FINANCING FOR THE SMALL BUSINESS

Financial Management Series

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WHY FINANCING IS IMPORTANT TO YOUR BUSINESS

Many people dream of starting and managing their own business. Some actually do start a business and achieve their dream; others keep on dreaming. Why is this so? What separates the successful entrepreneur from the unsuccessful?

In many cases, it seems to be whether the prospective business owner has access to sufficient funds to turn the dream into reality. You've probably heard stories about how many businesses fail each year. Sometimes their failure can be traced to a lack of financing. It is difficult to guess how many businesses never even start because of that same lack of funding.

Just learning where and how to get the funds to start or expand your business can be confusing, frustrating and time consuming. The amount of financing may be as little as $100 or more than $1 million, based on the type of business. Many different businesses can be started with a relatively small amount of money.

This guide will explain how, when and where to secure the capital your business needs to be a success and will give you step-by-step instructions on how to finance your business in the most profitable ways possible. Finding money may be difficult at times, but the economy depends heavily on small businesses like yours. It is possible to get the money that your business needs, and the first step to success is knowing how and where to look.

WHO CAN GET FINANCING TO START OR EXPAND A BUSINESS?

You can. Almost every valid business idea can be funded; it's a matter of knowing where to look. When a new business is a success, everyone involved wins too. You as the owner certainly benefit. So does the economy, since your business helps it to grow. A successful business also creates new jobs and adds an important product or service to the community. It is for all these reasons that organizations and individuals may be willing to invest in your business; as your business profits so do your investors.

HOW MUCH MONEY WILL YOU NEED?

Every business is different, but it is still possible to get a reasonable idea of how much cash your business is likely to need by considering a few key factors.

Does Your Business Produce a Product or Provide a Service?

Initially, a service business will require less cash because it will not have high material and equipment costs. If you intend to manufacture a product, you must consider the type and amount of direct materials and equipment needed and expenses incurred.

Who Will Provide Labor?

Do you intend to do most of the work yourself or will you hire employees to assist you? Contributing your own time to the business is one way to keep costs down. Later, when your business is firmly established, you may wish to hire employees to take over many of the day-to-day operations.

Do You Have Personal Funds to Invest in Your Business?

Almost all investors prefer or require that you contribute some of your money to the business. This contribution of unborrowed funds is called equity. There is no fixed percentage for this equity contribution, but most lenders require at least 25 percent of the total amount needed to establish the business. The amount of equity required is also influenced by other credit factors, such as management experience and adequacy of collateral.

Can You Provide for Your Personal Expenses While the Business Is Getting Started?

It is unusual for a beginning business to show a profit in the first few years. It's good strategy to plan to cover your personal living expenses for at least six months while your business is getting started. If your business is already operating, it may be necessary to reduce your salary while you try to expand. If you have your own funds set aside for your personal expenses during these periods, you will have one less expense for which you will need borrowed funds.

Estimating Your Expenses

There are certain expenses that virtually all businesses must incur. The following chart will help you estimate your typical expenses. (This is not an all inclusive list. It provides some of the more typical expenses.)

Office space rental	$______________
Office equipment	$______________
Office supplies	$______________
Insurance	$______________
Utilities (phone, electricity, heat, water)	$______________

Maintenance	$______________
Advertising	$______________
Labor	$______________
Business licenses	$______________

A manufacturing business will also have specific expenses related to production. Therefore, the following expenses should also be considered:

Raw materials	$______________
Machinery and equipment rental	$______________
Warehouse or factory space rental	$______________
Total estimated costs	$______________

Assessing Your Financial Needs

Once you have determined your expenses, you will need to estimate what percentage of the funds you can supply yourself and what percentage you must find elsewhere. At this point, the figure may seem overwhelming. Don't be discouraged. It's far better to have realistically assessed your situation early than to rush into a new venture before you've planned adequately. Almost all businesses need outside funds and yours probably will not be an exception to the rule. You should prepare a month-by-month cash flow projection for the entire first year, perhaps with the help of your accountant or banker. If the projection is realistic, it will clearly show how much financing you need. Local SBA offices have cash flow projection forms; ask for Form 1100.

Yes, starting a new business can be risky, but it can also pay big rewards both in personal satisfaction and in economic return.

TYPES OF FUNDING

Debt or Equity?

In deciding how to finance your business, you need to consider certain questions:

- How much control of your new business can you comfortably give up?

- Which facts will debt and equity financiers be interested in? How do debt and equity requirements differ?

- How highly leveraged do you want your company to be? (The higher the amount borrowed compared to the amount of equity, the higher the leverage.)

In order to answer these questions, it is important that you clearly understand how debt financing and equity financing work and that you be aware of the advantages and disadvantages of each.

Debt Financing

Debt is a direct obligation to pay something (cash) to someone (an investor or lender). In exchange for having lent you the money, an investor will expect to be paid interest. Obviously, this means that you will repay more money than you have borrowed. Therefore, an important feature of debt financing is the interest rate you will be charged.

Interest Rate and Risk

The interest rate usually reflects the level of risk the investor is undertaking by lending you money. Investors will charge you lower interest rates if they feel there is a low risk of the debt's not being repaid. Investors will raise interest rates if they are concerned about your ability to repay the debt or if you have a history of slow payments to lenders as shown on your personal or business credit reports.

It is important to realize a new business is likely to be charged a higher interest rate than a well-established business because the lender will feel a new business represents a greater risk. Here's an example of how interest rates can affect your loan repayment amount:

Example 1: A ten-year loan for $50,000 at 12 percent interest requires monthly payments of $717.

Example 2: A ten-year loan for $50,000 at 15 percent interest requires monthly payments of $807.

A payment difference of $90 each month, over 120 months, makes the loan in Example 2 almost $11,000 more expensive over the life of the loan.

What Do Debt Lenders Look For?

A debt lender will evaluate your loan request by considering answers to several key questions:

- Can you offer reasonable evidence of repayment ability either established earnings (for an existing business) or income (profit and loss) projections (for a new business)?

- Do you have sufficient management experience to operate the business?

- Do you have enough equity in the business? Equity provides what lenders call a cushion for creditors.

- Do you have a reasonable amount of collateral (assets to be acquired, residential property equity, etc.)?

Advantages of Debt Financing

The biggest advantage of debt financing is that it allows you, the business owner, to retain control of your company. You are therefore entitled to all company profits and have ultimate decision-making authority. Since many entrepreneurs start a business for exactly these reasons, a critical advantage of debt financing is that it provides you with some financial freedom; your debt is limited to the loan repayment period. After you have repaid the borrowed money, the lender has no further claim on your business.

Disadvantages of Debt Financing

The biggest disadvantage of debt financing is having to make monthly payments on a loan. Cash may be scarce and expenses may be higher than estimated during the early years of a new business. Even so, the lender must be paid on time and there are severe penalties for late or missed payments, such as additional fees, a poor credit rating and the possibility that the lender may call the loan due.

Another disadvantage of borrowing funds is the difficulty in obtaining them. In general, lenders prefer to invest in proven businesses. If your business is new, a lender may charge you a high interest rate or may refuse to make the loan entirely. In contrast, if you have been in business for a significant period of time, you may find debt lenders very happy to extend loans.

Equity Financing

Equity financing involves no direct obligation to repay any funds. It does, however, involve selling a partial interest in your company. In effect, an equity investor becomes your business partner and will have a degree of control over how your business is run. For example, the sale of stock, one type of equity financing arrangement, typically works as follows:

Step 1 -- You determine from your analysis that your business will need more funds than you can provide.

Step 2 -- You consider financing options and decide that you prefer to sell an interest in your company rather than borrow money.

Step 3 -- You arrange to offer a sale of stock. This can be much more complicated than it sounds because you must comply with an array of legal and reporting requirements for the life of your business. After shares of your stock are purchased, investors own a portion of your company, which they can keep or sell to others.

What Do Equity Investors Look For?

Equity investors buy part of your company by supplying some of the capital your business requires. Because they will own a share of your business, equity investors are interested in the business's long-term success and future profitability.

Equity investors can resell their interest in your company to other investors. If your business is doing well, they will be able to sell their stake at a higher price than they paid and make a profit. Legally, equity investors are more exposed to risk than are debt investors. If your business fails, equity investors stand to lose more money than debt investors, since creditors are typically paid before owners in the event of business failure. Since equity investors are taking the greater risk, they expect to earn more on their investment than do debt investors.

Advantages of Equity Financing

With equity financing, you do not repay the money invested by others (unless a payoff agreement is made at the time of investment). This can be important when cash is at a premium. Also, your ideas for making your business successful may carry more weight with a potential equity investor than with a debt investor. Since it is in an equity investor's best interest for your business to grow and expand, he or she will be more likely to consider sound business ideas than will a debt investor, who is more concerned with the security of the deal proposed.

Many people who are interested in starting or expanding a business have more ideas than money; this can be an important factor in favor of equity financing. In addition, equity investors, with their genuine interest in your success, can be a good source of advice and contacts for your business.

Disadvantages of Equity Financing

The biggest drawback of equity financing is that you give up some control over your business. You may or may not find this acceptable. Remember, when you accept equity partners, you are selling part of your business. It may be very difficult to retain control in the future.

Also, you may find your equity investors do not always agree with your plans for the business. However, since they own part of your business, you will have to consider their point of view, even if you do not agree with their choices.

Finally, equity financing tends to be very complicated and invariably will require the advice of attorneys and accountants. A great deal of paperwork must be prepared and filed. For example, public companies must comply with specific legal regulations that govern their ways of doing business.

POSSIBLE SOURCES OF FINANCING

Most new small businesses start out by borrowing money rather than by selling stock. If your business does well, you may at some point combine both types of financing as your needs change. Because knowing how, when and where to borrow is so important to the success of your business, you should be aware of the variety of possible funding sources. These fall into two basic categories: private sources, such as your local bank, and public sources, such as the federal government.

Private Sources

Private sources of financing are either personal sources (savings or loans from friends and relatives) or external sources (debt lenders, equity lenders and arrangements that combine debt and equity).

Savings

Personal funds are the most likely, and the most typically used, source of funds for a new business. Most lenders require that a reasonable percentage of your own funds be invested in your business, as an indication that you will work hard to make the business a success. You will find most investors unwilling to consider your request for funding if you have not contributed cash. This can present a problem, though. Most entrepreneurs do not have the personal resources to provide all of their initial financing. They are not alone. Almost all business owners must borrow money from outside sources.

It is helpful if you, as an owner, provide some of the funds from your own savings. You may also want to consider such personal sources as the cash value of a life insurance policy, a home equity loan or even a credit card. Combining personal savings with external sources of debt and equity will permit you to benefit from the effects of leverage, i.e., using other people's money to earn a profit for yourself.

One of the biggest advantages of using personal savings to fund your business is your easy access to those funds. There are no loan applications to complete, no lenders to visit, no paperwork to prepare and no interest payments to make. If available, personal savings are a valuable source of capital for your business.

Finally, a big advantage of having your own start-up capital is that it ensures that you retain ultimate control of and responsibility for your business.

Friends and Relatives

Friends and relatives are often an important source of capital for your business. Since they know you well, the terms of repayment are likely to be more flexible than those of strangers.

Keep it formal. It's a good idea to prepare a formal agreement when a friend or relative is willing to invest money in your business. This will make the relationship professional and will help to avoid future misunderstandings about how much was borrowed or when it should be repaid.

The investment can take the form of a direct loan or an equity investment. Review the previous section on debt versus equity financing to determine which arrangement will be best in your particular circumstances.

Based on their personal relationship and their impression of your business judgment, friends and relatives may be willing to invest in your business even when others may not. Beware, however. Because they know you well, they may wish to be more involved in the day-to-day operations of the business than you would like. Friends or relatives may feel their investment entitles them to a routine say in how the business is run, even though you intend to repay the loan.

Debt Financing

When it is necessary to look to someone other than yourself or a close friend or relative for business funds, it helps to be aware of other sources.

Banks

Banks are financial institutions that accept deposits and make loans. They fall into several categories, such as savings and loans, thrift institutions and commercial banks. Knowing the category in which they include themselves can tell you a lot about the kinds of loans these banks are interested in making. Savings banks are more experienced in dealing with consumer loans, such as home mortgages and automobile loans. Commercial banks have more experience and interest in business loans. This doesn't mean that you can't go to a savings bank for a business loan. It may be a good choice. Just be sure to consider that bank's primary focus and level of experience with your type of request. Probably the most important point to keep in mind when dealing with a bank is that bankers don't like risk. Their primary concern is always the safety of their funds.

How do they operate? Banks may be one of the first sources that come to mind when you begin searching for additional business capital. Certainly, they will meet your most basic condition: they have money available to lend. However, it may be difficult for a new business to borrow from a bank since lenders usually prefer to lend to established businesses. Keep in mind, the first responsibility of a bank is to protect its depositors. As a result, bankers tend to be very cautious about lending money.

Banks come in all shapes and sizes and there are some real differences among them. Small community banks with two or three branches may operate quite differently from large commercial banks with hundreds of loan offices. You will want to carefully review the differences among banks before you select a particular one. Each type offers certain advantages. A commercial bank may be more experienced and familiar with a business loan request, but a community bank may know you personally and have more confidence in your ability to repay your debt.

Where can you get more information? Chances are you're already familiar with several banks in your area. It's extremely helpful to approach a bank with which you already have a savings or checking account or a personal loan. For banks outside your area, you may want to consult a banking directory, such as Rand McNally's Bankers Directory or Polk's World Bank Directory. Most libraries have copies. Directories list the name, location, assets, liabilities and officers of banks.

Credit Unions

Credit unions are financial institutions developed by the members or employees of a company, labor union or other group. Their overall goal is service to their members, as opposed to profit making. As a result, their interest rates and other terms may be more favorable than those offered by a bank. Credit unions are regulated by the National Credit Union Administration.

What are the advantages of a credit union? The company for which you or another family member works may have a credit union. If you decide to start your business while you are still working for a large company, you may be able to borrow some of the capital you will need from the credit union. As your business becomes more profitable and better able to support you financially, you may decide to concentrate all your energies and time on your business.

Credit union interest rates are often lower than the rates charged by other lenders. The amount you will be able to borrow from a credit union may not be large, but this source of funds may be helpful in making initial purchases for your business. Also, a loan application through a credit union may be more likely to be approved as you may be known to the individual evaluating your loan request.

Where can you get more information? If you're employed, ask the human resources department of the company where you work about your eligibility to join a credit union. There are directories available at your local library listing all of the credit unions in the United States.

Consumer Finance Companies

Consumer finance companies make small personal loans secured by collateral. Unlike banks, they do not accept deposits and they lend under the jurisdiction of each state's small loan regulations. Consumer finance companies will often consider loans with 100 percent financing because the loans are secured by an asset.

How do they operate? Consumer finance companies charge higher interest rates and processing fees than banks and credit unions but can be more flexible about approving requests. Loans from this source are more expensive because they are considered to be more risky. In some cases, the interest rate you will be charged will be the highest allowed by law for your state.

Consumer finance companies are often approached by people who have poor credit ratings. Certainly, if you want to start a business and your credit rating is questionable, you will find consumer finance companies a more likely source of funds. However, this does not mean that you should only borrow from a consumer finance company if you have credit problems.

You should be aware that loans from this source will usually not exceed several thousand dollars. Also, keep in mind that if you can't repay your debt, the item that you purchased with the funds will be seized.

Where can you get more information? The classified advertising section of your telephone directory lists consumer finance companies under the heading of Loans. Call and request a meeting, or ask them to send you written information.

Commercial Finance Companies

The primary purpose of a commercial finance company is to provide loans to purchase inventory and equipment. This can be a useful resource, particularly if your business will manufacture a product or act as a wholesaler. Commercial finance companies are similar to consumer finance companies but concentrate on business loans rather than consumer purchases.

How do they operate? Like consumer finance companies, commercial finance companies charge higher rates of interest than banks. They also may be more willing than banks to approve your loan request. Commercial finance companies will require your debt be collateralized. This means if you purchase a computer with the funds you have borrowed, they will have a direct claim on your computer. If you can't make your monthly payments, the commercial finance company will be entitled to take your computer and sell it to recover its investment.

Where can you get more information? Check the telephone directory for a list of commercial finance companies in your area. You should research your rights when borrowing from a loan company by reading your state's laws concerning debt repayment.

Trade Credit

When a vendor allows you to buy a product and to delay paying for it, this is known as trade or vendor credit. Vendors offer this service to help make their products more attractive and to induce you to buy from them rather than elsewhere. Offering easy credit terms encourages sales. Keep in mind that the vendor is in business to make money. There may be a hidden cost for flexible credit terms in the form of slightly higher prices.

How does it work? Trade credit is one of the most readily available sources of financing for your business. In many situations, you will be able to purchase supplies and equipment directly from a vendor and spread your payments over several months or years. Often it is possible to make no or a minimal down payment and to avoid interest charges as well. Even suppliers who will not extend credit in the beginning of your relationship may be very willing to do so after you have placed several orders.

When you are trying to pay for equipment and/or supplies that your business needs, trade credit can be invaluable. Office furniture, computers, certain raw materials and manufacturing equipment are examples of products that can be purchased with trade credit.

Where can you get more information? Discuss payment terms with vendors with whom you deal or plan to deal. There may be dramatic differences in terms among different suppliers. Talk to several suppliers before making a decision. Remember to ask what types of credit they offer and if they grant a discount for prompt payment. Also, be sure to compare prices. Vendor financing is not desirable if you are being charged substantially more for the same product you can purchase elsewhere more cheaply with cash.

Insurance Companies

Insurance companies are a possible source of financing for your business because they make commercial loans as a means of investing unused portions of their income. Generally, insurance companies make term loans and mortgage loans.

How do they operate? If you borrow from an insurance company, you can expect terms and interest rates similar to those available from a commercial bank. Insurance companies can provide your business with a large amount of capital at market interest rates, but you must have assets sufficient to cover the debt, plus 20-30 percent extra. In effect, you mortgage your property to free cash for your business. This allows you to retain title to the property while freeing cash invested in it. Insurance companies usually have high loan limits; this makes them a good source of funds if you need a large supply of capital.

Where can you get more information? Speak with your insurance agent or ask friends to make recommendations. You may also wish to request information packets from insurance companies' loan offices.

Factor Companies

A factor company can be a useful source of funds if you are already in business and have made sales to customers. Factor companies purchase your accounts receivable at a discount, thereby freeing cash for you sooner than if you had to collect the money yourself. You transfer title of your accounts receivable to the factor company in exchange for a cash payment.

How do they operate? Factor companies provide two types of financing alternatives: recourse factoring and nonrecourse factoring.

In recourse factoring, you retain part of the risk for ultimately collecting the debts owed to you. The factor company assists you by speeding up the process. For example, the factor company purchases your receivables and advances you cash while the accounts are being collected. However, if your customers do not pay, you will be held responsible for repayment to the factor company.

In nonrecourse factoring, you sell all rights and obligations concerning your accounts receivable. The factor company purchases your receivables and collects the debts owed. If a customer does not pay, you will be under no obligation to the factor company. Factor companies can be a useful source of funds for a new or existing business. They are not appropriate as a means of seed capital to start a business because they require that you have accounts receivable to sell.

Where can you get more information? Factor companies often advertise in the business sections of newspapers. Usually the advertisement will say We buy accounts receivable or something similar. Make sure you work with a reputable company that will not alienate your customers by harassing them for payment.

Leasing Companies

A leasing company is a business that rents various types of equipment to businesses and individuals. By renting rather than buying the equipment your business will need, you will be able to avoid many capital expenditures associated with the purchase of equipment.

How do they operate? Many leasing companies require a down payment or several months' prepaid rent. Some, however, may allow you to lease equipment without requiring any prepayment. This depends upon the relative size or worth of the asset leased. The small amount of cash needed to secure the use of equipment for your business makes leasing very attractive to many business owners. However, since you do not actually own the equipment, the leasing company may repossess it if you miss a payment.

An advantage provided by leasing is that you will need little or no cash to secure equipment and you will be able to upgrade your equipment more easily than if you purchased it. If your industry experiences rapid changes in technology, leasing may help you to avoid the expense of purchasing quickly outdated equipment.

Obviously, you will not be able to meet all of the financing needs of your business by leasing. You will still need additional funds for ongoing expenses, such as employee salaries. Leasing, however, can allow you to hold on to the cash you may otherwise have spent on equipment, and this cash savings can be used in other, less easily financed, areas.

Where can you get more information? Many equipment suppliers offer leasing arrangements in addition to actual sales. Discuss with suppliers and vendors what types of items they lease and what terms they offer. A service contract can usually be purchased for an additional charge.

Equity Financing

Venture Capital Firms

Basically, venture capital is an investment in an unproven business. Venture capital firms provide equity funds to new and young companies. This immediately separates venture capital firms from investment firms, which prefer to invest in existing, financially secure businesses. Venture capital firms do not make outright loans. Instead, they buy an equity interest in the business that gives them the same advantages and disadvantages associated with equity arrangements.

How do they operate? Venture capitalists are looking for two basic things when considering whether to invest in your business:

- *High return* -- Because venture capitalists are willing to take unusual risks by investing in a new business, they require unusual returns as well, perhaps seven to ten times their original investment within five to seven years.

- *Easy exit* -- Venture capital firms will realize a profit by selling their interest in your business at some future point.

In general, venture capital firms are most interested in investing in new technology and can typically supply large sums of money. Venture capitalists are not passive investors. They play an active role in the strategic planning phase of your business and seek continuing involvement.

They will also expect to be fully informed about operations, problems and whether your joint goals are being met.

Where can you get more information? Keep in mind that venture capitalists have extremely rigid investment standards and relatively few businesses qualify. Still, this capital source is worth pursuing because venture capitalists specialize in start-up financing and have access to large sums of money. There are many books on venture capital in your local library.

Closed-end Investment Companies

A closed-end investment company is similar to a venture capital firm but has smaller sums of money available to invest. Closed-end investment companies are most likely to invest in a proven business, but some specialize in new businesses.

How do they operate? Like venture capital firms, closed-end investment companies are interested in purchasing the stock of your business. Keep in mind what this means: you will be selling a portion of your business and giving up some control as well. Closed-end investment companies are called closed because they have a fixed amount of money available to invest. The investment company has sold shares of stock to private investors, and these funds are available to invest in your business. As with other types of stock purchases, if you make a profit, the stockholders make money on their investment.

Because closed-end investment companies have limited amounts of funds available to lend, they may or may not be looking for new investments. It depends upon whether they have cash available at a particular time.

Where can you get more information? Legitimate closed-end investment companies are registered with the federal government. Your banker, accountant or attorney may be able to recommend reputable companies.

Corporate Capital Sources

In order to generate additional profits, corporations sometimes establish corporate venture capital firms, which operate within the overall corporation. These firms differ substantially from traditional venture capital firms. One of the biggest differences is that they are not motivated purely by profit, at least not in the immediate sense. A corporate capitalist firm typically seeks access to new markets in addition to realizing a financial gain.

How do they operate? Corporate capital firms operate in much the same way as traditional venture capital firms. The corporation makes an investment in your business in exchange for an ownership interest. In this way, the needs of both the corporate investor and the entrepreneur are met. The corporation benefits by accessing new markets; the business owner benefits by receiving additional capital.

In addition, associating your business with a corporate capital source can add credibility when you seek funds elsewhere. The expertise of the corporation can also be useful in marketing, manufacturing, product development, etc. Its experience represents a valuable asset for your business. Corporate investment in your business will probably take one of several forms:

- *Complete purchase* -- An outside corporation buys your business in its entirety, and you forfeit all rights and control.

- *Partial purchase* -- An outside corporation purchases part of your business's stock.

- *Joint venture* -- You and an outside corporation create a partnership, typically one in which you run the business and the corporation provides capital and business advice.

- *Licensing agreement* -- As the business owner you retain control of your business but receive cash for work performed on contract. Sometimes entering into a licensing agreement means giving up the rights to products developed under this agreement.

Where can you get more information? A useful source of further information on corporate capital suppliers is Corporate Venturing News, published by Venture Economics, Inc., 16 Laurel Avenue, Wellesley Hills, MA 02181. You can also contact large corporations in your area to inquire if they invest in new businesses.

Investment Clubs

In many communities, groups of business people form organizations to invest in new and existing businesses, usually on the local level. These clubs are typically less formal than a professional organization might be.

How do they operate? Private investors pool resources to make a business investment. Because the group invests together, small investors are able to make funds available to your business on a scale that would be difficult or impossible if they were operating independently.

Investment conditions and standards vary from club to club. As with other equity arrangements, you will give up a percentage of your business in exchange for funds received from the investment club.

Where can you get more information? For additional information contact the National Association of Investors Corporation, 1515 East 11 Mile Road, Royal Oak, MI 48067, (313) 543-0612. Investment clubs are often informally structured; contact a local attorney or broker to find a club in your area.

Employee Stock Ownership Plans (ESOPs)

If your business has employees, it may be possible for you to sell stock in your business directly to them. Like other equity arrangements, you will give up a degree of control. But with an ESOP, you will share control with your employees rather than with outside investors. This can be beneficial because your employees will have a vested interest in making your business successful and employees can have a large impact on operations.

How do they operate? An ESOP operates in a similar fashion to other equity sales. Employees purchase shares of stock and thereby gain an ownership interest in your business. You gain capital to be used for expansion. Employees may also offer to take a reduction in salary or benefits in exchange for partial ownership in the company. This is a good point to consider if you anticipate problems in meeting a payroll but cannot reduce staff.

One obvious drawback to an ESOP is that a plan of this type is workable only after you have hired employees. It is not an option when your business is in the very early stages.

Where can you get more information? Both your attorney and accountant can provide information on how to structure an ESOP. They will be very useful in helping you consider all relevant aspects and potential advantages and disadvantages of the decision. More information is available from the ESOP Association, 1100 17th Street, NW, Suite 1207, Washington, DC 20036.

Private Investment Partnerships

A private investment partnership is an arrangement in which one or more individuals agree to provide funding for another individual's business. The role of the partner(s) providing the funding is limited to supplying capital. Partners are not responsible for any debts your business incurs and will typically not play a role in managing the day-to-day operations of your business.

How do they operate? Private limited partnerships with 35 or fewer members are not required to register with the Securities and Exchange Commission. The typical investment is $20,000 or more per partner. The general partner (you) is responsible for overseeing operations and for making decisions that will have an impact on the business and its performance. The limited or passive partners provide you with funds and expect a substantial return on the investment. However, the return they will require may be less than that required by a venture capital firm.

Where can you get more information? Several computer data bases exist to match entrepreneurs with investors. In this case, your banker, attorney and accountant may be useful sources of referrals.

It is also possible to find investors by joining local business organizations and clubs, where you may meet individuals with money available to invest.

Combining Debt and Equity Financing

Customers as a Source of Funds

In some industries, potential purchasers of your service may be interested in offering financial help as you start or expand your business. They are interested because an additional supplier (you) provides them with another source for a product or service they need. The addition of your business to the market may also increase price competition, resulting in lower prices for the customer. Each of these aspects translates into important benefits for the customer, just as the customer's funds translate into important benefits for you.

How does it work? Both direct loans and equity interests are possible. Again, a direct loan must be repaid, while an equity sale diminishes your control. It is a good idea to consider the advantages and disadvantages of each and prepare a tentative proposal.

You may need to approach potential customers yourself, or the customer may come directly to you with an offer. Be wary if the customer proposes that you sell your product or service exclusively to him or her in exchange for financial help. Securing exclusive rights to your products will give the customer more control over your business operations and pricing than you may wish. This type of arrangement will shrink your potential market tremendously. If the customer stops buying from you for any reason, your business may be in serious jeopardy because you have not cultivated other customer relationships.

Where can you get more information? Ask the customer directly. You may find a customer more willing to supply you with financing than you would expect. The customer receives a return on his or her investment and gains a supplier. These are very strong incentives for most business people.

Government Sources

In addition to the private sources we've discussed, there are a number of government financing sources that may be available to you and your business. A government agency may be interested in financing new businesses that will have a direct impact on the agency or the client population it serves.

If your business produces a product or service you feel would be of interest to a government agency, contact the agency directly and request information and applications for grants and other possible business development resources the agency may control. It may be helpful to investigate some or all of the following general sources of assistance available through the government.

U.S. Small Business Administration (SBA)

The SBA's basic loan guarantee program is generally used to fund the varied long-term needs of small businesses. The program is designed to promote small business formation and growth by guaranteeing long-term loans to qualified firms that cannot obtain financing on reasonable terms through normal lending channels.

Loans are available for many business purposes, such as real estate, expansion, working capital or inventory. Generally, SBA can guarantee up to $750,000 -- usually between 70 and 90 percent of the loan value -- at an interest rate not to exceed 2.75 percent more than the prime lending rate. Maturities are up to 10 years for working capital and up to 25 years for fixed assets.

Occasionally, SBA will test new loan products or services. Different loan programs may include reduced paperwork, shortened approval periods or smaller loan amounts. Customers should contact their local SBA District Office to learn what specialized loan programs are available in their area.

Small Business Investment Companies (SBIC)/
Specialized Small Business Investment Companies (S-SBIC)

The federal government may also be able to help you with financing through an SBIC or S-SBIC that makes direct loans to entrepreneurs for start-up and expansion as well as equity investments. SBICs and S-SBICs are licensed by the SBA and operate under its guidelines. They are privately owned organizations, chartered by the state in which they operate. There are several conditions your business must meet in order to be considered for assistance from these sources. Typically, an SBIC or S-SBIC is less averse to risk than a bank. They can provide your business with both loans and equity investments, as well as technical assistance. You can obtain the Directory of Operating Small Business Investment Companies by visiting the SBA regional or district office nearest you or by writing to: Deputy Associate Administrator for Investment, U.S. Small Business Administration, 409 Third Street, S.W., Washington, DC 20416.

More information is available by contacting the National Association of Small Business Investment Companies and the American Association of S-SBICs, both located in Washington, D.C.

Economic Development Commission (EDC)

The Economic Development Commission, a part of the U.S. Department of Commerce, lends to new and existing businesses in an effort to create new jobs in economically deprived regions. There are a number of specific conditions that must be met in borrowing through the EDC, including location. You can contact the EDC through the U.S. Department of Commerce in Washington, D.C., or the local office of the Department of Commerce.

A Last Note about Government Sources

As with all types of financing, government sources have diverse requirements. Learn which agencies and/or programs might be a possible financing source for your business and then contact them for the appropriate paperwork to set the process in motion.

ALTERNATIVE WAYS TO OWN A BUSINESS

In addition to the possibilities already mentioned, you may want to consider two slightly different ways of owning and operating your own business: purchasing either a franchise or an existing business.

Franchises

Buying a franchise gives you the right to sell a particular product or service. You retain a portion of your profits and a portion is paid to the overall organization that sold you the franchise.

How do they operate? One of the easiest methods of becoming a sole proprietor and acquiring the needed capital at the same time is to purchase a franchise. It is possible to start some franchises with relatively little money and to obtain start-up financing directly from the company selling the franchise. If a direct loan is not possible, the seller of the franchise may be willing to cosign a loan with another lender.

The seller of the franchise supplies you with materials, a recognized brand name and sales and marketing assistance. Some franchises are fairly inexpensive while others may cost hundreds of thousands of dollars.

Strict limits on innovation. The relative ease with which you can become the owner of a franchise is not without its price. By purchasing a franchise, you give up a high degree of control over your business. Most often the product and operations of a franchise are strictly regulated and there is little room for new ideas.

Purchasing a franchise is a sort of middle ground between working for someone else and being an independent business owner. You should, of course, evaluate franchise opportunities as carefully as you would any other type of business. Profit potential, as well as the cash needed to get started, should be considered in your choice.

Where can you get more information? Directories of every franchise in the United States can be found in your local library. Information on franchises is also heavily promoted at trade shows and in business magazines. Virtually every type of business imaginable can be purchased through a franchise.

Purchasing an Existing Business

One path to becoming an entrepreneur is to buy an already operating business from its present owner. Especially with regard to financing, buying an existing business may have certain benefits over starting a business from scratch. In many cases, the current owner will finance the sale of the business.

For example, you read a newspaper advertisement of a small restaurant for sale in a good location. The owner is willing to sell his or her interest in the business for $15,000 if the buyer takes over existing business obligations, e.g., space rental, employee wages, etc. After visiting the restaurant and carefully analyzing the business potential, you decide you are interested in owning this business and decide to purchase it.

How can you pay for the business? Let's assume that you don't have $15,000. You have calculated that by using the money you have saved, you can offer the owner $3,000. But this still leaves you $12,000 short. What are your alternatives?

1. Ask the owner to finance the $12,000.

2. Try to find a way to borrow the money using the methods and sources outlined above.

3. Offer the owner less than the asking price, thereby reducing or eliminating the amount of cash needed.

No matter which alternative you choose, remember that the owner of an existing business often will help you to find financing. An owner who wants or needs to sell a business will be anxious to help you find a way to make the purchase possible.

Why is it being sold? Learn why the owner is selling the business. Make certain that the reasons do not spell disaster for the next owner. You may have nothing to worry about if the present owner is selling in order to retire; however, if he or she is selling because the business is not profitable due to few customers and/or poor location, you will need to realistically assess your ability to improve the situation. If you do not have a carefully researched plan, you may soon find yourself repeating the mistakes of the previous owner.

Where can I get more information? The classified section of your newspaper is a good source of information on businesses for sale. You may also want to contact a business broker who, like a real estate broker, sells businesses and properties for a commission. The commission is paid by the seller of the business, which means that the broker is being paid to represent the seller rather than you, the buyer.

HOW DO YOU ACTUALLY RECEIVE FUNDS FROM FINANCING SOURCES?

All of the sources of financing discussed have one critical point in common: they all require that you sell your ideas and plans to someone who controls the money you need. In this sense, you shouldn't underestimate the importance of being a good salesperson. The responsibility is on your shoulders to share a sense of excitement about your business with the person or organization evaluating your request. This remains true regardless of whether you decide on debt financing, equity financing or a combination of the two.

Negotiating Financing

If you plan to borrow money, there are certain elements of the borrowing process that are critical to your success. You and the investor have different goals. If you are starting or have already started a business, chances are you strongly believe you will be successful. The investor, however, will not have this same degree of confidence in you and needs to be convinced of your sincerity and of the validity of your ideas. The lender's goal is protection of his or her investment, while yours is more likely financial growth.

The investor will need documentation of virtually every statement that you make. If you say your business will grow by 10 percent per year for five years, be prepared to support your claim with facts and figures.

You and the investor need each other. Clearly, you need the investor, because he or she controls whether you will have access to funds integral to the success of your business. Without financing, your ideas may remain just that. But there's another side to the coin: the investor needs your business. He or she makes money from interest, fee income and/or profit generated from your business. Keep this point in mind: the investor cannot thrive without you anymore than you can thrive without the investment.

Getting financing takes time. Be prepared to wait weeks or months before any money actually changes hands. Don't approach a lender when you are desperate for cash. You'll greatly harm your chances of having your request approved. Instead, plan for your financial needs well in advance.

Getting financing takes persistence. You may be turned down many times before someone agrees to provide funds. Don't be discouraged; there are many sources who may be willing to help finance your business. Remain determined and don't give up after just a few tries. If your business ideas are good ones, you will eventually be successful in obtaining financing.

Ten Rules of Negotiating for Financing

1. Prepare a comprehensive business plan.
2. Be prepared to explain uses and benefits of the proposed loan.
3. Speak to the appropriate person.
4. Do not overstate your financial strength. Be realistic.
5. Give complete information about your business.
6. Seek a lender with whom you feel comfortable.
7. Negotiate interest rates and fees.
8. Give an impression of confidence and competence.
9. Carefully check all terms of the agreement.
10. Dress conservatively.

1. *Prepare a comprehensive business plan*, including an income (profit and loss) projection for one year and a cash flow projection. An overview of competition, composition of management and staffing, marketing plans and pricing strategy are also important. Lenders respond favorably to applicants who know where they are going and who have done their homework. See the Appendix: How To Write A Business Plan for an outline of material that should be included in

the business plan. Use SBA Form 1100 for Cash Flow Projection.

If your strategy can be adjusted to alternative amounts of financing, request the preferred amount first and be prepared to submit the alternative plan if you meet obstacles.

2. *Be prepared to explain uses and benefits of the proposed loan*. Summarize the information in the Sources and Funds Statement in your business plan, and provide specific examples and supporting data for uses of the funds (e.g., estimates, list prices for equipment, etc.).

3. *Speak to the appropriate person*. With banks, as well as with all other sources, find out who will make the ultimate decision about your financing request, and then deal with this person directly. It is a waste of time to present your loan request to an individual who does not have the personal authority to lend you funds.

In banking, most commercial lenders have what is commonly referred to as a lending limit. This is the amount of money they are able to lend on their own authority, without having the request approved by any other parties. It is perfectly acceptable to ask the amount of the lending limit even before setting up an appointment and, what's more, it's advisable.

4. *Do not overstate your financial strength*. Be realistic! Guard your credibility like the very real asset it is. Remember, the investor will almost certainly verify everything you say. If you tell him your first quarter sales were $4,500, be sure that this is true. Once your integrity and honesty are called into question, it will be difficult, if not impossible, to regain your lost reputation.

Even if your misstatements are the result of a legitimate error rather than a deliberate attempt to make your business appear more profitable, the investor may feel that this is a good reason to question your overall business judgment. It's a very good policy to never say anything you can't support with data.

5. *Give complete information about your business*. It is wise to present all the information the investor requests. Most investors are required to have certain documents on hand to invest. Some are requested just as a formality and some are thoroughly analyzed. Unfortunately, there is no way for you to tell the difference between the two. Prepare all documents carefully and double check all facts and figures before turning over the information. It will be far better for a negative aspect of your business to be handled openly than for it to come up later under less favorable circumstances. This does not mean that you are under obligation to reveal all your fears and concerns about the business and its operations. It does mean, however, that you have an obligation to disclose material or relevant facts about your business.

6. *Seek a lender with whom you feel comfortable*. There can be wide variations among investors. Because you are turned down by one source does not mean that you will be turned down by the next. Avoid putting all of your eggs in one basket. Carefully scrutinize potential investors in the same way that you investigate any other major business decision.

Investors and lenders are just like everyone else! You will feel good about working with some and not with others. Be sure to settle on one who can give adequate attention to your account and who explains all aspects of the financing relationship clearly and thoroughly.

7. *Negotiate interest rates and fees*. We've already noted how a small difference in interest rates can have a big impact on your payments. Fees, too, can drastically alter the total amount you are paying for financing. Typically, you will be asked to pay points, which are a percentage of the total loan, due at the time the loan is originated. If, for example, you borrow $20,000 and are told that there is a 2 percent origination or commitment fee, you can expect to pay $400 in fees to borrow from this source. The length of the loan is also important. The shorter the term, the less total interest you will pay.

All lenders charge different rates and fees. Be aware of what you are paying. If the lender seems receptive, attempt to reduce the charges you will incur. In the worst case, the lender will tell you that the lending conditions cannot be changed. You've lost nothing by trying to minimize your costs.

8. *Give an impression of confidence and competence*. No one likes to borrow money. It is perfectly reasonable for you to feel a little nervous when applying for financing, but be careful not to let your nervousness cloud your judgment. The investor needs to have a high degree of confidence in your ability to repay the debt or generate a profit. Be sure of your facts and rehearse what you will say. Give some thought to the types of questions you may be asked and consider the best responses.

Again, remember that the investor is dependent upon you, just as your business is dependent upon the investor. You are both in a position to help one another.

9. *Carefully check all terms of the agreement*. Be sure you know what you are signing. It is perfectly appropriate to ask that your attorney or accountant review the conditions of the agreement. If you or your advisors do not feel comfortable with some aspect of the agreement, don't hesitate to raise it as an issue. The time to discuss alternatives is before the deal is finalized. Once you have signed an agreement, you are legally bound by it.

The investor will prepare the agreement for self-protection. Given this, it is not unreasonable to expect the terms to favor the investor. To a certain extent, this is inevitable, but try to prevent the insertion of any clauses or conditions that may present a serious hardship for you.

10. *Dress conservatively*. Like almost everyone, investors and lenders feel most comfortable around people like themselves. For this reason, it is a good idea to dress carefully when meeting with an investor, even if you do not normally do so when running your business. A suit and tie are recommended for men, a jacket and skirt for women. Avoid overly elaborate accessories. Remember, you are trying to give an impression of conservative good judgment. Dress to fit the environment.

SOME FINAL POINTS

No one ever said that starting a business would be easy. Without a doubt, finding the money to start or expand your business requires hard work and determination. It may be the largest obstacle you will face when planning to own or expand a business. Don't despair; financing is available. It's all a matter of knowing where to look, and now you know!

Perseverance makes all the difference. Most successful entrepreneurs have been turned down many times for financing. Remember, it is your job to sell your ideas and to pursue every possible means of securing capital. If you truly wish to finance your business, and if your ideas are good ones, you will be successful.

Don't hesitate to consider a variety of financing alternatives. Most of the sources described will not alone meet all of your needs, nor are they intended to. It is far more likely that you will find a number of sources interesting and you may be able to borrow successfully from all of them. Most businesses use a combination of financial sources to adequately fulfill their changing needs for capital. Be aware of the advantages and disadvantages of each approach and determine which ones seem most relevant to your situation. Above all, remain determined. If you persistently seek financing you will eventually obtain it.

Good luck!

APPENDIX A: HOW TO WRITE A BUSINESS PLAN

The following pages provide a suggested outline of the material that should be included in your business plan. Your final plan may vary according to your needs or because of the individual requirements of your lender.

What Are the Benefits?

Every business can benefit from the preparation of a carefully written plan. There are two main purposes for writing that plan:

1. To serve as a guide during the lifetime of the business. It is the blueprint of your business and will provide you with the tools for analysis and change.

2. A business plan is a requirement if you are planning to seek a loan. It will provide potential lenders with detailed information on all aspects of your company's past and current operations and provide future projections.

Business Plan Outline

I. Cover sheet

Serves as the title page of your business plan. It should contain the following:

- Name of the company
- Company address

- Company phone number (include area code)
- Logo (if you have one)
- Names titles addresses phone numbers (include area code) of owners
- Month and year your plan was issued
- Name of preparer

II. Statement of purpose

(Same as executive summary.) This is the thesis statement and includes business plan objectives. Use the key words (who, what, where, when, why, how, and how much) to briefly tell about the following:

- What your company is (also who what where and when).
- What your objectives are.
- If you need a loan why you need it.
- How much you need.
- Why you will be successful.
- How and when you plan to repay your loan.

III. Table of contents

A page listing the major topics and references.

IV. The business

Covers the details of your business. Include information about your industry in general, and your business in particular. Address the following:

- *Legal structure* -- Tell what legal structure you have chosen and state reasons for your choice.
- *Description of the business* -- Detail your business. Tell about your history present status and future projections. Outline your product or service in terms of marketability. Project a sense of what you expect to accomplish in the next few years.
- *Products or services* -- Give a detailed description of your products from raw materials to finished items. Tell about your manufacturing process. If you provide a service tell what it is how it is provided and why it is unique. List future products or services you plan to provide.
- *Location* -- Describe site and why it was chosen. (If location is important to your marketing plan focus on this in the marketing section below.)
- *Management* -- Describe who is behind the business. For each owner tell about responsibilities and abilities. Support with resumes.
- *Personnel* -- Who will be doing the work why are they qualified what is their wage what are their responsibilities?
- *Methods of record keeping* -- What accounting system will you use? Who will do your record keeping? Do you have a plan to help you use your records in

analyzing your business?

- *Insurance* -- What kinds of insurance will you need? What will these cost and who will you use for a carrier?
- *Security* -- Address security in terms of inventory control and theft of information.

V. Marketing

Covers the details of your marketing plan. Include information about the total market with emphasis on your target market. Identify your customers and tell about the means to make your product or service available to them.

- *Target market* -- Identify characteristics of your customers. Tell how you arrived at your results. Back up information with demographics questionnaires and surveys. Project size of your market.
- *Competition* -- Evaluate indirect and direct competition. Show how you can compete. Evaluate competition in terms of location market and business history.
- *Methods of distribution* -- Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports rate sheets etc.
- *Advertising* -- How will your advertising be tailored to your target market? Include rate sheets promotional material and time lines for your advertising campaign.
- *Pricing* -- Pricing will be determined as a result of market research and costing your product or service. Tell how you arrived at your pricing structure and back it up with materials from your research.
- *Product design* -- Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.
- *Timing of market entry* -- Tell when you plan to enter the market and how you arrived at your decision.
- *Location* -- If your choice of location is related to target market cover it in this section of your business plan. (See location in the business section of this outline.)
- *Industry trends* -- Give current trends project how the market may change and what you plan to do to keep up.

VI. Financial documents

These are the records used to show past, current and projected finances. The following are the major documents you will want to include in your business plan. The work is easier if these are done in the order presented.

- *Summary of financial needs* -- This is an outline indicating why you are applying for a loan and how much you need.
- *Sources and uses of funds statement* -- It will be necessary for you to tell how you intend to disperse the loan funds. Back up your statement with supporting data.
- *Cash flow statement (budget)* -- This document projects what your business plan

means in terms of dollars. It shows cash inflow and outflow over a period of time and is used for internal planning. Cash flow statements show both how much and when cash must flow in and out of your business.

– *Three-year income projection* -- A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.
– *Break-even analysis* -- The break-even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total dollars or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.

Note: The following are actual performance statements reflecting the activity of your business in the past. If you are a new business owner your financial section will end here and you will add a personal financial history. If you are an established business you will include the actual performance statements that follow.

– *Balance sheet* -- Shows the condition of the business as of a fixed date. It is a picture of your firm's financial condition at a particular moment and will show you whether your financial position is strong or weak. It is usually done at the close of an accounting period and contains assets liabilities and net worth.
– *Income (profit and loss) statement* -- Shows your business financial activity over a period of time (monthly annually). It is a moving picture showing what has happened in your business and is an excellent tool for assessing your business. Your ledger is closed and balanced and the revenue and expense totals transferred to this statement.
– *Business financial history* -- This is a summary of financial information about your company from its start to the present. The business financial history and loan application are usually the same. If you have completed the rest of the financial section you should be able to transfer all the needed information to this document.

VII. Supporting documents

These are the records that back up the statements and decisions made in the three main parts of your business plan. Those most commonly included are as follows:

– *Personal resumes* -- Should be limited to one page and include work history educational background professional affiliations and honors and special skills.
– *Personal financial statement* -- A statement of personal assets and liabilities. For a new business owner this will be part of your financial section.
– *Credit reports* -- Business and personal from suppliers or wholesalers credit bureaus and banks.
– *Copies of leases* -- All agreements currently in force between your company and a leasing agency.
– *Letters of reference* -- Letters recommending you as being a reputable and reliable

business person worthy of being considered a good risk. (Include both business and personal references.)

- *Contracts* -- Include all business contracts both completed and currently in force.
- *Legal documents* -- All legal papers pertaining to your legal structure proprietary rights insurance titles etc.
- *Miscellaneous documents* -- All other documents that have been referred to but are not included in the main body of the plan (e.g. location plans demographics advertising plan etc.).

Putting Your Plan Together

When you are finished: Your business plan should look professional, but the lender needs to know that it was done by you. A business plan will be the best indicator he or she has to judge your potential for success. It should be no more than 30 to 40 pages long. Include only the supporting documents that will be of immediate interest to your potential lender. Keep the others in your own copy where they will be available on short notice. Have copies of your plan bound at your local print shop, or with a blue, black or brown cover purchased from the stationery store. Make copies for yourself and each lender you wish to approach. Do not give out too many copies at once, and keep track of each copy. If your loan is refused, be sure to retrieve your business plan. For a more detailed explanation of each section of the business plan outline, see SBA's publication, *How to Write a Business Plan*, which includes step-by-step directions and sample sections of actual business plans. Also available from the SBA is a VHS videotape and workbook, *The Business Plan: Your Roadmap for Success*.

APPENDIX B: INFORMATION RESOURCES

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in The Small Business Directory. For a free copy contact your nearest SBA office.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.

- **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.

- **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. You can request a Subject Bibliography by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Consumer Information Center (CIC)
P.O. Box 100
Pueblo, CO 81002
The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request
Washington, DC 20207
The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250
The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW

Room 5898C
Washington, DC 20230
DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)
Public Health Service
Alcohol, Drug Abuse and Mental Health Administration
5600 Fishers Lane
Rockville, MD 20857
Drug Free Workplace Helpline: 1-800-843-4971.
Provides information on Employee Assistance Programs.
National Institute for Drug Abuse Hotline: 1-800-662-4357. Provides information on preventing substance abuse in the workplace.
The National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 toll-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW

Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
  Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

- **Books** -- Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Print, a directory of books currently available from publishers.

- **Magazine and newspaper articles** -- Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.