

# US Small Business Administration

## FREQUENTLY ASKED QUESTIONS Starting Your Business

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### 1. Do I have what it takes to own/manage a small business?

You will be your own most important employee, so an objective appraisal of your strengths and weaknesses is essential. Some questions to ask yourself are:

- Am I a self starter?
- How well do I get along with a variety of Personalities?
- How good am I at making decisions?
- Do I have the physical and emotional stamina to run a business?
- How well do I plan and organize?
- Are my attitudes and drive strong enough to maintain motivation?
- How will the business affect my family?

Try the [Quiz for Small Business Success](#)

### 2. What business should I choose?

Usually, the best business for you is the one in which you are most skilled and interested. As you review your options, you may wish to consult local experts and businesspersons about the growth potential of various businesses in your area. Matching your background with the local market will increase your chance of success.

### 3. What is a business plan and why do I need one?

A business plan precisely defines your business, identifies your goals and serves as your firm's resume. Its basic components include a current and pro forma balance sheet, an income statement and a cash flow analysis. It helps you allocate resources properly, handle unforeseen complications, and make the right decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan package. Additionally, it can tell your sales personnel, suppliers and others about your operations and goals.

NOTE: We have an area devoted to helping you with your [business plan](#).

### 4. Why do I need to define my business in detail?

It may seem silly to ask yourself, "What business am I really in," but some owner-managers have gone broke because they never answered that question. One watch store owner realized that most of his time was spent repairing watches while most of his money was spent selling them. He finally decided he was in the repair business and discontinued the sales operations. His profits improved dramatically.

**5. What legal aspects do I need to consider?**

Licenses required, zoning laws and other regulations vary from business to business and from state to state. [Your local Small Business Administration \(SBA\) office](#) and/or [chamber of commerce](#) will provide you with general information, but you will need to consult your attorney for advice specific to your enterprise and area. You also must decide about your form of organization (corporation, partnership or sole proprietorship) or tax status (e.g., should you opt for a Subchapter S status?).

**6. What do I need to succeed in a business?**

There are four basics of success in small business:

- Sound management practices.
- Industry experience.
- Technical support.
- Planning ability.

Few people start a business with all of these bases covered. Honestly assess your own experience and skills; then look for partners or key employees to compensate for your deficiencies.

**7. Would a partner(s) make it easier to be successful?**

A business partner does not guarantee success. If you require additional management skills or start-up capital, engaging a partner may be your best decision. Personality and character, as well as ability to give technical or financial assistance, determine the ultimate success of a partnership.

**8. How can I find qualified employees?**

Choose your employees carefully. Decide before hand what you want them to do. Be specific. You may need flexible employees who can shift from task to task as required. Interview and screen applicants with care. Remember, good questions lead to good answers-the more you learn about each applicant's experience and skills, the better prepared you are to make your decision.

**9. How do I set wage levels?**

Wage levels are calculated using position importance and skill required as criteria. Consult your trade association and accountant to learn the most current practices, cost ratios and profit margins in your business field. While there is a minimum wage set by federal law for most jobs, the actual wage paid is entirely between you and your prospective employee.

**10. What other financial responsibilities do I have for employees?**

You must withhold federal and state income taxes, contribute to unemployment and workers compensation systems, and match Social Security holdings. You may also wish to inquire about key employee life or disability insurance. Because laws on these matters vary from state to state, you probably should consult local information sources and/or SBA offices.

Visit the [businesslaw.gov](http://businesslaw.gov) home page to locate state business laws.

**11. What kind of security measures must I take?**

Crimes ranging from armed robbery to embezzlement can destroy even the best businesses. You should install a good physical security system. Just as important, you must establish policies and safeguards to ensure awareness and honesty among your personnel. Because computer systems can be used to defraud as well as keep records, you should check into a computer security program. Consider taking seminars on how to spot and deter shoplifting and how to handle cash and merchandise; it is time and money well spent. Finally, careful screening when hiring can be your best ally against crime.

**12. Should I hire family members to work for me?**

Frequently, family members of the owner "help out in the business." For some small business owners it is a rewarding experience; for others it can cause irreparable damage. Carefully consider their loyalty and respect for you as the owner-manager. Can you keep your family and business decisions separate?

**13. Do I need a computer?**

Small business today faces growing inventory requirements, increased customer expectations, rising costs and intense competition. Computers can provide information that leads to better returns on investment. At the same time, they help you cope with the many other pressures of your business. Computers are not cure alls, however, and considerable care should be given to:

1. deciding if you need one, and
2. selecting the best system (or personal computer) for your business.

**14. What about telecommunications?**

All small businesses share some common functions: sales, purchasing, financing, operations and administration. Depending on your individual business, telecommunications can support your objectives in any or all of these areas. In its basic form, the telephone (the terminal) and the network (local or long distance) make up the basic components of telecommunications. It is an effective tool that can easily change with seasonality and growth. How you use telecommunications can affect how efficiently and profitably your company grows in the future.

**15. How much money do I need to get started?**

Once you have taken care of your building and equipment needs you also must have enough money on hand to cover operating expenses for at least a year. These expenses include your salary as the owner and money to repay your loans. One of the leading causes of business failure is insufficient start-up capital. Consequently, you should work closely with your accountant to estimate your cash flow needs.

**16. What are the alternatives in financing a business?**

Committing your own funds is often the first financing step. It is certainly the best indicator of how serious you are about your business. Risking your own money gives confidence for others to invest in your business. You may want

to consider a partner for additional financing. Banks are an obvious source of funds. Other loan sources include commercial finance companies, venture capital firms, local development companies and life insurance companies. Trade credit, selling stock and equipment leasing offer alternatives to borrowing. Leasing, for example, can be an advantage because it does not tie up your cash. Ask your local SBA office for information about these various sources.

**17. What do I have to do to get a loan?**

Initially, the lender will ask three questions:

- How will you use the loan?
- How much do you need to borrow?
- How will you repay the loan?

When you apply for the loan, you must provide projected financial statements and a cohesive, clear business plan which supplies the name of the firm, location, production facilities, legal structure and business goals. A clear description of your experience and management capabilities, as well as the expertise of other key personnel, will also be needed.

**18. What kind of profits can I expect?**

Not an easy question. However, there are standards of comparison called "industry ratios" which can help you estimate your profits. Return on Investment (ROI), for example, estimates the amount of profit gained on a given number of dollars invested in the business. These ratios are broken down by Standard Industrial Classification (SIC) code and size, so you can look up your type of business to see what the industry averages are. These figures are published by several groups, and can be found at your library. Help is also available through the SBA and the trade associations that serve your industry.

**19. What should I know about accounting and bookkeeping?**

The importance of keeping adequate records cannot be stressed too much. Without records, you cannot see how well your business is doing and where it is going. At a minimum, records are needed to substantiate:

1. Your tax returns under Federal and State laws, including income tax and Social Security laws;
2. Your request for credit from vendors or a loan from a bank;
3. Your claims about the business, should you wish to sell it.

But most important, you need them to run your business successfully and to increase your profits.

**20. How do I set up the right record keeping system for my business?**

The kind of records and how many you need depend on your particular operation. The SBA's resources and an accountant can provide you with many options. When deciding what is and is not necessary, keep in mind the following questions:

1. How will this record be used?
2. How important is this information likely to be?
3. Is the information available elsewhere in an equally accessible form?

#### **21. What financial statements will I need?**

You should prepare and understand two basic financial statements:

1. the balance sheet, which is a record of assets, liabilities and capital; and
2. the income (profit-and-loss) statement, a summary of your earnings and expenses over a given period of time.

#### **22. What does marketing involve?**

Marketing is your most important organizing tool. There are four basic aspects of marketing, often called the "four P's":

- Product: The item or service you sell.
- Price: The amount you charge for your product or service.
- Promote: The ways you inform your market as to who, what and where you are.
- Provide: The channels you use to take the product to the customer.

As you can see, marketing encompasses much more than just advertising or selling. For example, a major part of marketing involves researching your customers: What do they want? What can they afford? What do they think? Your understanding and application of the answers to such questions play a major role in the success or failure of your business.

#### **23. What is my market potential?**

The principles of determining market share and market potential are the same for all geographic areas. First determine a customer profile (who) and the geographic size of the market (how many). This is the general market potential. Knowing the number and strength of your competitors (and then estimating the share of business you will take from them) will give you the market potential specific to your enterprise.

#### **24. What about advertising?**

Your business growth will be influenced by how well you plan and execute an advertising program. Because it is one of the main creators of your business' image, it must be well planned and well-budgeted. Contact local advertising agencies or a local SBA office to assist you in devising an effective advertising strategy.

#### **25. How do I set price levels?**

The price of a service or item is based on three basic production costs: Direct materials, Labor and Overhead. After these costs are determined, a price is then selected that will be both profitable and competitive. Because pricing can

be a complicated process, you may wish to seek help from an expert.

**26. Are some locations better than others?**

Time and effort devoted to selecting where to locate your business can mean the difference between success and failure. The kind of business you are in, the potential market, availability of employees and the number of competitive establishments all determine where you should put your business.

**27. Is it better to lease or buy the store (plant) and equipment?**

This is a good question and needs to be considered carefully. Leasing does not tie up your cash; a disadvantage is that the item then has no resale or salvage value since you do not own it. Careful weighing of alternatives and a cost analysis will help you make the best decision.

**28. Can I operate a business from my home?**

Yes. In fact, experts estimate that as many as 20 percent of new small business enterprises are operated out of the owner's home. Local SBA offices and state chambers of commerce can provide pertinent information on how to manage a home-based business.

**29. How do I find out about suppliers/manufacturers/ distributors?**

Most suppliers want new accounts. A prime source for finding suppliers is the Thomas Register, which lists manufacturers by categories and geographic area. Most libraries have a directory of manufacturers listed by state. If you know the product line manufacturers, a letter or phone call to the companies will get you the local distributor-wholesaler. In some lines, trade shows are good sources of getting suppliers and looking over competing products.

**30. Where can I go for help?**

The U.S. Small Business Administration has [offices](#) in nearly every major city in the country.

SBA's operates the toll-free "Answer Desk" at 1-800-8-ASK-SBA (1- 800-827-5722), to give callers direct referral to appropriate sources of information.

Sponsored by SBA are a variety of counselling, training and information services including the Service Corps of Retired Executives (SCORE), Business Information Centers (BICs), Small Business Development Centers (SBDCs) and Women's Business Centers (WBCs).

In addition, procurement center representatives can be found at each major military installation. More than 2,700 chambers of commerce are located throughout the country to provide additional assistance.

**31. What do I do when I'm ready?**

You have done your homework: you have a complete business plan; you know where you want to operate; you know how much cash you will need; and you have specific information on employee, vendor and market possibilities. You now may want someone to look over your plans objectively. Contact the business department at a local college for another opinion. A

SCORE representative at the Small Business Administration can also review your work and help with the fine tuning. Then, when you have made the final decision to go ahead, it is time to call the bank and get going. Good luck!

All of SBA's programs and services are extended to the public on a nondiscriminatory basis.

### 32. What is a Small Business?

It is important that you be able to determine if you qualify as a small business for purposes of loans and special federal procurement opportunities. You can quickly determine this by using [SBA's NAICS \(North American Industry Classification System\) Lookup](#). Simply enter your business description, NAICS or SIC (if known) and locate your business type in the resulting table.

The following is extracted from "THE SBA ACT" - when in doubt go to the [whole thing](#). The "Administrator" is mentioned a few times - for clarification, that is referring to the SBA Administrator.

"Sec. 3(a) (1) For the purposes of this Act, a small-business concern, including but not limited to enterprises that are engaged in the business of production of food and fiber, ranching and raising of livestock, aquaculture, and all other farming and agricultural related industries, shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation: Provided, That notwithstanding any other provision of law, an agricultural enterprise shall be deemed to be a small business concern if it (including its affiliates) has annual receipts not in excess of \$500,000.

#### (2) ESTABLISHMENT OF [SIZE STANDARDS](#).--

(A) IN GENERAL.-- In addition to the criteria specified in paragraph (1), the Administrator may specify detailed definitions or standards by which a business concern may be determined to be a small business concern for the purposes of this Act or any other Act.

(B) ADDITIONAL CRITERIA.-- The standards described in paragraph (1) may utilize number of employees, dollar volume of business, net worth, net income, a combination thereof, or other appropriate factors.

(C) REQUIREMENTS.--Unless specifically authorized by statute, no Federal department or agency may prescribe a size standard for categorizing a business concern as a small business concern, unless such proposed size standard--

(i) is proposed after an opportunity for public notice and comment;

(ii) provides for determining--

(I) the size of a manufacturing concern as measured by the manufacturing concern's average employment based

upon employment during each of the manufacturing concern's pay periods for the preceding 12 months;

(II) the size of a business concern providing services on the basis of the annual average gross receipts of the business concern over a period of not less than 3 years;

(III) the size of other business concerns on the basis of data over a period of not less than 3 years; or

(IV) other appropriate factors; and

(iii) is approved by the Administrator.

**33. Does the SBA have business grants?**

No. The SBA does not provide grants for the purpose of business start-up or expansion. SBA does offer several loan programs which are described in this document. For grant information and resources, see [SBA's Grants page](#).

**34. How do I know if I qualify as a small business so I can receive SBA assistance?**

Approximately 95% of all businesses are eligible for SBA assistance. Size standards vary widely depending upon the industry; however, as a general rule, your business is within SBA size limits if it is in manufacturing or wholesaling with fewer than 100 employees or in retailing or service with annual sales under \$5,000,000 To find out more about size standards, call the SBA Office of Size Standards at (202) 205-6618.

**35. Are there any restrictions on the type of business that can receive an SBA loan?**

Read the information in this document about SBA loans before approaching a lender. Bring the necessary documents and be prepared to answer questions about your company. A well-planned and organized presentation will be an important factor in the review of your request.

**36. Do I have to be declined by a bank?**

No, you do not have to be turned down by a lender to qualify for a loan guaranteed by the SBA.

**37. What is the interest rate?**

Interest rates on SBA guaranty loans are negotiated between the lender and borrower. Rates are variable and may not exceed 2.75 percent over the New York prime rate. Slightly higher interest rates may be charged on loans under \$50,000.

**38. What are the loan limits?**

The SBA does not set loan minimums. Many lenders may prefer to process loans for under \$100,000 under SBA's LowDoc program. The maximum amount the SBA can guaranty is generally \$750,000.

**39. How much money do I need to have in order to qualify for an SBA loan?**

A borrower's capital contribution generally must be one-fifth to one-third of the total project cost.

**40. How long will it take to get my loan?**

A credit decision on a complete loan package is usually made within ten working days after it is received by the SBA, not including bank processing time. This assumes that the borrower and lender have provided all the information necessary to process the loan.

**41. Where can I get the loan application?**

SBA loan forms are available from a participating lender, who will also be able to provide information about both the bank and SBA documentation required.

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**42. Do I qualify as a small business?**

You can quickly determine if you qualify as a "small" business by using our [NAICS \(North American Industry Classification Codes\) or SIC \(Standard Industry Classification\) Code Lookup](#) Table.

Simply enter your business description or NAICS/SIC code (if known). Then use the resulting table to locate your products/services and see the size standards for your business type.

**43. How do I incorporate my business?**

Once the decision to incorporate your business has been made, the legal process begins with the preparation of a certificate of incorporation. Whereas in the past this was prepared by three or more legally qualified individuals—today, only a single incorporator is needed. The incorporator may or may not be a person who will own stock.

The state is likely to have a standard form for incorporating a small business. The three typical pieces of information requested are: corporate name, purpose and corporate life span. The corporate name is usually required to be a business name dissimilar from any other firm incorporated within the state. In addition, the name must not be deceptive or misleading. The state charter office can tell you whether the name you want is available. The purpose of the business must be stated. It is a good practice to use a "specific object" clause that spells out the specific purpose for which the corporation is being formed. While most corporations are formed for an indefinite period, it is possible to set up a specific limited life. Often the reason for creating a corporation is

because the life span of the business is unlimited.

Incorporation documents will require: the names and address of incorporators; location of the registered corporate office in the state; the maximum amount and type capital stock to be issued at the time of incorporation; a provision for preemptive rights; a provision for regulation of internal affairs of the corporation; names and addresses of corporate directors until the first stockholders' meeting; and the right to amend or repeal provisions within the certificate of incorporation.

The above requirements cover incorporating as either a "C Corporation" or Sub-Chapter S Corporation." However, the sub chapter S Corporation has several additional incorporation requirements such as: it must be an independent group not affiliated with any other; it may have only a single class of stock; no more than 35 stockholders and it may have only individuals or estates as stockholders; and it must be a domestic corporation. Before signing any legally binding documents, consult with your attorney for legal advice.

(Contributed by the Delaware SCORE Office.)

Also visit our [area on business names, licenses and incorporations.](#)

#### **44. Does SBA offer grants for small business startup?**

SBA's limited grant offers are generally designed to expand and enhance an existing small business technical assistance.

SBA's grant programs generally support non-profit organizations, intermediary lending institutions, and state and local governments in an effort to expand and enhance small business technical and financial assistance. (Visit [SBA's Grant Resources website.](#))

#### **45. How do I get certified for special SBA programs?**

Certification programs can help you market your business to both large business and government procurements. There are three core certification programs: the Small Disadvantaged Business Program (SDB), the 8(a) Business Development Program, and the HUBZone Program.

[The Small Disadvantaged Business \(SDB\) Certification Program](#) is designed to treat small companies equitably and empower them to pursue business in both the private and public sector contract arena. Once an SDB is certified, it will be eligible for specific procurement benefits.

[The SBA's 8\(a\) Business Development Program](#) is an initiative that helps small disadvantaged businesses compete in the American economy. Program participation is divided into two stages. The developmental stage is designed to help 8(a) certified firms overcome their economic disadvantage by providing personalized business assistance in expanding their business and

fostering meaningful business relationships.

The transitional stage is designed to help program participants become more effective in both the large business and government sector market in dealing with complex business deals and to prepare them for post 8(a) program expansion and development.

[The HUBZone Empowerment Contracting Program](#) is designed to stimulate economic development and create jobs in urban and rural communities. The program provides contracting opportunities to small businesses located in, and hiring employees from, Historically Underutilized Business Zones.

**46. Where do I get a business license?**

Your state and local government provides business licenses. We have found [several local state resources](#) that might help.

**47. How do I buy a business and what help does the SBA website offer?**

SBA offers [Property for Sale](#) through the administration of its loan programs. Property may be commercial, residential, farm, machinery, equipment, or vacant land.

**48. How do I sell my business?**

The SBA offers [several publications to specifically help in this area](#).

Also, browse [the publications in SBA's Online Library](#).

**49. How do I develop a business plan?**

We have an [online tutorial](#) to walk you through this process.

We also offer [several outside resources](#) for additional help.

**50. How do I select a lawyer?**

Chances are that you will need legal advice right from the inception of your business. There are many ways a lawyer can help in addition to getting your company set up and properly authorized to conduct business.

[SBA's web site offers several areas that may assist you.](#)

**51. How do I set up the right record-keeping system?**

The kind of records and how many you need depend on your particular operation. The SBA's resources and an accountant can provide you with many options. When deciding what is and is not necessary, keep in mind the following questions:

1. How will this record be used? 2. How important is this information likely to be?

3. Is the information available elsewhere in an equally accessible form?