A Start-Up Handbook for Food and Beverage Entrepreneurs

(A Compilation of Business Resources to Support Your Start-Up)

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CDR TURBO

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Introduction

Congratulations on your decision to start a food or beverage business! This can be an exciting yet anxious process as you navigate the unknown aspects of managing a business. I would encourage you to view this as a journey of not only learning and improving your business but also as a continuous period of personal development.
The purpose of this manual is to break up the start-up process into understandable pieces that you can absorb at your own pace. This manual is not something to read in one sitting but to be used as a reference for a specific business activity. Each section will provide the steps that need to be completed in a checklist format with additional explanations and informational resources provided to support you. When each checklist is completed, you can move on to another section.

The Journey

Being an entrepreneur means to fall in love with ambiguity and facing challenges each day. Starting a company is like taking a roller coaster ride with highs and lows. It is a unique but common experience. You may feel all alone when the challenges occur but it is important to remember that successful entrepreneurs are able to learn from these challenges and ultimately succeed.

"It's fine to celebrate success but it is more important to heed the lessons of failure."
Bill Gates, Microsoft

"Timing, perseverance and ten years of trying will eventually make you look like an overnight success."
Biz Stone, co-founder of Twitter

"Success comes down to hard work plus passion, over time. If you work really, really hard over a long period of time it will pay off."
Stanley Tang, co-founder "LinkedIn"

"Most great people have attained their greatest success just one step beyond their greatest failure."
Napoleon Hill, author of such books as "Think and Grow Rich"

"The hardest part of being an entrepreneur is that you will fail ten times for every success."
Adam Horwitz, American screenwriter and producer of such shows as "Felicity", "Tron", "Birds of Prey" and "Lost"

Best of luck in your endeavors,

Vic Grassman
TURBO Program Manager

1 DESCRIBING ENTREPRENEURIAL CHARACTERISTICS

(ONE SIZE DOES NOT FIT ALL.)

There is no set definition of what an entrepreneur is like from a personal perspective. And no one can predict whether a specific person will be a successful entrepreneur and another one not. However, there are common characteristics that many successful entrepreneurs share. The following list describes some of those characteristics. Do you have some of these characteristics?

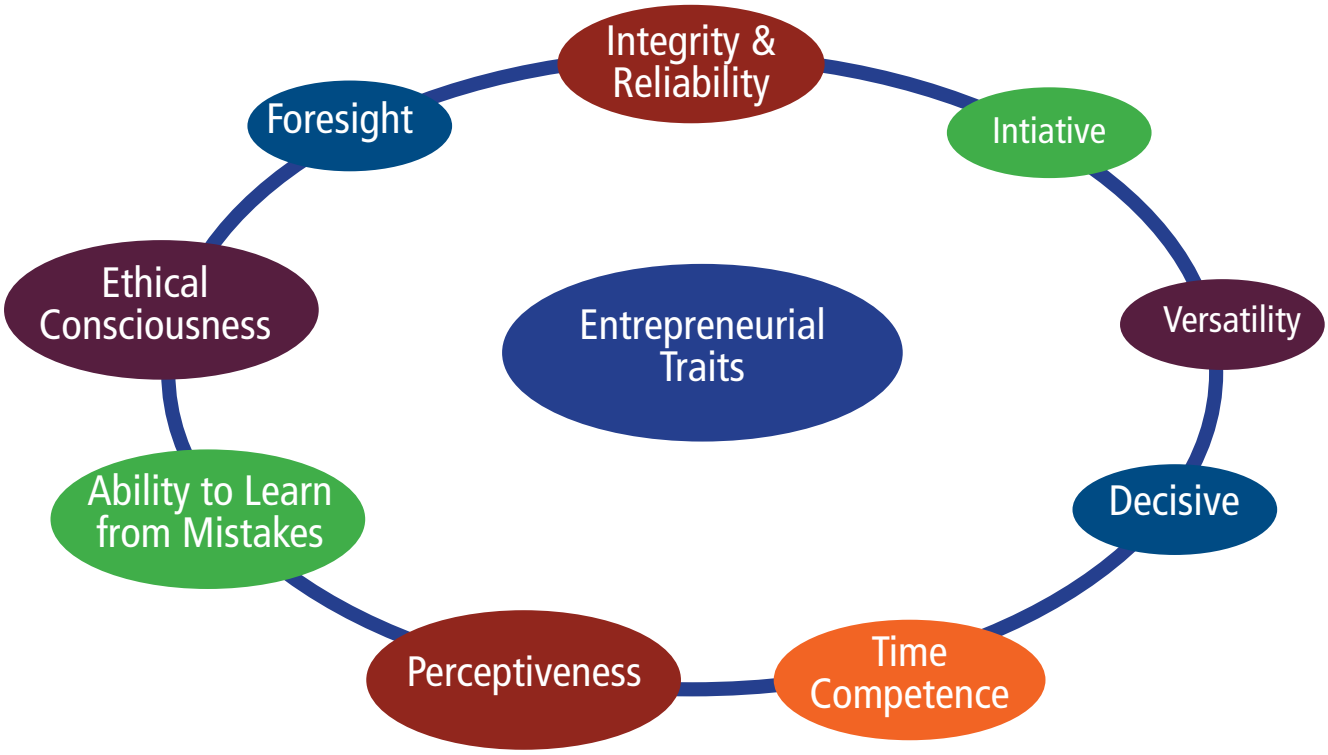
- **Drive and energy level:** Successful entrepreneurs must have the dedication and ability to work long hours.
- **Self-confidence:** A belief in yourself and your ability to achieve goals. Also a belief that the events in your life are self-determined.
- **Setting challenging but realistic goals:** The ability to set clear goals and objectives that are challenging but achievable.
- **Long-term commitment:** A long-term commitment (5-7 years) is typically required involving a total dedication to your business.
- **Using money as a performance measure:** Money, in terms of salary, profits or capital gains should be viewed as a measure of the business and not an end to itself.
- **Persistent problem solving:** A determined desire to solve problems in the completion of specific tasks.
- **Taking moderate risks:** Success is generally based on calculated risk taking that provides a reasonable chance of success.
- **Learning from failure:** Understanding one's role in a failure can be very helpful in avoiding similar problems in the future.
- **Using criticism:** One needs to seek out and use criticism to improve performance.
- **Taking initiative and seeking personal responsibility:** One needs to be able to take advantage of opportunities that allow for personal responsibility.
- **Make good use of resources:** Let people help you in terms of achieving your goals.
- **Competing against self-imposed standards:** Do you establish your own performance standards, which are high but realistic and compete against yourself?

No one is strong in all of these areas, but an honest self-evaluation shared with people who know you can give you specific insights into your strengths and weaknesses. Additionally, as you hire employees, you may want to focus on hiring people whose strengths support your weaknesses.

Excerpts taken from "Characteristics of a Successful Entrepreneurial Management Team" by Dingee, Haslett and Smollen

1 Here are some additional tips and bits of wisdom to think about as you take on the role of an entrepreneur:

Passion is not enough. Dedication matters. – Success comes from hard work and dedication.
Be a control freak. – Pay attention to every detail of your business.
Be fussy. – Choose clients that will allow you to be more than just ordinary.
Stay lean, less is more. – Profitability is more important than a large organization.
Business comes and goes, but loyalty matters. – Business relationships are critical.
Being the best is not good enough, pursue excellence.
Sleep is everything, in this case more is better.
Tap mentors.
Don't overthink.



Excerpted from www.advfn.com/news_13-top-tips-for-budding-entrepreneurs

2 FIRST STEPS: A CHECKLIST FOR STARTING YOUR BUSINESS

(Administrative stuff, I know, but necessary)

The following is a checklist for food or beverage start-ups that will help you start on the right foot. You might want to familiarize yourself with some of these steps before diving in. Some steps, like choosing a name, could impact your business positively or negatively for a long time. Seek professional assistance where applicable. Have fun—this is the start of your business journey!

1. Figure out how you will finance your living expenses during your start-up period (i.e. savings, a job, spouse's income, etc.).

2. Choose a business name.

- Your business name should support your brand (i.e. what do you want people to think about your company when they here its name). It should also be different from your future products or services.
- Make sure that it will resonate with your target market. This is the beginning of developing a brand. What do you want your customers to think of when your company's name is brought up? For example, do you want your customers to feel that you are people focused, environmentally sensitive, reflect rural values etc.?
- In addition, do Google searches to see if the name is unique.
- Also, perform a corporate name search with the state's Secretary of State Office to see if the name is available.

3. Decide upon and incorporate your legal structure. Incorporate your start-up to protect your personal assets. (See the section on "Choosing the Right Legal Structure.")

- If you incorporate or file as an LLC, your name will be automatically registered in the state that the business resides. Discuss this with an attorney and accountant.
- It is often recommended that, because of unlimited liabilities, one does not be a sole proprietor or be in a partnership. An LLC and/or incorporating protects your non-business, personal assets should business financial issues occur.

4. Register your business. (Note: If not a Wisconsin company, checkout the same types of agencies in your state.)

5. See the online registration link for the Wisconsin Department of Revenue. (www.revenue.wi.gov/Pages/Businesses/New-Business-home.aspx)

6. Also, see the links to register with other Wisconsin state agencies.

7. Register a domain name for your business's website. Typically, this should be the same as your business name. Having an AOL address or a website with free hosting services is a red flag that you are not running a legitimate business.

8. Apply for an EIN number. An EIN number is like a social security number for a business. You will need one if you incorporate or open a business bank account. This will help you avoid giving out your social security number. (www.irs-ein-tax-id.com/)

9. Investigate and find out what state and local business licenses are required for your start-up. (www.sba.gov/business-guide/launch/apply-for-licenses-permits-federal-state)

10. Set up your website. This is needed in today's marketplace to establish credibility. Even if you do not have products yet, provide information on your company.

11. Register your social media profiles. Also, reserve your brand as a profile name. A good resource to start is https://knowem.com

12. Establish/check your business bank account. You will need start-up funds even if your business is not actively producing revenue.

13. Rent office/production space as needed.

14. Order business cards. Networking will be a critical marketing component when your business is in start-up mode.

15. Set up your accounting system. Choose an accounting software program or process that works best for you and your accounting aptitude.

16. Assign responsibilities to co-founders where applicable.

Later On

17. Upgrade your phone with good business apps. Also, if appropriate, get a good credit card swipe device to accept payments.

18. Get a mentor.

19. Identify sources that can provide free advice like Small Business Development Centers, local universities, SCORE, state and local economic development professionals, etc.

20. Get appropriate insurance coverage.

21. Line up suppliers and service providers to provide inventory support.

22. Where appropriate, file for trademarks and/or patents. Take care of you intellectual property.

23. Work your network—ask for introductions, contacts, etc.

24. Develop and refine your elevator pitch.

25. Refine your product, marketing and sales approach. Once you learn more about your market make adjustments as needed.

26. Secure reliable IT support.

27. Hire a salesperson or put a sales team in place.

28. Keep your business in regulatory compliance.

Excerpts from www.quickbooks.intuit.com/r/am-i-ready/ and www.smallbiztrends.com/2013/04/startup-checklist

3 INTERNAL REVENUE SERVICE & CHOOSING THE RIGHT LEGAL STRUCTURE *(Getting Off on the Right Foot)*

This section seeks to provide a basic level of knowledge in regards to starting a business and correctly registering that business with the IRS.

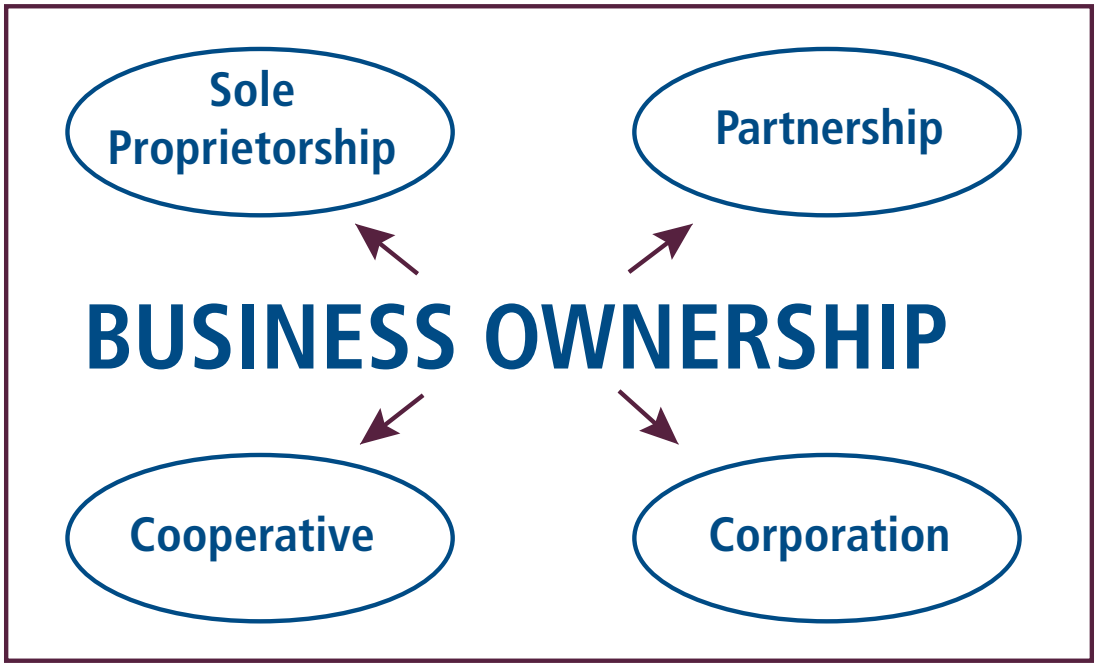
Additional tax information for specific industries can be found at:
www.irs.gov/businesses/small-businesses-self-employed/industries-professions

Information on state level requirements can be found at:
www.irs.gov/businesses/small-businesses-self-employed/state-government-websites

Selected IRS topics:

1. Is your endeavor a business or a hobby?

- In general, taxpayers deduct ordinary and necessary expenses for conducting a business. An ordinary expense is one that is common and accepted in the taxpayer's trade or business. A necessary expense is one that is appropriate for the business. Generally, an activity qualifies as a business if there is a reasonable expectation of earning a profit. More information can be found here:
www.irs.gov/newsroom/hobby-or-business-irs-offers-tips-to-decide
- The IRS presumes that an activity is carried for profit if it makes a profit in three out of the past five years including the current year. If the activity is a hobby, losses cannot be used to offset other income.



Additional information on acceptable business expenses can be found at www.irs.gov/pub/irs-pdf/p535.pdf.

2. Business Structures – The Small Business Administration (SBA) has a "choose your business structure" website at www.sba.gov/business-guide/launch/choose-business-structure-types-chart. The most common forms are sole proprietorships, partnerships, corporations, S corporations and Limited Liability Corporations (LLCs).
Sole Proprietorship – Tax information can be found here:
www.irs.gov/businesses/small-businesses-self-employed/sole-proprietorships

- A sole proprietorship gives you complete control over your business (partnerships and corporations do not).
- Income from a sole proprietorship is considered personal income. Under a sole proprietorship, you have to pay quarterly installments plus all payroll taxes, state income taxes and any city income taxes (where applicable).
- Pros of a sole proprietorship:
  - You can get into a business very quickly.
  - You control all of the money in your business.
  - Very few forms to fill out.
  - You do not have to fill out a separate tax return.
  - You do not have to keep a separate set of records or financial statements.
- Cons of a sole proprietorship:
  - You are responsible for 100% of all business debts and obligations. This liability includes all of your personal assets including house and car.
  - The death, physical impairments or mental incapacitation of the owners can result in the termination of the business.
  - It is harder to raise cash or arrange long-term financing due to fewer assets.
  - It appears less professional than a corporation or LLC.

Excerpts from www.businesstown.com/articles/the-pros-and-cons-of-a-sole-prprietorship/

Partnerships – Tax information can be found here:
www.irs.gov/businesses/small-businesses-self-employed/partnerships

- A partnership involves two or more people, where each person contributes money, labor or skills. Each person shares in either the profits or loss of the business. A legal partnership agreement is usually drawn up, which does the following:
  - Specifies roles and responsibilities.
  - Defines the decision-making process.
  - Provides dispute resolution.
  - Provides guidance for dividing profits.
  - Provides guidelines for partners – how to bring on new partners or get rid of existing ones.
- There are three types of partnerships:
  - General partnership – Profits, liabilities and management responsibilities are equally divided among the partners.
  - Limited Partnerships – More involved than general partnerships, this is better for short-term projects. Each partner's liability is dictated by the percentage of investment.
  - Joint Ventures – A short-term general partnership usually lasting for one project.

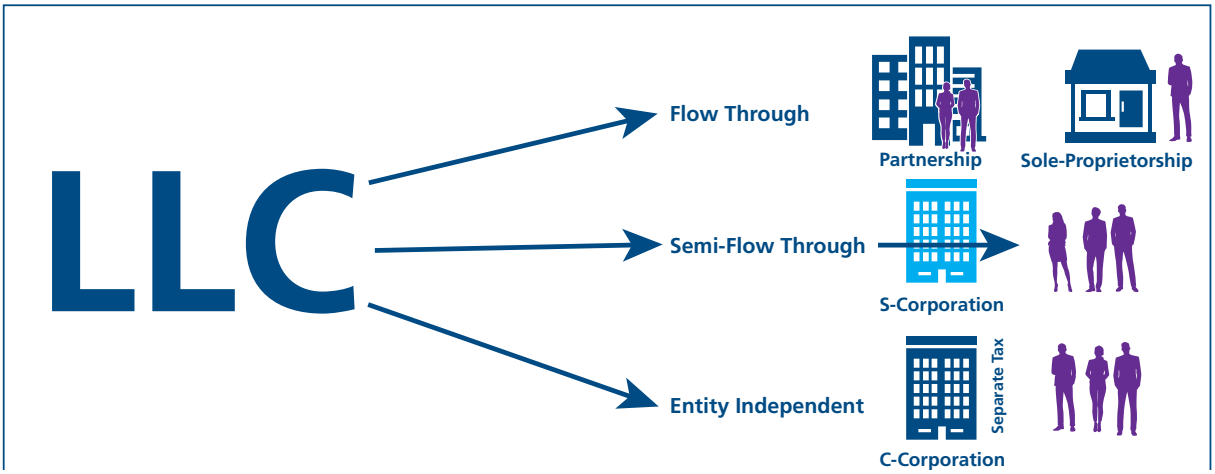
Vic Grassman, TURBO Manager greeting an attendee at a TURBO event.

- Pros of partnerships:
  - Ability to access more capital, the more money that is poured into a company at the beginning the better its chances of succeeding.
  - Flexibility and ease – There is more flexibility in a partnership.
    - Easier to get started.
    - Easier to operate and manage.
    - Laws and regulations are usually easier on partnerships.
  - Decision making – Allows for more input, creatively and execution when several people are participating.
  - Shared responsibility – Different partners can focus on the responsibilities and management skills that they do best.
- Cons of partnerships:
  - Taxes – The partners of a company must pay taxes on their earnings and each must submit an annual

tax return. If the partnership is successful and earnings are high, each partner may be in a higher tax rate category.

- Shifting of profits – Unless noted in the agreement, profits are divided equally among the partners. This is usually fine if all are contributing equally, however, there may be issues if some partners are working harder than others.
- Disagreements – Disagreements may arise among the partners on a variety of issues. Even the smallest ones can damage the partners' relationships and the integrity of the company.
- Compromises – Since all partners need to agree on a specific decision, compromises may occur that are not in the best interest of the company.
- Liability – Each partner involved in a partnership is liable both individually and jointly for the financial burdens of the company, also known as unlimited liability.
- Limited lifespan – Typically the partnership will last until one of the partners withdraws their interest or passes away.

Excerpted from https://blog.udemy.com/advantages-and-disadvantages-of-partnership/

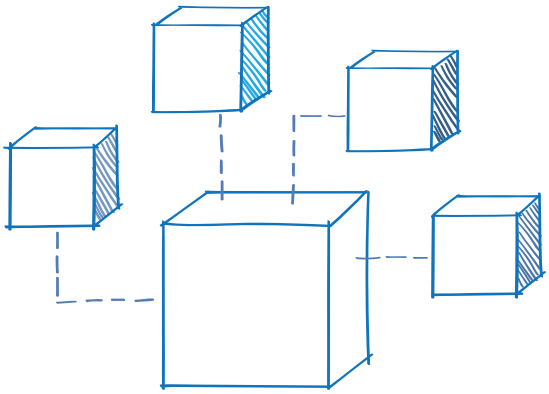


Corporations – Tax information can be found here: www.irs.gov/businesses/small-businesses-self-employed/forming-a-corporation. Most business owners that form corporations want to protect themselves from financial and legal liabilities. A corporation keeps your business dealings separate from your personal assets. Typically, there are two types:

- C corporations also known as a regular corporation is the most common type of corporation. You can incorporate in any state, which allows you to select the state that has the greatest potential for the business. Also, reporting requirements and some taxes are lower if you incorporate in the state that the business is located, however, this is not required.
- The second corporation type is an S corporation, which is a selected special status with the IRS. The selection of which depends on your future business goals, fundraising expectations and geographical growth objectives.
  - More considerations for choosing a corporation designation: For businesses operating in multiple states, you can incorporate in one state and then register in those other states that you will be doing business. Additionally, a corporation is viewed as an individual entity, separate from its owners. This means that if a corporation is sued, shareholders are only liable to the extent that they have invested in the corporation. Their personal assets are not on the line (as they would be in a sole proprietorship or partnership). The most common negative on c corporations is the concept of double taxation. Since the IRS considers a c corporation as a separate taxable entity, it pays taxes on its profits. The second level of taxation is when it pays dividends to shareholders these are also taxable on one's income tax.
    - How to incorporate (This website has information on how to incorporate in all U.S. states): www.activefilings.com/information/state-requirements/wisconsin/

Excerpted from https://www.inc.com/encyclopedia/c-corporation.html

- Similarities between C corporations and S corporations:
  - Limited liability protection.
  - Separate legal entities.
  - Both require filing specific documents at the state level.
  - Structure – Both have shareholders, directors and officers.
- Differences:
  - Taxation – C corporations are separate taxable entities. S corporations are "pass through" tax entities, which means that profits and losses are passed through to the owners and are reported on their returns.
  - Ownership:
    - C corporations have no restrictions on ownership.
    - S corporations can have no more than 100 shareholders and all must be U.S. citizens/residents. S corporations cannot be owned by C corporations, other S corporations, LLCs, partnerships, etc. In addition, S corporations only have one class of voting stock.
- Pros of incorporating:
  - As noted above, shareholders (owners) have limited liability.
  - It is much easier to raise capital through a corporation because they can sell stock. Investors purchase this stock for appreciation and, if the company is profitable, future dividends.
  - A business that is incorporated can file lawsuits, sell property and commit business crimes (i.e. fraud).
  - All 50 states, including the District of Columbia, recognize these corporations.
  - Corporations can deduct normal business expenses before they apportion income to the owners.
  - They can easily transfer ownership through the transfer of securities to new owners.
  - They can operate for an unlimited amount of time.
  - The IRS has reduced tax rates to them vs. individuals.
  - They can issue shares of stock and take a company public.
  - It may be easier to attract top employees who may be interested in stock or dividend benefits.
  - Corporations can deduct fringe benefits like group health insurance, term life insurance.



- Cons of incorporating:
  - Corporations typically involve more bureaucracy, annual meeting requirements, are more costly than other business structures and have additional legal filing requirements.
  - Double taxation, both, from corporate and shareholder perspectives.
  - Rules regarding dividend distribution – In a corporation, if you own 10% of the stock, you can only get 10% of the dividends. In a partnership, for example, profits can be divided based on other factors such as level of investment and/or management contributions based on the partnership agreement.
  - If a business is incorporated, it must be run like a corporation. The mere filing of incorporation paperwork does not make it a corporation if it is still managed like a sole proprietor or partnership.
- Limited Liability Corporation (LLC) – According to the IRS, an LLC is a business structure allowed by state statute. Depending on how it is formed, it can take on the business characteristics of a corporation or partnership. Since state regulations differ, one would need to check with the state where the business is located. Owners of an LLC are called members and most states do not restrict ownership so members could be individuals, corporations, other LLCs or foreign entities. There is no maximum number of members, and some states allow for "single member" LLCs.
  - Classification – As noted, an LLC can take on characteristics of other business models. If an LLC has at least two members, it will be regarded as a partnership unless it files for corporation status. A single

member LLC is treated as a sole proprietorship from a tax perspective unless it files for corporation status.

- Comparing S corporations with LLCs.
  - Similarities:
    - Limited liability protection – For both S corporations and LLCs, owners are not personally liable for business debts.
    - Separate entities – Both are separate legal entities created by a state filing.
    - Pass through taxation – No income taxes are paid at the business level. The business profit or loss is passed through to owners' personal tax returns and paid at the individual level.
    - Both must meet state requirements of filing annual reports and paying necessary fees.
  - Differences:
    - Ownership – S corporations are restricted but not LLCs.
    - can have an unlimited number of members; S corporations can have no more than 100 shareholders.
    - Non-U.S. residents can be LLC members, S corporations do not allow this.
    - S corporations cannot be owned by C corporations other S corporations, partnerships or trusts. LLCs can.
    - Management differences – Owners of LLCs can choose to be members or managers. If members are chosen, it is more like a partnership, if managers are chosen, it is more like a corporation.
    - An S corporation's existence is perpetual. LLCs can be forced to dissolve due to the death of a member.

Excerpted from www.bizfilings.com/toolkit/research-topics/incorporating-your-business/s-corp-vs-llc

3. Business Taxes – The IRS requires businesses to file the following taxes.

Income Tax

- All businesses except a partnership must file an annual income tax return. Partnerships file an information return. The form you use is based on how your business is organized. Links to tax information have been noted above.
- The federal income tax is a "pay as you go" tax. You must pay the tax as you earn or receive income during the year. Employees typically have their income tax withheld from their pay.
- Estimated taxes:
  - If you receive a salary or wages you avoid paying the estimated tax by having your employer "withhold" these taxes.
  - If you are a sole proprietor, partner, S corporation or shareholder, you may have to pay an "estimated tax" if you expect to owe more than $1,000 when you file your taxes.
  - Estimated taxes are paid four times a year and can be paid online.
  - Taxes are computed based on your estimated adjusted gross income, taxable income, deductions and credits. If they are late or not paid, the IRS will assess penalties.

Self-Employment Tax

- A self-employment tax is a social security/Medicare tax for persons who work for themselves. These contribute to your coverages including retirement benefits, disability benefits, survivor benefits and hospital insurance.

Employment Taxes

- These are paid by the employer on behalf of his/her employees.
- These include social security/Medicare taxes, Federal withholding and federal unemployment (FUTA) tax.

3

Excise Taxes – see Form 720

- You may have to pay these taxes if you:
  - Manufacture or sell certain products.
  - Operate certain kinds of equipment.
  - Use various types of equipment, facilities or products.
  - Receive payment for certain types of services.

For more information, engage the services of a licensed CPA, or visit this link: www.irs.gov/businesses/small-businesses-self-employed/business-taxes.

4. Record Keeping – It is recommended that you check with the IRS when starting your business.

- Except for a few cases, the IRS does not require a specific record keeping system. However, the business that you are in may affect the types of records to be maintained.
- The length of time to keep records depends on the action, expense or event that is documented. You must keep them long enough to prove income or deductions on a tax return.
- Record business transactions on the appropriate software that will keep these records for you.
- You have the responsibility for the "burden of proof" for expenses and/or deductions.
- Records for employment taxes must be kept for at least four years.

5. Tax Years

- You must compute your taxable income based on a tax year. A "tax year" is an annual accounting period for keeping records and reporting income and expenses. Tax years you can use are:
  - Calendar Year – 12 consecutive months starting on January 1 and ending on December 31.
  - Fiscal Year – 12 consecutive months ending on the last day or any month except December. A 52 to 53 week tax year is a fiscal tax year that varies from 52 to 53 weeks but does not end on the last day of a month.
- Unless you have a required tax year, you adopt a tax year by filing your first tax return based on that tax year.
- If you initially file using a calendar year, you will need to notify the IRS if you choose to change to a "tax year."
- A short tax year is one that is less than 12 months. A short tax year may be required if your business has not been in existence for one year or you change your accounting period.
  - If the business is not in existence for an entire year as a taxable entity, you will need to filea tax return for the time that you have been in existence.
  - If you wish to change your tax year, you must get IRS approval (Form 1128)

Excerpted from www.irs.gov/businesses/small-businesses-self-employed.

4 DEVELOPING MISSION, VISION AND VALUES STATEMENTS

(Seems a bit abstract but these will be the "rudder" for your new company.)

Three stonemasons in the Middle Ages were hard at work when a visitor came along and asked them what they were doing. The first stonemason was hard at work, sweat beading his brow. "I am cutting this stone," he grumbled. The second stonemason, though less distraught, responded with a deep sigh, "I'm building parapet." The third stonemason replied with a radiant face, "I am building a beautiful cathedral that will glorify God for centuries to come."

Author unknown

With all of the "need to do's" required to start a company, the "should do's" sometimes are ignored. Developing the mission, vision and values statements may seem like a waste of time when more important actions, like developing a marketing plan, getting financing, etc., seem to be more important. But the reality is that developing these statements will impact future marketing, branding, human resources and other operating functions. In the beginning, an entrepreneur may not be able to develop these statements, but as the company and experience grows, the contents of these types of statements may be slowly realized and should be discussed, developed and eventually formally written.

Mission statement examples

Coca-Cola:
– To refresh the world .
– To inspire moments of optisum and happiness
– To create value and make a difference

Patagonia:
Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.

TED: Spread ideas.

Pizza Hut:
– We take pride in making a perfect pizza and providing courteous and helpful service on time all the time. Every customers say, "I'll be back!" We are the employer of choice offering team members opportunities for growth, advancement and rewarding careers in a fun, safe working environment.

IKEA:
To create a better everyday life for the many people.

So What is a Mission Statement?

It describes the overall purpose of your company. Why are you starting your company? Are you trying to solve a problem, start a new initiative, etc.? How will your company influence the world around it? How do you expect your products or services to improve your customers' lives? For example, will it be environmentally sensitive; bring better, more healthy products to the marketplace; how will you treat employees, customers and other individuals/organizations affiliated with your company?

When developing the mission statement, keep in mind your company's products, services, markets, values and concern for a public image. Make sure that the wording is such that management and employees can see some order of priorities. In addition, does it distinguish itself from other companies?

Source: Carter McNamara, Authenticity Consulting, LLC.

Vision Statements ***(What will your company look like when it is a success?)***

"A Vision of Success is a clear and succinct description of what the organization or community should look like after it successfully implements its strategies and achieves its full potential. It is an expression by the people about what they want the organization to be—a preferred future, a word or picture of an organization you choose to create."

Source: University of Wisconsin Extension, Publication No. G3708

4 Your vision statement should be based on your mission, core values, goals, performance criteria and ethical standards for employees. Typically, it is used as a motivational tool; it often can achieve the following:

- Employees can see how they fit in the company.
- Agreement on vision gives the company more power.
- Can help employees recognize barriers in achieving the vision.
- May reduce organizational conflict.
- Help achieve consensus on values and strategy development.

Some examples:

"To become the world's most loved, most flown, and most profitable airline." – Southwest Air

"Bring inspiration and innovation to every athlete* in the world. (*If you have a body, you are an athlete.)" – Nike

There are certain characteristics that good vision statements have in common. Here are a few traits that can help you evaluate your current vision statement and/or help you create a new one.

- **Future Focused.** Provides the "big picture" and clearly describes what your organization will be like in several years.
- **Directional.** Serves as guide to organizational plans and strategies.
- **Specific.** Clear and focused enough to shape decision-making.
- **Relevant and Purpose-Driven.** Reflects the company's response to the challenges of the day.
- **Values-Based.** Implies the set of values that are required to support the organization.
- **Challenging.** Inspires members of the organization to do great things and achieve a higher level of standards.
- **Unique and Memorable.** Highlights what makes the organization different and why it matters.
- **Inspiring.** Appealing and engages people to commit to a cause.

Source: www.fitsmallbusiness.com/vision-statement-examples/

A Company's Values (So, why are they needed?)

"The operating philosophies or principles that guide an organization's internal conduct as well as its relationship with its customers, partners, and shareholders. Core values are usually summarized in the mission statement or in the company's statement of core values."

Source: www.businessdictionary.com/definition/corporate-values.html

Some examples include:

"We do the right thing. Period."	UBER	"Treat your customers like human beings"	L.L.Bean
"Sport is the foundation for all we do and executional excellence is a core value of our group."	adidas		

A value statement is a word, phrase or sentence that conveys the core values of your company to your customers, employees and/or the world writ large. It is so personal to what you, the owner, care about that it needs to be crafted carefully. The value statements provided above clearly resonate with small business owners. We hope they inspire you to create and share your own business values.

Source: www.fitsmallbusiness.com/core-values-list/

5 DEVELOPING A VALUE POSITION – "SO WHAT PROBLEM ARE YOU SOLVING FOR YOUR CUSTOMERS?"

(MORE IMPORTANTLY, IS IT WORTH SOLVING?)

Every great idea is developed by someone who believes that it will solve a critical problem for people or organizations. However, although some "great ideas" are not really "great ideas," other ideas can become great if repositioned or refocused. The process of developing a value proposition will allow you to more fully understand how a potential customer will react to your product/service, why they might want to learn more about it, and, most importantly, why they might buy it.

The primary importance of a value proposition is that it helps determine whether people will want to learn more about your product or ignore it. Therefore, it is important to test and develop your value proposition, because, if you get it right, you will have an advantage in the market place. Additionally, the less known your company is, the greater the need for a strong value proposition.

The definition of a value proposition is a promise of value to be delivered upon the purchase of a product. It is the primary reason why someone buys your product(s).

A value proposition is a clear statement that:

- Explains how your product solves customers' problems or improves their situation;
- Delivers specific benefits; and
- Tells the ideal customer why they should buy from you and not from the competition.

Your value proposition must be framed in the language of your customer and be part of the "brand image" in your customer's mind. In other words, it is not what or how you describe your product; it is how your customers would describe the product. It is not a slogan or catchphrase nor is it a positioning statement.

A value proposition is usually a block of text (i.e., a headline, sub-headline and one paragraph of text) with some type of graphic or photo.

- Headline – This is an attention-grabbing short statement that communicates the benefit your product is offering.
- Sub-headline or a 2-3 sentence paragraph – This a specific explanation of what you do or offer, for whom and why it is useful.
- 3 bullet points – This is a list of key features or benefits.
- Visual – This typically shows the product or is an image that reinforces your main message.

Evaluate your value proposition by answering the following questions:

- What product or service is your company selling?
- What is the end-benefit of using it?
- Who is your target customer?
- What makes your product unique and different?

Characteristics of a winning value proposition:

- Clarity – easy to understand.
- Communicates the concrete results a customer will get when purchasing your product.
- Says how it is better or different from the competition.
- Avoids hype and business jargon.

- Can be read and understood within 5 seconds.
- Focused on one type of customer or one specific niche.

Value proposition examples

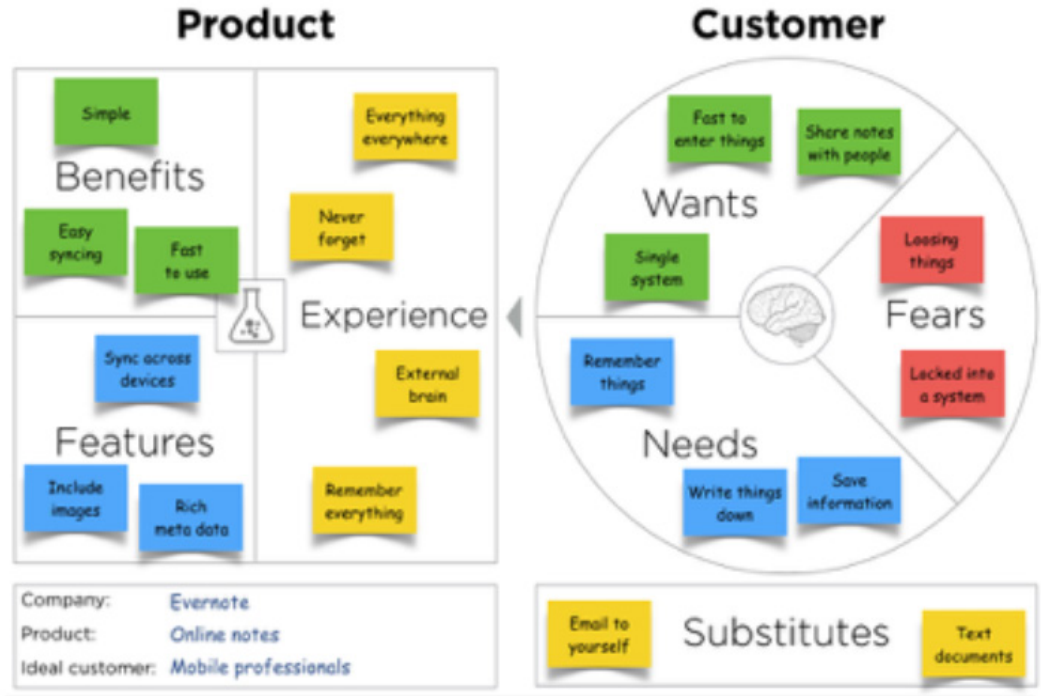
Here are some examples of different angles that value propositions often take.

- Newness, which can be defined as:
  - A new technology.
  - A new invention.
  - A product that is unique.
  - A product that defies categorization (you cannot figure out what industry it belongs to).
- Performance – A product that improves over the existing competition.
  - Performance could be part of your value proposition if the product already exists.
  - Yours is bigger, faster, more effective or safe.
- Customization – The most common.
  - Products designed for a specific customer.
  - Technology recommends a specific product based on a recent purchase (i.e., Amazon recommendations after you make a purchase).
- "Getting the job done" – This could work if your product enhances a customer's productivity.
- Design and Usability – Who wants to buy a product that the customer has to figure out how to use? This angle works best when you are targeting a customer where design and functionality/usability are important.
- Price – Make sure your price is balanced with value.
- Reducing Costs
  - Your product can actually reduce costs for the customer.
  - Your product can save them money, i.e. insurance companies use this a lot.
- Reducing Risk
  - Your product directly makes people feel safer.
  - Your product indirectly makes people feel safer (i.e., quality data to make decisions).
- Accessibility and Convenience
  - This works well if you want to stay in front of your customers (i.e., a convenience store).
  - You combine products and services in one place.
- Brand or Status – If you are a startup, perhaps you can collaborate with a company that has an established brand.
  - Works when you are well known.
  - You create a brand that is powerful and unique.

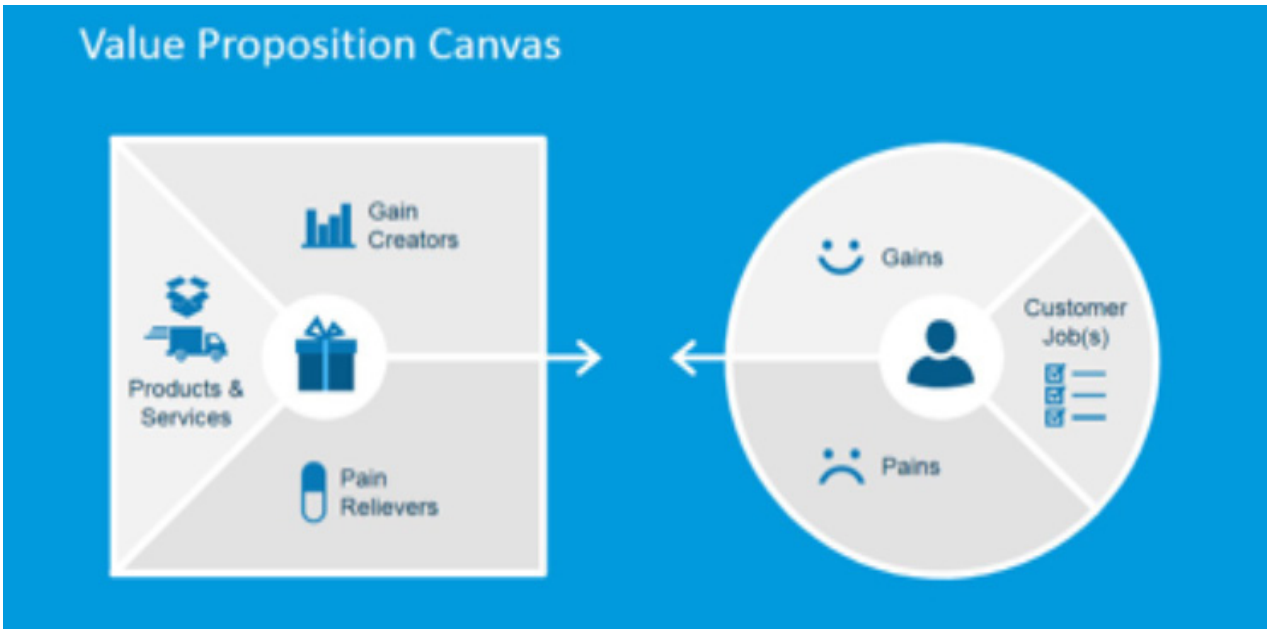
Excerpts from www.forbes.com/sites/rebeccabagley/2013/09/04/how-to-develop-a-compelling-value-proposition and conversionxl.com/blog/value-proposition-examples-how-to-create/

Value Proposition Canvas

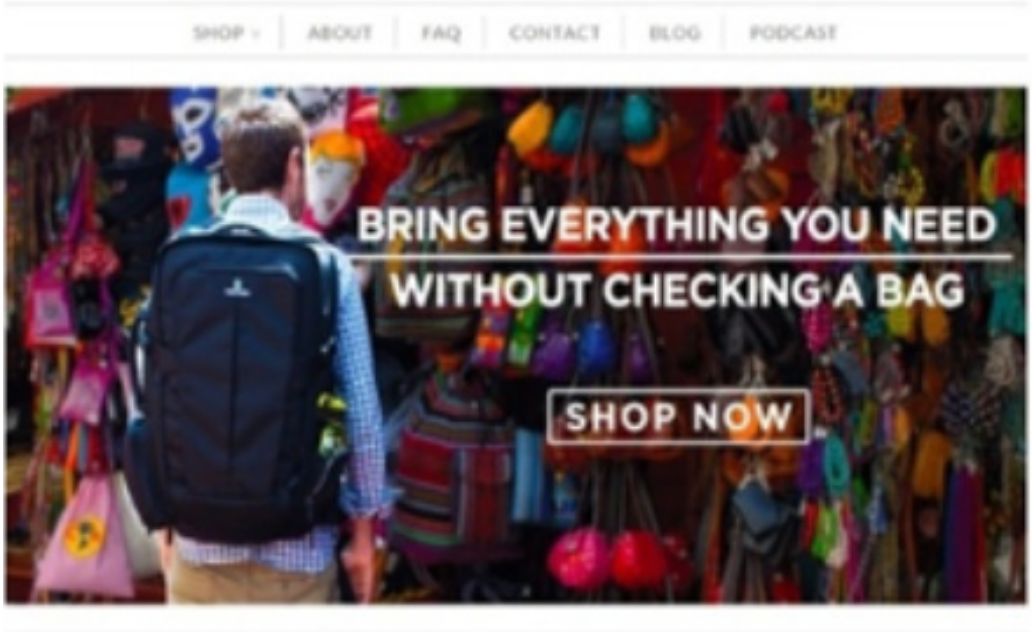
Value Proposition Canvas



5 Examples of Value Propostion Canvas



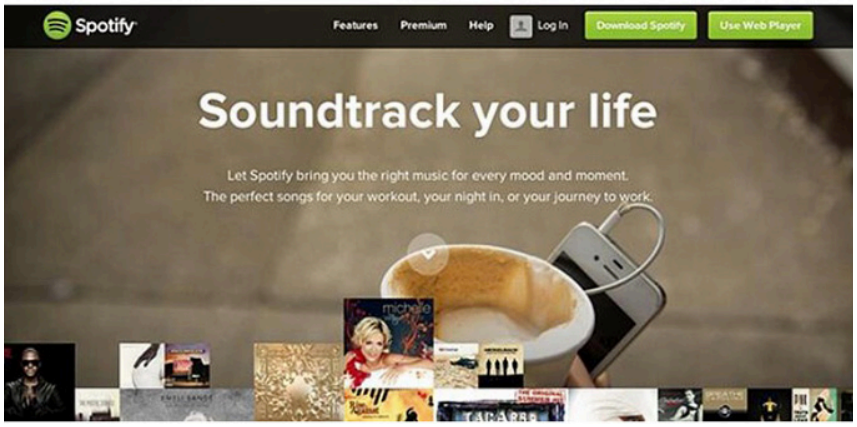
Examples of Value Propostion



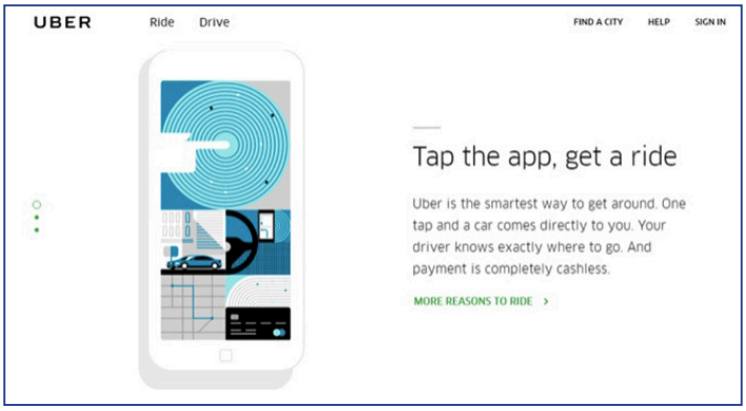
While many people may associate backpacks with school kids, Tortuga makes it clear in its value proposition that is not its market. Making "travel backpacks for International, Urban Travel," the brand is going after hardcore travelers who are annoyed at the thought of checking bags and inspired by the freedom of backpacking. Its imagery and messaging strongly resonate with this audience.

In their value proposition, Freshbooks does a great job of telling you exactly what they do and who it is for, calling out their personas directly. By boldly addressing them as "non-accountants," FreshBooks not only commands attention but always highlights a common marketer pain point of not being able to understand accounting software.

By now, we all know and love Dollar Shave Club's marketing and its value proposition is no exception. In this example, the cheeky brand does an impressive job of highlighting value and benefits instead of features while also incorporating its biggest selling point – price. While it's not entirely clear who the brand is targeting here, for something as universal as shaving, it's not needed.



This value proposition eloquently tells you what Spotify's product is all about. It wants to bring music into your life and it does that by being available on-the-go in your smartphone or on a desktop (as seen in the hero image).



6 BUSINESS PLANNING: KEEPING YOU AND YOUR COMPANY ON TRACK

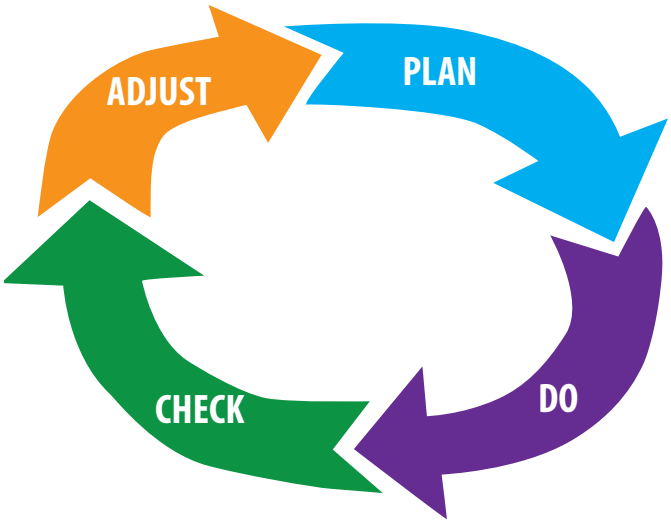
(Trust me – this can be fun)

"Do you have a business plan?" This seems to be the first thing entrepreneurs are asked when starting a business. Most entrepreneurs view writing a business plan as a daunting task. Traditionally, business plans were 40+ pages long and required a lot of research, time and effort. Fortunately, business plans are evolving. A new tool called "Lean Business Planning" has changed business plans for the better!

Lean business plans are on one page (called a "canvas") and are dynamic and flexible. They focus on how your target market responds to your new product or service. Based on their feedback, you decide whether there is interest in the marketplace, and, if so, what product characteristics need to be changed to meet your customers' purchasing criteria. The more you learn about your target market's buying criteria, the more you can easily change the plan, updating it with more information timelines and objectives.

"A lean business plan does what every business owner and aspiring start-up needs to manage strategy, tactics, execution, and essential business numbers. It exists for internal management, not for outsiders. It stays lean and simple with just bullet points for essentials and a collection of lists and tables. It should be reviewed and revised at least monthly so it stays fresh."

"A lean business plan steers the company toward its goals, and also to tracking and managing progress, expectations, and accountability." *Tim Berry*



Source: "An Overview of Lean Business Planning" by Tim Berry

Lean Business Planning

Traditional business planning still has its place; particularly when describing your company to the outside world, such as to bankers, investors, etc. However, it also has several limitations.

- A traditional business plan takes too long to write.
- Most people will not read it from cover to cover.
- It is often outdated before it is completed.
- It does not lend itself to frequent and easy updating.
- This process does not allow for customerfeedback on product development, channels, pricing, changes in consumer trends, etc.

Lean business planning assists in managing strategy, tactics, execution and essential business numbers. It is for internal management, not for outsiders. One can think of it as a "dashboard." It should stay lean and simple with bullet points, lists and tables. It should be updated monthly. It should steer a company towards its goals and track progress, accountability and expectations.

The Process

1. Create the lean business plan.

- This includes your business strategy (an overview of what you want to do), who your customers are and who your competitors are.
  - Start by identifying the problem and you how you can to solve it. Focus on how you can help customers solve their problems.
  - Describe your target market. Who are your ideal customers and how are they defined etc.?
  - Who is your competition? Are they helping customers solve the problem you are focusing on or not?
- **Tactics**—This is how you are going to make your business strategy happen.
- **Sales strategy**—Selling direct, online, through wholesalers, etc.
- **Marketing strategy**—How will you reach your customers? How will they find you and that you can solve their problem?
- **Your management team**—If unable to hire right now, give a description of whom you need to hire with their objectives and responsibilities.
- **Key partners and resources**—Think about other businesses you might work with. Are there key suppliers or distributors that you will need to have relationships with?
- **Schedule your most important activities**—If you are a start-up go out and talk to potential customers, distributors, etc. to see if you are on the right course. Make adjustments where necessary.
- **Business model**—Basic forecast and budget (realistic). This will tell you whether your business can potentially make money.

2. Test the plan (validation).

- Do your potential customers have the problem that you described?
- Does the solution you propose solve the problem?
- Do your target customers want to pay for your solution and how much?
- You can achieve this by:
  - Surveys,
  - Talking to people (consumers), and
  - Talking to industry people.

3. Review your results.

- If starting up, review the results of your surveys and interviews. Take those results and pivot, modify or fine-tune your lean business plan as needed.
- You may have to do this several times but each time you adjust you are reducing risk.

4. Revise your plan.

- This plan is a dynamic living document.
- You are developing strategies and seeing if they work. If not, fine-tune and try again.

The lean business plan is also the basis for developing a more traditional business plan. Add some more traditional business plan components and you are ready to move forward.

Excerpts from www.article.bplans.com/introducing-lean-planning

What Lean Start-Ups Do Differently

The founders of lean start-ups don't begin with a business plan; they begin with the search for a business model. Only after quick rounds of experimentation and feedback reveal a model that works do lean founders focus on execution.

	Lean	Traditional
Strategy	Business Model Hypothesis-driven	Business Plan Implementation-driven
New-Product Process	Customer Development Get out of the office and test hypotheses	Product Management Prepare offering for market following a linear, step-by-step plan
Engineering	Agile Development Build the product iteratively and incrementally	Agile or Waterfall Development Build the product iteratively, or fully specify the product before building it
Organization	Customer and Agile Development Teams Hire for learning, nimbleness, and speed	Departments by Function Hire for experience and ability to execute
Financial Reporting	Metrics That Matter Customer acquisition cost, lifetime customer value, churn, viralness	Accounting Income statement, balance sheet, cash flow statement
Failure	Expected Fix by iterating on ideas and pivoting away from ones that don't work	Exception Fix by firing executives
Speed	Rapid Operates on good-enough data	Measured Operates on complete data

A PAIN OF THE TRADITIONAL BUSINESS PLAN

"Business Plan:
A document
investors make you write that
they don't read."

Steve Blank

6 Transitioning

Whereas much of the current literature focuses on lean business planning, there is a time and place for using the traditional model. The writing of this type of a plan is much easier if the lean method is well established and developed. Much of the lean plan can be transitioned into the traditional model and expanded based on lessons learned.

Writing a Traditional Business Plan

Whereas, a lean business plan is for internal use only, the traditional business plan is for external use (i.e., investors, banks, and grant applications). Three rules apply when writing a traditional business plan:

- Keep it short and concise (no one is going to read a 40 page plan).
- Know you audience. Write so that they can understand vs. using scientific or industry-specific jargon or acronyms.
- Do not be intimidated. Most business owners are learning as they go and do not have significant business degrees.

Six Things to Include in Your Plan

The business plan is a tool to help you understand your business better. They are living documents that are updated on a regular basis. They are made up of the following parts:

1. Executive Summary

- This is usually one or two pages and generally written last. It introduces your company, explains what you do and states what you are looking from the readers.
- It should be able to function as a stand-alone document and share the highlights from your business plan.
- Include a one-sentence overview of your business. Typically, this is a value proposition, which describes what your company does.
- State the problem your company is addressing and why you have the solution.
- Who is your target market? Be as concise as possible.
- Who will be your competition either direct or indirect?
- Provide an overview of your management team and why these are the right people to bring your product to market.
- Financial summary—Highlight key aspects of your financial plan.
- Funding requirements.
- Milestones and traction—How much progress have you made so far and future milestones that you intend to hit.

2. Opportunity

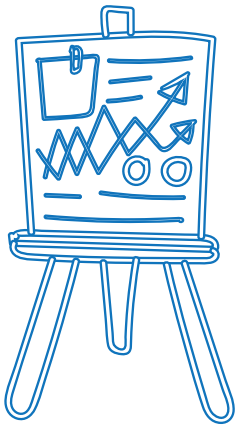
- Describe in detail the problem that you are solving, whom you plan to sell it to and how your product fits into the existing competitive landscape? Or does it create a new level of competition?
- You also want to demonstrate how your solution sets you apart from the competition.
- State the problem. What types of "pain" is it causing with your potential customers? How are they solving this problem today? Is it expensive, too far to travel, etc.?
- Have you validated this problem with potential customers?
- Once you have defined and confirmed there is a problem, describe your solution in detail. What is it? How is it offered and how does it exactly solve the problem that your potential customers have?
- Target Market—A business plan should identify its target markets and, using data (see below), show how fast those markets are growing.
  - TAM – Total Available/Addressable Market (everyone you wish to reach with your product).
  - SAM – Your Segmented Addressable Market or served available market (the portion of TAM you will target).
  - SOM – Your Share of the Market (subset of SAM that you can realistically reach—particularly in your first few years of business).

- Discuss the current trends for each.
- Define your ideal customer for each segment. This is often called the "buyer persona" or your ideal customer. This can further be defined by name, gender, income level, likes, dislikes, etc.

- Competition—Who else is providing solution for similar problems? Focus on how your solution is different or better than the competition.
  - Develop a "competitor matrix" where the competitors are listed on the left and then columns are added for product features. Checks can be put in each column as to whether the competitor's product has a specific feature.
- Future products/services—Include a paragraph or two but do not spend too much time on it.

3. Execution

- Marketing and Sales—This section describes how you will reach your target markets, how you plan to sell in these markets, your pricing plan and what types of activities/relationships you need to be successful.
- Positioning—How you will try to present your company to customers, i.e., low price, premium price, luxury brand, etc.
  - To assist, ask yourself the following questions:
    - What features or benefits do you offer that your competitors do not?
    - What are your customers' primary needs or wants?
    - How are your competitors positioning themselves?
    - How do you plan to differentiate yourself from the competition? Why would someone choose your company?
    - How do you see your company in comparison to other solutions?
  - This does not have to be a long section. Explain where your company is within the competitive landscape and what your "value proposition" is.



- Pricing—Your positioning strategy will be a major driver in your price. Some basic rules are:
  - Be sure to cover your costs.
  - Primary and secondary profit center pricing—You may sell a product at cost, however, you must make up for it with a more profitable service contract.
  - Matching the market rate—Your pricing needs to match up with your customer demand and expectations.
  - Three approaches to pricing:
    - Cost-plus pricing—Look at your costs and mark-up your products based on those costs. This is especially important for manufacturers who need to cover production related costs.
    - Market-based pricing—Price based on what the market is expecting.
    - Value pricing—Price is determined based on the "value" you are providing to the customer.
- Promotion—How do you plan to communicate with your prospects and customers? You will need to evaluate the costs of these promotions and how many new sales that they deliver. Make sure the following is included in your promotional plan:
  - Packaging—Having images of your packaging in the plan is helpful.
    - Does your packaging support your positioning strategy?
    - Does it communicate your key value proposition?
    - How does it compare to the competition.
  - Advertising—Provide an overview as to how you will advertise, i.e., online and traditional media.
  - Public relations—If this is part of your strategy provide an overview.
    - Content marketing—Publishing useful information, tips and advice so that you target market can get to know your company through its expertise.
    - Social media—Explain your plans in this area.
    - Strategic alliances—Discuss where appropriate.

- Operations—How your business will work. Depending on the type of business you may want to summarize sourcing and fulfillment plans, technology, distribution channels, customer service, etc.
- Milestones—Scheduling your implementation steps and major goals.
- Traction—A summary of accomplishments showing elements of success.
- Metrics—The numbers that you will watch on a regular basis to judge the health of your business.
- Key assumptions and risks—Assumptions can be thought of in terms of risk. If there is a risk to your business (i.e. unknown demand), your assumption would be that this can be achieved through marketing etc.

4. Team and Company

- Your management team chapter is where you make the case that this team can execute what has been detailed in the plan for successful results.
  - A typical management team overview includes bios for each team member with education and industry experience highlighted.
  - An important factor is do they have entrepreneurial experience vs. just corporate.
  - Your management team does not need to be complete; gaps/vacancies are all right.
  - Should include some type of organizational chart.

- A company overview should include the following:
  - Mission statement,
  - List of intellectual property,
  - Review of the company's legal structure and ownership, and
  - Business location.

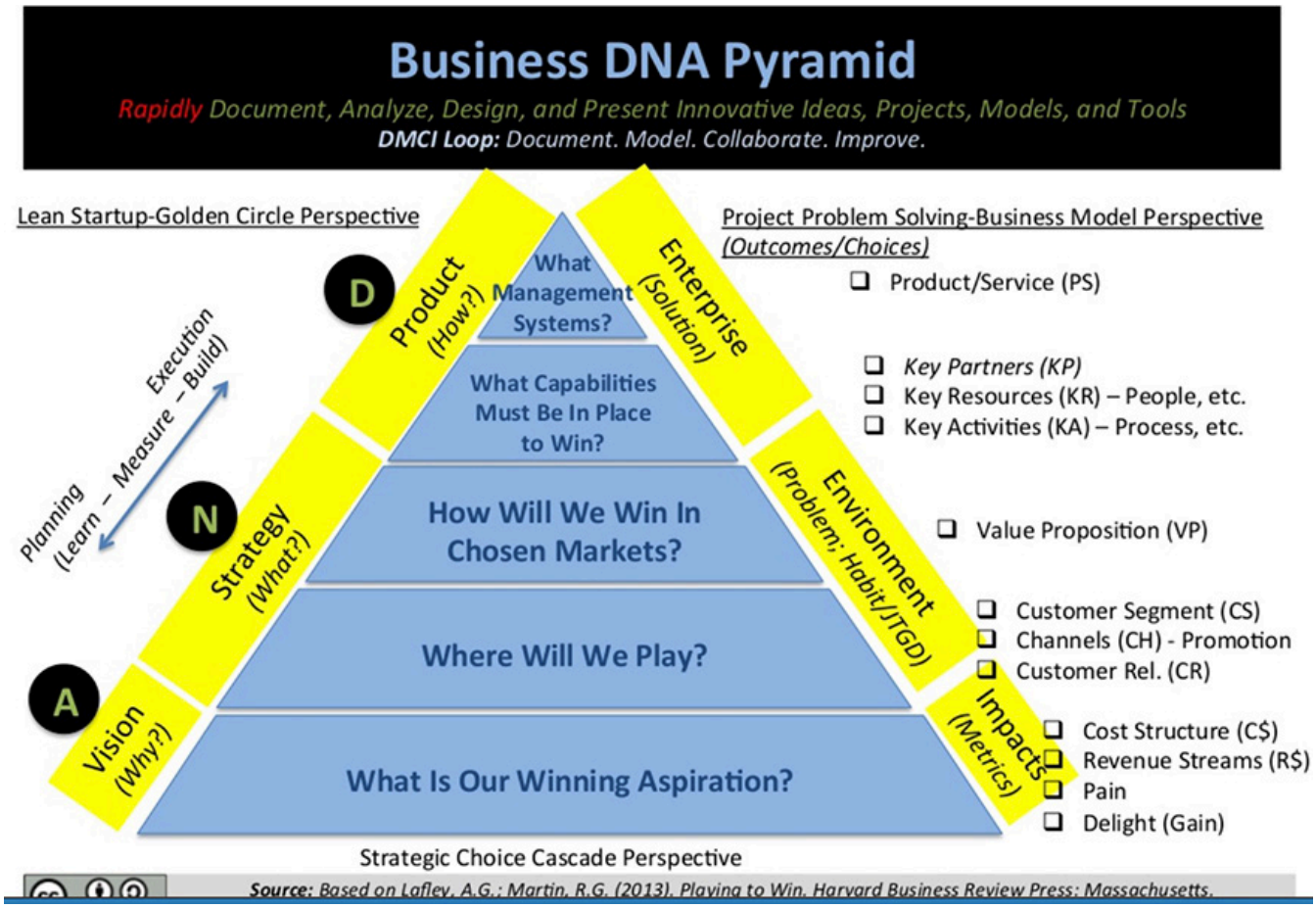
5. Financial Plan

- Typical you will have monthly financial projections for the first year and then annual projections for 3 to 5 years. The plan should include the following.
  - Sales forecast
    - Break it down into major product line, include cost of goods sold (COGS), which reflect the direct costs associated with making your products.
  - Personnel plan—How much you plan to pay employees plus "employee burden" i.e. payroll taxes, insurance and other related costs.
  - Profit and Loss statement—Also known as an income statement. This shows if you making or losing money. A typical one include:
    - Sales – Includes all income-generated by the business.
    - Cost of goods sold, when subtracted from sales gives you your gross profit.
    - Operating expenses – List of indirect expenses needed to run your business excluding COGS as well as taxes, depreciation and amortization. You would include salaries, R&D, marketing and other expenses.
    - Total operating expenses – Total of your operating expenses.
    - Operating income also known as Earnings Before Interest, Taxes, Depreciation and Amortization (EBITA).
    - Interest, taxes, depreciation and amortizations list below your net operating income.
    - Total expenses.
    - Net profit.

- Cash flow statement – Keep track of how much "cash in the bank" you have at any one time.
- Balance sheet – Provides an overview of the financial health of your business.
- Uses of funds – If you are raising money from investors have a brief section as to how the funds will be used. You can use major categories (i.e. R&D, inventory sales etc.) to demonstrate this.
- Exit strategy – Do you plan to sell your business either to another company or an IPO? Your investors will want to know how they get a return on their investment.

6. Appendix – A good place to include anything that has not already been covered but you think is important for potential investors to know (i.e. charts, graphs patents, legal notes etc.).

Excerpts from www.articles.bplans.com/how-to-write-a-business-plan



7 CALCULATING START-UP COSTS

(CAREFUL PLANNING NOW BODES WELL FOR THE FUTURE.)

Note: The following information, except where noted, was provided by the Small Business Administration at www.sba.gov/business-guide/plan.

Identifying Your Start-Up Expenses

How much money will it take to start your business? The following is an outline for typical business start-up costs. The key to a successful business is preparation. Before your business opens, you will have bills to pay. Calculating these start-up costs will assist you in:

- Estimating profits
- Attracting investors
- Saving money with tax deductions, and
- Secure loans

U.S. Small Business Administration

Most business fall into three categories—brick and mortar, online and service. Each will have their unique startup costs but there are some common costs. Once you have a list of expenses, you can estimate how much they will cost. Some expenses are well defined like permits. Others are less certain such as salaries. Talk to mentors, vendors and service providers to get a sense of what these expenses will cost. These expenses include:

Office space

- Equipment and supplies
- Licenses and permits
- Insurance
- Lawyer and accountant
- Inventory
- Employee salaries
- Advertising and marketing
- Market research
- Printed marketing materials
- Developing a website, and
- Channel promotional costs

Add up your expenses to get your financial picture. Organize them into one-time expenses and monthly expenses. A good objective would have at least one-year's coverage of your monthly expenses. You can deduct these expenses for tax purposes, thus saving you money. Add the two together to get a good understanding as to how much capital you will need. This is a link to a helpful SBA spreadsheet:
www.sba.gov/sites/default/files/2017-07/Startup%20Costs%20Worksheet.pdf

Examples of one-time expenses are:

- Buying major equipment office furniture, computers etc.
- Website development, logo design and
- Permits, licenses fees.

Examples of monthly expenses include:

- Salaries
- Rent
- Utility bills, and
- Equipment leases.

8 MARKETING – IT'S ALL ABOUT GETTING YOUR CUSTOMERS' TRUST

The objective of all businesses, whether selling a product or service, is to gain customers' trust in making their purchasing decisions.

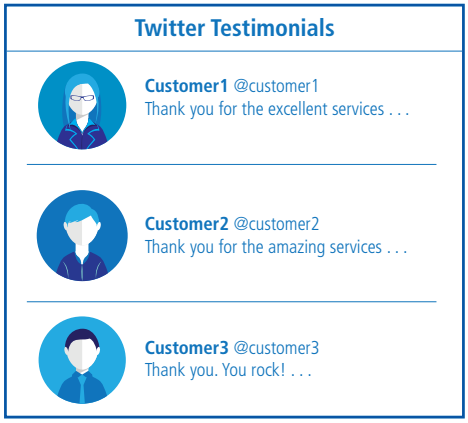
This is accomplished in two ways: developing and executing inbound and outbound marketing strategies.

What is "Inbound Marketing?"

"Inbound marketing" is a strategy that focuses on attracting new customers/leads via company-created Internet content. The goal is to have potential customers come to the company rather than marketers vying for their attention. This type of marketing tries to make it easier for customers, who are actively looking for goods and services via the Internet, to find what a company offers.

More information: https://searchcrm.techtarget.com/definition/inbound-marketing

Many of us participate in inbound marketing without realizing it. For many people, when they are interested in a particular product or service, they "Google" the topic and review any number of companies without interacting with a salesperson. They develop their own perspective/opinion about a product or service from a company's website, FAQs, customer testimonials and/or from social media. Think about the proliferation of testimonial websites, from Amazon to Yelp reviews. Having a strong customer testimonial page on your website can have a significant impact in increasing sales because it develops trust in your products or services. Some ways to achive this include:

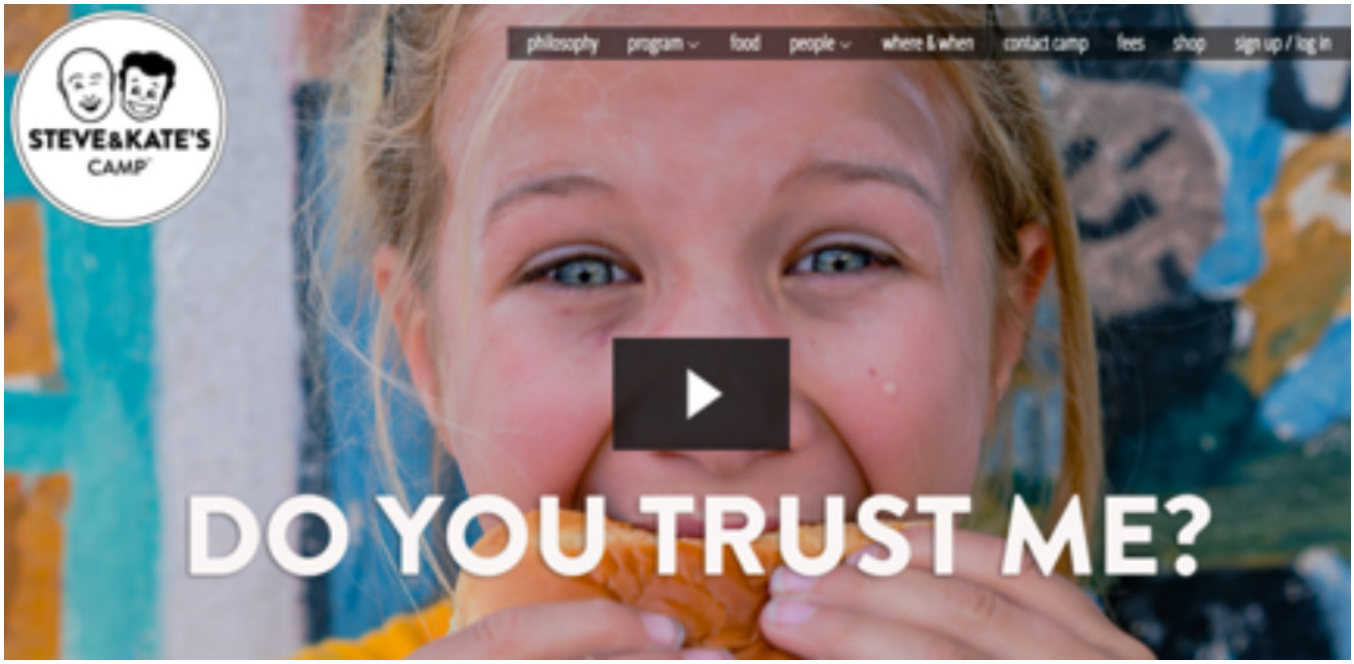


Blog Post Reviews

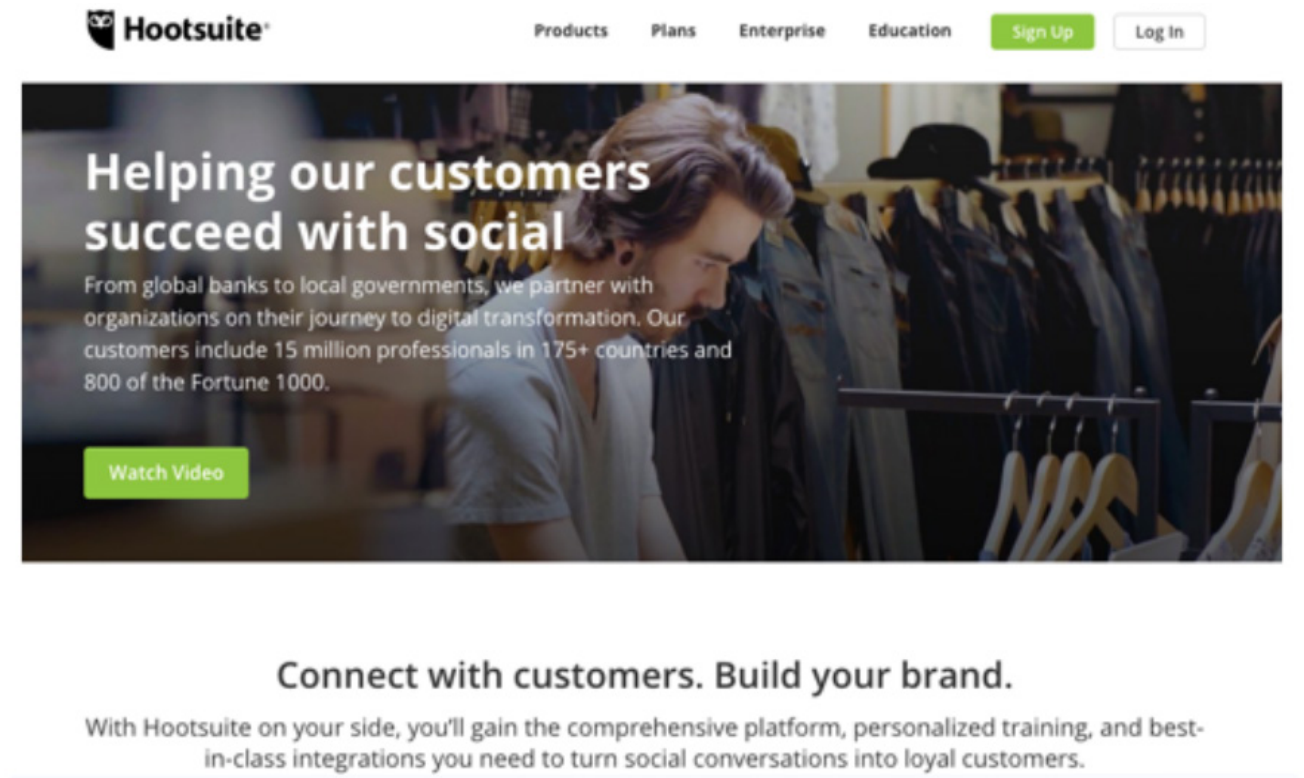
https://optinmonster.com/9-customer-testimonial-examples-that-you-can-use-on-your-website/

8 Some good examples of customer testimonial pages on a website include:

Steve & Kate's Camp runs summer camps across the U.S. | www.steveandkatescamp.com/



Hootsuite | www.hootsuite.com/



9 TIPS for Creating a Great Customer Testimonial Page
1. Try out different formats – Tweets and other social media posts can be effective. Use the highest-quality photos and video you can manage (send out a crew if you can).
2. Make your customers look good (not just your own business and your product).
3. Ask your customers to share concrete numbers that demonstrate the ways you helped their business.
4. Give visitors to your page the ability to filter testimonials or case studies by industry, company size, and location so they can find the stories that are most relevant to them.
5. Try out different formats – Tweets and other social media posts can be testimonials! (Just get permission).
6. Make it easy for more customers to submit a testimonial.
7. Don't forget to use testimonials across your site where you want to drive conversions – including the home page.
8. Don't just use quotes; show examples of your product in action.
9. Display a mixture of familiar logos and real customer faces.
https://www.wordstream.com/blog/ws/2017/07/19/customer-testimonial-examples

Inbound Marketing and Search Engine Marketing

One of the most effective ways to capitalize on the benefits of inbound marketing is with search engine marketing activities. Search marketing is unique in that your customers start the conversation by searching on a topic—you as the advertiser have the ability to insert yourself into the conversation. The idea is to create ads and websites will show up when someone searches for something relevant to your business, making it easier for customers to find you. Someone who searches for your product or service is a warm lead, and if you aren't there to catch him, a competitor likely will.

Consider the last time you made a purchase. Where did you go? Did you look for ads in the Yellow Pages? Attend a trade show? Search for the product online? Most likely, you answered with the latter, and so did your customers.

To get started with inbound web marketing www.wordstream.com/web-marketing, set up Pay-Per-Click (PPC) www.wordstream.com/ppc campaigns on Google AdWords and author relevant content for Search Engine Optimization (SEO) www.wordstream.com/seo. The more content on your website, the more reason for someone to land there, and the easier it will be for potential customers to find you.

Outbound marketing refers to any type of marketing where a company initiates the conversations and send it message out to any audience. Outbound marketing examples include the traditional forms of marketing such as print advertisements, tradeshows, "cold calling and email spam.

Excerpted from: www.wordstream.com/outbound-marketing

9 ENTREPRENEURIAL MARKETING FOR FOOD AND BEVERAGE COMPANIES

(Think about the possibilities and then "Focus")

What is Entrepreneurial Marketing?

> ***"Entrepreneurial marketing is less about a single marketing strategy and more about a marketing spirit that differentiates itself from traditional marketing practices."***
>
> *Excerpted from* www.marketing-schools.org/types-of-marketing/entrepreneurial-marketing.html.

This means that, due to lack of resources, typical marketing strategies for larger companies do not really work. ***Entrepreneurial marketing depends on new marketing practices with the objective of being noticed in crowded markets.***

In the entrepreneurial world, marketing is developed out of necessity with limited resources. Common features include innovation, risk taking and proactivity. The focus is on highlighting the company's best strengths while providing customers with value. Focusing on innovative products or great customer service are ways to stand out from the competition. This can be achieved by making viral videos, Tweets, Facebook pages and email marketing. Entrepreneurial marketing is defined by the companies that use it. Since they start small but want to grow, it is different from those strategies used by traditional small businesses. Growth is the primary goal of entrepreneurship and marketing is the way to achieve it. Some examples include:

- Zappos.com – Strengthened online shopping by offering free, easy returns.
- Dell computers – Focused on the following when they were still new to the marketplace:
  - Define your customers.
  - Offer something new.
  - Go where the customers are.
  - Offer exceptional customer service.

Developing an Entrepreneurial Marketing Plan

These can only be developed after a company determines several aspects of its business model. These include understanding the core mission of the company, specific customer groups to target, and who their competitors are. The details of the plan will depend on the marketing strategies to be employed. Viral marketing is often used. This type of marketing relies on existing social networks and other technologies to increase brand awareness or achieve other marketing objectives (increasing sales). A comprehensive plan helps companies focus on, and then concentrate all efforts in a specific area. Normally theses plans do not last more than one year due to start-ups requiring flexibility and quick pivots. They are based on input from all parts of the company and coordinated to use all resources efficiently.

Metrics are based on the goals of the company. These can range from maximizing profits to expanding the customer base. Each goal typically requires a different marketing strategy and different evaluation criteria. Set quantitative targets and revise them if they are not met.

Excerpted from: https://www.marketing-schools.org/types-of-marketing/entrepreneurial-marketing.html

The foundation for entrepreneurial marketing is based on the ability of the start-up to **"segment"** the market, **"identify"** the segments that will give you the best chance of success and **"position"** through a "statement" that will create a compelling reason for your targeted market(s) to buy your product.

9 Segmentation

This involves breaking down your market into identifiable groups. The key is to this is identifying the variables that really matter to your targeted customer and where you can compete. Examples for a business to consumer product (B2C) could be:

- Age
- Location
- Education
- Income

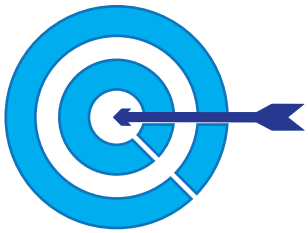
Your outcomes should focus on:

- Establishing the criteria to segment your market.
- Divide the market into different groups and understand the size, value growth of each segment.
- Determine what is important for each market segment and which segments your competitors will go after. This will help you decide the best opportunity for your business and its products.

Targeting

Once segmentation is completed, you will need to identify the best segment with unmet needs that your product can provide. Questions you need to ask include:

- Is the target market underserved in the marketplace? Is the "pain" serious enough that consumers will pay for a solution?
- Is this target market large enough or growing that it can provide a constant revenue stream?
- Does serving this segment align with your company's vision, mission and brand?
- What, if any, product changes will be needed to serve this segment? Are these changes financially feasible?
- What types of organizational changes would be needed?
- What is your understanding of this segment? Is more research needed?
- How easy is it for a competitor to pivot into this segment?



Possible strategies could include:

- In new markets, capture the largest customer base possible as well as customer data.
- As the market begins to mature, you will need to segment it and refine your approach.
- In highly competitive markets, focus on developing emotional connections between your products and targeted consumers.

Positioning

You will need to develop a "positioning statement" that will provide future customers with a compelling reason to purchase your products (see "Developing a Value Proposition for Your Company"). Good positioning statements have the following characteristics:

- Simplistic and memorable
- Presents a clear idea of your product
- Credible
- Unique and "ownable"
- Open ended (leaves room for future growth)

Excerpts from "Start-Ups: Stop Wasting Your marketing Budget" by Patrick Mork

9 Marketing's Four P's: An Overview of Marketing for New Entrepreneurs

There are four critical elements in marketing your products and business. They are called the four P's of marketing. **Product | Price | Promotion | Place**

Each is a variable that you can control in creating the marketing mix that will attract customers.

Product – Refers to the goods and services offered to customers. Aside from the physical product itself, customers are attracted to packaging, quality, features, options, services, warranties and brand name. This product "bundle" should meet the needs your target market. This "bundle" should be based on the knowledge of your target market and potential customers. Market research can help you gain insight in these areas.
From a long-term perspective, this knowledge of your target market will allow you to expand your product line to similar markets. Product diversification is also an option since you will not need to get new distributors but use existing ones in new geographic areas.

Price – Refers to how much you charge for your product. Sounds simple but can be quite complicated and a bit intimidating. Many small business owners try to have the "lowest price" around. However, that can cause several issues: a perception of low quality, it may detract from your brand and it is often harder to raise prices than to lower them.

You can choose to follow an alternative pricing strategy. The following are some common ones.

- Cost-plus – Add a standard percentage of profit above the cost of producing the product. An important part of this is to include both fixed and variable costs in this pricing model.
- Value-based – Based on the buyers' perception of value (rather than your costs). The buyers' perception depends on all facets of the product "bundle" including non-price factors such as quality, healthfulness and prestige.

- Competitive – Base your prices on those of competing firms for similar products. You maintain your price relative to your competitors.
- Going-rate – A price charged that is the going rate in the marketplace. This strategy is common in markets that have little control over the market price.
- Skimming – Involves the introduction of a product at a high price for affluent consumers. Later, the price is decreased as the market becomes saturated.
- Discount – Based on a reduction of an advertised price (i.e. a coupon).
- Loss Leader – Based on a price lower than the cost of production to attract customers to your business to sell other products.
- Psychological – Based on a price that looks better (i.e. $3.99 vs. $4.00).

After you decide on a pricing strategy, the following decisions may impact (positively or negatively) the amount of money you will actually receive.

- Payment period – The length of time before a payment is received.
- Allowance – Price reductions given to a retailer who agrees to take some promotional responsibilities for your product.
- Seasonal allowances – Reductions given when orders are placed during "slow" times.
- Bundling of products/services – Offering an array of products together.
- Trade discounts – Payments to distribution channel members for performing some functions such as warehousing or stocking.
- Price flexibility – Ability of the salesperson or reseller to modify the price.
- Price differences among target customer groups – Pricing variances among target markets.
- Price differences based on geographic areas – Variability between geographic regions.
- Volume discounts and wholesale pricing – Price reductions for large purchases.
- Cash and early payment discounts – Policies to speed payments, thus improving your liquidity.
- Credit terms – Policies that allow customers to pay on a later date.

Whatever your price will be, it needs to cover your costs, contribute to your image (brand), counter the competition and avoid price wars. This "P" generates revenue; the other three "P's" spend revenue.

Place – Refers to the distribution channels used to get your product to your customers. Businesses that create or assemble a product have two choices: selling directly to consumers or selling to a vender/distributor/wholesaler.

Direct Sales – Decision criteria when choosing this type of channel include whether you are going to set up a retail component, e-commerce, mail order or another strategy. The advantage here is that you get to meet your customers face-to-face, and get direct feedback on your product. Direct sales may be a good place to start if you have limited production capacity or a seasonal product. It will require that you have an effective interface with your customers (i.e. a strong selling mechanism). If you do not think you have this, consider selling through an intermediary.

Reseller Sales – This involves using an intermediary (wholesaler or retailer) to sell your product. Typically, this channel allows for greater distribution as well as reducing distribution management responsibilities for yourself. This choice also impacts the amount of inventory storage. One of the positives of selling through an intermediary is immediate access to customers through existing wholesaler and retailer relationships. A significant determining factor is whether you can produce enough product to make the wholesalers minimum requirements throughout the year. On the negative side, selling through a reseller reduces the amount of customer contact as well as reducing the impact of your company identity.

Market Coverage – Regardless of your choice to sell direct or through a wholesaler, you will need to decide what coverage you will have in distributing your product. There are three types:

- Intensive distribution means that you are selling your product in as many places as possible, typically at lower prices. One example of this type of coverage is convenience products.
- Selective distribution narrows distribution to a few businesses. Upscale products sold at upscale retailers are examples of this type of coverage. It is also easier to establish customer relationships.
- Exclusive distribution reduces distribution to one reseller, who in turn may only sell you product. Specialty products tend to work better using this method.

Additional considerations are based on sales volume (i.e. how much inventory you should have on hand and logistical costs to move the inventory). A combination of all of the above distribution methods may be the best answer.

Promotion – Refers to the advertising and selling part of marketing. The purpose of promotion is to help people understand what your product is, uses and how it could benefit them. You will need a clear message targeted at a specific group of consumers. Your target market will be the people who use or have purchasing influence on your product. Focus your market research on identifying these individuals. Your message should be consistent with your overall marketing image; get your target market's attention and motivate them to either purchase or form an opinion. Promotion may involve advertising, public relations, personal selling and sales promotions. Advertising channels include:

- Radio advertisements are inexpensive and work well to inform local customers about your products.
- Television – Television allows access to regional or national audiences but is more expensive than other advertising channels.
- Print – Includes direct mail and printed materials, often found in newspapers, trade magazines, fliers, etc. This allows you to explain to people why they should buy from you and where to find your product. This can be done at the local, regional or national levels.
- Electronic – A website can provide information to potential and existing customers. Advertisements allow for significant promotion and direct email contacts can be made for specific target markets.
- Word of mouth – Depends on satisfied customers telling other people about your product.
- Generic – This type of promotion is used when there is no specific product involved but more like an industry (i.e. milk).

Public relations focuses on creating a favorable business image (i.e. being a good neighbor). This can be done through press releases, your website, and/or open houses.

Personal selling is using salespeople that can tailor their presentations to a specific prospects needs. Sales promotions are specific offerings to encourage purchases. They could include free samples, contests, tradeshows, loyalty programs and/or rebates.

Excerpts from Purdue University Extension: www.extension.purdue.edu/extmedia/ec/ec-730.pdf

Food/Beverage Marketing – The Basics

Food Trade Channels or where do you want to sell your products?

Examples of retail trade channels include:

- Grocery stores (chain and independent)
- Specialty and gourmet stores
- Health and natural food stores

- Club stores
- "Big box" stores
- Drug and department stores
- Convenience stores
- Food service (business, institutional , chain and independent restaurants)
- Vending
- Military
- Export markets
- Internet, mail order and catalog
- Niche gift and gourmet stores and gift basket companies

Each of these retail trade channels offer unique challenges and opportunities and will be determined by your target market. Think about where your biggest potential is and link that to the appropriate trade channel. Keep in mind that if you choose to sell in specialty stores, do not also sell your product in club stores first.

Distribution Channels or how do you want to get your product delivered?
Options include:

- Specialty/gourmet food distributors – Mainly dry groceries.
- Health/natural food distributors – Mainly dry foods, some refrigerated and frozen.
- Rack jobbers – Dry groceries usually high volume products.
- Wholesalers – Supply supermarkets with their inventory. Includes dry, frozen and sundries.
- Warehouse distributors – Anything in pallet quantities.
- Food service distributors – Anything a food service operation would use.
- Others including meat, produce mail-order fulfillment and other types of distributors.

Some key considerations:

- Strive to have positive relationships with your key distributors, create mutually profitable partnerships.
- Make your decisions using the best combination of different types of distributors that will maximize your products' long-term potential.
- Determine your short/long-term distribution goals.
- Do you have local, regional or national distribution goals? If so, plan accordingly.

Branding, Pricing and Packaging or having the right product, packaged right, priced right, at the right place while maximizing promotional opportunities.

Branding

- You can create your own brand using your company name or create branding for specific products.
- Private label – You package your product as a store brand or one used in institutional food situations.
- Control brand – A brand is created to support the exclusive distribution in a given geographical area. This means that you could have multiple controlled brands in different geographical areas.
- Co-branding – A combination of the above options.

Packaging – Design Considerations

- Who is my consumer and why?
- How, when and where will the consumer buy and then consume my product?
- How can I make the packaging drive the purchasing impulse?
- Is my consumer the primary end-purchaser of my product?
- How much will they buy at one time? How often?
- How much are they willing to pay and how are competitive products priced?

- What is the right size for my product?
- How will consumers, merchandizers, retailers, distributors and freight carriers expect my product to be packaged?
- How can I create packaging that takes advantage of master packs and pallet configurations to maximize freight efficiencies and sales?
- What materials should I use to protect my product in shipping and handling as well as extending shelf life and salability?
- Will my packaging be environmentally conscious?
- How can packaging add product value?
- What are the legal packaging requirements for my product?

Although you can do this yourself, it is worth the investment to hire an experienced packaging design firm or hire a seasoned pro to join your team.

Pricing

It is important to keep your pricing strategy in mind as you are developing your packaging. Remember that distributors markup for their service. Retailers will also markup products. Sales marketing and promotions contribute to the price. Then there are other factors such as brokers, merchandizers' sales tax costs, advertising and other fees that will impact price.

To develop a pricing strategy, study the market to understand what factors influence price for your type of product. Identify pricing that will provide value to your customers while insuring your profitability over the long run.

Finally, some questions/suggestions to ask yourself as you are developing your marketing strategy:
Do not develop "me-too" products (a product that is similar to a competitor's product). Create new product categories if it is not different or better.
Think about scaling-up early on. What will happen if your product sells? Pick your products on their ability to scale-up.
Understand your costs.
Who are you? Answering this question helps you begin to develop your brand.
Be able to manage your distribution channel based on your product and skill sets. Consider what is needed to move the business forward.
Whom are you talking to and what do you want to say?
Simplify your marketing message so that there is only one thing that you want your customers to.
If it makes sense, go for a niche marketing strategy.
What does your marketing strategy want to achieve?
Monitor performance-based metrics that are used in your industry.
Will you outsource or keep your merchandising services in-house?
Will you have an in-house sales force or outsource to a broker, agent, etc.?
Would you consider hiring a marketing or sales company to handle the development of a marketing strategy for you?
Decide on a combination of above.

Possible components in a sales management strategy include:

- Brokers
- Independent reps
- Distributors
- Deciding on one or more depends on the goals you want to achieve. Do your research to discover the pros and cons of each before deciding which option(s) to use.
- Identifying ways to find customers is also a critical component. From the design of sales materials to participating in trade shows, continuously develop your brand with supporting marketing strategies.

Customer Service and Data Usage

To be successful, service after sale is critical. Distinctive customer service is critical to your distribution chain and end-use customers. At the simplest level, customer service is treating all contacts with respect and dignity. Research and adopt programs that will allow you to achieve this. Be proactive and think ahead. This includes:

- How to maintain efficient order processing.
- Develop systems to maintain delivery promises.
- What types of services are needed after the sale?
- Develop processes for continuous customer relationship building.

The role of information is critical. You must not only have market penetration but also always be moving towards saturation. Technology allows you to assemble sales data including purchasing patterns, promotions, demographics, psychographics and other data to learn more about your customers and their purchasing habits. Two sources that could be helpful are AC Nielson and Information Resources, Inc. (IRL).

Excerpted from: http://www.fooddude.com

10 E-COMMERCE

The objective is to integrate e-commerce in a way that creates a seamless customer experience.

Review your company's goals and, with your managers, create an electronic "roadmap" that reduces the possibility of a first bad consumer impression. A negative first impression can have a significant impact on your company. In today's world, it is relatively easy for people to tarnish your company's image on social media and consumer review websites.

The e-commerce implementation process can be described in the following steps:

- Designate a person to oversee the e-commerce operation even if it is initially part-time.
- Select an e-commerce platform that meets your current needs and has future scalability.
- Prepare the company for increased sales and getting the merchandise to customers. You will need additional inventory and infrastructure (processing support) to handle the electronic fulfillment, shipping and returns.
- Identify what modifications would need to be made to established business procedures such as accounting, inventory management and other IT functions.
- Estimate start-up costs. Recognize that added growth can strain cash flow as expenses rise for inventory and overhead while revenues are slower in coming.
- Remember – offer your customers convenience not headaches.

The Role of Branding in E-Commerce

The following questions should be considered relative to your existing brand and e-commerce.

- What makes your products unique?
- How will your site standout from the competition?
- How much of your target market is online? What kind of content or key messages will appeal to your online audience?
- How will you make the site accessible for mobile devices?
- Which of your products will you initially sell via e-commerce?

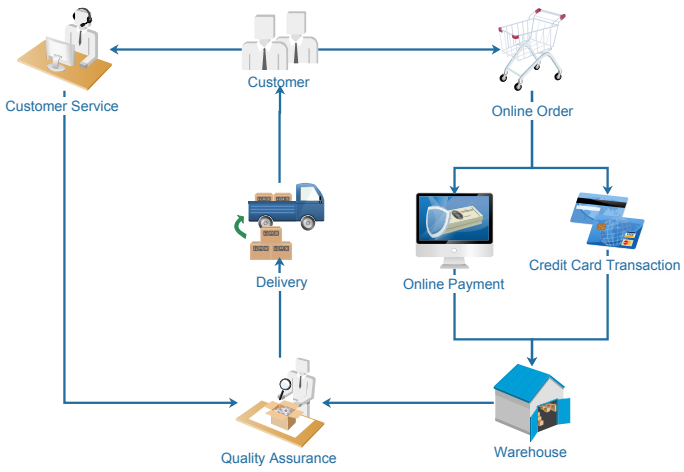
The Digital Site

You can spend as much as you want to create a website but most can be developed inexpensively. Make sure you have a shopping cart feature and electronic payment methods such as PayPal. Also, create an online product catalogue, get customer reviews and feedback and get data from your sales. This works for both B2B (business to business sales) and B2C (business to consumer sales) companies. In addition, for B2B companies, develop an extranet site. This could offer features such as private or tier-based pricing and integration of online sales with your internal IT systems.

Create a Site Customers Trust

- Have your site look professional and inspire confidence with clear product images, easy to understand descriptions and a very navigable layout.

E-Commerce Workflow Diagram



- Make sure contact information is easy to find.
- On the home page, have a button to obtain a catalogue or "shop now."
- Make it mobile friendly.
  - Test your site to include purchases from a variety of mobile devices.
  - Offer a simpler, mobile friendly version of your site that can be easily viewed on a variety of mobile devices. Typically, there is less text and no high-resolution pictures.

Further Enhancements

- Add additional products.
- Upgrade your site through a new makeover.
  - Add photos, customer email testimonials, pictures.
  - Add videos and information on the company's customer philosophy.
  - Fine tune branding—look for ways improve in telling your story.
  - Add customer testimonials.
  - Integrate social media into the site.
  - Consider developing a mobile app that customers' can download to their smartphone.

Shipping and Logistics

Shipping and logistics play a critical role in e-commerce. The customer experience is significantly negatively impacted if the package does not arrive in a reasonable time period. You'll need to negotiate the best shipping costs to remain competitive. Some important considerations include:

- Determine your shipping costs before you set your fees so you do not lose money.
- Clearly communicate your shipping policy to customers including shipping timeframes and fees.
- Consider hiring a fulfillment company or warehouse to handle shipping as you grow. These types of companies can offer inventory control and lower shipping fees.
- Keep packaging as small as possible since size and weight usually impact shipping costs. In addition, packaging can be an important part of branding. Consider ways to stand out.
- Customers increasingly expect free shipping. One way to reduce this cost is to slightly increase retail prices to offset the shipping costs. You can also have a "minimum size" order for free shipping.
- Develop a return policy and clearly state it on your site. This should include timeframes allowed for returns, who pays the shipping costs, how the customer gets credit, an exchange or reimbursement.
- If shipping to other countries consult local tax laws.

Attracting Traffic to Your Site

The key marketing on an e-commerce site is a soft sell. This means offering fun, interesting and educational content. The goal is for your site and company to get noticed and to foster an engaged and loyal customer community. Be creative, do something different and always reflect your company's brand.

Value Added Content

As the site is being developed, think about the content on the site. What would be interesting to your visitors? Examples include how-to articles, educational videos, Q&A sessions with knowledgeable employees, event announcements, product demos, surveys and contests. Look to see what works on competitors' sites (note: copywriting issues). Look for creative ways to target mobile users with value added content specifically for mobile devices.

Search Engine Optimization

Hire a consultant if needed to maintain and/or upgrade your optimization efforts.

10 Email Marketing

Email is one of the most cost effective ways to market your website. The key in developing and maintaining your email lists is to regularly send newsletters, promotions and other content. Ways to build your email list include

- At the point of sale—Ask exiting customers if they would like to get emails on specials or promotions.
- Offer value added content on your site such as a newsletter or e-book in exchange for an email address.
- Feature a pop-up or call to action inviting visitors to subscribe to your newsletter and/or company news.
- Add a "Join My Email List" feature on your site.
- Run a "Forward to Friend" contest with product samples as a reward.
- Collaborate with a related business or organization.

Online Ads

Online ads on search engines or social media are often good ways to attract traffic to your site. These ads show up when Internet users search for specific keywords. You can also purchase ads on social sites like Facebook and/or Twitter. They are called "pay-for-click" ads because you pay when someone clicks on them.

- At These can be very targeted based on your target market.
- These can help you generate extra traffic outside of such sources as search engines, links or shared content.
- Critical to your success is using the right keywords. They can be the same as those you use for your search engine ranking.
- Use the free Google AdWords Keywords Planner to see which ones are the best for you: https://ads.google.com/home/resources/using-google-ads-keyword-planner/

Measure Sales

The essence to successful e-commerce is "optimization" (i.e. tracking your customers). You will need to constantly measure, conduct data analysis and tweak your site. One way to do this is to track the metrics that are the most important to your business. Some examples include:

- The number of sales through your website.
- The number of forms filled out requesting a quote.
- The number of shopping carts abandoned during the purchase process.
- The number of in-store redemptions of online coupons.
- The number of email list signups.
- The number of downloads of white papers, eBooks or other data sheets.
- The number of comments, likes and shares through your social media.
- Use free or low costs tools like Google Analytics to monitor your online efforts: https://marketingplatform.google.com/about/analytics/

Excerpted from "Succeed with E-Commerce, a Guide for Entrepreneurs" - British Development Bank of Canada

Social Media

Social media is another important avenue to promote and grow your business. However, it is a rapidly changing area. We recommend that you use the following resources to get the latest tips and information on how to promote your business via social media.

Twitter Business: www.business.twitter.com	**Facebook Business:** www.facebook.com/business
Google Business: www.google.com/business	**Instagram Business:** www.business.instagram.com
Pinterest Business: www.business.pinterest.com	**YouTube:** www.youtube.com/about
Free Ebooks: www.hubspot.com/resources/ebook/social-media	
How to Market on LinkedIn: www.business.linkedin.com/marketing-solutions/how-to-market-on-linkedin	

11 SALES DECISIONS FOR ENTREPRENEURIAL FOOD AND BEVERAGE COMPANIES

So, what are the differences between sales and marketing?

The American Marketing Association's definition of marketing is, "the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large."

The definition of "sales" according to the Merriam-Webster Dictionary is much shorter: "The transfer of ownership of and title to property from one person to another for a price."

To be successful, you will need to develop some effective methods for sales management. Your objective is to not only sell the product but also do it in a way that maximizes visibility for your company and products.

The foundation of your sales is the development of a specific and focused sales strategy that defines what you are selling and why. Determine the easiest channel to get into; go for the low hanging fruit. Remember that not all sales are created equal. Your first opportunity to sell may not be in your strategy. It is hard to walk away but please recognize that:

- All sales are not created equal.
- Resources can only go somewhere once.
- Not all things can be done.

"What if we don't change at all ... and something magical just happens?"

Developing Your Sales Strategy

The sales process has several parts including the selection of a channel, pricing, selecting the right customers, relationship building, promotions, etc. Typically, there are three types of sales:

- Direct sales: This is where the product manufacturer sells directly to the customer. Companies that want to stay small or companies starting out often begin their sales process through this type of channel.
- Sales through a distributor: Companies using this type of channel want to grow to be a regional or national brand. The most efficient way to achieve this is sell to a distributor who takes title to the product and then resells it to a retail outlet.
- The third category is e-business—either direct selling off your website or though companies like Amazon.

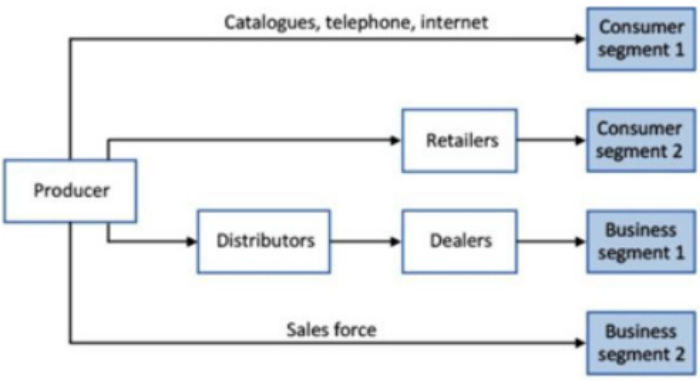


Figure 8.5.2: Multi-channel distribution system
Adapted from: Kotler et al. (2013)

11 **A sales strategy is a foundation of your company. Sales is equally important as marketing and production/operations.** If one of these is out of sync—i.e. production cannot keep up with demand or marketing is succeeding in educating consumers before they are inside the store—the start-up business will be facing significant challenges. Retail stores do not provide product support. Your marketing strategy needs to do this.

Important components of a sales strategy include:
Channel Selection: This is your decision as to which channel to initially sell your product through. Possibilities could include food and beverage grocery stores, food service, convenience stores, high-end specialty food stores, co-ops, natural food stores, etc. Due to limited resources, you will need to decide on one specific channel and saturate it before selecting another.
Local or Regional Sales Growth: Once you have, decided whom you want to sell to, you will need to define a geographic area (i.e. the state of Wisconsin or northwest Wisconsin).
Broker/Distributor Selection: Once you decide to whom you want to sell through and the geographic area you want to sell in, then it is time to choose a broker/distributor that handles your product category (i.e. natural foods) and your geographical focus.
Build Success Stories: When starting out, it is often hard to convince a broker that your product will sell. Developing success stories from direct sales, product demos and/or order commitments from certain retailers can be extremely helpful in developing a broker relationship.
Go Deep, Then Wide: Saturate your initial selected geographic area before expanding it or going to a second one.
Develop Strong Business Relationships: Broker relationships cannot be one sided, always ask how you could do things better to maintain their loyalty and trust.
Fix Distribution Problems: It is much easier to fix these types of problems when you are distributing in a small geographical area than a large one.

The following is a list of terms and processes typically used when selling through a distributor and they will affect how you develop your product's price. Your final product's price must absorb many of these costs while still being competitive at the retail level. Manufacturers typically offer discounts/incentives to distributors and distributors to retailers. Small business suppliers incorporate many of these to drive new business and to build up the buyer base to support long-term relationships.

- FOB (Freight on Board): This is an internationally recognized commercial law term specifying at what point the seller transfers ownership of goods to the buyer. For example:
  - FOB Destination—The seller is responsible for the freight and unloading charges at the customer's loading dock. The customer takes title of the goods at this dock.
  - FOB Plant—The buyer takes title at the manufacturer's shipping dock and is responsible for all freight and unloading charges.
  - Direct Delivered FOB—The seller sells directly to the retail (end) user and is responsible for shipping and unloading costs.
  - Distributor Delivered FOB—The seller sells to a distributor and is responsible for transportation and unloading dock until the goods are on the distributor's dock.

Note: Regardless of which delivery method is chosen, the retail price should stay the same. The wholesaler price should be 15-25% less than if shipping directly.

- Sell Sheets
  - Required for each product (sku #)
  - Should include the following:
    - Images of product skus
    - Images of product bar codes
    - Brief company story/brand, and
    - Suggested retail price range (SRP)

- Product description
- Product description
- Any certifications (i.e. gluten free)

- Do not include:
  - A specific retail price,
  - Current customers, and
  - Anything about a competitor.

- Promotions—Note you must have an annual budget for these sales expenses.
  - Distributors
  - "Off Invoice" (OIs) is a general term illustrating a distributor's incentive provided by the manufacturer. For the distributor doing specific things, i.e. promotion, selling case sizes, etc., discounts are taken off a supplier's invoice to the distributor thus saving the distributor money. There are a variety of ways to do this—for example, you can give the buyer a discount if they purchase a certain number of items.
  - Manufacturers Charge Backs (MCB) where the distributor will charge a supplier for products, they are unable to sell such as:
    - Out of date non-sold products,
    - Damaged products,
    - Packing and arranging transport back to supplier, and
    - Invoice handling fees.
  - Typically, both of these promotional expenses are higher when a business is starting out (i.e. 25-30%). However, after business has been done for a while, it should be about 15%.
  - Recommendation: Develop a promotional calendar that can be provided to the distributor. Depending on the seasonality of the product, several times a year would suffice.
- Product Samples
  - Develop a sample request form;
  - Determine the lowest cost, yet most efficient way to do this, i.e. product size;
  - Track all samples sent and keep records;
  - Include sell sheets and business cards; and
  - Follow-up on future purchasing interest.

Sales Teams

- First Level Sales Team—owners of business and subsequent employees.
  - Stay "lean and mean" do not hire too many people.
  - Make sure that your sales people sell in the right place (channel) and have them understand that a profit has to be made. Sales for the sake of sales does not help anyone.
  - Requirements
    - Develop monthly, quarterly and annual sales forecasts.
    - Develop an "account tracker"—This can be as simple as an Excel spreadsheet (track shipments, promotional costs, profits, etc.).
    - Category review calendar—For many large retailers, they set aside a specific period or month to review all existing and potentially new products within a category. Knowing when this is done is a way to get your products considered for sale in a retail store.
    - Maintain an industry trade show calendar for your product category.
    - Make sure the sales people file expense reports.
- Second Level Sales Team—"Broker Partners"
  - A food broker gets your food and/or beverage product on the retailers' shelves. A distributor purchases the title of your goods and resells them to a retailer. Distributors can often fulfill both roles.
    - However, the supplier must manage this partnership.
    - Set sales goals.

- Ask how the supplier can do a better job in supporting the broker.
- Manage the brand "message."
- These business partnerships typically start out on a retainer basis. As business grows, you could switch to a commission basis based on net sales.

- Merchandiser Partners
  - True partner—Makes sure all of your SKUs are on the shelf, seeks secondary placement opportunities. Retail stockers do not care if all of your SKUs are on the retail shelf.
  - Supplier must manage the partnership, set monthly goals.
  - Typically paid on a monthly retainer.

- Third Level Sales Team (Part 1) – National Distributors
  - Supplier benefit—ships product from point A to point B.
  - National supplier optional services include marketing partnerships, promotional partnerships and product launches.
  - Read the contract and add addendums if something needs to be changed or is not covered.
  - Weak Velocity—The level of sales that no longer warrants the distributor to carry the food or beverage item.
  - Code Changes—Distributors will charge the supplier if there are any code changes to the ordering codes. These may include a change in packaging, ingredients, name, etc.
- Third Level Sales Team (Part 2) – Regional Distributors
  - Supplier benefits—many of the optional services that national distributors provide are part of the expected services for a regional distributor. Expected services include:
    - Ships from point A to point B,
    - Merchandising and order writing,
    - Sales team aids in selling to retailers,
    - Marketing and regional partnerships, and
    - Product launch assistance.
  - Optional Performance Expectations
    - Supplier sets sales goals that the distributor is accountable for.
    - Partnership—Equally invested in the success of the brand.
    - Supplier benefit—access to independent retailers.
    - Supplier benefit—opportunity to capture secondary locations. For example, your end customer is ABC Grocery in northern Wisconsin. ABC Grocery wants to expand into southern Wisconsin; your regional supplier would probably expand to keep your business.
- Fourth Level Sales Team – Retail and Food Service Customers
  - These may help you sell your product through various promotions. The supplier would have to pay for it, but they could help in the following:
    - Pricing discounts,
    - Demos/events,
    - Ads,
    - Coupons, and
    - Swag.

"Great plan. Could we get some more details?"

12 ALIGNING SALES AND MARKETING DEPARTMENTS

Why is this important? Once an entrepreneur understands the sales and marketing departments and develops them accordingly, the efficiencies realized, and the economic benefits gained, will benefit the company from the start.

For most companies, the marketing department develops and implements strategies that generate new leads and then the sales department takes them and tries to turn them into clients/customers. A more efficient model is that the sales and marketing departments work in tandem to ensure that return on investment (ROI) is everyone's responsibility; not just the sales department. The alignment of sales and marketing typically shortens the sales cycles and links ROI directly to the marketing materials. Sales cycles are shorter when the right marketing materials are available in a timely matter. Content changes during the sales cycle, so having the right content for a specific sales phase is critical.

- Marketing content should push potential customers further down the sales process before a salesperson becomes involved. Since prospects research purchases early in the buying cycles, content marketing takes over the early educational role that salesperson once had. Marketing teams can create great case studies, testimonials and vertical marketing emails to get potential customers further down the sales chain. Let sales direct the marketing content to be developed at each sales level.
- Rethink lead generation—A process needs to be in place for prospects where marketing leads them to the product or service. Sales must understand the prospects needs and then close the deal.
- Tie ROI to marketing—When marketing and sales are aligned, anything that marketing does should contribute to ROI. KPI's include "deals influenced or "deals sourced to connect sales to specific marketing activities.

Source: American Marketing Association

Sales and Marketing Alignment

Alignment is based on a common set of assumptions that marketing, product teams and sales groups support the company's overall goals and objectives. In a world where the majority of buyers get most of their purchasing information from the Internet or referrals, organizations cannot operate in silos. The marketing, sales and product development departments must collaborate and leverage their core competences to achieve your company's objectives. These typically include:

- Identifying growth strategies by markets, buyers, offering and productivity.
- Understanding where revenue is coming from by segment, product and customer.
- Setting marketing coverage expectations; including branding, analytics, demand centers, and creative services.
- Agree on marketing's role in driving revenues.
- Develop and execute a functional plan; including campaigns, channels and plans.

This can be achieved by:

- Sales must commit to participate in the marketing planning process to ensure that the sales objectives are understood by others.
- Product development must make sure that marketing and sales understand the decisions behind new product initiatives.
- Marketing must push for regular communication and collaboration between product and sales teams to avoid confusion, lost leads and other opportunities.

12 Steps to Sales and Marketing Alignment

The following are seven steps to align sales and marketing with the objectives of increasing your company's growth through increasing revenues and brand expansion.

Bring buyer personas and profiles together—This is important because customers can get information on a product or service via the Internet or referral before even talking to a salesperson. Content marketing via traditional and electronic marketing mechanisms provides prospects with purchasing decision making information that can either lose their interest or encourage them to seek more detailed data. Buyer profiles are developed by salespeople and are based on demographic information such as age, location and household incomes. However, all males between 50 and 60 who are homeowners are not the same. Profiles tend to focus on the money: who can buy, not necessary if they are interested in buying.

1. "Personas" are detailed representations, often given a name like "Finance Manager Cassie" or "Caregiver Mary" of a target customer that include their motivations, values. They are developed through customer interviews, research and surveys along with analyses of behavior trends and are combined to identify ideal customer groups at specific product life cycles. Bringing together the marketing, sales and product develop groups of a company allow these people to get on the same page resulting in the development of messaging content that results in higher sales.
2. Work together to eliminate sales and marketing waste—Wasted budgets and time often result from a lack of focus based on a strategy backed by customer research. It is more important to evaluate customer acquisition trends than past marketing campaigns. What worked yesterday may not be working today.
3. Sales intelligence drives sales enablement—Sales enablement is a broad term to describe the resources provided to a sales force that will allow each sales representative to generate the highest volume of sales possible. Sales intelligence refers to the practices for the collection, integration, analysis and presentation to help salespeople keep up to date with clients, prospect data and business drivers. Sales intelligence, when used in tandem with other sales resources can help each salesperson achieve the highest volumes possible.
4. Examples of sales intelligence include:
   - What was the initial point of engagement for the prospect and why?
   - What activity is the prospect engaging in via social media?
   - What is the prospect's website behavior?
5. Map the content of sales—As a prospect goes through the buying cycle, what types of content are needed to move the prospect to the next step?
6. Automate lead-to-revenue management—The marketing and sales teams work together to maximize revenue generation. This can be done in two ways:
   1. Bringing together the profiles and personas creates a unified, single view of who the customer is and what they are looking for, and
   2. Use the intelligence to map the content that the customer is looking for as they move through the various stages of the buying process.

Excerpted from www.market-bridge.com/2015/05/21/for-the-love-of-marketing

13 CUSTOMER RELATIONSHIPS

(It is more than just making a sale.)

Customer Relationships: The way your company communicates and deals with existing customers.

Traditionally, when it comes to making higher profits, one focuses on making new sales or going after larger accounts. However, it is essential to focus on your existing customers no matter how small they are. Some examples on how to do this are:

- Let your customers know what you are doing for them; i.e. newsletters, phone calls and/or emails. Point out what excellent service you are providing them and be open to feedback. If you never mention the things that you are doing for them, they may not notice.
- Write old customers notes/emails to ask how they are doing. Do they need more of your product and/or it was nice to see you at the recent conference.
- Keep it personal. Email is easy but a voicemail saying you would like to talk takes more effort and the customer knows that.
- Remember special occasions, birthdays, anniversaries, etc.
- Pass on information, i.e. an article or a new book

Developing a Customer Relationship Plan (CRM)

One starts by looking holistically at your systems that deal with customers; including marketing, sales, ordering, technical support and business intelligence. It should also include all interaction channels, retail branches, wholesalers, websites, mobile apps, sales and service partners. The objective is to optimize all of these and make sure that they are running consistently.

The key to a successful CRM is developing objectives as to what you want to achieve in learning more about your customers. You need to ask yourself these questions: Where do you want your business to go? How will a good CRM plan help you get there? Additional questions could include:

- Can you provide a seamless experience to your customers?
- What is your customer's journey, i.e. the whole interaction with your business, purchases, reporting an issue, etc.?
- How do you measure success?
- What are some critical business dates or milestones, for example, if you are launching new products, seasonality, etc.?
- How good is your data metrics to evaluate success?

Creating a CRM Strategy

This strategy should address the following:

- The readiness of the organization to adopt such a strategy.
- A clear vision of what CRM is to the organization.
- Clearly documented customer journeys throughout the organization.
- A communication plan for sharing actionable items within the strategy and progress charts to show what has been implemented and where.
- An education for the entire staff.
- Identify leaders and their responsibilities.

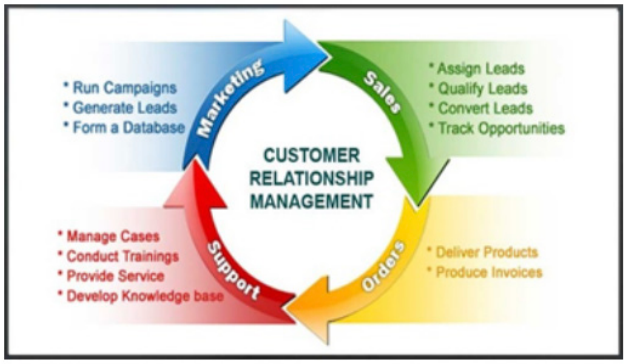
- Clear measures that show everyone the value of adopting and implementing this initiative.
- The selection of appropriate software.
- A celebration of excellence when achieved.

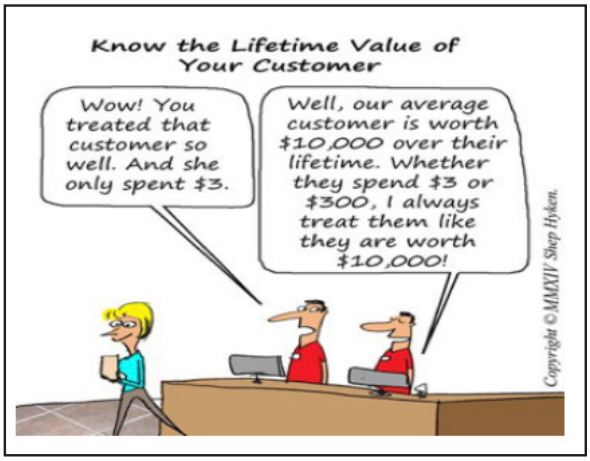
The CRM strategy should have objectives and once they are defined, one can start plotting out the customer's journey and identify gaps. Once you have identified the gaps or moments that you want to impact, you can begin the creative process as to what type of an experience you would like your customers to have and what you can communicate better to support that experience.

Best Practices in CRM (A Summary)

- Have a definition and a vision, i.e. developing deeper relationships with important customers, identifying the attributes that are important to the company and the customer, etc.
- Strategies and tactics include:
  - Processes
    - Collaborate with customers to develop new high value products.
    - Collaborate with distribution channel partners and suppliers to assist in adding value for products that customers want.
  - Technology
    - Use software to develop real time views of specific customers.
    - Develop a database so that you are able to sell when the customer wants to buy.
  - People
    - Recognize that employees have different needs and try to provide them with the value that they are looking for to encourage them to stay with the company.
    - Creating a self-serve capability to allow employees to take more control of their career development.
  - Managing and delivering CRM
    - The feedback from these systems impact the company as much as traditional financial data. Some examples of these include:
      - Account management costs.
      - New product concepts developed through collaboration.
      - Costs or time saved in product development.
      - Savings in new account acquisition through customer referrals.
      - Reduced costs in customer management including communications, support, complaints, feedback and payments for errors.
    - This often results in a competitive advantage because a company sells products that the customer really wants instead of what the firm wants.

Excerpts taken from www.entrepreneur.com/





14 HOW DO I DEVELOP FINANCIAL PROJECTIONS?

I know that developing financial projections can be scary, but you can do it. Remember: Combine common sense with a step by step process. This gets easier as you get further into the process and knowing your company's numerical objectives gets everyone on the same page. Once you have an objective, you can figure out a strategy to get there.

Some common but inaccurate forecasting assumptions are:

- **One must be 100% correct.** No one's forecast is 100% correct. Just do the best you can.
- **Numbers are the most important part of your forecast.** It is more important to show how you arrive at the numbers, your assumptions, competitor research and/or other resources.
- **Show profitability in the first year.** Some people try to impress banks and/or equity investors with this. Unless you can justify this profitability, it is typically a red flag to readers and casts a doubt on your other projections.
- **One has to be a number's person to be successful at this.** This could not be further from the truth.

One of the more significant challenges for a food or beverage start-up is developing realistic financial projections for yourself, financial institutions and/or potential equity investors. Unless you have a financial background or are familiar with the industry that your business is in, this is not a fun thing to do. The intent of this section is to break down some barriers and provide some resources to assist you in developing this part of your business plan. Typical forecasts are on a monthly basis for the first year followed by two years of annualized estimates.

Two important resources are accessing accounting professionals that know your industry and the ratios/data available through research that are associated with your industry. Other resources include the Service Corp of Retired Executives (SCORE) supported by the SBA. Find more information at: www.sba.gov/tools/local-assistance/score.

Other resources include the Small Business Development Centers (located in every state) and other industry associations.

Why are financial projections important?

- First, these projections translate your company's goals into specific targets that are quantifiable and measurable.
- These forecasts provide you with vital feedback and control. It lets you know what is and is not working, what part of your assumptions need changing, what variances are occurring and what needs more control or adjusting. It can also help you analyze the financial impact of these changes.
- Financial forecasts can help you anticipate problems. For example, a fast-growing business or a seasonal one will need additional cash to support it during busy times. A financial forecast can help you anticipate when you need additional cash, justify opening up lines of credit with a bank and, more importantly, show when you can pay the bank back.

Three types of financial statements

- Balance sheet—This provides an overall financial snapshot (liabilities + equity = assets) for a specific time. There are two types of assets—current and fixed. Current assets include cash or other holdings that

can be quickly converted into cash. Also included in current assets would be inventory, prepaid expenses and accounts receivable. Machinery, equipment, land and buildings are considered fixed assets. Liabilities are broken down into current or short-term liabilities and includes accounts payable and taxes. Short-term liabilities are those that will be paid off within one year and/or assets that can be quickly sold off for emergency cash purposes. Long-term debt includes multi-year bank loans or notes payable. Equity includes invested capital and retained earnings. Both the asset side and the liability/equity side of the balance sheet need to be equal. Profit and loss statement—also referred to as an income statement—allows you to project sales and expenses and typically covers several months to a year.

- A cash flow statement highlights how much money is coming in (inflows) and going out (outflows). Cash inflows include cash sales, accounts receivable, loans and investments. Equipment purchased, expenses paid and inventory are considered cash outflows. It lets you know when you will need extra cash or have excess cash to pay down lines of credit.

Getting Started

There are a variety of ways to get started. Based on the type of business that you are starting, one way might be easier than another. The availability of specific types of data may make one way easier than others.

Developing a sales forecast

- First, please understand that your sales forecast will not be completely on target. Still it provides direction and an understanding of the marketplace as to how it relates to your product.
- Typically, the first step in developing financial projections is the development of a sales forecast for revenues.
  - Break it down into small parts. If you will be selling several products, develop a forecast for each one. Using your experience and by researching industry trends, estimate how much you will sell. Another method is to determine how much could potentially be sold through your channels. Purchasing minimums might be helpful here.
    - Determine the potential number of customers for each product. One way to do this is to use the Google AdWords Keyword tool. Type in an appropriate keyword phrase and it will tell you how many times people searched for that phrase in the past month. The results can provide an indicator of your potential audience if you company produces a food or beverage product.
    - Number of leads—A lead is someone who has the potential to be a customer but has not purchased anything yet. For example:
      - Website—A lead would be a website visitor.
      - Retail store—A lead would be someone who enters your store.
    - Sales conversion rates—Determines what percentage of your leads will turn into customers. Research your industry and find data that supports your assumptions.
    - Percentage of repeat sales—It will vary by industry, but again, use data as a basis for your assumptions.
  - Develop a spreadsheet on a monthly basis for the first year and then quarterly for years two and three. Multiply the number of products sold by their price.
  - Develop aggressive and conservative scenarios.
- Forecasting expenses
  - Are you going to manufacture the product yourself or use a co-packer?
  - If doing it yourself, what types of equipment will be needed?
  - What will be your marketing and administrative costs?
  - Distinguish between fixed costs (rent, payroll, etc.) with variable resources to make the product (inventory, storage, etc.).

- Cash flow projections
  - Develop a forecast on a monthly basis relative to how much cash is coming into or leaving your company. If you are new, find out typical cash cycles for your industry.

A second way to consider doing this is the following:

- Identify your expenses first. This is often easier than projecting revenues. Start a list of common categories of expenses such as:
  - Accounting/bookkeeping,
  - Legal/insurance fees,
  - Postage costs,
  - Rent,
  - Utility bills telecommunications/internet costs,
  - Cost of goods sold, and
  - Direct labor costs.
- Then forecast revenues as noted above.
- One way to reconcile revenues and expenses is by using financial ratios.
  - Gross Margin—Use an industry standard here. As a start-up, you probably will not achieve the industry standards, but it is an overriding objective.
  - Operating profit margins—Ratio of total operating costs (direct costs and overhead to total revenue in any given period). This should be a positive, growing number since, as revenues are increasing, overhead represents a smaller percentage and your operating margin should improve.

Use of Common Financial Ratios—The results of these should always be compared to your industry's ratios.

- Current ratio—The most common ratio, this shows your company's ability to pay its short-term bills (due in less than one year). Current ratio = total current assets/total current liabilities. If your answer is 1 or more, this is a positive sign that you can pay your bills. The higher the better, less than 1 means that you could not pay all of your bills if an emergency occurred.
- Quick ratio—This is similar to the current ratio but it excludes inventory from your current assets. It shows that you can pay your bills without selling inventory.
- Inventory turnover—This tells you how many times/year you are turning over your inventory. Compare this number to your industry. Sales/the value of your inventory.
- Average collection period—To determine this, take your account receivables/sales and then multiply by 360. The result is the average time your business waits to be paid.
- Debt to total assets—This is business debts/the value of your assets and is expressed as a percentage. It shows the percentage of yourassets owned by creditors vs.
  yourself.
- Profit margin on sales—This is net income/sales and is expressed as a percentage. For example, a 30% profit margin says that you are earning $.30 for every $1.00 of sales.
- Return on equity—Your adjusted net income/equity (either yours or shareholders or both).

15 HUMAN RESOURCES

Yes, you will have to hire employees. You cannot do everything yourself. Your company's success will be heavily reliant on the talent and the strength of its employees. This includes not only making the right hires but providing them with efficient workspace, communication systems and the development of a strong human resources program.

This section will help you identify the types of employees you will need to hire as well as suggested resources for handling accounting and payroll, outsourcing, benefit management, legal concerns, software and other resources.

Human Resources definition: "The department or support systems responsible for personnel sourcing and hiring, applicant tracking, skills development and tracking, benefits administration and compliance with associated government regulations."

Source: www.entrepreneur.com/encyclopedia/human-resources

A human resources department is a critical component in any business no matter how small. Responsibilities include payroll, benefits, hiring, firing and keeping up to date on state and federal regulations. Any missteps at a minimum could cause employee dissatisfaction and could certainly lead to significant legal issues for your company. However, how does a small business deal with these issues when it does not have the staff or budget to develop its own HR department?

The following sections will provide an overview on how small businesses can "outsource" its HR function, how to put together an executive team and what characteristics an entrepreneurial start-up should look for when making its first hires.

Hiring Your First Employees

Fast growing, entrepreneurial organizations need employees who can demonstrate that they have entrepreneurial characteristics and work habits. Management of entrepreneurial companies must be able to recognize this type of employees during the recruitment process. The following are "Seven Characteristics of Highly Effective Entrepreneurial Employees" by Joe Hadzima, MIT Sloan School of Management.

1. **Ability to Handle Risk:** You will have to work in an environment filled with risk. Your initial employees must be able to contribute to the company in this same environment. They must be able to achieve goals by making decisions when they do not have all of the resources/data available.
2. **Results Oriented:** They must be results oriented. Employees like this take ownership of their responsibilities to get the job done. This includes having sound business judgement and be able to cut through environmental issues to make decisions. Typically, these people enjoy growing as they progress through each experience and/or decision.
3. **Energy:** They must have high levels of enthusiasm and energy and be able to generate output higher than what is expected as well as being committed to the organization and its goals. They perform with limited supervision, are self-motivated and can set priorities with minimal guidance.
4. **Team Player:** They must be a true team player and must recognize their roles contribute to the company's overall success. They are accountable and expect others to do the same.
5. **Multi-tasking Ability:** They must be flexible in their duties and responsibilities and be able to handle more than one function. The ability to do "grunt" jobs until others can be hired is critical.
6. **Growth Potential:** They want to have more responsibility than they have today. These types of employees expect to be your future managers and are willing to be role models to train and coach others.
7. **Improvement Oriented:** These types of people will challenge existing systems and procedures. To them, the status quo is temporary. They suggest improvements and encourage others to do so.

You (the manager) must have these characteristics as well as sound business judgement, hands-on experience management skills and common sense. Externally one will need the ability to create strategic partnerships. Internally one must be able to manage change as the organization evolves.

Developing a Management Team

Once your business grows to the point that you cannot do it all, you will need to start building your management team. The challenge is to match jobs to peoples' strengths including yourself. Soon, you will have to find people to fill the following roles. One cannot start too soon in thinking about the type of person that is needed.

- Chief Executive Officer (CEO)—This position is the boss of everyone and is responsible for everything. They determine the company's strategy, build the senior team and decide how money is spent. The key skill is hiring and firing. A management team can cover a CEO's shortcomings. CEOs think about where the organization is going and the people and processes needed to get it there.
- Chief Operating Officer (COO)—They handle the company's operational details, developing measuring benchmarks and taking actions when they are not met.
- President—This position oftentimes fills the role of the COO but in larger companies handles the gaps that the CEO and COO cannot get to.
- Chief Financial Officer (CFO)—This individual handles the money, creates budgets and financing strategies to achieve organization objectives. They identify which products are profitable and where changes need to be made. You need a CFO if you do not like to think about numbers.
- Chief Marketing Officer (CMO)—They develop and own the marketing and sales strategies. They typically know the industry very well and can help you in product positioning and differentiation as well as distribution channels and advertising.
- Chief Technology Officer (CTO)—You will need someone in this position if technology impacts your business or industry. They must be able to identify those technologies necessary to be competitive but not always buy the latest and greatest.

Finding these people often requires a certain amount of diligence. Two primary strategies to fill these roles are executive search firms (if you can afford it) or networking.
Interviewing Tips for hiring C-Level People

- Interview for chemistry/trustworthiness. Do you want to spend time with him/her?
- Talk to people about the candidate (industry contacts/reputation, etc.).
- Always hire smart people—Each new hire should raise the average IQ of the company.
- Look for evidence of learning ability—Do they repeat or learn from their mistakes?
- Use "behavior description interviewing" techniques—Do not ask for accomplishments. Ask, for example, "What is your budget development process?"

Excerpts taken from www.entrepreneur.com/article/83618

Designing and Implementing an HR Strategy

To effectively manage the growth and success of your company's staffing needs, you need to develop a human resource strategy.

1. Define the vision of your company. Your human resource strategy needs to support this vision. This vision should help HR play its role in achieving the company's goals. For example, if you are an organic foods company and social responsibility is one of its important goals, make sure that this aspect is part of your interview/decision process.
2. Establish the HR Department's role and responsibilities. Will they handle hiring/firing decisions or let senior executives do that? Will they handle payroll and benefit concerns, or will these be outsourced?

3. Develop a company overview that identifies where the company is and where it would like to be from an HR perspective. HR should understand what skill sets each department needs. Are there any budgetary constraints and hiring timelines?
4. Investigate what the company needs, i.e. determine the best ways to hire the types of workforce the company needs. Does the company have a competitive advantage in the marketplace and how can that be exploited from a hiring perspective? Will it assist the company in HR policy development such as working from home? How will job transfers from different departments be handled? How will skills training for the employees be handled?
5. Implement the plan. Make sure that it includes measurable objectives to see if HR is assisting the business to achieve its objectives.
6. Evaluate constantly.

Excerpts for this section were taken from www.cleverism.com/design-implement-hr-strategy/

Outsourcing the HR Function

Since HR is critically important to a small company, outsourcing has provided a way to save money while getting the professional series that can keep your company out of trouble. Until a company reaches 100 employees, outsourcing for these services should be considered and evaluated. From an overall perspective, companies with 100 employees or more should be able to afford to bring this function in-house. Typically, there are four categories of outsourcing.

1. A Professional Employer Organization (PEO) assumes full responsibility for your company's HR administration and literally becomes a partner with your company. The PEO is legally responsible to handle the HR functions while you are handling everything else. Typically, you will need a minimum of a dozen employees for this option.
2. Business Processing Outsourcing (BPO) is a general business term that means outsourcing in all fields, not just HR. For HR, a BPO would make sure that a company's HR system is supported by the latest technologies including self-accessibility and HR data warehousing.
3. Application service providers (ASPS) host software on the web and rent it to users. This is an overall term for business support functions, but some support HR functions. An example of a popular HR software application is People Soft (https://en.wikipedia.org/wiki/PeopleSoft). Others will have their own proprietary software to assist in managing payroll, benefits, etc.
4. E-Services are web-based HR services. Both BPOs and ASPs can be included under this title.

An understanding of these terms is important, but it really comes down to knowing what services your company needs and then finding an outsourcing firm that can provide them. Some firms handle all HR functions. Others use a more "a la carte" approach. A typical list of services includes:

- Payroll administration: producing checks, handling taxes and keeping sick leave and vacation time records.
- Employee benefits: health, medical and life insurance, 401(K) plans and cafeteria plans.
- HR Management: recruiting, hiring and firing. This also includes background checks, wage reviews, etc.
- Risk Management: worker's compensation, dispute resolution, office policies and handbooks.

Outsourcing Benefits

Most entrepreneurs do not have the time or expertise to handle HR issues. If you choose a PEO, you can pass on the legal responsibility to them. In addition, you may save money since the vendor you choose may get a discounted benefits rate due to volume purchases. Finally, if you choose an ASP/e-service you will not have to purchase software and install it; they would host the software. If you are less than 12 employees, online services

are the best way to go. You do not have to give up your legal responsibility and you can easily access your information online. You will be charged based on your usage.

HR Resources for Entrepreneurs

The following examples of resources should reduce the stress that start-ups typically have in developing an HR function. (Excerpted from www.entrepreneur.com).

- Payroll and Accounting
  - Payroll—Zen payroll now called Gusto (https://gusto.com/) is software that lets new hires fill in their own personal details as well automatically reporting them to the government.
  - Accounting—Wave Accounting (https://www.waveapps.com/) is a cloud-based accounting system designed for companies of 10 employees or less. It provides the tools needed to process accounting, invoicing and payroll.
- Healthcare and Benefits
  - Wisconsin Small Business Health Insurance Information (https://www.peoplekeep.com/resources/small-business-health-insurance-in-wisconsin)
  - Health Insurance in Wisconsin, WI Dept. of Health and Human Services (https://www.dhs.wisconsin.gov/guide/smallbus.htm)
  - Benefits—FOND (https://www.fond.co/) provides information on the latest "perks" and benefits available, which can be inserted in an overall benefits package.
- Recruiting and Hiring—The following resources can help you find the best candidates.
  - ZipRecruiters (https://www.ziprecruiter.com/) lets you post jobs on over 50 job boards with a single submission.
  - Intelius (https://www.intelius.com/) allows you to review the backgrounds of people you wish to hire.
- All-in-one HR Solutions
  - Zenifits (https://www.zenefits.com/) an all-in-one platform providing benefits management, payroll processing, onboarding assistance and more.
  - BambooHR (https://www.bamboohr.com/) an HR solution for small and medium sized companies. It includes a centralized employee database, automated reporting and custom reminders.
  - SumHR (https://www.sumhr.com/) a streamline solution for employee management and payroll all in a scalable format.
- Legal
  - UpCounsel (https://www.upcounsel.com/) provides access to an attorney upon demand. You simply post a job description seeking assistance in a variety of categories and receive free proposals from qualified professionals.
  - HRdirect (http://www.hrdirect.com) one-stop-shop for legal notices and forms (i.e. new OSHA guidelines or a required disclosure poster for your start-up).
- HR Management
  - HR Webforms (http://www.mjms.net/hr-webforms/) provides the paperwork needed to run an HR Dept.
  - Saba Talent Space (https://www.saba.com/products) provides computerized evaluation and reviews for your company including Myers Briggs assessments to 360 feedback and learning tools.
- HR Blogs
  - Ask a Manager (http://www.askamanager.org/) a blog that has a variety of questions, stories, answers for new HR Depts.
  - Evil HR Lady (http://www.evilhrlady.org/) an HR blog with a lot of information regarding HR situations that entrepreneurs typically face.

16 FUNDING OPTIONS FOR YOUR BUSINESS

(A bit scary at first but once you get into to it, it becomes much easier.)

Step #1—What do you want your business to be like when it grows up?

To start determining the funding needs for your business, you will need to evaluate your personal financial status as well as the vision for your business. Do you want to keep it small (i.e. mom and pop) or do you want to establish a regional or national brand? Each one of these options will take a different sort of management style and different levels of funding. An additional important consideration is your product/product line. Is this a "me too" product, a "niche" product or a "disrupter" product? A "niche" product would create a new product category or extend an existing product niche. A "disruptor" is one, which because of its features and/or services, upsets existing comparable products (think of a smart phone vs. a flip phone).

Step #2—Once you have decided the above, learn what financing options would work best.

Outside of your own personal finances, there are four ways to fund your company.

1. Self-funding—Known as bootstrapping, you leverage your own financial resources to support your business.
2. Equity investment—Angels and venture capitalists invest in your business.
3. Crowdfunding—Raise funding through the gifts of crowdfunders.
4. Debt financing—Get funding through a bank and/or accessing a variety of economic development financing programs.

Self-funding works the best if your objective is to have a small or hobby business and/or choose to grow it as fast as you are able to generate cash to support your growth.

- It can include your own personal finances, friends and family, and/or tapping into your 401K.
- Using self-funding, you retain complete control of your business, but you also take all the risk. Be careful not to spend more than you can afford especially if you tap into your retirement accounts early.

Equity funding is appropriate when your product is extending an existing niche or is a "disruptor." Equity funding is also appropriate if your objective is to develop a regional or national brand.

- Investors can give you funding to start or expand your business to increase its growth rate. These funds are offered in exchange for partial ownership in your company. Typically, they also play an active role in your company's management (board of directors). This can be beneficial if they are experienced business people in your industry or potentially detrimental.
- Typically, they invest in companies that are:
  - High growth companies—Companies that are creating new product niches or are "disrupting" the competition with a new type of product.
  - This is an equity investment, not a loan. Since they are taking higher risks, they will expect higher returns.
  - They are looking for companies where there is an exit strategy, i.e. the company plans to go public in five years.
  - Typically, they look for companies that have at least an advisory board but preferably a formal board of directors. They are looking for entrepreneurs that are coachable and understand that they do not have all of the answers and can reach out for assistance. It is common for these types of investors to request seats on the board and be proactive in the development of the companies that they invest. The best types of people for these boards are people experienced in taking companies public, have industry experience at the entrepreneurial level and/or who have many business connections that the company could benefit from.
  - Equity financing is often combined with debt financing (see below).
  - There is no guaranteed way to access venture capital however; the following are the usual steps.

- Find an investor.
  - Angel investors typically are wealthy individuals who invest in early stage companies based on their interest, potential ROI and/or to support their local community or a combination of all three. They can also be informal groups of investors that hear funding request presentations/pitches. However, the investment decision is always on an individual basis.
  - Venture capitalists are typically private firms or funds that invest in small, emerging companies. They are typically interested in 25% annual returns with an exit strategy in 4-5 years. They often provide management and industry expertise along with having business connections with other firms. These connections can often support the company that they invested in either through sales, networking or other opportunities. Their objective is to grow the company to the point where an initial public offering (IPO) is feasible. Typically, out of 10 investments, 1-2 may be very successful, 4-5 may break even and 3 or more will fail.

Equity Financing Using "Crowd Funding"

Crowdfunding raises funds for a business from a large number of people called crowdfunders. Technically, they are not investors because they do not receive any ownership shares and do not expect a financial return on their money. Instead, they expect to get a "gift" from your company as thanks for their contribution. Often this is the product that you are selling and/or with special "perks" like meeting you, the owner, or getting their name in the credits.

It is popular because it is a very low risk to business owners. Not only do you retain full control of your company but, if you fail, you are under no legal obligation to repay the funds. Note: please read the fine print since every crowdfunding platform is different.

Excerpts from www.sba.gov/business-guide/plan/fund-your-business

Examples of crowdfunding sites for food and beverage entrepreneurs:

- www.thebalance.com/are-you-funding-an-new-food-business-consider-prohatch-1325970
- www.pieshell.com/
- www.circleup.com/
- www.kickstarter.com/
- www.indiegogo.com/
- www.inkind.com/
- masschallenge.org/
- www.gofundme.com/fundablefeast
- www.barnraiser.us/
- foodtechconnect.com/

Peer-to-Peer Lending

Peer-to-Peer lending (P2P) is an option to raise capital through the Internet. It is a hybrid of crowdfunding and marketplace lending. Marketplace lending is a term used to describe the online platforms that stand between lenders and borrowers on the Internet. Examples of these types of lenders include OnDeck Capital and Kabbage.

Source: Office of Advocacy, Small Business Administration

P2P lending offers several potential benefits and drawbacks to borrowers and lenders. One benefit is that P2P can serve businesses in markets where traditional financial institutions are not interested. This means that new/small businesses that have a hard time accessing capital can find working capital, growth capital, emergency capital, etc. On the negative side, these types of loans have high interest rates for borrowers. For lenders, these are unsecured loans and they bear all the risks if there is a default. Professionals in this industry recommend, like in stocks, to diversifying their loan portfolios. Loan costs are much less for these types of loans due to significantly less underwriting. This makes it easier to

offer small, short-term loans where applicants fill out a few forms on the website. Such services often have same day approval and quotes are often returned within minutes of filing an application.

P2P business loans are typically fixed rate term loans, typically shorter-term and smaller than banks. It can be considered a consumer loan used for business purposes. P2P lending may fill a gap for small business lending for entrepreneurs seeking small amounts of capital when existing options are not available (bank loans, credit cards, etc.) This type of lending can also benefit business owners by making it difficult for lenders to discriminate based on race or other factors.

Excerpted from Office of Advocacy Issue Brief Number 10

Debt Financing is cash borrowed from a lender at a fixed or variable interest rate and the funds have a predetermined maturity date. This can be divided into two types. A "secured" loan is like a mortgage on your house or an auto loan. The asset upon which the funds are used acts as collateral. That is to say, that if the loan is not repaid; the asset is seized and sold to pay off the loan. Like your house or car, a business secured loan would include the purchase of fixed assets, i.e. land, building or equipment. An unsecured loan is like your credit card. No collateral but more interest. These types of loans are usually for lines of credit and/or working capital where funds are used to pay the operating costs of your business. Thus, there is no collateral; the loan is made based on the person's credit history and the banks belief that the loan will be repaid.

A couple of things worth noting:

- When taking out a loan, the objective is to get a term (the period to pay it back) that is as close as possible to the economic life of the asset. One would not take out a five-year mortgage on a house. That is why longer-term mortgages are much more popular.
- In the consumer housing industry, mortgages can be obtained from banks, mortgage loan companies and others. Typically, these loans are bundled and sold to a secondary market that specializes in investing in long term debt, i.e. 30-year mortgages. You may or may not know that your mortgage has been sold. You simply pay the monthly payment to the institution where you got it. If it has been sold and you are aware of it, you send your check to the new company.
- Unfortunately, in the business world, there is not a secondary market. Under federal law, banks cannot be long-term lenders on loans that they offer to companies. This means that if you take out a loan to purchase capital equipment from a bank, the term of the loan will be approximately 5-6 years even if the asset lasts 20 years. For a bank:
    - A short-term loan is typically paid back within six to eighteen months.
    - An intermediate term loan is paid back within three years.
    - A long-term loan would be paid back from cash flow in five to six years. Imagine the impact on your cash flow if you had to pay back a $1 million loan within five years. This would be in addition to the increased working capital needs of a growing company. The result would be a limitation in growth due to cash flow shortages. Note: Economic development financing programs, which will be discussed later, are designed to help growing companies deal with these limitations.

Sources of private sector debt financing

Banks are the most obvious sources with commercial banks having more experience with business loans than regular savings banks. Credit unions are another source of business loans. Finance companies are a third source; however, they will charge higher interest rates and will usually require some sort of capital. Consumer finance companies can often make small business loans and typically will use personal assets as collateral.

Another source of debt financing is **trade credit.** When a supplier allows a small business to delay payment on products or services that it purchases, the business has obtained trade credit. Typically, it is available to business start-ups, especially if the first few purchases were paid for on time. Thus, the business has time to use the product, and potentially profit from it before having to pay the supplier. A common term of trade credit is "net 30 days" which means the customer has 30 days to pay. As an incentive to pay earlier, many companies will provide a discount if paid within 10 days. This is commonly noted as 1%/10; net 30 that means if the invoice is paid within 10 days, the customer can take a 1% discount, otherwise the entire amount is due in 30 days.

Often an entrepreneur will resort to taking out personal loans to support the initial business development stages as well as to pay their self until cash flows develop to allow the entrepreneur a salary.

Understanding the types of loans that banks can provide to businesses

The term **working capital** refers to an unsecured loan (no collateral) to provide funds to pay for the operations of your company. Typically, these types of loans are paid back in one year or less. Working capital is typically used to pay for raw materials used in your production processes, salaries, insurance, professional services, short term debt, marketing and sales expenses, etc.

The definition for working capital is the measure of both a company's efficiency and short-term financial health. It is calculated by working capital = current assets – current liabilities. The working capital ratio (called the current ratio) is current assets/current liabilities. If the answer is "1" or more, the company is in a positive working capital position since it can pay off any current liabilities should an emergency arise. If the answer is < "1" the company is in a negative working capital situation and potentially could not pay off creditors if needed. A long-term trend in this area is a red flag to any lenders or investors.

Lines of credit provide short-term cash for a growing business. It is also a source of funds with a maximum limit from a bank. They provide extra cash, which may be needed for seasonality purposes, to handle a large order from a customer or other short-term reasons. Typically, they are offered anywhere from 90 days to several years and must be paid off within that period. Once paid off, they can be renewed. Interest rates typically float, and you only pay interest on the outstanding balance. Collateral for these types of loans is often accounts receivable or inventory. Where applicable, the lender may review the credit line annually as a basis for renewal.

In contrast, **short-term commercial loans** are taken out to finance a specific expenditure, for example, to purchase a piece of equipment. Like a car loan or a home mortgage, they have a definite term with interest paid on the lump sum. For most businesses, these loans are secured by collateral and the business must have a reasonable cash flow that can be shown as available to pay off the loan. Interest rates may be fixed with terms from 90 days up to three years.

Long-term commercial loans can have terms up to six years. Since this is a longer term, they are often harder to get for start-up businesses. This is because, statistically, most businesses do not last for five years. However, businesses, like consumers, should try to get a loan term that is as close to the life of the asset that is being financed (i.e. a home mortgage). Examples of economic development financing programs, which will be discussed later, are designed to provide longer loan terms by reducing the amount of risk a bank faces, which, in turn, allows for better access for business start-ups.

From a bank's perspective, **equipment leasing** can take the form of either:

- A loan to a borrower that then uses the fund to lease equipment.
- A direct lease from a bank subsidiary company that owns the equipment.

Examples of this type of leasing would be for automobiles, real state or equipment.

Excerpted from www.bizfilings.com/toolkit/research-topics/finance/business-finance/common-types-of-bank-loans

17 ECONOMIC DEVELOPMENT FINANCING RESOURCES

As mentioned in the previous chapter, "Funding Options for Your Business," banks are regulated by the federal government and, therefore, they cannot be long-term lenders (i.e. lending with terms more than 5-6 years). However, federal, state and local governments have developed "economic development" financing programs. These programs reduce the default risk for banks, which allows them to lend for longer time frames. Federal and state programs are usually available to assist a start-up in product development and potentially encourage and incentivize equity investors to invest in entrepreneurial companies.

Potential Financing Resources to Support New Product Development

The federal program, Small Business Innovation Research (SBIR), can provide grant funding to support new product development. There are several federal agencies participating in this program, some with very specific funding requirements, and others more general. Typically, there are two grant opportunities. A Phase I grant focuses on proof of concept. A Phase II grant focuses on the scalability and commercialization potential of the concept developed in Phase I. In Wisconsin, the Center for Technology Commercialization is a suggested resource if you are interested in finding out more about this program, visit ww.wisconsinsbir.org/.

One example of SBIR grants for food and beverage entrepreneurs is the U.S. Department of Agriculture (USDA). They have a more generalized list of research topics applicable to these industries. See: https://nifa.usda.gov/program/small-business-innovation-research-program-sbir.

Like the other SBIR programs, one can apply for Phase I or Phase II funding. Phase I funding is up to $100,000 with a focus on proving a scientific or technical feasibility of an approach or concept. See: https://nifa.usda.gov/funding-opportunity/small-business-innovation-research-program-phase-i. Phase II application focuses on the scalability or commercialization of the approach or concept discussed in Phase I. See: https://nifa.usda.gov/funding-opportunity/small-business-innovation-research-program-phase-ii.

The consultants at the Center for Technology Commercialization can help you gain a better understanding of this process, how to write the grant, and receive peer review feedback on a finished draft.

A similar program is the Small Business Technology Transfer (STTR) Program (https://www.sba.gov/offices/headquarters/oca/resources/6828). This program expands funding opportunities through the creation of public/private partnerships, which includes joint venture opportunities with small businesses and non-profit research institutions (universities). There is still a Phase II and I grant process.

The Wisconsin Economic Development Corporation (WEDC) has an Entrepreneur Micro-Grant Program (https://wedc.org/inside-wedc/transparency/entrepreneurial-micro-grant/) to assist the Center for Technology Commercialization in supporting their clients as follows:

- Up to $5,000 to prepare an application for an SBIR and/or STTR award.
- Commercialization Planning Assistance—$4,500 to complete business validation studies, marketing or business plan.
- Entrepreneurial Training Program—$750 grant reimbursement of successfully completing the Wisconsin Small Business Development Centers' (SBDC's) start-up coursework.

WEDC also has a SBIR/STTR Matching Grant Program (https://wedc.org/programs-and-resources/sbirsttr-matching-grant/). For successful award winners, WEDC, through the Center for Technology Commercialization, can provide additional state funding in three ways:

- For Phase I award winners, grants may be available ranging from $75,000 to $150,000.
- For Phase II award winners, grants may be available from $250,000 to $1,000,000.
- Funding may also be available for Phase II companies seeking to commercialize their technology.

USDA Value Added Producer Grants—These help agricultural producers develop new value-added products. The program's objective is to create new products, develop new markets and increase producer income. Planning grants go up to $75,000 and working capital grants up to $250,000. There is a 1:1 match (https://www.rd.usda.gov/programs-services/value-added-producer-grants).

Economic Development Financing

Economic development financing is the use of public sector programs to reduce the risk of private sector lenders so that these lenders can provide loans to companies that potentially could not get this type of funding without the public sector program. It also reduces the financial risk for these companies since, typically, they require a lower down payment, and better interest and loan terms. This results in a higher percentage of business start-ups, minority owned businesses, job creation/retention and more capital investment, which benefits local state and national economies. This is accomplished using:

- Loan guarantees,
- Loan subordination giving first position on the collateral assets to the private sector lender,
- Lower owner equity requirements,
- Job creation regiments, and
- Longer loan terms and lower interest rates.

As mentioned in the previous chapter "Funding Options for your Business," due to federal regulations, banks cannot be long-term lenders. When acting alone, they rarely can have a loan term of more than five to six years. As previously noted, one of the objectives in obtaining any type of financing is to get as long a loan term as possible relative to the life of the asset. By doing this, you are saving money in your business or a personal mortgage that can be used in other ways, i.e. working capital or a household budget.

Another reason that banks offer shorter-term loans is that, for businesses, there is not a secondary market to sell off real estate loans (like in the consumer mortgage market). By using various mechanisms such as loan guarantees and/or letting the lender have first position on the assets, economic development financing programs seek to extend the term of the loan and lower the down payment of the borrower while reducing a banker's risk. Economic development financing is available at the national level (i.e. SBA programs), state and local levels. The following is a list of these types of programs.

Small Business Administration Business Loan Programs

The SBA does not make direct loans. Instead, it provides incentives to private sector lenders and development corporations to implement their programs.

SBA 7 (a) Loans Guarantees (https://www.sba.gov/funding-programs/loans)

- This is the most common type of loan and is the only one that provides long-term (up to seven years) working capital or allows for debt refinancing. The loan guarantee reduces the lenders risk as well as giving lenders the ability to sell off the guaranteed portion in the marketplace.
  The market provides buyers for the federally guaranteed portions of these loans. It is a very important resource to consider when a business is expanding i.e. buying equipment and/or real estate.

- Uses:
  - Working capital,
  - Fixed assets (land, building & equipment), and
  - To purchase a franchise.
- 7 (a) qualifications:
  - A good credit score—minimum 680.
  - No bankruptcies or foreclosures.
  - Typically, must be in business for two years, however, startups have been funded.
  - At least $50,000 in revenues over the past twelve months.
  - Loan guarantee—The SBA will guarantee up to 85% of the outstanding balance of loans up to $150,000 and 75% of loans higher than $150,000. Thus, a lender's exposure is only 25% to 35%. Since there is a market for SBA guaranteed loans, the bank can often sell off the guaranteed portion, which in turn reduces more risk. The guarantee and the ability to sell off part of the loan is why the bank can have loan terms of greater than five to six years.
  - Collateral—A lender usually requires some form of collateral.
  - The borrowers are required to put down a minimum 10% down payment.
  - Must be a small business defined by the federal government as:
    - Under 500 employees.
    - Average revenue under $7.5 million over the past three years.
    - Average net income under $5 million.
    - Tangible net worth under $1.25 million.
    - Be a for-profit business no delinquent debts to the U.S. Government (i.e. back taxes, student loans).
- Interest Rates, Terms and Limits
  - Interest rates range from 6.75% to 9.25% depending on your credit score and the term of the loan. They can be fixed or variable rate.
  - Maximum interest rate is 2.75% over prime (on 1/31/2018 = 4.5%).
  - There will be fees (https://fitsmallbusiness.com/sba-loan-rates/).
  - Terms—Working capital 7-10 years, equipment 10 years, real estate up to 25 years.
  - The maximum loan is $5 million for the guaranteed portion of the deal and the minimum is $30,000. The average in 2015 was $371,628.

SBA Express Loan Program (https://fitsmallbusiness.com/sba-express-loans-7a/)

- Follows the same guidelines as 7 (a) loans but the maximum amount is $350,000.
- One drawback of the 7(a) program is that an application can take several months to be processed. The SBA Express Loan is an expedited process—once your application is complete, you will be notified within 36 hours if your loan has been approved. Additional time will probably be needed to process the loan which is usually 30-90 days.
- The guarantee is 50% of the outstanding balance.
- Interest rates are negotiable and can be fixed or variable. They are often based on the current prime rate.
- Minimum requirements:
  - Credit score above 680.
  - Positive revenue trends.
  - Business is profitable.
- Maximum loan amount is $350,000.
- Terms:
  - 5-10 years working capital.
  - 7 years line of credit.
  - 25 years commercial real estate loans.

Differences between SBA Express Loans and the Traditional 7 (a)

- Loan size—7(a) is $5 million and Express $350,000.

- Maximum interest rates—7(a) Prime + 2.75%, Express Prime + 4/5% to 6.5%.
- SBA guarantees to lender—7(a) up to 85%, Express 50%.

SBA "Export" Express Loan Program

- Use of proceeds:
  - Finance the cost of goods for exporting.
  - Purchase goods or services to support exporting business.
  - Support letters of credit.
  - Finance long term fixed assets.
- Eligibility:
  - In business for at least 12 months.
  - Demonstrate proceeds will be used to support exporting.
- Types of credit:
  - Lines of credit.
  - Working capital.
  - Refinancing.
  - Fixed assets.
- Loan amounts:
  - Minimum $100,000.
  - Maximum $500,000.
- Loan terms and Maturities:
  - Up to 7 years—Lines of credit (maximum maturity within 2 years).
  - Up to 10 years (or greater depending on the use /life) equipment.
  - Up to 25 years—Commercial real estate.
- Interest rates—fixed or variable.

The Preferred Lender Program for Startups (PLP's)

PLP's are banks that have a significant amount of experience in using SBA programs and have a track record for making good loans. Once a PLP lender is nominated by the SBA, the SBA delegates the final credit decision, loan servicing authority and any liquidation issues to the lender. Thus, the decision-making process is sped up. Most of the major banks are PLP's but one should always ask.

Summary of SBA Loan Programs

All of these programs require a private sector lender. The SBA provides these lenders with various types of loan guarantees so that, with reduced risk, these lenders are more likely to close on the loan (usually with more favorable terms than otherwise would be available).

- SBA Express—Businesses needing up to $350,000 faster than the time it takes for a 7 (a) loan.
- Export Express—Businesses wanting to expand their goods or services export business needing up to $500,000.
- 7(a) loans—Businesses needing working capital real estate or equipment loans up to $5 million.
- CaPLines—Businesses needing a working capital line of credit to meet seasonal financial demands.
- Export Working Capital—Businesses that need short-term working capital for export purposes

Excerpts from https://fitsmallbusiness.com/types-of-sba-loans/

17 SBA 504 Loans

The SBA 504 Program is a different type of lending model then the above loan guarantee programs. It is made up of two loans: one from a lender (typically a bank) and one from a Certified Development Corporation (CDC). These two loans, combined with a low-down payment (10%), allow small businesses to purchase fixed assets, i.e. land building and/or equipment. For example, the loan formula for a $1 million loan:

- 50% of the loan comes from a private lender (1st loan—$500,000),
- 40% of the loan comes from a Certified Development Corporation (2nd loan—$400,000),
- 10% owner down payment ($100,000).

In the first part of this section, it was pointed out that banks cannot be long-term lenders with typical loan terms of 5-6 years. It was also mentioned that a borrower should seek to get a loan term that is equal (as much as possible) to the economic life of the asset that the funds will be used for. With the SBA 504 program, equipment loans are for 10 years and real estate for 20 years.

Uses of funds:

- Purchase of fixed assets (land, building & equipment).
- Build new facilities or renovate existing facilities.

Funds cannot be used for the following:

- Working capital.
- Real estate speculation—If real estate is being funded, the borrower must occupy 51% of the funded space.
- Some types of debt refinancing.

Loan structure

Typically, an SBA 504 loan has three components that benefits the lender and loan recipients. These are:

- A 10% owner equity investment of the total loan amount. This is a benefit because if it were a straight bank loan, the recipient would have to contribute 25% or 30% of the project costs. This allows business to keep more money in the company that potentially could be used for working capital purposes to grow. In addition, there would be fixed interest rates (like a home mortgage) on 40% of the loan, longer terms and no balloon payments. There are prepayment penalties, if the loan is paid off early. Typically, these occur when the borrower wants to pay off the loan during a period that is less than 50% of the loan's original term. If the borrower wants to sell the assets financed by the loan, this loan is assumable by the new buyer.
- A 40% guaranteed contribution through the SBA. The SBA sells bonds on the private market and takes the proceeds to be used for the 40% portion of the loan. These funds are guaranteed by the SBA and can be used for a term of 10 years for equipment and 20 years for real estate. Or the loan can be used on a blend of equipment/real estate costs—these loans are somewhere between 10-20 years based on the percentage of where the funds are spent. A Certified Development Corporation is the SBA's community partner in these deals and the distribution channel for the bond proceeds.
- A 50% loan from a private lender that usually goes out for a term of at least 10 years. Typically, this loan is at a variable interest rate, although it could be fixed. The lender's risk is reduced because it is given first position on the collateral should the borrower default.

Borrower Eligibility

- Typically, the borrower must have been in business at least two years from the date of the application.
- The borrower will create or retain at least one FTE (based on a 40-hour workweek) for every $65,000 of the SBA portion, i.e. the 40%. Maximum Loan size—The SBA can only put in up to $5 million into a deal, i.e. the 40% part resulting in a total deal size of approximately $12 million (if the 10%, 40%, and 50% model is used). If the private lender is willing to have a larger percentage, the loan could be larger.

The minimum size loan where this makes sense due to program costs is around $300,000. If the borrower's need is less the 7 (a) program could be used.

- If the borrower(s) own more than 20% of the company, personal guarantees are required.

Certified Development Corporation (CDC)

As noted above a Certified Development Corporation (CDC) is required for this program. A CDC is a nonprofit corporation that supports economic development within a geographic area through 504 loans. CDCs are certified and regulated by the SBA and work with the SBA and lenders to provide lending through this program. There are about 200 CDCs in the United States. Wisconsin CDCs are:

Great Lakes Asset Corp.
200 S. Washington St., Suite 200, Green Bay, WI 54301 | 920-499-6444 | Service Area: Statewide

Milwaukee Economic Development Corp. (http://www.medconline.com/)
757 N. Broadway, Suite 600, Milwaukee, WI 53202 | 414-269-1440 | Service Area: Statewide

Racine County Economic Development Corp. (http://rcedc.org/)
2320 Renaissance Blvd., Sturtevant, WI 53177 | 262-898-7432 | Service Area: Statewide

Southeastern Minnesota 504 Development Corp. (http://504corporation.com/)
220 S. Broadway, Suite 100, Rochester, MN 55904 | 507-288-6442 | Service Area: La Crosse County

SPEDCO (http://www.spedco.com/)
3900 Northwoods Drive, Suite 225, Arden Hills, MN 55112 | 651-631-4900 | Service Area: Barron, Buffalo, Dunn, La Crosse, Pepin, Polk, St. Croix and Trempealeau Counties

Western Wisconsin Development Corporation (Impact Seven) (http://www.impactseven.org/)
147 Lake Almena Drive, Almena, WI 54805 | 715-357-6282 | Service Area: Statewide

WI Business Finance Corp. (https://www.wbd.org/contact-wbd)
4618 Biltmore Lane, Madison, WI 53718 | 608-819-0390 | Service Area: Statewide

The SBA Micro Loan Program

This program provides loans to non-profits who, in turn, lend amounts of up to $50,000 to for-profit businesses. Typical loans have terms of six years and the average size is $14,215.

Uses

- Overall, the funds can be used to start or expand a small business. They can be used for:
  - Working capital
  - Furniture and supplies
  - Marketing and advertising
  - Inventory
  - Equipment
  - Labor

The funds cannot be used to purchase real estate or debt refinancing.

Interest Rates, Terms and Limits

- Interest rates—8-13%
- Loan amounts—Up to $50,000.
- Repayment Terms—Up to six years.

Note: These loans can take up to several months to process. To find the non-profits in your state that are approved to provide these loans, please see https://www.powerhomebiz.com/microloan-providers.

In Wisconsin, SBA Micro Loans may be available through:

Advocap, Inc.
19 W. First Street PO Box 1108 Fond du Lac, WI 54936
Phone: 920-922-7760 Fax: 920-922-7214 | http://www.advocap.org/

CAP Services, Inc.
2900 Hoover Road, Suite A, Stevens Point, WI 54481, 715-343-7500 (p)
715-343-7520 (f) | https://capservices.org/

First American Capital Corp.
10809 W. Lincoln Avenue, #102 West Allis, WI 53227
Fax: 414-604-2070 | www.aiccw.org

Impact Seven, Inc.
147 Lake Almena Drive Almena, WI 54805-9900
Phone: 715-357-3334 Fax: 715-357-6233 | www.impactseven.org

Lincoln Opportunity Fund, LLC
1301 W. Canal St Suite 100 Milwaukee, WI 53233
Phone: 608-316-7120 Fax: 608-819-0393 | www.wbd.org

Wisconsin Women's Business Initiative Corporation
1533 N. Rivercenter Drive Milwaukee, WI 53212 | www.wwbic.com

The following is a list of statewide entrepreneurial resources for Wisconsin. If your business is not located in Wisconsin, please check your state economic development organization for their list.

WEDC Entrepreneurial Resources

Capital Catalyst Program—https://wedc.org/inside-wedc/transparency/capital-catalyst/

- This program provides matching grants for seed money to organizations that are interested in funding entrepreneurs that have high growth potential or emerging industries. These organizations are typically communities and other eligible entities.
- Unfortunately, as a result, this program is somewhat geographically limited. A list of funded communities/organizations is:
  - Bridge to Curves
  - Doyenne Group
  - Greater Oshkosh EDC
  - Ideadvance
  - Milwaukee 7 Capital Catalyst Fund
  - Racine County Econ. Dev. Corp.
  - Whitewater Community Development Authority

Wisconsin Economic Development Corporation

Qualified New Business Ventures (QNBV) Program—
https://wedc.org/inside-wedc/transparency/qualified-new-business-venture-certification/

- If you expect to have equity investors in your business (angels or venture capitalists), this program may be beneficial to you. If your business meets the program requirements, you become a QNBV business. Upon this designation, angel or venture capitalist who invest in your company receive a tax credit equal t o 25% of the investment they make into your company when they pay their Wisconsin income taxes. They must have a Wisconsin income tax liability to participate.
- This provides an additional incentive to get equity investment in your company.

Technology Development Loans—https://wedc.org/inside-wedc/transparency/technology-development-loan/

- This program provides loans to assist in start-up and emerging growth companies in Wisconsin that are developing and commercializing innovative products.
- These funds can be used for working capital or equipment financing.
- The borrowers must meet a match requirement of 4:1 (investment must be four times as much as the WEDC loan amount).

Wisconsin Housing and Economic Development Authority (WHEDA)
https://www.wheda.com/Business-Lending/Financing-Products/

WHEDA Small Business Guarantee

- Assists with the expansion for an existing business.
- Business must be in Wisconsin and have less than 250 employees.
- Guarantees 50% of the total loan package.
- Funds can be used for fixed assets and working capital for a term of five years.
- Revolving line of credit—two years.
- Collateral is required along with the owner's personal guarantee.

WHEDA Agribusiness Guarantee Program

- Assists in the startup, acquisition or expansion of a business that develops products using Wisconsin's agricultural commodities including milk and milk products.
- Business must create a product new to the business or expand the use of an existing product.
- Business must be in Wisconsin in an area of less than 50,000 people.
- Eligible uses include fixed assets and working capital financing.
- Maximum guarantee is the lesser of 50% or $750,000.
- Fixed asset terms—five years.
- Working capital—five years.

WHEDA Participation Lending Program

- Lender partnership program to reduce the risk of the participating lender.
- Maximum WHEDA participation rate is 50% of the loan amount or a maximum of $2 million.
- Maximum term—10 years fixed assets, 15 years for real estate.
- Can be used during the construction portion of a real estate deal.
- Funds can be used for the purchase of fixed assets and long-term working capital.

Wisconsin Women's Initiative Corporation (WWBIC) https://www.wwbic.com/

- Wisconsin's largest micro-lender, WWBIC has loan programs for business start-ups and expansions up to $250,000 and provides services throughout Wisconsin that include loans, business training, and personal finance, etc.
  - Anyone above the age of 18 can apply online or contact the organization for further information.
  - WWBIC provides statewide services.
  - Typical loan sizes range from $1,000 to $100,000.
  - Loan funds can be used to purchase fixed assets or for working capital purposes.
  - Interest rates are fixed and are based on the prime rate.
  - Application requirements:
  - A business plan.
  - A Wisconsin business location.
  - Strong credit history.
  - Will consider both start-ups and existing businesses.
  - Must have a general knowledge of business operations including financing, management, human resources, marketing, etc.

Impact Seven http://www.impactseven.org/business-development/

- Revolving Loan Fund—Provides direct loans to any Wisconsin business.
  - Funds can be used to purchase fixed assets and working capital.
  - Rate and term are dependent on the deal.
  - Loan sizes range from $10,000 to $5 million.
  - Both start-up and existing businesses are eligible to apply.

Regional and Local Revolving Loan Funds Resources

Regional, county and/or municipal revolving loan funds (RLF) all originated from a federal economic development program called Community Development Block Grants (CDBG). Municipal entities applied for these grants to support manufacturing companies, either expanding or relocating to their community. When the company paid the funds back, the funds stayed within the municipal entity to be loaned out again. The money was granted to the municipal entity, which then could be loaned to other companies.

Since these RLFs originated from the federal government, the rules regulating them locally were the same regardless of location. Depending upon where you locate your business, there may be a regional or local revolving loan fund that might be available.

Typically, RLFs are geographically focused (usually noted in their name). They can provide capital and fixed assets at varying loan amounts, terms and interest rates. For more information, it is recommended that you contact your local municipality and/or county government to find out what is available in your area.