener. Effective negotiator.
- **Always learning.** Open to new ideas. Learns from others.
- **Leverages exceptional skills.** Makes the most of personal strengths, but doesn't try to be and do everything.
Consider Entrepreneurship (continued)

Key attributes of successful entrepreneurs (continued)

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

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

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

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [www.wellsfargo.com](http://www.wellsfargo.com) or any Wells Fargo store.
Pursuing Your Ideas

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

Avoid common pitfalls

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

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

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

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

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

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

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

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

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

Avoid common pitfalls (continued)

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

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

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

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

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

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Write a Business Plan

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

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

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

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

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

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

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

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

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

**Plans**—the specific action steps you will take to achieve your objectives. Effective plans clearly state “who will do what by when.”
Write a Business Plan (continued)

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

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

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

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

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

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Topic 2 — Managing a Small Business

Managing a Small Business

Topic Overview
The Managing a Small Business topic will teach participants how to make the most out of their time, money and resources to run their business profitably from day to day. They will discover the essential tools and information needed to manage their business successfully and it includes a special section on the Small Business Administration (SBA).

This topic includes seven lessons:
1. The skills and knowledge you need
2. Keys to financial management
3. Your Profit & Loss Statement (P&L)
4. How the SBA can help you
5. What about retirement?
6. Helpful links
7. Recap

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

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

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

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

401(k) plan
A flexible retirement plan for businesses with employees. Investors in the plan don't have to pay taxes on the income they invest until they withdraw the funds at retirement age.

Accounting, bookkeeping
To keep an exact listing or record of financial transactions. Also called bookkeeping.

Asset
Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.

Break-even point
The point at which a business has brought in enough money to cover its costs of manufacturing and selling during a specific time period (usually a month, quarter, or year). Money brought in above the break-even point is profit.

C corporation
A separate tax-paying entity with any number of stockholders and multiple types of stock.

Cash flow
A measure of the changes in a company’s cash during a specific period of time (usually a month, quarter, or year). Specifically, a company’s cash income minus the cash payments it makes.

Collateral
Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn’t repay the loan as agreed.

Consumer
An individual who buys products or services for personal or household use.

Cost of goods sold
A company’s cost of purchasing raw materials and manufacturing finished products.

Deferred compensation
When a portion of your income is paid out at a date after the income was earned.

Defined Benefit Plan
A corporate retirement plan that pays employees a fixed retirement benefit either as a lump sum or as a pension (a lifetime payment). Payments are determined by salary earned and length of employment.

Defined contribution plan
A corporate retirement plan, such as a 401(k) or 403(b), where employees defer a percentage of their salaries and invest for retirement.

Fixed costs
For an individual, a fixed cost is an expense that stays the same each month, such as rent or a car payment. For a business, a fixed cost is an expense that does not vary depending on production or sales levels, such as an equipment lease or property tax.

Guarantor
An individual or company who has a legal obligation to pay a debt.

Individual Retirement Account (IRA)
Transferring some of your earnings to other family members to reduce your taxes.

Internal Revenue Service (IRS)
An account that holds your investments to help pay for your retirement. The major benefit is that the government doesn’t tax the interest you earn until you withdraw the money. You may have to pay a penalty if you withdraw money before age 59½. You can currently contribute up to $4,000 a year to your IRA account, up to age 70½. Beginning at age 70½ you must begin to make withdrawals. Your IRA contributions may be deductible on your tax return. Check with your tax advisor.

Inventory
U.S. Government agency responsible for tax collection and tax law enforcement.
# Glossary (continued)

| **Inventory** | A company's merchandise, raw materials, and finished or unfinished products that have not yet been sold. |
| **Liability** | The amount of money an individual or business owes to someone else: a debt. |
| **Limited Liability Corporation (LLC)** | Members, comparable to corporate shareholders, hold interests. LLCs are classified as partnerships for tax purposes. |
| **Liquidity** | The ability of an asset to be converted into cash quickly. |
| **Manufacturer** | A business that produces products. |
| **Marketing** | The activities of a business (such as advertising, offering special sale prices, etc.) designed to gain new customers and to interest customers in continuing to do business over time. |
| **Matching Contributions** | When an employee invests a dollar(s) that investment is matched by the employer as a type of reward or compensation. |
| **Merchandise** | The products a business offers for sale to its customers. |
| **Merchant card processing** | A service offered by credit card providers, including many banks, that allows a company to accept credit card and debit card payments where it does business or online. |
| **Overhead** | The ongoing administrative expenses of a business, such as rent, utilities, and insurance. |
| **Partnership** | An option for operating a business with two or more individuals as co-owners. |
| **Payables** | Money owed by a company to others that must be paid within one year or less. Also called current liabilities or current debt. |
| **Payroll deductions** | Money subtracted from an employee's paycheck for such items as federal and state taxes, Social Security contributions, and health insurance. |
| **Penalty fee** | A fee charged for the violation of a rule in a financial agreement. |
| **Pension** | An annual yearly income paid to an employee usually after retirement. Payments will be based upon employee's age at retirement, final salary, and number of years on the job. |
| **Production process** | The method or system used by a manufacturer to create its products. |
| **Profit** | The positive gain from an investment or a business operation after subtracting all expenses. |
| **Profit & Loss Statement (P&L)** | A financial document showing a company's earnings, expenses, and net profit for a specific time period, such as a month, quarter, or year. Also called an income statement or earnings report. |
| **Profit sharing** | An arrangement in which an employer shares some of the company's profits with its employees. Payments can be in cash, stock, or bonds, and may be immediate or held until an employee's retirement. |
| **Receivables** | Money owed to a company that must be paid within one year or less. |
**Reinvesting**

In a business, using the profits from the business to further improve or expand. In regard to investing, using the dividends, interest, or profits from an investment to buy more of that investment, rather than receiving a cash payout.

**Retail**

Selling directly to consumers.

**Retirement plan**

SEE 401(k), Defined Contribution Pan and Defined Benefits Plan.

**Return on investment (ROI)**

The income that an investment produces for the investor.

**Rollover**

The transfer of funds from one investment to another. For example, when an employee leaves a job that offered a 401(k) retirement plan, the funds can be moved, or rolled over, to his or her new employer’s plan, usually without tax penalty if done within sixty days.

**Roth Individual Retirement Account (IRA)**

An individual retirement account with non-deductible contributions, subject to certain income limits, designed to provide tax-free distributions during retirement. Contributions may be withdrawn tax-free at anytime. Tax- and penalty-free withdrawals of earnings may begin when the account has been established for at least five years, and you’re at least 59 ½ years old, for a first time home purchase ($10,000 lifetime limit), or in the event of disability or death. Non-qualified distributions of earnings may be subject to income tax as well as a 10% IRS penalty. Unlike Traditional IRAs, you aren’t required to start taking distributions at age 70½.

**S corporation**

A business with 25 or fewer shareholders, including sole proprietorships.

**Secured credit card**

A credit card secured by a savings account. The money in the savings account is collateral and may be claimed by the company issuing the card if the account holder fails to make the necessary payments. Using a secured credit card, and paying according to the terms of the agreement, can be a good first step for individuals or businesses that want to establish or rebuild their credit.

**Service delivery process**

The method or system used by a service company (for example, a dry cleaner or a photo finishing lab) to deliver its services to its customers.

**Simplified Employee Pension Individual Retirement Account (SEP)**

Pension plan in which both the employee and employer contribute to an IRA. Limited to small businesses with less than 25 employees. Employee participation must be at least 50%. As with an IRA, contributions are tax-deductible.

**Small Business Administration (SBA)**

An independent agency of the Federal Government whose purpose is to help people get in business, stay in business, and grow.

**Sole proprietorship**

A business structure in which an individual and his or her company are considered a single entity for legal and tax purposes. The owner does not pay income taxes separately from the company, but reports business income and losses on his or her individual income tax returns.

**Tax-deferred**

Income for which paying taxes can be delayed to a later date. Examples include money you put into an IRA or 401(k) plan.
## Glossary (continued)

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<td>An individual, tax-deferred retirement account for employed persons. Subject to certain limits, contributions are deductible against income earned that year. Interest and profits accumulate tax-deferred until the funds are withdrawn at age 59 1/2 or later. Early withdrawals are subject to a 10% penalty. Withdrawals also may be subject to income tax.</td>
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<td><strong>Variable costs</strong></td>
<td>A business expense that changes from month to month, for example, electricity or telephone expense. Also, a business expense that occurs only a few months each year and the amount is different each time, for example, taxes.</td>
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<td><strong>Wholesale</strong></td>
<td>The sale of goods in quantity for resale purposes. For example, when a manufacturer sells cases of soup to a retail grocery store, who in turn sells individual cans of soup to the public.</td>
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Lesson 1: The Basic Skills and Knowledge You Need

In this lesson, participants will learn the six basic skills that are critical to managing any small business. They will also learn the three most common types of credit to help them finance a small business, including the SBA.

Learning Objectives
After completing this lesson, participants will be able to:

- List and define the six basic skills that are critical to the management of any small business
- Define common business vocabulary terms
- List and define three common types of credit that could help you finance a small business

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

- Name some skills that you think are critical to managing a small business.
- Name some types of credit that could help you finance your small business.

The Basics
- There are thousands of small businesses—some make products, some sell services, some are retail, some sell to consumers.
- No matter what type of business you have, there are six basic skills you’ll use every day.
- Having business credit can be a very helpful tool to successfully manage your business.
- The U.S. Small Business Administration (SBA) is a source for business loans and lines of credit.
No matter what kind of business you have, there are six basic skills you're probably going to use every day. The success of your small business could depend a lot on how well you perform these six skills.

### Six Basic Skills for Business

#### Skill #1: Planning
- Planning ahead will help you to use your limited resources—time, money and materials—to your best advantage.
- How are you going to achieve your goals? Be realistic and specific: who’s going to do what, by when?
- Think ahead about your business budget. How much money do you need, when do you need it, how will you use it?
- Consider what you hope to get in return for the money you spend. This is called your return on investment, or ROI.
- Ask yourself some basic questions:
  - What products or services will I provide?
  - Who will be my customers?
  - How will my products and services meet my customers’ needs?
- As you gather the answers to these and related questions, start putting your plan down on paper.

#### Skill #2: Buying
- All small business owners are involved in buying, also called purchasing.
- Profit is the difference between how much you spend and how much your customers pay you, so save money wherever you can. Being a smart buyer will help your business become more profitable.
- To be a better buyer, think of your spending in categories—you’ll see how you’re spending your money, which will help you to make better business decisions.
- If money is tight, you’ll be able to quickly spot where you might be able to cut back. If you have money to spare, you’ll see how you might use it to grow your business. This is called reinvesting.
- Being a skillful buyer also means you’ll get the quality you need in the things you buy—and avoid wasting your money.
- Finally, being a good buyer means you’ll have the goods and services you need when you need them. Timing is important in business.

#### Skill #3: Producing
- “Producing” means providing products and services for others to buy. Manufacturers call this the production process. Service businesses might call it the service delivery process.
- Improving your production process can improve your profitability. If you can figure out how to save money by delivering your product or service more quickly or inexpensively, you can increase the amount of money you make. If you can deliver products or services of higher quality, you’ll probably make more sales.
### Six Basic Skills (Instructor Copy) (continued)

| Skill #4: Selling | • In order to sell, understand your customers: what they want, how and when they want it, and what price they're willing to pay.  
  • Customers must have a need for what you're offering. They must know that your business exists and be interested in buying from you. They must believe that your product or service will meet their need. Finally, they must feel comfortable that the price you're asking is reasonable and affordable for them.  
  • Also, consider your payment policies. Depending on what you're selling, you need to decide not only how much you will charge, but the timing you require for payment. For example, some businesses charge 50% when the order is placed, and 50% on delivery.  
  • You also need to decide whether to extend credit to customers, in what amount, and for what length of time. |
| --- | --- |
| Skill #5: Tracking | • “Tracking” refers to the skill of keeping good business records.  
  • You could lose money if you don't keep track of the money in your business, and what you buy, produce, and sell,  
  • Keeping track is also important for filling out your tax forms accurately.  
  • Keep your money records accurate and up-to-date. Track your deposits, withdrawals, and current balances; how much you owe and how much customers owe you. That way you’ll always know how much cash you’ll have on hand.  
  • Keep your business and personal records separate so you can clearly see how your business is performing.  
  • Track information about your sales efforts, your customers, and your product or service delivery process.  
  • By tracking useful information, you can make smarter decisions to improve the efficiency, sales, and profitability of your business. |
| Skill #6: Managing | • Managing means having a vision of what you want your business to become, and constantly adapting to change in order to guide it toward those goals.  
  • If you have employees, managing also means being the leader of a team that is critical to your success.  
  • Most experienced business owners consider their employees to be their company’s most valuable resource. They represent your business to your customers, your suppliers, and to the public. They must believe in your business and commit themselves to doing good work in order for your business to succeed.  
  • For most businesses, employees are also their largest expense—so they can’t afford to have people who are not productive. (Remember that the total cost of employees includes not just their salaries, but also benefits, payroll taxes, and the time and expense involved in managing them.)  
  • Be a better manager by working for or listening to experienced managers who have learned from their own mistakes and successes. |
Six Basic Skills

No matter what kind of business you have, there are six basic skills you’re probably going to use every day. The success of your small business could depend a lot on how well you perform these six skills.

<table>
<thead>
<tr>
<th>Skill #1: Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Planning ahead will help you to use your limited resources—time, money and materials—to your best advantage.</td>
</tr>
<tr>
<td>• How are you going to achieve your goals? Be realistic and specific: who’s going to do what, by when?</td>
</tr>
<tr>
<td>• Think ahead about your business budget. How much money do you need, when do you need it, how will you use it?</td>
</tr>
<tr>
<td>• Consider what you hope to get in return for the money you spend. This is called your return on investment, or ROI.</td>
</tr>
<tr>
<td>• Ask yourself some basic questions:</td>
</tr>
<tr>
<td>○ What products or services will I provide?</td>
</tr>
<tr>
<td>○ Who will be my customers?</td>
</tr>
<tr>
<td>○ How will my products and services meet my customers’ needs?</td>
</tr>
<tr>
<td>• As you gather the answers to these and related questions, start putting your plan down on paper.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Skill #2: Buying</th>
</tr>
</thead>
<tbody>
<tr>
<td>• All small business owners are involved in buying, also called purchasing.</td>
</tr>
<tr>
<td>• Profit is the difference between how much you spend and how much your customers pay you, so save money wherever you can. Being a smart buyer will help your business become more profitable.</td>
</tr>
<tr>
<td>• To be a better buyer, think of your spending in categories—you’ll see how you’re spending your money, which will help you to make better business decisions.</td>
</tr>
<tr>
<td>• If money is tight, you’ll be able to quickly spot where you might be able to cut back. If you have money to spare, you’ll see how you might use it to grow your business. This is called reinvesting.</td>
</tr>
<tr>
<td>• Being a skillful buyer also means you’ll get the quality you need in the things you buy—and avoid wasting your money.</td>
</tr>
<tr>
<td>• Finally, being a good buyer means you’ll have the goods and services you need when you need them. Timing is important in business.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Skill #3: Producing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• “Producing” means providing products and services for others to buy. Manufacturers call this the production process. Service businesses might call it the service delivery process.</td>
</tr>
<tr>
<td>• Improving your production process can improve your profitability. If you can figure out how to save money by delivering your product or service more quickly or inexpensively, you can increase the amount of money you make. If you can deliver products or services of higher quality, you’ll probably make more sales.</td>
</tr>
</tbody>
</table>
## Six Basic Skills (continued)

<table>
<thead>
<tr>
<th>Skill #4: Selling</th>
<th>Skill #5: Tracking</th>
<th>Skill #6: Managing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• In order to sell, understand your customers: what they want, how and when they want it, and what price they're willing to pay.</td>
<td>• “Tracking” refers to the skill of keeping good business records.</td>
<td>• Managing means having a vision of what you want your business to become, and constantly adapting to change in order to guide it toward those goals.</td>
</tr>
<tr>
<td>• Customers must have a need for what you're offering. They must know that your business exists and be interested in buying from you. They must believe that your product or service will meet their need. Finally, they must feel comfortable that the price you're asking is reasonable and affordable for them.</td>
<td>• You could lose money if you don't keep track of the money in your business, and what you buy, produce, and sell,</td>
<td>• If you have employees, managing also means being the leader of a team that is critical to your success.</td>
</tr>
<tr>
<td>• Also, consider your payment policies. Depending on what you're selling, you need to decide not only how much you will charge, but the timing you require for payment. For example, some businesses charge 50% when the order is placed, and 50% on delivery.</td>
<td>• Keeping track is also important for filling out your tax forms accurately.</td>
<td>• Most experienced business owners consider their employees to be their company’s most valuable resource. They represent your business to your customers, your suppliers, and to the public. They must believe in your business and commit themselves to doing good work in order for your business to succeed.</td>
</tr>
<tr>
<td>• You also need to decide whether to extend credit to customers, in what amount, and for what length of time.</td>
<td>• Keep your money records accurate and up-to-date. Track your deposits, withdrawals, and current balances; how much you owe and how much customers owe you. That way you’ll always know how much cash you’ll have on hand.</td>
<td>• For most businesses, employees are also their largest expense—so they can’t afford to have people who are not productive. (Remember that the total cost of employees includes not just their salaries, but also benefits, payroll taxes, and the time and expense involved in managing them.)</td>
</tr>
</tbody>
</table>

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<tr>
<th>Skill #5: Tracking</th>
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<td>• “Tracking” refers to the skill of keeping good business records.</td>
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<td>• Keep your business and personal records separate so you can clearly see how your business is performing.</td>
<td>• Be a better manager by working for or listening to experienced managers who have learned from their own mistakes and successes.</td>
</tr>
</tbody>
</table>
**Vital Vocabulary Activity (Instructor Copy)**

*Instructor note:*
Photocopy the activity handout on the following page. Instruct participants to write in the correct word or phrase next to its definition.

**Instructions:**
Have your participants write in the correct business word or phrase next to its definition.

**Word Bank:**

<table>
<thead>
<tr>
<th>Term/Phrase</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset</td>
<td>The copy machine you bought increases what your business is worth.</td>
</tr>
<tr>
<td>Liability</td>
<td>The money you owe.</td>
</tr>
<tr>
<td>Inventory</td>
<td>The products, or merchandise, that you offer for sale to your customers.</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>A manufacturer’s expense for materials they use to make products.</td>
</tr>
<tr>
<td>Fixed costs</td>
<td>Expenses that are the same amount every month, such as rent or equipment leases.</td>
</tr>
<tr>
<td>Variable costs</td>
<td>Expenses that may change from month to month, such as electricity or taxes.</td>
</tr>
<tr>
<td>Overhead</td>
<td>The amount of monthly fixed and variable costs required to be open for business.</td>
</tr>
<tr>
<td>Marketing</td>
<td>Everything a business does to both gain and keep customers.</td>
</tr>
<tr>
<td>Break-even point</td>
<td>The minimum amount of money a business must bring in to pay all expenses.</td>
</tr>
<tr>
<td>Profit</td>
<td>When your business has positive gain after paying all expenses.</td>
</tr>
<tr>
<td>Accounting or bookkeeping</td>
<td>Tracking the money in your business is called “keeping the books.”</td>
</tr>
<tr>
<td>Payables</td>
<td>All of your monthly bills and expenses.</td>
</tr>
<tr>
<td>Receivables</td>
<td>The money your customers owe you.</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>Money that constantly moves in and out of a business.</td>
</tr>
</tbody>
</table>

**Tip!**

To succeed in business:
1. Keep your overhead as low as you can.
2. Know your customers and put them first.
3. Keep good records to make smarter decisions; you can’t manage what you don’t measure.
Vital Vocabulary Activity

Instructions:
Write in the correct business word or phrase next to its definition.

Word Bank:
- Asset
- Accounting or bookkeeping
- Cost of goods sold
- Break-even point
- Fixed costs
- Cash Flow
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To succeed in business:
1. Keep your overhead as low as you can.
2. Know your customers and put them first.
3. Keep good records to make smarter decisions; you can’t manage what you don’t measure.
Three Types of Small Business Credit (Instructor Copy)

**Instructor note:**
*Review these key points with your participants and then discuss the three types of small business credit*

- If your business has good cash flow, you may not need to borrow. But having business credit can be a very helpful tool to successfully manage your business.
- The process of borrowing for your business is similar to borrowing for yourself. However, the reasons can be different.
- If you’re a smart business owner, when you borrow money for your business it will be to improve or expand your business and its profitability. One example of this would be getting a loan to buy equipment that will increase your production capacity or lower your production costs over time.
- Keep in mind that it’s a good business practice to seek credit before you actually need it! This can help you to plan for the future and be prepared to take advantage of new opportunities as you find them.
Three Types of Small Business Credit Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Divide the class into groups. Instruct each group to write a definition or example for each of the three types of small business credit.

Instructions:
Have your participants list a definition and example for each type of small business credit.

<table>
<thead>
<tr>
<th>Secured Credit</th>
<th>Unsecured Credit</th>
<th>SBA Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Secured” credit means that the lender knows you have the assets, or collateral, available to repay them. For example, to qualify for $1,000 of secured credit, you would need to provide the bank with proof that you have $1,000, either in cash or another acceptable form, such as equipment or investments.</td>
<td>A loan that is not backed by collateral (such as cash or property) of the borrower.</td>
<td>Loans or credit lines from the U.S. Small Business Administration (SBA). To qualify for most SBA credit, your business should have a good credit history and show the capacity to repay. For most SBA loan programs, you apply to a financial institution, but the SBA helps you, the business owner, by guaranteeing to repay the lender a certain percentage of the loan amount if you were unable to. Your business may be able to borrow a higher amount or receive a better interest rate than you would without an SBA guarantee.</td>
</tr>
</tbody>
</table>

Tip!
Lenders make an investment in you and your business. It can be helpful to work with a lender who is familiar with your type of business.
### Three Types of Small Business Credit Activity

**Instructions:**
For each type of small business credit, write a definition and an example.

<table>
<thead>
<tr>
<th>Secured Credit</th>
<th>Unsecured Credit</th>
<th>SBA Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Tip!**
Lenders make an investment in you and your business. It can be helpful to work with a lender who is familiar with your type of business.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Articles: Applying for Business Credit and How the SBA Can Help You

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

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

Key points from the Skills and Knowledge You Need lesson:

• There are thousands of small businesses—some make products, some sell services, some are retail, some sell to consumers.
• No matter what type of business you have, there are six basic skills you’ll use every day.
• Having business credit can be a very helpful tool to successfully manage your business.
• The U.S. Small Business Administration (SBA) is a source for business loans and lines of credit.
In this lesson, participants will learn about bank products and services designed for small businesses. They will learn valuable tips for managing cash and credit, creating a business budget and more.

**Learning Objectives**

After completing this lesson, participants will be able to:

- Describe the bank products and services designed for small businesses
- Describe valuable tips for managing cash and credit, creating a business budget, maximizing cash flow, controlling expenses, and compensating themselves the smart way

**Start the Discussion**

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

- How do small business owners pay themselves?
- Describe how managing a business budget differs from a personal spending plan
- List some ways you can maximize cash flow (the money coming in and out of a business) or control expenses for a small business

**The Basics**

- As a small business, it’s extremely important to effectively manage the money in your business.
- You have to be a good money manager to have a profitable business that can pay you for your time and effort.
- There are three basic money management tools you need: business banking relationship, a bookkeeping system and monthly management reports.
Basic Business Tools Activity—Part I (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Divide the class into small groups. Instruct them to brainstorm the benefits of each of the business tools listed in the left column. Then use the key points in the table to frame the discussion.

**Instructions:**
Have your participants list several benefits of using each business tool. Remind them to list benefits related to business use, not their own personal use.

<table>
<thead>
<tr>
<th>Business Tool</th>
<th>Benefits</th>
</tr>
</thead>
</table>
| Online banking  | • Banking on the Internet is one of the most useful money management tools a small business owner or manager can have.  
• Managing your money online can be a tremendous time-saver.  
• Online banking is safe and convenient: you can monitor your account activity at any time, check your transactions and balances, transfer funds between bank accounts, and pay bills. |
| Checking accounts | • Business checking accounts are similar to personal ones.  
• They make it easy for you to access your money and to transfer money between accounts.  
• It’s important to have a business checking account that’s separate from your personal one, you can clearly see how your business is performing and how much cash you have on hand. It will also be quicker and easier to fill out your tax forms.  
• Many banks offer accounts that let you write checks and use online banking and automated teller machines, or ATMs.  
• Some banks offer special ATM cards that allow the business owner to control how the ATM card can be used by employees. For example, a bookkeeper could make deposits but not have full access to the business’ money.  
• Ask your local bank about the different kinds of business checking accounts they offer. |
| Savings accounts | • Many small businesses have a business savings account that’s separate from their personal one.  
• With savings set aside, you’ll be able to handle emergency business needs, you can plan ahead for making large purchases in the future, and you’ll be ready to pay your business’ taxes when they’re due.  
• At most banks, your business savings account can be used as overdraft protection for your business checking account. This can save you money on bounced check fees, and help keep your credit strong.  
• When you put your money in a business savings account, the bank rewards you on a regular schedule by adding interest that makes your savings grow. |
### Basic Business Tools Activity—Part I (Instructor Copy) (continued)

<table>
<thead>
<tr>
<th>Business Tool</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll services</td>
<td>• Paying your employees—and keeping track of what you pay them—can be complicated and time-consuming. Payroll tax laws change frequently.</td>
</tr>
<tr>
<td></td>
<td>• As an employer, you can be charged penalties if you don't keep up with the new laws.</td>
</tr>
<tr>
<td></td>
<td>• A payroll service can make the entire process of paying your employees, and keeping track of what you pay them, faster and more convenient.</td>
</tr>
<tr>
<td></td>
<td>• The payroll service provider also takes responsibility for following the current payroll laws—and paying any penalties if they make an error.</td>
</tr>
<tr>
<td></td>
<td>• Many banks offer payroll services. Ask your local bank for details about what they provide and how much they charge.</td>
</tr>
</tbody>
</table>
### Topic 2 — Managing a Small Business

#### Basic Business Tools Activity—Part I

**Instructions:**
List several benefits of using each business tool. Remember, list benefits related to business use, not your own personal use.

<table>
<thead>
<tr>
<th>Business Tool</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online banking</td>
<td></td>
</tr>
<tr>
<td>Checking accounts</td>
<td></td>
</tr>
<tr>
<td>Savings accounts</td>
<td></td>
</tr>
<tr>
<td>Payroll services</td>
<td></td>
</tr>
</tbody>
</table>
Instructor note:
Photocopy the activity handout on the following page. Divide the class into small groups. Instruct them to brainstorm the benefits of each of the business tools listed in the left column. Then, when they’re finished use the key points in the table to frame the discussion.

Instructions:
Have participants list several benefits of using each business tool. Remind them to list benefits related to business use, not their own personal use.

<table>
<thead>
<tr>
<th>Business Tool</th>
<th>Benefits</th>
</tr>
</thead>
</table>
| Loans & lines of credit| • Loans are typically used to make large, one-time purchases.  
• Process of borrowing for business is similar to borrowing for you.  
• When you borrow money for your business it should be for improving or expanding your business and its profitability.  
• A line of credit gives a business a flexible way to borrow money at any time and manage cash flow. The bank agrees to lend you up to a certain amount on an ongoing basis. You can use as much as you need (up to your limit) and pay back at least a minimum amount every month. You pay interest only on the amount you borrow. |
| Personal guarantee     | • When you want to borrow money, the lender will study the financial performance and credit history of your business to decide how much and what kind of credit to give you. They will also look at your personal financial picture.  
• A personal guarantee means that an individual, called the guarantor, signs a legal agreement to repay the loan if the business can’t.  
• If you’re planning to borrow money for your business, be sure that you clearly understand what your business—and you personally—are agreeing to. Get legal advice before signing a loan agreement. |
| Credit cards           | • Business credit cards can be very convenient, especially for making smaller purchases and when traveling on business.  
• Having a business credit card that is separate from your personal one makes it easy to identify your business expenses.  
• Many credit card programs offer monthly or quarterly statements that show how much was spent in different expense categories. This can save you bookkeeping time.  
• Most business credit card programs will let you have multiple cards, so you can give them to employees.  
• To keep control of your employees’ spending, assign a spending limit or kinds of purchases they can make to their cards.  
• Secured credit cards are ideal for new businesses or for those that need to rebuild their business credit. To qualify, you’re normally required to open an account with a balance equal to the credit limit of the card. |
### Business Tools Activity—Part II (Instructor Copy) (continued)

<table>
<thead>
<tr>
<th>Business Tool</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchant card processing</td>
<td>• It's important to make doing business convenient for your customers.</td>
</tr>
<tr>
<td></td>
<td>Credit card providers, including many banks, offer merchant card</td>
</tr>
<tr>
<td></td>
<td>processing. These services allow you to accept credit card and debit</td>
</tr>
<tr>
<td></td>
<td>card payments from your customers, including online.</td>
</tr>
<tr>
<td></td>
<td>• Research shows that consumers buy more-expensive items and spend</td>
</tr>
<tr>
<td></td>
<td>more when they use a credit card. Accepting credit/debit cards might</td>
</tr>
<tr>
<td></td>
<td>help your business.</td>
</tr>
<tr>
<td></td>
<td>• Ask your local bank if they offer merchant card processing services</td>
</tr>
<tr>
<td></td>
<td>and how much they charge.</td>
</tr>
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</table>
### Business Tools Activity—Part II

**Instructions:**
List several benefits of using each business tool. Remember, list benefits related to business use, not your own personal use.

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<tr>
<td>Loans &amp; lines of credit</td>
<td></td>
</tr>
<tr>
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</tr>
<tr>
<td>Merchant card processing</td>
<td></td>
</tr>
</tbody>
</table>
Scenario Activity: Controlling Cash & Credit (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:
Have your participants read Allison’s story and choose the best option. Then, for each option, have them write a few sentences about why the option was right or wrong for Alison’s situation.

Alison’s Story
Alison has just started a house painting company and needs to set-up and maintain a bookkeeping system. She could do it herself, but doesn’t have any real experience. She could hire a bookkeeper or accountant, but that would be more expensive. Her helper, Fred, has computer skills and bookkeeping experience and has offered to do the work, but Alison is worried about the security of her accounts and money. What should Alison do?

1. **Learn to keep the books herself.**
   **Consequences:** After considering different ways to become a better bookkeeper, Alison talked to another small business owner and her banker for advice. They suggested hiring a bookkeeper to help tutor her. A system was set up that was easy for her to use and the bookkeeper taught her how to use it. It was hard to find the time to devote to this, but she’s glad now that I did it.
   
   **Feedback:** This advice worked out well, despite Alison’s busy schedule. She was smart to make sure her recordkeeping system was easy for her to understand and maintain.

2. **Trust Fred to handle the finances so she can give focus on her painting jobs.**
   **Consequences:** Not a good choice. Fred set-up a complicated system that Alison didn’t understand. Then, six months later when he moved away, she had to spend hours getting it straightened out because he was so disorganized. At least he was honest. Now she realizes that another bookkeeper could have stolen money because she wasn’t paying close attention.
   
   **Feedback:** This situation could end badly. She’ll need to pay close attention and limit his access to her accounts and cash. More than a few business owners have lost money because of employees who were disorganized or dishonest.

3. **Participate in setting up the system; let Fred maintain it, but limit his access to funds.**
   **Consequences:** This is a good choice. She made sure that her recordkeeping system is easy to understand and maintain. She also made sure that she’s the only person authorized to sign checks or use the company credit card. Fred is good at the computer work, and that let’s her focus on other aspects of the business—without worrying about losing cash or good credit.
   
   **Feedback:** This is the best choice. Even though Alison will have Fred keep her books, she can wisely restrict his access to her accounts, cash, and credit. She also can make sure her bookkeeping system is easy for her—the business owner—to understand.
Topic 2 — Managing a Small Business

Scenario Activity: Controlling Cash & Credit

Instructions:
Read Allison’s story. Based on her situation, choose the best possible option for her. Then, for each option, write a few sentences about why the option was right or wrong for Alison’s situation.

Alison’s Story
Alison has just started a house painting company and needs to set-up and maintain a bookkeeping system. She could do it herself, but doesn’t have any real experience. She could hire a bookkeeper or accountant, but that would be more expensive. Her helper, Fred, has computer skills and bookkeeping experience and has offered to do the work, but Alison is worried about the security of her accounts and money. What should Alison do?

1. Learn to keep the books herself.
   Should Alison choose this option? Why or why not?

2. Trust Fred to handle the finances so she can give focus on her painting jobs.
   Should Alison choose this option? Why or why not?

3. Participate in setting up the system; let Fred maintain it, but limit his access to funds.
   Should Alison choose this option? Why or why not?
Create a Business Budget Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Ask your participants to create a list of four things they need to take to create and manage their business budget. Then, distribute the handout and review the four steps with them.

**Instructions:**
Have your participants fill in the blanks as you lead the discussion.

Follow these steps to create your business budget.

1. **Review your income and expenses.**
   Study past records, such as statements and tax returns. Then list all of your expected expenses for 3-6 months, or the entire year if your business is seasonal.

2. **Divide expenses into categories such as debt, employees, and overhead.**
   Look for spending patterns in each category. Also, remember to save money for emergencies or economic downturns.

3. **Project income and expenses for a future period based on past figures and trends, and any changes that you foresee.**
   Regularly review your projections and adjust them if conditions change.

4. **Be disciplined; stick to your plan.**
   Share your budget with advisors and your accountant to get their support. Be aware that sharing sales or salary projections with staff will create expectations.

---

**Tip!**
Studying your finances and objectives for the year, then creating and following an annual budget will help you make better-informed decisions to achieve your business goals.
Create a Business Budget Activity

Follow these steps to create your business budget.

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---

**Tip!**

Studying your finances and objectives for the year, then creating and following an annual budget will help you make better-informed decisions to achieve your business goals.
The Money You Need Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Instruct participants to match the tips with the general description or situation listed in the right column.

Follow these tips to help maximize your cash flow.

**Instructions:**
Have your participants read each description in the right column and then decide which tip matches with each description.

**Word Bank:**
- Improve your cash tracking
- Lower your overhead
- Invoice and collect promptly
- Work with reliable vendors
- Lower prices selectively

**Tips for maximizing cash flow**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
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</tr>
<tr>
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<td>• Cut back on non-essentials.</td>
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<td>• Work with reliable vendors that deliver quality merchandise on time.</td>
</tr>
<tr>
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<td>• If a shipment is late or of poor quality, you miss opportunities to sell your inventory and bring in cash.</td>
</tr>
<tr>
<td>Lower prices selectively</td>
<td>• When necessary, lower prices when items don’t sell.</td>
</tr>
<tr>
<td></td>
<td>• You’ll be able to recover your cash and put it into products that will sell more quickly.</td>
</tr>
<tr>
<td>Improve your cash tracking</td>
<td>• Create a monthly cash flow chart that shows when cash may come in or go out. This will help you anticipate possible cash shortages.</td>
</tr>
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<td>• Streamline your bill collection process so that you get paid more quickly whenever possible. That way, you’ll have your own cash to work with, rather than paying interest on borrowed money.</td>
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<td>• Be careful to track accounts for prompt payment.</td>
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<td>• Follow past-due accounts closely. The more overdue an invoice is, the less likely you are to collect it.</td>
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**Tip!**

Studying your finances and objectives for the year, then creating and following an annual budget will help you make better-informed decisions to achieve your business goals.
The Money You Need Activity

Follow these tips to help maximize your cash flow.

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Read each description in the right column. Decide which tip matches with each description.

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Tips for maximizing cash flow

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Studying your finances and objectives for the year, then creating and following an annual budget will help you make better-informed decisions to achieve your business goals.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Maximize Cash Flow

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

**Instructor note:**
Lead a discussion about creating an organized logical approach to managing expenses.

**Instructions:**
What do you think is an organized approach to managing expenses?

Follow these steps to create your business budget.

1. **Categorize your expenses** as short-term (may change within 6 months), long-term (may last up to a year), or fixed (rarely change). Then rank them in descending order of cost within each group.

2. **Create a schedule** to review each expense. Review short-term expenses more frequently than long-term costs because you can change these more easily. Look for more opportunities to cut costs.

3. **Establish goals** for reducing each expense by a realistic percentage. If you have employees, assign someone to each cost-cutting goal, or consider rewarding employees for finding ways to cut costs.

If you own a small business it's especially important to control expenses. The consequences of a smaller company spending too much are far greater than for larger companies.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Manage Your Business Expenses.

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

Instructor note:
Photocopy the activity handout on the following page. Begin your discussion about compensation by asking participants how they handle compensating themselves. Ask them to describe what they think is the best way to compensate themselves. Then, distribute the handout and review the key points with your participants.

As a small business owner, there are many options for taking money out of your business to pay yourself.

Individually and in combination these different methods may offer you some real advantages in terms of tax-savings and liquidity (having assets that can be readily converted into cash).

Compensation options can include:

- **Deferred compensation** (when a portion of your income is paid out at a date after the income was earned) may postpone your payment of taxes on that income.
- **Income shifting** (transferring some of your earnings to other family members to reduce your taxes), may also have financial benefits related to your estate, the wealth you’ll pass on to your family when you die.

Explore these options and advantages with your tax advisor:

- Salary
- Paid expenses
- Bonus
- Dividend
- Benefits
- Rental income
- Retirement plan
- Deferred compensation
- Life insurance
- Income shifting
- Loan

Consult with your tax advisor and perhaps a business attorney to determine the most advantageous and cost-effective ways to compensate yourself.
Topic 2 — Managing a Small Business

Tips For Compensating Yourself

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- Life insurance
- Income shifting
- Loan

Consult with your tax advisor and perhaps a business attorney to determine the most advantageous and cost-effective ways to compensate yourself.
Lesson Summary

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

Key points from the Keys to Financial Management lesson:

- As a small business, it’s extremely important to effectively manage the money in your business
- You have to be a good money manager to have a profitable business that can pay you for your time and effort.
- There are three basic money management tools you need: business banking relationship, a bookkeeping system and monthly management reports.
Lesson 3: Your Profit and Loss Statement (P&L)

In this lesson, participants will discover why a Profit and Loss statement is an essential tool for measuring their progress and making good management decisions.

Learning Objectives
After completing this lesson, participants will be able to:

• Explain how a Profit and Loss Statement is an essential tool for measuring progress and making good decisions
• Describe the format of a P&L statement, including common terms

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

• What do you think a Profit and Loss Statement describes?
• Who would want to look at your Profit and Loss Statement?

The Basics

• The Profit and Loss Statement (P&L) is a monthly financial report that’s critical to any business
• The P&L helps you track the performance of your business by showing financial results—how much money the business brought in, how much it spent, and how much money you earned or lost.
What is a P&L? Quiz (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Instruct your participants to read each question and select the best answer. Then lead a discussion or answer questions.

**Instructions:**
Have participants read each question and select the best answer.

1. The Profit and Loss Statement (P&L) is also known as:
   a. Income statement
   b. Earnings report
   c. Statement of revenues and expenses
   d. Operating statement
   e. **All of the above**

2. The P&L measures:
   a. Growth in revenues from one quarter to the next
   b. **Activity of a business over a period of time**
   c. Loss of profit from year to year
   d. All of the above

3. As a business owner, it’s important to keep in mind that:
   a. **Profit is not the same as cash flow**
   b. Cash flow is not the same as asset allocation
   c. Revenue is the same as profit
   d. All of the above

**Key points:**
The Profit and Loss Statement (P&L):
- Is also known as the income statement, earnings report, statement of revenues and expenses, or even the operating statement.
- Measures the activity of a business over a period of time—usually a month, a quarter, or a year—and recaps the revenue, expenses, profit, and loss.
- As a business owner, it’s important to keep in mind that in almost all circumstances, profit is not the same thing as cash flow. In other words, “making money” doesn’t necessarily mean that you have the cash in-hand, available to spend.

**Tip:**
The basic formula for a Profit & Loss Statement: Revenues - Expenses = Net Profit.
What is a P&L? Quiz

Instructions:
Read each question and select the best answer.

1. The Profit and Loss Statement (P&L) is also known as:
   a. Income statement
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3. As a business owner, it’s important to keep in mind that:
   a. Profit is not the same as cash flow
   b. Cash flow is not the same as asset allocation
   c. Revenue is the same as profit
   d. All of the above

Tip!
The basic formula for a Profit & Loss Statement: Revenues - Expenses = Net Profit.
Definitions of Terms Used in a P&L Statement Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Instruct participants to match the P&L term with the correct definition.

**Instructions:**
Have your participants use the phrases from the Word Bank to match the P&L terms with their correct definitions.

**Word Bank:**
- Gross Profit Margin
- Income taxes
- Net income (after taxes)
- Operating Expenses
- Operating income
- Other income or expenses
- Overhead, or Fixed Expenses
- Pre-tax income
- Revenue
- Pre-tax income

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<td>Operating Expenses</td>
<td>Expenses that rise or fall based on your sales volume. Also known as Variable Expenses.</td>
</tr>
<tr>
<td>Gross Profit Margin</td>
<td>Amount left when you subtract operating expenses from revenues. Also known as Operating Margin.</td>
</tr>
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<td>Overhead or Fixed Expenses</td>
<td>Costs that don't vary much monthly or rise or fall with sales. Possible examples: rent, insurance.</td>
</tr>
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<td>Operating income</td>
<td>Money received after deducting operating and overhead expense.</td>
</tr>
<tr>
<td>Other income or expenses</td>
<td>Money related to a business’ finances, for example interest earned on savings or paid on loans.</td>
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<tr>
<td>Pre-tax income</td>
<td>Money earned before federal and state governments take their share.</td>
</tr>
<tr>
<td>Income taxes</td>
<td>Money paid to federal and state governments.</td>
</tr>
<tr>
<td>Net income (after taxes)</td>
<td>The profit earned in the period minus all expenses. The final amount on most P&amp;Ls.</td>
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Definitions of Terms Used in a P&L Statement

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Use the phrases from the Word Bank to match the P&L terms with their correct definitions.

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### Sample Profit & Loss Statement (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Discuss the basic structure of a P&L Statement.

This sample report will show participants the basic structure of a Profit & Loss Statement.

<table>
<thead>
<tr>
<th>Sample Company, Inc.</th>
<th>Profit &amp; Loss Statement</th>
<th>August 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product sales</td>
<td></td>
<td>$12,000</td>
</tr>
<tr>
<td>Service sales</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td></td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td></td>
<td>7,000</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td></td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Overhead</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td></td>
<td>1,500</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td>250</td>
</tr>
<tr>
<td>Office supplies</td>
<td></td>
<td>150</td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td><strong>Total Overhead</strong></td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td></td>
<td>6,000</td>
</tr>
<tr>
<td><strong>Other Income (Expenses)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Interest</td>
<td></td>
<td>(500)</td>
</tr>
<tr>
<td><strong>Earnings Before Income Taxes</strong></td>
<td></td>
<td>5,500</td>
</tr>
<tr>
<td><strong>Income Taxes</strong></td>
<td></td>
<td>500</td>
</tr>
<tr>
<td><strong>Net Earnings</strong></td>
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**Tip!**
Note that a business organized as a C corporation almost always shows income tax expense, but S corporations, partnerships, LLCs, and sole proprietorships rarely list income tax on the P&L.
Sample Profit & Loss Statement

This sample report will show you the basic structure of a Profit & Loss Statement.

Note that a business organized as a C corporation almost always shows income tax expense, but S corporations, partnerships, LLCs, and sole proprietorships rarely list income tax on the P&L.
Lesson Summary

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

Key points from the Your Profit and Loss Statement lesson:

• The Profit and Loss Statement (P&L) is a monthly financial report that’s critical to any business.
• The P&L helps you track the performance of your business by showing financial results—how much money the business brought in, how much it spent, and how much money you earned or lost.
Lesson 4: How the SBA Can Help You

In this lesson, participants will learn about the Small Business Administration and how it is dedicated to helping people get in business, stay in business and make their businesses successful.

Learning Objectives
After completing this lesson, participants will be able to:

- List the different resources available through the SBA

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

- Have you visited your local SBA office? What types of services did they offer you? Did you take advantage of any of their resources?

- What are some ways that small business owners can use their resources most effectively?

The Basics

- The SBA is a very valuable resource for current or potential small business owners.
- The SBA is an independent agency of the federal government.
- The SBA has offices throughout the United States.
How the SBA Can Help You Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct participants to note the basic components of the SBA as you begin the discussion. Then use the table below to discuss how the SBA can help participants in any phase of starting, managing or growing their small business.

Also consider inviting a local SBA representative to come and speak to the class. Encourage your participants to visit the SBA Web site at www.sba.gov. This is also an excellent resource for you in presenting this lesson.

The basic components of the SBA:
1. Is an independent agency of the federal government.
2. Is dedicated to helping people get in business, stay in business, and make their businesses successful and growing.
3. Offers all kinds of resources to help you start, finance and manage your business, and find new business opportunities.
4. Can help you write a business plan, obtain start-up capital, purchase real estate, and much more.
5. Has offices throughout the United States to assist you.

<table>
<thead>
<tr>
<th>During this phase…</th>
<th>The SBA can help with:</th>
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</thead>
<tbody>
<tr>
<td><strong>Starting your business</strong></td>
<td>• Small Business Start-up Kit; training and counseling; business planning tutorial; special assistance programs for minorities, women, the disabled, veterans, and other groups; workshops; shareware.</td>
</tr>
</tbody>
</table>
| **Financing your business** | • Loan programs, including those that focus on: microloans (up to $35,000) for start-up, newly established, or growing small businesses; low and moderate income areas.  
• Working capital lines of credit.  
• Assistance in developing a business plan and building business operations. |
| **Managing your business** | • Online workshops, courses, and guides |
| **Finding new business opportunities** | • Government contracting  
• Business development  
• Business Matchmaking events  
• Export assistance  
• Nonprofit grants  
• Expanding Your Business workshops |
How the SBA Can Help You Activity

Instructions:
As you listen to the discussion note what are the basic components of the SBA. Then use the table below to learn how the SBA can help a growing small business.

The basic components of the SBA:
1. 
2. 
3. 
4. 
5.

<table>
<thead>
<tr>
<th>During this phase…</th>
<th>The SBA can help with:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting your business</td>
<td>- Small Business Start-up Kit; training and counseling; business planning tutorial; special assistance programs for minorities, women, the disabled, veterans, and other groups; workshops; shareware.</td>
</tr>
</tbody>
</table>
| Financing your business | - Loan programs, including those that focus on: microloans (up to $35,000) for start-up, newly established, or growing small businesses; low and moderate income areas.  
- Working capital lines of credit.  
- Assistance in developing a business plan and building business operations. |
| Managing your business | - Online workshops, courses, and guides |
| Finding new business opportunities | - Government contracting  
- Business development  
- Business Matchmaking events  
- Export assistance  
- Nonprofit grants  
- Expanding Your Business workshops |

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

Recommended Article: How the SBA Can Help You.

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

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

Key points from the How the SBA Can Help You lesson:

- The SBA is a very valuable resource for current or potential small business owners.
- The SBA is an independent agency of the federal government.
- The SBA has offices throughout the United States.
Lesson 5: What about Retirement?

In this lesson, participants will learn how a company retirement plan can help them invest their savings and earn tax-deferred growth. They will also learn about four common types of plans and benefits.

Learning Objectives
After completing this lesson, participants will be able to:

- Explain how a retirement plan can help them invest savings and earn tax-deferred growth.
- List and define four common types of plans and their benefits.
- Describe how 401(k) plans work.

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

- How can a small business owner save for retirement?
- As a small business owner, what is your plan for retirement?
- Do you currently have any IRAs or 401(k) plans?

The Basics

- A retirement plan is a special account where you can set aside some of the money you earn as savings for your non-working years.
- There are several retirement plans offering different features and benefits.
- Check with your local bank. Many offer retirement plan experts who can advise you.
- The major advantage of most retirement accounts is that you don't have to pay taxes on the money you invest until you withdraw the funds at retirement age. This is known as tax-deferred growth.
Types of Retirement Plans Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to answer the questions in the space provided. Then lead a discussion using participants’ answers and the key points below. After this activity, transition to a discussion of the different types of retirement plans.

Instructions:
Have your participants answer the following questions in the spaces provided.

1. What components do you need to consider for a retirement plan?

2. What benefits does contributing to a retirement plan offer you?

3. Give an example of a retirement plan.

4. How can your employer help with retirement plans?

5. What should you do about retirement plans if you’re a non-working spouse or have a business of your own?

Key points:
1. A retirement plan is a way to set aside money for the future and avoid spending it now.
2. Contributing to a retirement plan can help you save more, save more often, and start saving now. That gives your money more time to grow.
3. Even small amounts of savings have the potential to grow over time.
4. There are various types of retirement plans for both individuals and employers.
5. Some employers offer their employees a retirement plan which can make it simple for employees to save money for the future out of every paycheck they get.
6. If you’re a non-working spouse or have a business of your own, there are other types of plans you can use.
Types of Retirement Plans Activity

Instructions:
Answer the following questions in the spaces provided.

1. What components do you need to consider for a retirement plan?

2. What benefits does contributing to a retirement plan offer you?

3. Give an example of a retirement plan.

4. How can your employer help with retirement plans?

5. What should you do about retirement plans if you’re a non-working spouse or have a business of your own?
Types of Retirement Plans

Traditional Individual Retirement Account (IRA)
A Traditional IRA is an account that: holds investments you’ve made (for example, CDs, mutual funds, or stocks) to help pay for your retirement. If you have earned income, you can contribute $5,000–$6,000 a year, potentially tax deductible, up to age 70½. The major benefit is that the government doesn’t tax the interest you earn until you withdraw it, normally when you retire. This can help your account compound faster to give you more money at retirement.

Traditional IRAs are good investments for money you don’t need right away and can afford to invest for a period of time. If you need it before you reach age 59½ (unless it’s to buy your first home or pay education expenses) you’ll pay both a penalty fee and taxes on your withdrawal.

A second type of IRA is called a Roth IRA. To understand the differences between Traditional and Roth and to set up an IRA, it’s important to work with a banker, a financial advisor, or a retirement specialist.

Traditional Individual Retirement Account (IRA)
One common type of these company-sponsored employee retirement plans is called a 401(k) plan. According to the Internal Revenue Service (IRS), for 2008 the maximum 401(k) contribution is $15,500 if you’re younger than 50, $20,500 if you are 50 or older. While there are legal limits on how much you can contribute, you don’t have to pay income taxes on the money you contribute until you use the money when you’re retired.

If your company offers a retirement plan, study the specifics and talk with a retirement plan expert. Strongly consider investing as much as you can as soon as you can. Companies generally offer different options for you to invest the money in your 401(k). Some even offer to match your contributions. If yours does, take full advantage of it. Contribute enough to get the full match if you can. Also, take advantage of the new “catch up” provision starting at age 50 to maximize the amount of money you contribute. After all, you’re investing in your own future!

SEP
A Simplified Employee Pension Individual Retirement Plan (SEP) is designed for people who are self-employed. Funds may be invested the same way as an IRA. For 2008, a SEP allows you to contribute up to 25 percent of your business compensation up to a maximum of $46,000.

Defined Benefit
A defined benefit plan provides a specific income for retired employees, either as a lump sum or as a pension (an annual lifetime payment). The pension amount usually depends on the employee’s age at retirement, final salary, and the number of years on the job.

Tip!
It’s never too early to start saving for retirement. Start saving as much as you can now at the best interest rate possible. Give your money time to grow! There may be different retirement plan options available to you. Be sure to consult with a retirement planning expert and tax advisor.
Introduction to 401(k) Plans (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to match the 401(k) money source with the right definition. Then discuss the key points outlined below.

A 401(k) plan is ideal if you want a flexible retirement plan that offers a range of ways to contribute. The money that’s invested can come from several different sources, including the ones listed in the Word Bank.

Instructions:
Have your participants match the money source with its correct definition.

Word Bank:
Payroll deductions                  Profit sharing
Matching employer contributions     Rollover

<table>
<thead>
<tr>
<th>Money Source</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit sharing</td>
<td>When business owners reward their employees by contributing a percentage of the company’s profits.</td>
</tr>
<tr>
<td>Rollover</td>
<td>If your employees previously worked for companies that had 401(k) plans, they can transfer what they’ve already saved into their new account with you.</td>
</tr>
<tr>
<td>Matching employer contributions</td>
<td>If the employee invests a dollar, so does the business. This rewards employees and encourages contributions.</td>
</tr>
<tr>
<td>Payroll deductions</td>
<td>Money that’s deducted from the employee’s paycheck</td>
</tr>
</tbody>
</table>

Key points:
- There are legal limits to how much money each employee can contribute each year and overall.
- Once money has been contributed, employees can typically choose from a number of different investments.
- Some 401(k) plans offer employees the option of borrowing some of the money they’ve saved.
Introduction to 401(k) Plans

A 401(k) plan is ideal if you want a flexible retirement plan that offers a range of ways to contribute. The money that’s invested can come from several different sources, including the ones listed in the Word Bank.

Instructions:
Match the money source with its correct definition.

Word Bank:
Payroll deductions
Profit sharing
Matching employer contributions
Rollover

<table>
<thead>
<tr>
<th>Money Source</th>
<th>Definition</th>
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</tr>
<tr>
<td>Money that’s deducted from the employee’s paycheck</td>
<td></td>
</tr>
</tbody>
</table>

Key points:

- There are legal limits to how much money each employee can contribute each year and overall.
- Once money has been contributed, employees can typically choose from a number of different investments.
- Some 401(k) plans offer employees the option of borrowing some of the money they’ve saved.
Lesson Summary

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

Key points from the What About Retirement lesson:

- A retirement plan is a special account where you can set aside some of the money you earn as savings for your non-working years.
- There are several retirement plans offering different features and benefits.
- Check with your local bank. Many offer retirement plan experts who can advise you.
- The major advantage of most retirement accounts is that you don't have to pay taxes on the money you invest until you withdraw the funds at retirement age. This is known as tax-deferred growth.
## Lesson 6: Helpful Links

### Small Business Resources (Instructor Copy)

**Instructor note:**
Photocopy the handout on the following page and discuss the list of resources with your participants.

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

<table>
<thead>
<tr>
<th>Resource</th>
<th>Description</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Labor—Wage and Hour Division</td>
<td>Information about: employment law; workers’ rights</td>
<td><a href="http://www.dol.gov/whd">www.dol.gov/whd</a></td>
</tr>
<tr>
<td>U.S. Small Business Administration (SBA)</td>
<td>Starting, financing, and managing a small business; Finding new business opportunities</td>
<td><a href="http://www.sba.gov">www.sba.gov</a></td>
</tr>
<tr>
<td>Wells Fargo</td>
<td></td>
<td><a href="http://www.wellsfargo.com">www.wellsfargo.com</a></td>
</tr>
<tr>
<td>Wells Fargo Credit Resource Center</td>
<td></td>
<td><a href="http://www.wellsfargo.com/credit_center">www.wellsfargo.com/credit_center</a></td>
</tr>
<tr>
<td>Wells Fargo Insurance Resource Center</td>
<td></td>
<td><a href="http://www.wellsfargo.com/insurance_center">www.wellsfargo.com/insurance_center</a></td>
</tr>
<tr>
<td>Wells Fargo Small Business Website</td>
<td></td>
<td><a href="http://www.wellsfargo.com/biz">www.wellsfargo.com/biz</a></td>
</tr>
<tr>
<td>Wells Fargo Retirement Planning for All Ages</td>
<td></td>
<td>wellsfargo.com/goals-retirement</td>
</tr>
<tr>
<td>Wells Fargo Tax Resource Center</td>
<td></td>
<td><a href="http://www.wellsfargo.com/tax_center">www.wellsfargo.com/tax_center</a></td>
</tr>
</tbody>
</table>
Topic 2 — Managing a Small Business

Small Business Resources

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

- **U.S. Department of Labor—Wage and Hour Division**
  Information about: employment law; workers’ rights
  [www.dol.gov/whd](http://www.dol.gov/whd)

- **U.S. Patent and Trademark Office**
  Information about: Patent and trademark laws and procedures
  [www.uspto.gov](http://www.uspto.gov)

- **U.S. Small Business Administration (SBA)**
  Starting, financing, and managing a small business; Finding new business opportunities
  [www.sba.gov](http://www.sba.gov)

- **Wells Fargo**
  [www.wellsfargo.com](http://www.wellsfargo.com)

- **Wells Fargo Credit Resource Center**
  [www.wellsfargo.com/credit_center](http://www.wellsfargo.com/credit_center)

- **Wells Fargo Insurance Resource Center**
  [www.wellsfargo.com/insurance_center](http://www.wellsfargo.com/insurance_center)

- **Wells Fargo Small Business Website**
  [www.wellsfargo.com/biz](http://www.wellsfargo.com/biz)

- **Wells Fargo Retirement Planning for All Ages**
  [wellsfargo.com/goals-retirement](http://wellsfargo.com/goals-retirement)

- **Wells Fargo Tax Resource Center**
  [www.wellsfargo.com/tax_center](http://www.wellsfargo.com/tax_center)
Topic 2 — Managing a Small Business

Topic Summary

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

Key points from the Basics of Banking Topic.

- There are six critical skills for small business management. The better you do these, the greater your chances for success.
- You need to manage the money in your business and banks can really help you. Take advantage of their small business products and services.
- Set-up a straightforward bookkeeping system. Create your own management reports to clearly see progress and anticipate problems.
- Remember that in addition to managing your cash, you also have to manage cash flow.
- Creating a budget, controlling your expenses, and compensating yourself wisely are three more ways to keep your business in good financial health.
- If you need to borrow money, there are several potential sources, including the SBA. Use them as a resource for lots of other helpful services, too.
- Invest your savings in a retirement plan to reward yourself for your efforts as a small business owner.
- Be sure to consult a retirement plan expert.

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

1. Visit local banks and find out what services they provide for small business owners. Compare services and fees charged for them at different banks. Discuss services they can provide to assist small business owners with bookkeeping and managing cash flow.
2. Visit your local SBA office. Find out if they offer classes, consultations or group talks.
3. Schedule an appointment to talk to a financial advisor about retirement plans.
4. Do a web search for “Retirement Plans” or “Small Business Retirement Plans.” Begin creating a library of resources—websites, articles, phone numbers, etc.
Appendix

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

If you're thinking about borrowing money for your small business, carefully consider your needs and options. Here are some tips for deciding how to proceed:

- First, look at whether your problem could be solved by improving your cash flow—rather than getting a loan. For example, can you get more cash by improving the efficiency of your collections (in other words, how fast your customers pay you)? Or, could you switch to a just-in-time inventory system so that your money isn't tied up in inventory that's not needed now?

- Next, study your financial situation. In addition to reports that capture what happened in the past, you need to create reports that represent your best-guess of future results. One key example is a cash flow projection. If you approach a bank to borrow money, they will probably want to see your cash flow projection and your business plan.

- Next, consider the risks of taking on debt. Remember, the lender will probably ask you to sign a personal guarantee. If you are unable to repay the loan, there will be negative consequences for your business and for your own personal credit.

- Finally, consider what are likely to be the future ups and downs of your business and how these will impact your finances. Through proper planning, watching your expenses, and collecting the money that's owed you more quickly, you can shorten the periods of time that are financially challenging.

If you decide to apply for credit, the first meeting with your lender can have a significant influence on your chances of being approved. In advance of the meeting, work out your business cost structure and projected revenues. Be prepared to answer the key question: Are revenues greater than costs? Establish how much working capital is needed to sustain the business until it reaches profitability.

The lender will ask you to back up your estimates. For example, if you plan to buy an expensive piece of machinery, the lender will want evidence that the manufacturing company will sell you that machine at the given cost, and that you have any necessary permits.

You should ask questions, too: Ask the lender about the loan terms, such as interest rate, maturity (the length of the loan), collateral requirements, and the amount they are willing to lend. Also ask if the lender is familiar with your type of business.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [www.wellsfargo.com](http://www.wellsfargo.com) or any Wells Fargo store.
How the SBA Can Help You

- Starting a business
- Financing your business
- Managing your business
- Finding new business opportunities

The U.S. Small Business Administration (SBA) was established in 1953 as an independent agency of the Federal Government. Their purpose is to help people get in business, stay in business, and grow. The SBA offers a tremendous number of resources to help you start, finance and manage your business, and help you to find new business opportunities. They can help you get advice from other professionals, write a business plan, obtain start-up capital, purchase real estate, and much more.

You can learn more by visiting the SBA Web site at [www.sba.gov](http://www.sba.gov). The SBA has offices throughout the United States to assist you.

Here are a few examples of SBA services in key areas:

**Starting Your Business**
- Small Business Start-up Kit
- Training and counseling
- Business planning tutorial
- Special assistance programs for minorities, women, the disabled, veterans, and numerous other groups
- Workshops
- Shareware

**Financing Your Business**
A variety of small business loan programs, including those that focus on:
- Microloans for start-up, newly established, or growing small businesses
- Low and moderate income areas
- Working capital lines of credit
- Business district revitalization
- Export businesses
How the SBA Can Help You (continued)

Managing Your Business

• Online workshops, courses, and guides

New Business Opportunities

• Government contracting
• Business development
• Business MatchMaking events
• Export assistance
• Nonprofit grants
• Expanding Your Business workshops

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

- Lower your overhead
- Work with reliable vendors
- Lower prices on slow-moving inventory
- Improve your cash tracking
- Invoice and collect promptly

Your business needs a steady flow of cash in order to operate smoothly. Here are some tips for managing and maximizing your cash flow.

- **Look for ways to lower your overhead.** Shop for better pricing on what you buy. Cut back on non-essentials.
- **Work with reliable vendors** that deliver quality merchandise on time. If a shipment is late or of poor quality, you miss opportunities to sell your inventory and bring in cash.
- Make the hard decision, when necessary, to **lower prices** when items don’t sell. You’ll be able to recover your cash and put it into products that will sell more quickly.
- **Improve your cash tracking.** Create a monthly cash flow chart, showing when you expect cash to come in and go out. This will help you anticipate possible cash shortages. Streamline your bill collection process so that you get paid more quickly whenever possible. That way, you’ll have your own cash to work with, rather than paying interest on borrowed money. Double-check your bookkeeping to avoid fraud and overpayments.
- **Invoice and collect promptly** from your customers. Consider having a 14-day payment cycle rather than a 30-day payment cycle. Along with having a shorter payment cycle, be sure that your invoices permit you to charge interest for late payments. Be careful to track accounts for prompt payment. When you extend credit, you lose access to cash and the interest it may generate if invested. Follow past-due accounts closely. The more overdue an invoice is, the less likely you are to collect it.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [www.wellsfargo.com](http://www.wellsfargo.com) or any Wells Fargo store.
Manage Your Business Expenses

• Categorize expenses
• Create a review schedule
• Establish goals

The consequences of a smaller company spending too much are far greater than for larger companies. If you own a small business it’s especially important to control expenses. Here are some tips for taking an organized, logical approach to managing your expenses:

Categorize your expenses as short-term, long-term or fixed. What’s the difference between the three?

• **Short-term** items are things like wages for part-time and seasonal workers, because these may change within a six-month period.

• **Long-term** expenses are items such as leases and contracts with vendors, which may last up to a year.

• **Fixed** costs, such as mortgage payments, rarely change.

After categorizing your expenses, rank them in descending order of cost within each group. This process will help you see more clearly where your money is going.

Create a schedule to review the items in each expense category. Look at your short-term expenses more frequently than your long-term costs because you can make changes to these more easily. If you are successful cutting costs in one area, see if you can transfer your strategy to another area of your business.

Establish goals for reducing each expense category by a manageable percentage. If you have employees, assign someone to meet each cost-cutting goal, or consider rewarding employees for finding ways to cut costs.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [www.wellsfargo.com](http://www.wellsfargo.com) or any Wells Fargo store.
Growing a Small Business

**Topic Overview**
Successful businesses go through four stages, from start to transition. In this topic, participants will learn how to succeed at each stage by getting financing, maximizing cash flow, increasing sales, and positioning themselves for retirement.

This topic includes five lessons:
1. The successful business lifecycle
2. Financing your growth
3. Creating a marketing strategy
4. Getting good advice
5. Selling or transitioning
6. Recap

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

This instructor guide is based on and follows the structure of the online Hands on Banking® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants’ experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit [www.handsonbanking.org](http://www.handsonbanking.org) to access the program. Should you require a CD ROM to access the program you may request a free copy at [HOBCD@wellsfargo.com](mailto:HOBCD@wellsfargo.com).
### Topic 3 — Growing a Small Business

**Instructor’s Guide — Entrepreneurship**

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</table>
Glossary

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

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

**Capital**
The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.

**Collateral**
Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn't repay the loan as agreed.

**Corporation**
A type of business where prospective shareholders exchange money, property or both, for the corporation's capital stock.

**Incorporated**
When a company incorporates it means that the business is now legally a separate entity from its owners. This may limit potential personal liability.

**Maturity**
The length (time) of the loan terms.

**Personal guarantee/guaranty**
When a business owner gets a loan for his or her company, and makes a promise that legally requires him or her to repay the debt if the business fails to do so.

**Public relations**
This means a business’ efforts to maintain a positive public image. Often conducted through various media channels.

**Return on investment (ROI)**
The income that an investment produces for the investor.

**Succession planning**
Process of planning the transition of ownership and management of a company to new owners and/or family members.
Lesson 1: The Successful Business Lifecycle

In this lesson, participants will learn how to balance their finances and time as they move through the four typical stages of a successful small business.

Learning Objectives
After completing this lesson, participants will be able to:

• List and define the four stages of the business life cycle.
• Explain the typical challenges of balancing their personal and business finances over time.
• Relate this information to their own business growth.

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

• What different stages has your business gone through after it opened its doors?
• How do you handle your personal and business finances in a small business? Do you mix the two? Keep them separate? Why or why not?
• How much risk do you think you can handle during the early years of your small business? The middle years? The later years?

The Basics

• Every business typically goes through a four-stage life cycle. The four stages are: start up, growth, maturity and transition.
• Balancing your personal and business finances can be challenging.
The Four Stages (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Start a discussion by asking questions such as:
- “What are the four stages of the business lifecycle?”
- “What happens during each of these phases?”
- “What phase of the business lifecycle is your business in right now? What challenges are you facing?”

Then distribute the activity handout and continue the discussion using the diagram and key points listed below.

Most successful businesses go through four stages:
1. Start up
2. Growth
3. Maturity
4. Transition

**Successful business lifecycle**

During the start up and growth stages, the owner typically **contributes capital.**
During the maturity and transition stages, the owner usually **draws out capital.**

As a business grows, nearly every small business owner faces what might be called the “financial balancing act.”
The Four Stages

Most successful businesses go through four stages:

1. Start up
2. Growth
3. Maturity
4. Transition
Instructor note:
Photocopy the activity handout on the following page. Introduce the topic by mentioning the first three key points. For each of the three sections (Early years, later years and balance point), ask your participants to brainstorm and write examples of what can happen to their personal and business finances, as well as the risks involved for each time frame. For example, you may ask these types of questions to get the discussion started. “What is going on financially with your business during the early years? Are you taking a salary?

Then, ask participants to draw an arrow on each graph that represents business performance during the early years, later years and balance point.

Key Points
1. Balancing your business and personal finances is challenging.
2. Think about the things you want to accomplish and enjoy (besides your business!).
3. If you overstretch your personal finances to support your business, or mix your personal and business finances inappropriately, you may expose yourself to personal financial liability and loss.

<table>
<thead>
<tr>
<th>Early Years</th>
<th>Later Years</th>
<th>Balance Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>• You work hard to successfully establish your business</td>
<td>• Your business generates cash flow</td>
<td>• As your business matures, think about the time and effort you continue to invest</td>
</tr>
<tr>
<td>• Devoting time, effort, and financial resources</td>
<td>• You are profitable and the business can support you</td>
<td>• To what extent do you want to remain personally involved in your business over the long-run?</td>
</tr>
<tr>
<td>• May take a tiny salary</td>
<td>• Major risk: if you draw out too much, it can hamper your ability to grow, leaving reserves too low to handle challenges and downturns.</td>
<td>• Are you getting a good return on investment (ROI) of time and effort?</td>
</tr>
<tr>
<td>• Borrow against your personal credit</td>
<td>• Working long hours</td>
<td></td>
</tr>
<tr>
<td>• Working long hours</td>
<td>• Major risk is you can overextend yourself financially.</td>
<td></td>
</tr>
</tbody>
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There are no simple answers for achieving the right balance. In the early years, consider how much financial risk you can afford to take; in the later years, quantify the amount you want to draw out to meet your wealth building goals—without putting the future of the business at risk.
**The Financial Balancing Act Activity**

**Instructions:**
Fill what is going on with you and your personal and business finances during each of the three time periods below. For example, in the early years you may work long hours to try to break even. In addition, list the major risk for the early and later years. Finally, on the three graphs below, draw an arrow that represents business performance during each stage.

<table>
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Lesson Summary

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

Remember these key points from the Successful Business Lifecycle lesson:

- Every business typically goes through a four-stage life cycle. The four stages are: start up, growth, maturity and transition.
- Balancing your personal and business finances can be challenging.
Topic 3 — Growing a Small Business

Lesson 2: Financing Your Growth

In this lesson, participants will learn how to maximize their cash flow. They will also learn how what factors to consider before they borrow for their business. Finally, they will learn what kind of credit lenders offer and what these lenders will need to see.

Learning Objectives
After completing this lesson, participants will be able to:

- List tips to help them maximize cash flow.
- Lists their options and needs before borrowing money for the small business.
- Define the three types of business credit.
- Define the loans and lines of credit.
- Identify what items a lender will want to see when they apply for business credit.

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

- Define cash flow. Why is it so important to your small business?
- What options do you have before you have to borrow money for your business?
- What types of loans or lines of credit do you have in current business? What do you use them for?

The Basics

- The process of borrowing money for your business is similar to borrowing for yourself. However, the reasons can be different.
- Borrowing money for your business can help you expand or improve your business and its profitability.
- Having business credit can definitely be helpful, but remember: you’ll pay a price in interest.
- If your business has good cash flow, you may not need to borrow as much or as often.
- Lenders or investors will want to see a detailed business plan when you apply for a loan.
**The Money You Need Activity (Instructor Copy)**

**Instructor note:**
Photocopy the activity handout on the following page. Instruct participants to match the tips with the general description or situation listed in the right column.

Follow these tips to help maximize your cash flow.

**Instructions:**
Have your participants read each description in the right column and decide which tip matches with each description.

**Word Bank:**
- Improve your cash tracking
- Lower your overhead
- Invoice and collect promptly
- Work with reliable vendors
- Lower prices selectively

### Tips for maximizing cash flow

| **Lower your overhead.** | • Look for ways to lower your overhead.  
• Shop for better pricing on what you buy.  
• Cut back on non-essentials. |
|--------------------------|--------------------------------------------------------------------------------|
| **Work with reliable vendors.** | • Work with reliable vendors that deliver quality merchandise on time.  
• If a shipment is late or of poor quality, you miss opportunities to sell your inventory and bring in cash. |
| **Lower prices selectively.** | • When necessary, lower prices when items don’t sell.  
• You’ll be able to recover your cash and put it into products that will sell more quickly. |
| **Improve your cash tracking.** | • Create a monthly cash flow chart that shows when cash may come in or go out. This will help you anticipate possible cash shortages.  
• Streamline your bill collection process so that you get paid more quickly whenever possible. That way, you’ll have your own cash to work with, rather than paying interest on borrowed money.  
• Double-check your bookkeeping to avoid fraud and overpayments. |
| **Invoice and collect promptly.** | • Invoice and collect promptly from your customers. Consider having a 14-day payment cycle rather than a 30-day payment cycle.  
• Be sure that your invoices permit you to charge interest for late payments.  
• Be careful to track accounts for prompt payment.  
• When you extend credit, you lose access to cash and the interest it may generate if invested.  
• Follow past-due accounts closely. The more overdue an invoice is, the less likely you are to collect it. |
The Money You Need Activity

Follow these tips to help maximize your cash flow.

Instructions: Read each description in the right column. Decide which tip matches with each description.

Word Bank:
- Improve your cash tracking
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Tips for maximizing cash flow

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

Recommended Articles: Create a Business Budget and Maximize Cash Flow

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

**Instructor note:**
Photocopy the activity handout on the following page. Divide the class into small groups. Begin the discussion by reminding participants to consider their needs and options before borrowing any money. Then, ask them to write down a list of specific things they should consider before borrowing money. When they finish, have groups present their comments for discussion. Then hand out the activity handout and discuss these key points and compare to what the groups have presented.

If you’re thinking about borrowing money for your small business, consider your needs and options first.

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<th>Determine whether you can improve your cash flow instead of getting a loan.</th>
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<td>Can you get more cash by improving the efficiency of your collections (in other words, how fast your customers pay you)?</td>
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<td>Could you switch to a just-in-time inventory system so that your money isn’t tied up in inventory that’s not needed now</td>
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<th>Create a cash flow projection</th>
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<td>Create reports that represent your best-guess of future results (use past results as your guide).</td>
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<td>One key example is a cash flow projection. If you approach a bank to borrow money, they’ll probably want to see your cash flow projection and your business plan.</td>
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<td>This means that if your business is unable to repay the loan, you are legally responsible to do so. If you can’t, there will be negative consequences for both your business and your own personal credit.</td>
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<td>Before signing a loan agreement, make sure you understand the terms: interest rate, maturity (the length of the loan) collateral requirements, and the amount the bank is willing to lend.</td>
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Three Types of Small Business Credit Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Begin your discussion by asking participants to identify sources of credit for small business owners. Then distribute the activity handout to the participants and have them write a definition or example for each of the three types of small business credit.

**Instructions:**
For each type of small business credit, have participants list a definition and an example.

<table>
<thead>
<tr>
<th>Secured Credit</th>
<th>Unsecured Credit</th>
<th>SBA Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Secured” credit means that the lender knows you have the assets, or collateral, available to repay them.</td>
<td>A loan that is not backed by collateral (such as cash or property) of the borrower.</td>
<td>Loans or credit lines from the U.S. Small Business Administration (SBA).</td>
</tr>
<tr>
<td>For example, to qualify for $1,000 of secured credit, you would need to provide the bank with proof that you have $1,000, either in cash or another acceptable form, such as equipment or investments.</td>
<td></td>
<td>To qualify for most SBA credit, your business should have a good credit history and show the capacity to repay.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For most SBA loan programs, you apply to a financial institution, but the SBA helps you, the business owner, by guaranteeing to repay the lender a certain percentage of the loan amount if you were unable to.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Your business may be able to borrow a higher amount or receive a better interest rate than you would without an SBA guarantee.</td>
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**Tip!**
Lenders make an investment in you and your business. It can be helpful to work with a lender who is familiar with your type of business.
Three Types of Small Business Credit Activity

Instructions:
For each type of small business credit, write a definition and an example.

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Tip!
Lenders make an investment in you and your business. It can be helpful to work with a lender who is familiar with your type of business.
### Loans vs. Lines Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Instruct your participants to identify whether the characteristic listed in the left column describes a loan or a line of credit.

**Instructions:**
Have your participants read each characteristic and decide whether each characteristic is describing a loan or line of credit. Have them write in loan or line of credit in the right column.

<table>
<thead>
<tr>
<th>Characteristics</th>
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<td>Helpful for managing cash flow and is a flexible way to borrow money at any time.</td>
<td>Line of credit</td>
</tr>
<tr>
<td>Lender may ask you for documentation to confirm the cost of what you intend to buy.</td>
<td>Loan</td>
</tr>
<tr>
<td>You pay back at least a minimum amount every month.</td>
<td>Line of credit</td>
</tr>
<tr>
<td>The bank agrees to lend you up to a certain amount on an ongoing basis.</td>
<td>Line of credit</td>
</tr>
<tr>
<td>You borrow a certain amount of money from a lender and agree to repay it with interest over a certain period of time.</td>
<td>Loan</td>
</tr>
<tr>
<td>Typically used to make large, one-time purchases.</td>
<td>Loan</td>
</tr>
<tr>
<td>You can use as much as you need (up to your limit).</td>
<td>Line of credit</td>
</tr>
<tr>
<td>You pay interest only on the amount you borrow.</td>
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## Loans vs. Lines Activity

**Instructions:**
Read each characteristic. Decide whether each characteristic is describing a loan or line of credit. Write in **loan** or **line of credit** in the right column.

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What Lenders Want to See Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to match each phrase with its correct description.

Any lender or smart investor will likely want to see these things when you apply for a business loan.

Instructions:
Have your participants use the phrases from the Word Bank and match them with the correct description.

Word Bank:
A detailed business plan
A sound record-keeping system
A strong credit history
A team of advisors or unpaid Board of Directors
Other sources of repayment
Your own personal investment

<table>
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<th>What Lenders Want</th>
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<td>A detailed business plan.</td>
<td>• This shows the lender that you’ve carefully thought through all aspects of your venture.</td>
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<td></td>
<td>• Be prepared to show financial projections that show expected revenues vs. costs.</td>
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<td>Your own personal investment.</td>
<td>• A lender will have greater confidence in your commitment to succeed when they know you have your own money invested.</td>
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<td>• Many lenders often require this.</td>
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<td>Other sources of repayment.</td>
<td>• Lenders typically want borrowers to have assets that, in case of an emergency, they could sell in order to repay the loan.</td>
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<td>A strong credit history.</td>
<td>• Every time you borrow money and keep your promise to pay it back, you’re proving to lenders that you keep your promises.</td>
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<td>• By showing them that you’re trustworthy, you strengthen your ability to borrow again the next time.</td>
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<td></td>
<td>• Your credit history often holds the key that opens the door to capital funding.</td>
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<td>A sound record-keeping system.</td>
<td>• Lenders won’t lend money to a business that doesn’t’ keep comprehensive, up-to-date records.</td>
</tr>
<tr>
<td></td>
<td>• A business can’t manage what it doesn’t measure.</td>
</tr>
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<td></td>
<td>• Good recordkeeping is at the foundation for your company’s future success.</td>
</tr>
<tr>
<td>A team of advisors or unpaid Board of Directors.</td>
<td>• Businesses structured as corporations are legally required to have a Board of Directors.</td>
</tr>
<tr>
<td></td>
<td>• This is an excellent, no-cost way to gather a circle of expertise around you and your enterprise.</td>
</tr>
<tr>
<td></td>
<td>• There may be many individuals who would gladly volunteer occasional time to advise you.</td>
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Tip!
If you apply for a bank loan during your business start-up and growth phases, realize that you’re not simply asking for money—in reality, you’re asking the lender to invest in you and your business.
### What Lenders Want to See

Any lender or smart investor will likely want to see these things when you apply for a business loan.

**Instructions:**
Use the phrases from the Word Bank and match them with the correct description.

**Word Bank:**
- A detailed business plan
- A sound record-keeping system
- A strong credit history
- A team of advisors or unpaid Board of Directors
- Other sources of repayment
- Your own personal investment

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| • A lender will have greater confidence in your commitment to succeed when they know you have your own money invested.  
• Many lenders often require this. | |
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| • Every time you borrow money and keep your promise to pay it back, you’re proving to lenders that you keep your promises.  
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• Your credit history often holds the key that opens the door to capital funding. | |
| • Lenders won’t lend money to a business that doesn’t’ keep comprehensive, up-to-date records.  
• A business can’t manage what it doesn’t measure.  
• Good recordkeeping is at the foundation for your company’s future success. | |
| • Businesses structured as corporations are legally required to have a Board of Directors.  
• This is an excellent, no-cost way to gather a circle of expertise around you and your enterprise.  
• There may be many individuals who would gladly volunteer occasional time to advise you. | |

**Tip!**
If you apply for a bank loan during your business start-up and growth phases, realize that you’re not simply asking for money—in reality, you’re asking the lender to invest in you and your business.
Lesson Summary

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

Key points from the Financing Your Growth lesson:

- The process of borrowing money for your business is similar to borrowing for yourself. However, the reasons can be different.
- Borrowing money for your business can help you expand or improve your business and its profitability.
- Having business credit can definitely be helpful, but remember: you’ll pay a price in interest.
- If your business has good cash flow, you may not need to borrow as much or as often.
- Lenders or investors will want to see a detailed business plan when you apply for a loan.


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

**Recommended Article: Applying for Business Credit**

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit [www.handsonbanking.org](http://www.handsonbanking.org) to browse all the available articles.
Lesson 3: Creating a Marketing Strategy

In this lesson, participants will learn the valuable fundamentals of gaining and retaining customers; creating a customer database, and other marketing tips and techniques.

Learning Objectives
After completing this lesson, participants will be able to:

• Explain the valuable fundamentals of gaining and retaining customers.
• List the benefits of creating a customer database.
• Research their market.
• Use low cost tactics as a marketing strategy.
• Use public relations as a possible way to increase sales.

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

• What kinds of marketing do the small businesses in your community use?
• What kinds of marketing do you use? What tactics have been successful?
• Which marketing tactics do you think are the most successful?
• Can you name so marketing strategies that aren't “traditional” strategies? Why do you think these will work?
• What are the consequences of not having a marketing strategy?

The Basics

• Marketing is everything a business does to gain customers and to keep customers over time.
• Marketing is such a critical element of any small business—no customers, no business.
• Marketing tactics may include advertising, public relations, customer communications, special sale pricing, etc.
• Good marketing strategy always starts with understanding your customers and prospective customers—who they are and what they’re looking for.
• A customer database can be a fantastic tool to help you market your business successfully.
Create a Customer Database (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Start a discussion by asking questions, such as:

- “What is a customer database and how do you think it’s used?”
- “What are uses for a customer database other than keeping track of customer information?”
- “How can you use a customer database to grow your business?”

Then, distribute the activity handout and continue your discussion using the key points below.

Here are some tips for how to create a customer database that will help your business grow. A practical, simple, and flexible database comes from people who understand the importance of gathering information, who think ahead about how the data will be used, and who are dedicated to keeping the information up-to-date—not a computer.

| Consider all the uses | • Consider what each person in your company wants to do with the information. For example, will you need a phone list of your customers? A report of which customers bought which products?  
  • Based on how you will use the database, create and add fields to track information. |
|-----------------------|-------------------------------------------------------------------------------|
| Decide who’s in charge | • Everyone at your business should contribute information for the database.  
  • Consider assigning just one person the responsibility of inputting, changing, or deleting information to the database.  
  • This cuts down on duplicate records and information conflicts  
  • If more than one person is inputting information, you need to create a category that tracks who made each entry. |
| Provide universal access | • While one person may be in charge of the database, everyone on staff should have access to looking at and using the information. |
| Design it in-house | • Consider hiring an outside consultant to help you create your database.  
  • Have the person on your team who is going to be using it most participate in the design process.  
  • Select the simplest software package that’s flexible enough for your current and future needs. Be sure to get the software training you need. |
| Limit cross-referencing | • The more databases you create, the harder it is to cross-reference information. If a customer moves, you may have to change information on several separate databases. It’s just not time- or cost-effective.  
  • Set up just one database for tracking and marketing to your customers. Keep in mind that your accounting staff may need their own database for tracking vendors, bills, and payroll. |
Create a Customer Database (Instructor Copy) (continued)

<table>
<thead>
<tr>
<th>Include everyone</th>
<th>The goal is to have your database constantly grow. Anyone who voices an interest in your business—by calling, coming in, requesting information, etc.—should be added to the database.</th>
</tr>
</thead>
<tbody>
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<td>Keep adding new information and updates in a timely manner.</td>
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<td>Security</td>
<td>Consider security passwords for different levels of use (one for inputting information, one for designing screens, one for viewing confidential information, etc.).</td>
</tr>
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<td>This ensures confidentiality as needed, and prevents staff members who don’t know how to use the system from making unintentional, but costly, mistakes.</td>
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Research Your Market Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Start a discussion by asking questions, such as:

- “Has anyone ever conducted market research for your business?”
- “What results did you receive and were they helpful?”
- “What results surprised you the most and why?”

Then divide the class into groups, distribute the activity handout and instruct participants to complete the activity handout. When they’re finished, have each group discuss their answers while you reinforce the key points below.

It pays to understand the market your business would like to reach, and it doesn’t have to cost much.

**Instructions:**
Have your participants brainstorm answers to the questions listed below.

<table>
<thead>
<tr>
<th>When should a business conduct research?</th>
<th>Two excellent situations are when:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. You’re considering launching a new product or service.</td>
</tr>
<tr>
<td></td>
<td>2. You need to find new customers for an existing product or service.</td>
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</tbody>
</table>

<table>
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<th>When should a business conduct research?</th>
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<tr>
<td>• Ask at your local public library.</td>
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<tr>
<td>• Look on the Web.</td>
</tr>
<tr>
<td>• Visit Web sites for trade associations and government agencies related to your industry.</td>
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</tbody>
</table>

<table>
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<tr>
<th>How can you conduct research on your own?</th>
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</thead>
<tbody>
<tr>
<td>• Create a questionnaire for customers, prospects, vendors, and suppliers. Ask: do you like our product or service? What are we doing right? What can we do better?</td>
</tr>
<tr>
<td>• Go to industry meetings and trade shows. Ask questions.</td>
</tr>
<tr>
<td>• Listen. Find out what your competitors are doing. Get a sense of what’s happening in your industry, and what’s helping others to succeed.</td>
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</tbody>
</table>

<table>
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<th>How can you make hiring a market research firm more affordable?</th>
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</thead>
<tbody>
<tr>
<td>• Find non-competing businesses that are in a business related to yours and propose sharing the expense of a research study.</td>
</tr>
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</table>

Learn about your customers, competitors, and market by observing, listening, and asking questions. If you use an outside research firm, customers may be more willing to give honest feedback.
Research Your Market Activity

It pays to understand the market your business would like to reach, and it doesn’t have to cost much.

**Instructions:**  
Brainstorm answers to the questions listed below.

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Learn about your customers, competitors, and market by observing, listening, and asking questions. If you use an outside research firm, customers may be more willing to give honest feedback.
Use Low Cost Tactics Discussion

Instructor note:
Start a discussion by asking questions such as:

• “What are some examples of low-cost marketing tactics that companies use?”
• “What is the most effective low-cost marketing tactic that you have seen or used?”

Then, create a list of the tactics the group comes up with and discuss the key points below.

Effective marketing can be affordable. Here are examples of techniques used by a small retail store.

• Give away free samples of your products to customers who visit your store.
• Produce your own catalogs and other marketing materials. With today’s technology—personal computers, software, and color printers—you can produce small quantities of professional-looking materials less expensively than ever before. If graphic design and marketing are not your strengths, look for reasonably priced vendors to assist you.
• Use email promotions—but only for loyal customers who have given you their permission to contact them. The people who know and like your products already are far more likely to read your emails and respond to them positively.
• Mail thank-you cards to clients shortly after they’ve purchased from you. These cards need not be expensive, but a warm and friendly, hand-signed note will help build customer loyalty.

Tip!
There are many low-cost techniques for small businesses to increase customer interest. Check with your local business development center, the Web, and your local public library for ideas.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Conduct Low-Cost Marketing Research

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Increase Sales with P.R. Quiz (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Instruct participants to read each question and select the best answer. When they are finished, discuss each key point.

**Instructions:**
Have your participants read these questions about public relations and press releases and select the best answer for each.

1. A well-written press release will:
   a. Create a positive cash flow for your business
   b. **Attract positive attention for your small business**
   c. Guarantee you an article in the local business journal

2. Public Relations (P.R.) means
   a. **A business’ efforts to maintain a positive public image**
   b. How a gets articles written about it in magazines
   c. Is not the most important aspect in running a business

3. Public relations are often conducted:
   a. Through the yellow pages
   b. Through sales and promotions
   c. **Through the media**

4. Writing and distributing a press release—a thoughtfully prepared written statement—is the traditional way for businesses to communicate with the media.
   a. True
   b. False

5. Target appropriate media/reporters/editors and:
   a. Try to influence them with deals and freebies
   b. Create a list of “negative” people
   c. **Build positive relationships with them**
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Notes/Questions
Press Release (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Ask your participants some questions to start the discussion, such as:
• “Who has already written press releases for their business?”
• “Who helped you write the press release? Or did you do it yourself?”
• “What did you learn after writing your first press release?”
• “What are some elements of a well-written press release?”
• “In your opinion, what is the most important section of a press release?”

Then use the handout to explain the different elements of a press release.
Press Release

A well-written press release will attract positive attention for your small business.

NEWS RELEASE from XYZ Products, Inc.

Date: The date of your release and the phrase “For immediate release”

Contact Info: Your name, phone number, email address

Headline: The most important, attention-grabbing, newsworthy idea

ANYTOWN, USA -- April 28, 2009

First Paragraph: Essential info; who, what, when, where, why

Further Info/Quote: Background or supporting info; optional first-person statement from key person/expert

Final paragraph: Brief summary of your company: location, type of business, who you serve, year founded
Sample Press Release Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Reiterate the elements of the press release and then have participants create their own press release for their small business.

**Instructions:**
Have participants write their own press release.

Distribute your press release at least two weeks in advance of an event. When writing, be accurate; focus on facts; don’t exaggerate. Consider hiring someone to assist you with P.R. strategy and implementation.
Sample Press Release Activity

Instructions:
Use this sample to help you write a press release for your small business.

NEWS RELEASE from XYZ Products, Inc.
April 28, 2009 – For Immediate Release
Information: Jordan Reynolds, (999) 888-7777, Ext. 123,
jreynolds@xyzproducts.com

XYZ Products wins design award for glow-in-the-dark umbrella

ANYTOWN, USA – April 28, 2009
The glow-in-the-dark umbrella developed by XYZ Products received the 2009 “Safety with Style” award at the Travel Products Association’s annual meeting on April 27 in Anytown, USA.

According to the judges, XYZ’s umbrella was selected as the best among the hundreds of entries based on its combination of practicality, crowd-pleasing appearance, and safety features. “In rainy weather, it’s almost always dark outside. Our umbrella alerts drivers to pedestrians,” said XYZ CEO Jane Xyzcinski.

XYZ Products, Inc., headquartered in Anytown, USA, is a manufacturer and distributor of unique travel accessories. Founded in 2002, XYZ products are sold in specialty retail shops and on the Web at www.xyzproducts.com.

Tip!
Distribute your press release at least two weeks in advance of an event. When writing, be accurate; focus on facts; don’t exaggerate. Consider hiring someone to assist you with PR strategy and implementation.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Increase Sales with PR

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Creating a Marketing Strategy lesson:

- Marketing is everything a business does to gain customers and to keep customers over time.
- Marketing is such a critical element of any small business—no customers, no business.
- Marketing tactics may include advertising, public relations, customer communications, special sale pricing, etc.
- Good marketing strategy always starts with understanding your customers and prospective customers—who they are and what they’re looking for.
- A customer database can be a fantastic tool to help you market your business successfully.
Lesson 4: Getting Good Advice

In this lesson, participants will learn how other business owners, their banker and the SBA can help their small business.

**Learning Objectives**

After completing this lesson, participants will be able to:

- Use recommended resources for small business guidance.
- Explain how other business owners, your banker, and the SBA can help you.
- Use a list of resources to further their success.

**Start the Discussion**

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

- In what ways do you think a banker can help you as a business advisor?
- What people you know could help you grow your small business?
- Think of someone who you may not know personally who may be able to help you grow your small business.
- Have you connected with your local SBA for any assistance? If so, what type?

**The Basics**

- A banker can be a real asset to growing your small business.
- The SBA can help you start, manage and grow your small business.
- Other business owners are excellent resources, especially those in your community or your industry.
- Joining a local business group or trade association can offer you many benefits.
Instructor note:
Start a discussion with your participants by asking questions such as:

- “Do you currently have a business banker?”
- “What types of specialized services or programs do you think banks offer small business owners?”
- “In what ways have you taken advantage of business bankers?”

Then continue the discussion by focusing on the key points below. Also consider inviting a business banker to come and talk to the class. As a follow-up to this discussion you may also consider advising your participants to talk with a banker.

Most banks have employees who specialize in helping business customers.

- You can ask them about specific products and services.
- You can also talk to them about your business—what you’ve accomplished, and what you’re trying to achieve.

Your business banker can be a real asset.

- He or she could become a trusted advisor who can help you save time and money, take advantage of new opportunities, and reach your business goals.

Check with your bank to see what they offer.

- Some larger banks have special departments and services for groups of business owners: for example, women, Hispanics, Asians, and African-Americans.

Most business bankers have worked with dozens, if not hundreds, of small businesses similar to yours.

- Since you’re a customer of the bank, the bank wants you to succeed.
- The more they know about you and your business, the better they can advise and assist you.
How the SBA Can Help You (Instructor Copy)

Instructor note:
Start a discussion with your participants about the SBA by asking questions such as:

- “What does the SBA do?”
- “What types of SBA services have you taken advantage of?”
- “During what phase of the business lifecycle can the SBA help small business?”

Then, use the key points below to continue the discussion. Also consider inviting a local SBA representative to come and speak to the class. Encourage your participants to visit the SBA Web site at www.sba.gov. This is also an excellent resource for you in presenting this lesson.

The SBA:

- Is an independent agency of the federal government.
- Is dedicated to helping people get in business, stay in business, and make their businesses successful and growing.
- Offers all kinds of resources to help you start, finance and manage your business, and find new business opportunities.
- Can help you write a business plan, obtain start-up capital, purchase real estate, and much more.
- Has offices throughout the United States to assist you

Visit the SBA Web site at www.sba.gov.

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Small Business Resources (Instructor Copy)

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

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

<table>
<thead>
<tr>
<th>U.S. Department of Labor—Employment Standards Administration</th>
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<tbody>
<tr>
<td>Information about: employment law; workers’ rights</td>
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<td><a href="http://www.dol.gov/esa">www.dol.gov/esa</a></td>
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<th>Wells Fargo Tax Resource Center</th>
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**Small Business Resources**

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

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<thead>
<tr>
<th>U.S. Department of Labor—Employment Standards Administration</th>
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<tr>
<td>Information about: employment law; workers’ rights</td>
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<td><a href="http://www.dol.gov/esa">www.dol.gov/esa</a></td>
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<td>Information about: Patent and trademark laws and procedures</td>
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<td><a href="http://www.uspto.gov">www.uspto.gov</a></td>
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<th>U.S. Small Business Administration (SBA)</th>
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<td>Starting, financing, and managing a small business; Finding new business opportunities</td>
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<td><a href="http://www.sba.gov">www.sba.gov</a></td>
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Lesson Summary

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

Key points from the Getting Good Advice lesson:
- A banker can be a real asset to growing your small business.
- The SBA can help you start, manage and grow your small business.
- Other business owners are excellent resources, especially those in your community or your industry.
- Joining a local business group or trade association can offer you many benefits.
Lesson 5: Selling or Transitioning

In this lesson, participants will learn the essentials of creating a business succession plan that will maximize their return on investment.

Learning Objectives
After completing this lesson, participants will be able to:

- Recognize the essentials of creating a business succession plan that will maximize their return on investment
- Describe a process for determining how much a business is worth

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

- When might you consider selling your business or passing it down to someone in your family or close friend?
- How would you go about placing a value on a business?

The Basics

- Most successful businesses go through four stages: startup, growth, maturity, and transition.
- By taking time to determine your business's future plan, you can maximize your return on investment.
- The maturity stage of your business is an ideal time to start planning on what you'll do in the final transition stage.
- If you don't take the time, you're basically guaranteeing that someone else will make those decisions for you.
Maximize Your Return (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Then lead a discussion about maximizing returns. Remind your participants about the business lifecycle and its four stages—startup, growth, maturity and transition. Then discuss these key points about transitioning or selling a small business.

- The maturity stage of your business is an ideal time to start planning on what you’ll do in the final transition stage.
- Will you close the business? Sell it? Pass it along to your children? Whichever path you choose, it’s critical to start planning early.
- Succession planning takes time you may feel you can’t spare. But when you consider all of the time, effort, and dollars you’ve contributed over the years, your business may be your largest single asset.
- By taking time to determine your business’s future plan, you can maximize your return on investment.

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**Surveys** of financial planners, CPAs, and other business professionals have shown that it takes at least five years to create an effective business succession plan. Yet, only about 25% of all business owners do an adequate job.
Maximize Your Return

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Tip!

Surveys of financial planners, CPAs, and other business professionals have shown that it takes at least five years to create an effective business succession plan. Yet, only about 25% of all business owners do an adequate job.
Plan Your End Game Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page. Start a discussion by asking your participants some questions, such as:

- “What is a ‘succession plan’ and do you have one for your small business?”
- “What are the benefits to having a succession plan in place or in mind?”
- “If you are planning to sell or hand down your small business in the future, how long do you think the transition should last?”

Then, distribute the activity handout and instruct participants to answer the questions. Finally, lead a discussion based on participants’ answers and the key points below.

**Instructions:**
Have your participants fill in the two sections of the activity handout.

**What questions should you ask yourself as you think about your succession plan?**
- Example: Do you want a future role in the business?
- Who will take over your business some day?
- Members of your family; a partner or key manager; an outside entity?
- How do you want to transfer the business?
- As a gift to family members, sell it, or some other strategy?
- Do you want a future role in the business or any ongoing benefits?

**What should you consider as you think about the timing of your succession plan?**
- Example: Start grooming a successor well in advance.
- Allow five or more years
- Deal with family expectations
- Write a succession plan
  - Who will take over?
  - What is the method of transfer?
  - What is your future role?
- If you want a future role in your business, determine how you will ensure that your successors don't dismantle or disband the business after the deal is done.

**Tip!**
There are a variety of transition or exit strategies you might consider. As you compare them, it’s crucial to consult with your legal and tax advisors.
Plan Your End Game

Instructions:
Read these questions and answer in response to your current business.

What questions should you ask yourself as you think about your succession plan?
Example: Do you want a future role in the business?

What should you consider as you think about the timing of your succession plan?
Example: Start grooming a successor well in advance.

Tip!
There are a variety of transition or exit strategies you might consider. As you compare them, it’s crucial to consult with your legal and tax advisors.
Topic 3 — Growing a Small Business

Have a Professional Valuation (Instructor Copy)

_Instructor note:_
Photocopy the activity handout on the following page. Start a discussion by asking some questions, such as:

- “What things should be considered during the valuation process of a small business?”
- “Have you ever tried to place a monetary value on your small business?”

Then distribute the activity handout and continue the discussion using the key points and diagram below.

This is the fundamental question:

“How much is my business worth?”

- To answer accurately, you may need a professional valuation to get a documented statement of your company’s worth.
- Each business is different and every valuation is somewhat unique.
- A professional in business valuation will examine everything from your company’s management team and financial performance, to its competition and prospects.
- The report will explain the valuation technique used, any assumptions made, and how they reached their conclusions.
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Lesson Summary

_Instructor note:_
Summarize this lesson by reviewing these key points with your participants.

Key points from the Selling or Transitioning lesson:

- Most successful businesses go through four stages: startup, growth, maturity, and transition.
- By taking time to determine your business's future plan, you can maximize your return on investment.
- The maturity stage of your business is an ideal time to start planning on what you'll do in the final transition stage.
- If you don't take the time, you're basically guaranteeing that someone else will make those decisions for you.
Topic 3 — Growing a Small Business

Topic Summary

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

Key points from the Growing a Small Business Topic.

- Most successful businesses go through four stages—start up, growth, maturity and transition.
- It is challenging to balance the personal and business sides of your life as you pass through each stage of the business lifecycle.
- Reducing overhead and maximizing cash flow will help things run smoothly, no matter what business you’re in.
- If you borrow money, do so to increase your capacity or reduce your costs.
- Be prepared to show the lender why you and your business are a solid investment when you apply for credit.
- Marketing is the key to gaining and retaining customers. Focus on who they are and what they need to develop a strategy that’s effective and affordable.
- Advice and guidance is available to you from other business owners, trade associations, your banker, and the SBA.
- Succession planning takes time, but, it can make your business investment really pay off.
- Start succession planning early and be sure to seek both legal and tax advice.

Additional Activities

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

1. Prepare a list of your Board of Directors. Talk to each person on the list and discuss your business strategy. What are ways they can help you grow your business?
2. Go to different companies’ websites. Locate their “News” or “Press Release” section. Print out some press releases and compare and contrast their style, the information and other details. Use these to refine your company efforts.
3. Create your own press release about your company and services.
4. As a small business owner, consider evaluating your business and your marketing strategies to help define the value of your business and create a succession plan.
5. Set up an appointment with your banker or local SBA counselor to discuss your current business model and your options for growing.
Appendix

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

- Review your income and expenses
- Divide expenses into relevant categories
- Project amounts for each area
- Stick to your plan

Creating and following an annual budget will benefit your business. Take the time to study your financial picture and what you hope to accomplish in the year ahead. The budgeting process will help you be better informed when making business decisions and better prepared to reach your goals.

To develop a budget, you need to **review your income and expenses.** Look at past records, such as financial statements and tax returns. Or you might find a similar type of business and use its budget as a model for your own. From these sources, list all of your expected expenses for three to six months, or even the entire year if your business is seasonal.

**Divide your expenses into categories,** such as debt, employees, and overhead. Look for spending patterns in each category. Also, remember to save money for emergencies or economic downturns.

Then use the figures and spending trends to **project amounts for each area.** Include annual totals, adjusting them for changes that you foresee in your business or the economy. Depending on your business, you might want to create income and expense goals for shorter periods of time, such as one or two weeks. High-traffic businesses such as restaurants may even require daily goals. Review your numbers from time to time and adjust them if business conditions change.

**Sticking to your budget** takes discipline. Share your budget with advisors and your accountant or bookkeeper to get their support. Sharing your financial projections with employees can also be helpful, but be cautious about sharing numbers that may be sensitive, like sales and salaries. Once you publicize your plan, they’ll be watching for your follow-up actions.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [www.wellsfargo.com](http://www.wellsfargo.com) or any Wells Fargo store.
Maximize Cash Flow

- Lower your overhead
- Work with reliable vendors
- Lower prices on slow-moving inventory
- Improve your cash tracking
- Invoice and collect promptly

Your business needs a steady flow of cash in order to operate smoothly. Here are some tips for managing and maximizing your cash flow.

- **Look for ways to lower your overhead.** Shop for better pricing on what you buy. Cut back on non-essentials.
- **Work with reliable vendors** that deliver quality merchandise on time. If a shipment is late or of poor quality, you miss opportunities to sell your inventory and bring in cash.
- Make the hard decision, when necessary, to **lower prices** when items don’t sell. You’ll be able to recover your cash and put it into products that will sell more quickly.
- **Improve your cash tracking.** Create a monthly cash flow chart, showing when you expect cash to come in and go out. This will help you anticipate possible cash shortages. Streamline your bill collection process so that you get paid more quickly whenever possible. That way, you’ll have your own cash to work with, rather than paying interest on borrowed money. Double-check your bookkeeping to avoid fraud and overpayments.
- **Invoice and collect promptly** from your customers. Consider having a 14-day payment cycle rather than a 30-day payment cycle. Along with having a shorter payment cycle, be sure that your invoices permit you to charge interest for late payments. Be careful to track accounts for prompt payment. When you extend credit, you lose access to cash and the interest it may generate if invested. Follow past-due accounts closely. The more overdue an invoice is, the less likely you are to collect it.

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Applying for Business Credit

If you’re thinking about borrowing money for your small business, carefully consider your needs and options. Here are some tips for deciding how to proceed:

• First, look at whether your problem could be solved by improving your cash flow—rather than getting a loan. For example, can you get more cash by improving the efficiency of your collections (in other words, how fast your customers pay you)? Or, could you switch to a just-in-time inventory system so that your money isn’t tied up in inventory that’s not needed now?

• Next, study your financial situation. In addition to reports that capture what happened in the past, you need to create reports that represent your best-guess of future results. One key example is a cash flow projection. If you approach a bank to borrow money, they will probably want to see your cash flow projection and your business plan.

• Next, consider the risks of taking on debt. Remember, the lender will probably ask you to sign a personal guarantee. If you are unable to repay the loan, there will be negative consequences for your business and for your own personal credit.

• Finally, consider what are likely to be the future ups and downs of your business and how these will impact your finances. Through proper planning, watching your expenses, and collecting the money that’s owed you more quickly, you can shorten the periods of time that are financially challenging.

If you decide to apply for credit, the first meeting with your lender can have a significant influence on your chances of being approved. In advance of the meeting, work out your business cost structure and projected revenues. Be prepared to answer the key question: Are revenues greater than costs? Establish how much working capital is needed to sustain the business until it reaches profitability.

The lender will ask you to back up your estimates. For example, if you plan to buy an expensive piece of machinery, the lender will want evidence that the manufacturing company will sell you that machine at the given cost, and that you have any necessary permits.

You should ask questions, too: Ask the lender about the loan terms, such as interest rate, maturity (the length of the loan), collateral requirements, and the amount they are willing to lend. Also ask if the lender is familiar with your type of business.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at www.wellsfargo.com or any Wells Fargo store. Maximize Cash Flow
Conduct Low-Cost Market Research

- Identify when to conduct research
- Find existing information
- Gather information yourself
- Hire a research firm at a reduced cost

You can learn important information about your customers, competitors, and your market by observing, listening, and asking questions. Hiring an outside research firm can give you the benefit of their experience and expertise. Also, customers may be more willing to give honest feedback to an objective third-party.

Q: When should a business conduct research?
A: Two excellent situations to conduct research are when you're thinking about launching a new product or service, or need to find new customers for an existing product or service.

Q: Where do you find published research?
A: Ask at your local public library. Look on the Web. Go to association Web sites that are related to your industry. If your business sells to consumers, check related government agency Web sites.

Q: What are some research methods you can do yourself?
A: Put together a questionnaire. Have your employees ask questions of customers, prospects, vendors, and suppliers. Don't be afraid to ask, “Do you like our product or service?” or “What are we doing right?” or “What can we do better?” The same thing goes when you talk to vendors or suppliers.

Go to meetings and exhibitions where your industry gathers together. At trade shows, walk around the hall and listen to people's conversations. Ask questions. Find out what your competitors are doing. Get a sense of what's going on in your industry, and what's helping others to succeed.

Q: How can you hire a market research firm for less money?
A: Find other businesses that are in similar markets with you and propose sharing the expense of a research study. For example, if you have a product sold in the health and beauty aid section of a drugstore, walk down that aisle and find a company that serves the same market but is not in competition with you. If you sell shampoo, find a company that sells hand cream. Meet with the other manufacturer and decide what kind of information you both want. You can hire an agency to help you design and conduct the research—and split the costs.

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Increase Sales with P.R.

- Write effective press releases
- Consider hiring a P.R. professional
- Know your audience
- Plan ahead

The term Public Relations (P.R.) means the ongoing efforts of a business to maintain a positive public image. Often, public relations are conducted through the media, that is, newspapers, television, magazines, etc. Writing and distributing a “press release”—a thoughtfully prepared written statement—is the traditional way for businesses and organizations to communicate with the media. Here are some tips for writing a press release that will attract positive attention for your small business:

- **Put the most important information first.** The media will pay attention if you have a newsworthy story to tell. Just as in the newspaper, the headline should contain the most important, attention-grabbing information about the story. Put the who, what, when, where and why in the first paragraph. After that, you can add further information and perhaps a quote from a key person in your company, or an expert on the subject you’re presenting. Make sure your information is accurate and focus on the facts. Don’t exaggerate. In the final paragraph, provide a brief summary of your company: where it’s located, what your business does, the types of clients you serve, and the year you were founded.

- **Consider hiring someone** experienced to assist you if you need advice on P.R. strategy, or you don’t have the time or desire to write and manage your own press releases.

- **Include contact information,** such as your name, phone numbers, and email address. Also write the date and “For immediate release” at the top of the page.

- **Target your audience** by doing a little research. Find appropriate reporters or editors at local news outlets that cover your business. A donut shop should target a food critic, for example. But don’t try to pressure reporters to run your story. You always want to maintain positive relationships with the press.

- **Distribute your press release in advance**—at least two weeks before, if you’re announcing an event. Send the release via email, fax or mail, depending on the writer’s preferences. You can also mass distribute press releases by using a wire service, such as PR Newswire.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [www.wellsfargo.com](http://www.wellsfargo.com) or any Wells Fargo store.