

The Delaware Small Business Development Center

A publication to guide individuals starting and operating a business in Delaware

Featuring...

- Business Plan Guidelines
- Marketing Research
- Small Business Requirements
- Financial Worksheets
- And much more!



SBDC New Venture Guide

The SBDC New Venture Guide is designed to accompany either the classroom based Start Your Business Right course or the SBDC's on-line courses in Business Plans, Marketing and Finance. Please use the information here to augment your learning from the coursework.

By following the examples and formats provided you will be able to investigate the markets that your business will serve and the expected financial outcomes that your business will generate. In short, you will develop a plan for operating your business.

In addition to this guide and the classes, the SBDC offers free one-on-one advisory services. To meet with a SBDC advisor, course participants must complete a Readiness Assessment Tool and a Business Development Questionnaire, the forms are located at the back of this guide. Once the completed forms have been returned to the SBDC, an advisor will contact you for an appointment.

Please contact any SBDC office with questions. Your completed Readiness Assessment Tool and Business Development Questionnaire will be reviewed by your SBDC advisor in advance of your initial meeting. This will allow the advisor to become familiar with your business idea so that your meeting with the advisor will be productive.

Contact any of these SBDC locations across the state of Delaware:

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DSBDC EXECUTIVE SUMMARY

The Delaware Small Business Development Center exists to strengthen Delaware's economic base by providing quality services, such as, management assistance, education programs, and resources to Delaware's business community and potential entrepreneurs. Since the day we opened our doors in 1983 our goal has been to provide the best quality assistance to Delaware's business community. Today our 4 locations house training facilities, libraries and a wide variety of resources to help your business grow. Our staff of over 20 business professionals comprises the best that Delaware has to offer. All of our Business Advisors have the combination of academic credentials and practical business experience that give them what it takes to help your business. In addition, each and every one has a rigorous professional development requirement. We can't help your business unless we keep up on what is going on in today's ever changing business environment.

The DSBDC, which operates in partnership with the University of Delaware, can turn to faculty, students and state of the art library facilities to answer business questions. In addition, the DSBDC can access a national network of over 4000 professional business consultants as well as a National Research Clearinghouse to meet the unique needs of Delaware's businesses.

The DSBDC is accredited by the Association of Small Business Development Centers. This quality assurance process, patterned after the Malcolm Baldrige Quality Standards, is unique among federally funded assistance programs.

Our goal is to be the best - to help your business grow.

TRAINING

The DSBDC conducts numerous workshops and seminars throughout the year and throughout the state. Programs range from classes covering the most basic essentials every business owner must know, to longer in depth courses designed for the more complex needs of growing businesses.

BUSINESS ADVISORY SERVICES

One-on one, confidential and free. Business advisors help entrepreneurs develop business plans, pin point and solve problems, locate and apply for capital, brainstorm new strategies in order to compete more effectively in today's economy.

PROCUREMENT TECHNICAL ASSISTANCE CENTER OF DELAWARE

Looking for new customers? Delaware's Procurement Technical Assistance Center can help identify and bid on contracts with federal, state and local governments and prime contractors.

For more information on the Procurement Technical Assistance Center of Delaware see www.delawarecontracts.com

DELAWARE TECHNOLOGY ASSISTANCE PROGRAM

The Delaware Technology Assistance Program can assist with SBIR/STTR grant applications, intellectual property strategies, alternative funding sources and market potential assessments. Also, through a partnerships with local Universities, NASA, and other federal laboratories, the DSBDC can help locate a technology ready for commercialization, that can help you grow your business.



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In addition to using this kit as a guide in your planning and research, you may find it useful to attend any of our other business training seminars. Visit our website at www.delawaresbdc.org to view and register for our training events.

THINGS TO CONSIDER WHEN GOING INTO BUSINESS

For many people, the desire to start a business is so intense that it is easy to overlook some important factors. These points represent opportunities and risks; and are best dealt with before the business begins operating.

◆ Reward vs. Risk ◆

Business ownership is a balance between the reward of success and the risk of failure. Only the owner(s) can define what success means.

For long-term success, the business must generate enough sales to pay all its expenses and provide an adequate reward to the owner. It should produce an adequate return on your investment of time and money relative to the amount of risk involved. *Otherwise, you may be better off doing something else.*

◆ Time and Cost Overruns ◆

The typical experience for people starting their first business is that the length of time it takes to get into operation is greater than they anticipated. Likewise, the expense to get the business going usually exceeds their original estimate.

Even after operations begin, it often takes longer to build sales in a new business than the owner expects. In the meantime, many costs continue whether or not sales occur.

Allow extra time to put your plan into action, and allocate some additional money for miscellaneous and unplanned costs. *You don't want to run out of money and time before you get started!*

◆ Accounting and Legal Help ◆

Use the services of an accountant or bookkeeping service and attorney. These professionals are necessities unless you truly have the experience and knowledge to handle their functions.

An accountant or bookkeeping service can help you set up a record keeping system to manage the business's financial transactions and meet its tax reporting requirements. An attorney can assist you in formalizing the legal structure of your business, review legally binding agreements, and protect your legal interests in purchasing a business or franchise. (Assessing the financial feasibility of your plans is still your responsibility.)

Most people who avoid the expense of using professionals for specialized advice make mistakes that cost them more in the long run. A significant number of business owners spend more money to correct errors than they would have spent if they had gotten accounting and legal help when they were starting their business.

Talk to friends, other business owners, or members of your community for recommendations of professionals who work with small businesses. Interview a few of them before deciding who you think will provide the level of help you need and you can talk to comfortably. *Remember, accounting and legal help is a necessity, not an extravagance.*

◆ Pay Your Taxes ◆

Money is usually tight for start-up businesses, and the temptation is great to use business cash to buy more inventory, pay rent and utilities all those expenses that are very visible in keeping operations going even when it means postponing payment of sales and payroll taxes. **DON'T DO IT!**

The state and federal tax agencies assess heavy penalties for late payments. They can file tax liens against the business and you personally; seize business and personal bank accounts to collect past due payments; or order the business closed if payments are not made.

Under the best of circumstances, the amount of cash the business needs to make tax payments is increased by the amount of penalties and interest added to the original amounts due. *Avoid the headaches and deposit those taxes on time!*

◆ Government Regulations ◆

Federal and state laws designed to protect individuals and our environment may contain requirements that affect your small business. Laws such as the Clean Water Act and the Clean Air Act require proper use and disposal of hazardous materials and wastes. Other requirements exist for monitoring underground storage tanks to avoid groundwater contamination. Airborne chemicals that deplete the ozone are another example of contaminants subject to regulation.

Certain industries are more regulated by the government than others. Agencies such as the Food and Drug Administration may regulate your business. Find out what laws and agencies affect the type of business you plan to operate.

Contact the Delaware Department of Environmental Quality for additional information regarding specific requirements related to the type of business you plan to operate. Trade associations specific to your line of business are another information resource. *Get the necessary licenses and permits to ensure that your business is operating legally.*



CHECKLIST FOR STARTING A BUSINESS IN DELAWARE

☑Step 1: Examine your motivation for business ownership

If you open a business without an honest evaluation of your motives, you may find yourself unhappy and disillusioned. Please consider:

• Your Personal Objectives

Why do you think you will be happy as a business owner? Are you mainly interested in money, power, or flexibility? Have you examined your family's needs?

• Your Talents

Do you have special skills or education in a particular industry? How will these talents help you in the development and operation of your own business? Do you like to sell? Can you sell? You will be required to sell yourself, your company, and your products and services.

• Your Personality Traits

Are you an authoritarian or a team player? How will this affect your relationship with employees, customers, and suppliers? Can you handle the stress of time deadlines from customers? Can you live with yourself if you have to fire an employee? Are you willing to risk everything you own? Will you be able to live with the fear of failure? Will your family's support determine your success?

☑Step 2: Choose a business suitable for you

A question often asked is "What kind of business should I start?" Businesses of all types are both successful and unsuccessful. A business generally succeeds or fails based on the customer market, the skills of the owner(s) and workers, and the quality of the products, not because of the type of business.

Personal Areas to Consider When Choosing Your Business

- Your experience
- Your talents
- Your interests

Your experience is most important when you are considering starting a new business or buying one because past experience in that particular industry will help you understand your customer market and avoid costly mistakes.

☑Step 3: Evaluate the feasibility of your chosen business

At this point, you have examined your personal motivation for business ownership and chosen an interesting possibility. Most likely, you are anxious to run to the bank, get a loan, and open your business. STOP!

A common mistake made by many people is to blindly begin a business without evaluating whether it is feasible. A feasibility evaluation will allow you to make a more informed "go" or "no go" decision. It involves a detailed examination of financial, personal, and market realities. A sampling of topics that should be honestly appraised includes:

- Do you have enough money to start your business without going into debt?
- If you need to borrow money, do you have some cash and own other pledgable assets?
- Are you willing to risk these assets to borrow money?
- If not, where are you going to get your money?
- Can the business generate enough cash to pay its expenses as well as your desired level of owner profit?
- Are the rewards from the business, both monetary and personal, worth the effort and investment you will make?
- Are your management skills adequate to oversee and develop the business operation?
- Is there really a demand for your product or service?
- Have you researched market demand or have you just assumed that people need or want your product or service?
- What is the worst thing that could happen if you go into business for yourself?
- Are you capable and willing to deal with the worst possibility if it occurs?

You need to know if your idea is feasible before you progress to the next step.

☑Step 4: Consider start-up requirements and common pitfalls

You have completed the three preliminary steps and have decided you still want to continue. You have decisions to make that will affect the development of your business. Please be aware that there are many common errors people make because they act out of haste or without thinking about future consequences.

Many New Venture Requirements Are Ahead of You

- Learn about the legal forms of organization you may choose and what steps you must take to establish a legal business entity.
- Learn which permits, licenses, rules and regulations are applicable to your proposed business.
- Determine the types of records you will have to keep for tax purposes and for management and control.
- Consider your professional needs, such as legal, accounting and tax, insurance, and banking.

Some of the Common Pitfalls to Avoid:

- Thinking others will do your work for you. You should not expect or depend upon others to write a business plan. This is your business, not theirs. Once you have your basic plan in writing, seek outside evaluation of it.
- Entering into verbal partnership agreements. Partnerships should be entered into with caution and legal guidance. You may be in general agreement now, but future events can cause serious problems. Prepare a written partnership agreement, identifying each partner's responsibilities. Be specific in the way a break-up of the partnership will be handled.

CHECKLIST FOR STARTING A BUSINESS IN DELAWARE

- Paying licenses and fees before you have adequate funds to start the business. Your business may be legally established, but you may be unable to obtain financing.
- Entering into contracts before securing funds to open the business. Do not legally commit yourself to any contracts before you are certain you have the funding to begin. You will be responsible for contract performance regardless of whether you actually open your business or not. In some instances, it may be possible to make an agreement contingent upon obtaining business financing.
- Thinking it will cost less and take less time to get into business than it actually will. It will cost more and take longer than you imagine.

This discussion by no means covers all start-up requirements that you must be prepared to handle or all the common errors we see potential business owners make. Be cautious, be prepared, and be flexible.

☑Step 5: Develop your business plan

Many people talk about a business plan when they really mean a financing request. If you are seeking significant private investment, the two documents will require much of the same information. If you will seek traditional commercial financing, which is much more likely, the financing request will usually be less comprehensive.

A Business Plan Is:

- A strategic plan for development and operation of your business.
- For your internal management use.

A Financing Request Is:

- A document to raise money.

A Business Plan is a Management Tool You Should:

- Use to help you think through the development of your business and ensure that you have considered options and anticipated potential difficulties.
- Use to evaluate progress against your business goals.
- Update and modify for operational and strategic planning purposes as the business environment changes.
- Use in the development of financing proposals.

Some of The More Obvious Differences Between the Two:

- Your business plan should contain more detailed information than will be required for a financing request.
- Your business plan is for managing your business. A financing request is for providing information to a lender.

☑Step 6: Develop your financing request and obtain initial capital

In reaching this step, you have determined you have personal money to cover a "down payment" or the "full cost" of starting your business. If you did not do an honest analysis of your financial position in Steps 3 and 5, you

have probably invested a lot of time only to learn that you will not be able to borrow the money to start your business.

If you skipped the other steps (which is common), there are facts you should know about borrowing money to finance your business. You should also go back to Step 1.

- Most businesses are started with money from personal savings, family, or friends.
- Only about 20% of new business owners start their business with money borrowed from commercial lenders.
- No conventional lending source, private or governmental, will make a commercial loan for 100% of the funds you need to start your business.
- As a rule of thumb, you will need to provide a minimum of 25-30% of personal investment toward the total start-up costs of your business. If you have less than this, your chances of obtaining outside financing are not good.
- Your "sweat equity" will not be considered relevant by the lender.
- As a general rule of thumb, you will need \$1.50 in quality collateral for every \$1 you want to borrow.
- Although you may think your collateral's true worth is its appraised value or its original cost, its worth to the lender will be far less than either of these values.
- Your financial projections must show that any loan proceeds plus interest and other business expenses can be repaid from business revenues. The assumptions that you base your financial projections on will be examined carefully for reasonability. When the lending decision is being made, having adequate collateral will not override the business's inability to generate positive cash flow.
- Acquiring a loan will be more involved and time-consuming than you think. In the best of circumstances, it will normally take 60-90 days to close a loan. If you have a complex situation or if the lender needs additional information, the time span may be significantly longer.

Caution: Be realistic. Do not assume your loan request will be approved. Lenders are in the business of making money, not buying ideas.

☑Step 7: Finalize all start-up requirements

You have completed your planning and have acquired the funding needed to start your business. Now is the time to sign contracts and lease agreements, pay various licenses, permits, and fees, obtain utility services and complete all other requirements.



BUSINESS PLAN GUIDELINES

Every business can benefit from the preparation of a carefully written business plan. The purpose of the business plan is to:

- Help you think through the venture and ensure you have considered all your options and anticipated any potential difficulties.
- Convince lenders and investors that you are in control of the project and that their money will be safe with you.
- Serve as an operating guide as you turn your idea into a viable business.

The following pages provide a suggested outline of the material that should be included in your business plan. The final product should be tailored to fit the circumstances and personality of you and your business. Use the resources in this guide along with other information that you gather during your planning to write a detailed plan of action for your business. By doing plenty of work before you begin, you will be better prepared to face the challenges ahead.

You may benefit by attending the DSBDC seminar on writing a business plan, offered several times during the year at various locations around the state. Call us or visit our Internet site for seminar information.

BUSINESS PLAN OUTLINE

1. Title Page: Business name, address and phone number, and add the name and addresses of the principal owners. Also show the dates of issue of the plan and type "copy number ____" so you can number and control the copies. Give your plan a businesslike appearance by typing on high quality paper and putting it in a vinyl or cardstock binder or a three-ring binder.

2. Table of Contents: A single page showing major topics and page references.

3. Executive Summary: A brief (one-page) statement of the business plan objectives. Address the following questions and add additional information that will help you achieve your goals. (You may choose to write this page last.)

- A. What is purpose of this plan? Will it be used as:
- An operating guide?
 - A financing proposal?
- B. What business structure have you chosen (i.e., sole proprietorship, partnership, corporation, s-corporation)?
- C. Who are the principals and what are their proportions of ownership?
- D. Why will the venture be successful?

For a financing proposal:

- E. Who is requesting the funds and how much is needed?
- F. What will the money be used for?
- G. How will the funds be repaid?
- H. What collateral will be offered to secure the loan?
- I. Why does a loan or an investment make sense?

Impact on local economy

- Job creation
- Increased tax base
- Investment in the future of the community

4. Description of the Business: Answer as many of the following questions as are appropriate:

- A. What business are you in?
- Type of business: primarily merchandising, manufacturing, or service?
 - What is the nature of the product(s) or service(s)?
 - What will be special about your business?
- B. What market do you intend to serve? What is the total market, and what is your expected share?
- C. How can you serve the market better than your competition?
- D. Present status of the business: start-up, expansion of a going concern, or take-over of an existing business?
- E. If you will be doing any contract work, what are the terms? Reference any firm contracts and include them as supporting documents.
- F. Do you have any letters of intent from prospective suppliers?

For existing business:

- G. What is the history of the business?
- H. Why does the owner wish to sell at this time?
- I. If the business is going downhill, why? How can you turn it around?

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J. How will your management make the business profitable?

K. What is the purchase price formula? Give breakdown for building, improvements, equipment, inventory and goodwill.

Note: If yours will be a seasonal business, make sure seasonality is reflected in your narrative and financial projections with appropriate footnotes.

5. Business Location:

A. What is your business address and why did you choose this location?

B. Will the building be leased or owned?

C. What are the terms and length of the lease contract?

D. What renovations will be needed and at what cost?

E. Describe the neighborhood (e.g., stable, changing, improving, deteriorating).

F. What other kinds of businesses are in the neighborhood?

G. How much can your business expand before you will be forced to move or add on to the present building?

6. Licenses and Permits:

A. Is your business name registered with the secretary of state?

B. State how you will be affected by local zoning regulations.

C. What other licenses or permits will you be required to obtain?

7. Management:

A. What is your business and management experience?

B. What education have you had, including both formal and informal courses, that contributes to your management abilities?

C. Are you physically suited to the job?

D. Do you have direct operational and/or management experience in this type of business?

E. Describe your organizational structure and include a brief description of who does what. (Include an organizational chart if necessary.)

F. List proposed salaries and wages.

G. What other management resources will be available (accountant, lawyer, SBDC)?

8. Operations:

Your type of business will determine the details for this section. The reader must understand how the business will work. A manufacturing business needs to describe how the product is made, on what machinery, what the capacity is, the work force required, and so on. A retail store needs to cover the hours it will be open, labor needed, square footage, seasons it must buy for, etc. Discuss the following as appropriate: Who will do what, when, where, and how? What controls have been established to ensure the job is done and to prevent theft?

A. Production capacity

B. Equipment Needs/Cost

C. Labor Force

- Job descriptions and salary level
- Skills, capabilities required, attitude
- Full time/part-time, how many

D. Inventory control

E. Purchasing

F. Bookkeeping – Accounts Payable

G. Credit Policy

H. Collection Accounts Receivable

I. Quality Control

J. Customer Complaints/Returned Items

K. Human Resources Policy & Benefits

9. Insurance: Describe your potential business risks and tell what insurance coverage you will purchase to protect yourself.

10. The Market: Go into more detail on the most vital aspect of your business.

A. Describe the industry:

- What are the products and services offered?
- What is going on in the industry?

BUSINESS PLAN GUIDELINES

- Is it growing nationwide? In this area? Give statistics if possible (trade publications and trade associations can provide lots of useful information). Explain if there is some reason why this business is particularly suited to this area.

- Who are the suppliers?
- Who are the major players in the industry?
- Who are the current people using the product/service?
- What are the demographics (Age, sex, income, profession, etc.)? Where are they located?
- Is this a fad? Seasonal?
- Does growth depend on some other factor like interest rates or the health of a related industry?

B. Target Market

- Who is going to buy your product or service?
- What subset of the current users of the product/service will you be able to reach quickly?
- Where do they live?
- How much money do they make and spend?
- What other goods and services do they buy, what kind of cars do they drive, what publications do they read, do they prefer country music or rock and roll, bagels to donuts, stuffing to potatoes, etc.?
- What are their most important reasons for buying the product/service?

C. Competition: Examine your competition – discuss their strengths and weaknesses:

- List your direct competition and describe their price, quality, location, reputation, experience, service, etc.
- What are the substitutes for your product or service? (TWA is direct competition to United Airlines; AMTRAK and automobiles are substitutes)
- Look at competitors in town as well as alternative suppliers like mail order or Internet companies. Make sure you discuss how you are going to deal with your major competitors. Explain your strengths and how you plan to identify and take advantage of their weaknesses. Be realistic.

D. Your Market Strategy: Satisfying your market's most important reason for buying: (remember above) Explain how you plan to meet these identified needs; ways may include:

- Superior quality
- A new "twist" on an existing product
- A more convenient location
- Discount prices
- A higher level of service

E. Pricing

- Make sure you justify your pricing and that it fits with the market you are planning to attract. Remember price is the easiest thing to duplicate!
- Does it cover all costs and leave you with a net profit?
- Things to consider when setting prices
- There is a link between price and perceived image
- Discount, average, or higher than competition
- High class, high quality, high price
- Price according to volume sold

F. Location: Where do you plan to be located?

Location is critical for retail, but may not be as important for service or a warehouse facility.

- What type of facility do you need?
- Will customers come to your location or you to theirs?
- How much space do you need? What types of things need to be done there?
- Is security an issue?
- For retail explain why your location is an asset – in terms of:
- Visibility
- Proximity to other businesses patronized by your target market
- Parking, if it is important to your business
- Other things critical to your target market

G. What marketing methods will you use to reach your target market?

- Advertising – In what, how often, how much?
- Promotion
- Publicity
- Internet Strategy
- Sales force
- Budget

H. Sum up just how and why you will be better than your competition, and be the major business success that you aspire to be.

11. Financial Data:

- A. Source and application of funds statement.
- B. Capital equipment list.
- C. Current balance sheet and income statement (less than 90 days old).
- D. Break-even analysis.
- E. Projected income statement:
 - Detail by month, first year

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- Detail by quarter, second year
- Notes of explanation and assumptions

F. Cash flow projections

- Detail by month, first year
- Detail by quarter, second year
- Notes of explanation and assumptions

G. Projected balance sheet

- Notes of explanation and assumptions

H. For an existing business

- Income statement
- Balance sheets and/or
- Tax returns for past three years

12. Supporting Documents:

- A. Personal resumes for all principals.
- B. Personal financial statements for all principals.
- C. Letters of reference.
- D. Letters of intent from prospective suppliers or customers.
- E. Copies of all leases, contracts, agreements, deeds, or other legal documents.
- F. Any other information that might help your case or answer potential questions.



THE BASICS OF MARKETING RESEARCH

There are four components to studying a market:

- Personal knowledge
- Knowledge of competition
- Knowledge of customers
- Research at the library

Personal knowledge of the industry develops from having contacts in the business, personal experience and a general feel for the business. Understanding the industry is vital to assessing the market for a product or service.

Competition. A survey of the competition may be needed to determine if there is a niche or room in the market for another business. This can be done by observing competitors' businesses. How busy are they? What problems do the businesses seem to have? What type of customers do they have? Observation helps to determine the size of the market and problems businesses have in serving that market.

Customers. Another useful tool in planning a business is interviewing owners of similar businesses outside your planned market area. If your business will draw customers from a 25-mile radius, similar businesses in towns 60 miles away generally will not be competing for your customers. Business owners may be quite willing to discuss their businesses and to share advice. Often, they have insight and experience that can be invaluable to a new business owner. Also, after developing a profile of a typical customer, talking with a few people fitting that description will help identify needs of customers.

Secondary research, or research at the library, is necessary to quantify the market and to verify your findings from the above three steps. The following tools are designed to help with research at the library. Library research should not be neglected nor should it be the sole source of information used in developing a business or marketing plan.

◆ Research at the Library ◆

Local and university libraries contain publications that can provide much of the information entrepreneurs need. Materials that are not in your local library may be obtained through interlibrary loans. Check with the reference librarians.

Use the following list as your guide to doing secondary research on a specific business or industry.

- Identify the appropriate **North American Industry Classification System (NAICS)** and **Standard Industrial Classification (SIC)** code for your business. The SIC system is gradually being replaced by the NAICS system. These

classification systems are assigned by the U.S. government to specific lines of business. Since most government and industrial statistics are gathered and reported by the NAICS or SIC code, identification of the correct codes for your business will enable you to locate important data. Both the NAICS and SIC code manuals are available at most public libraries.

- Check for the current periodical literature on the subject.
- Check the *Small Business Sourcebook* or the *Encyclopedia of Business Information Sources* to identify major books, trade journals, and organizations for specific business categories.
- Explore the rest of the DSBDC website on the Internet. We provide links to useful sites containing small business-related information.
- Write or call the appropriate industry trade associations.
- Write or call for a media kit from trade journals.
- Write or call franchisors for information on their franchised businesses.
- Obtain the financial ratios for the business category. Trade association financial studies, if available, usually provide the most detailed information. Two other popular sources include Risk Management Association *Annual Statement Studies* and Dun & Bradstreet's *Business and Financial Ratios*.
- Examine census material for income, age, family size, and more of populations in areas as small in size as zip codes the Census of Population and Housing, Census of Retail Trade, Census of Service Industries, Census of Wholesale Trade, and Census of Manufacturers.

FORMS OF BUSINESS ORGANIZATION

www.state.de.us/corp

One decision you will need to make before beginning operations is the legal structure of your business. Your legal structure influences numerous elements within your operations, including tax filing requirements and insurance needs. This information is provided to give you a basic overview of some of the elements of various legal structures. It is not intended as a comprehensive presentation of the differences between the forms of business organizations. It is best to consult a certified public accountant and/or attorney for advice regarding this decision.

Characteristics	Sole Proprietorship	General Partnership	Limited Partnership	Corporation "C" Type	Corporation "S" Type	Limited Liability Company
Formalities	No formal filing requirements; only compliance with local licensing requirements applicable to business	No formal filing requirements and it is not necessary that there be a written partnership agreement (although one is suggested); compliance with local licensing requirements is necessary	Filing of Certificate of Limited Partnership with Secretary of State	Filing of Articles of Incorporation with Secretary of State and compliance with other statutory formalities	Filing of Articles of Incorporation with Secretary of State and compliance with other statutory formalities	Filing of Articles of Incorporation with Secretary of State
Continuity of Existence	The proprietorship dies with the proprietor	Death or withdrawal of a partner generally dissolves the partnership	Death or withdrawal of a limited partner will not generally dissolve a limited partnership	Perpetual existence; no dissolution upon death of shareholder(s)	Perpetual existence; no dissolution upon death of shareholder(s)	The date of dissolution must be stated in Articles of Incorporation; death or withdrawal of a member, or assignment of a member's interest will generally cause dissociation (dissolution)
Liability	The sole proprietor is liable for all obligations of the sole proprietorship	Each partner is liable for obligations of the partnership	Limited partner's liability for obligations of the limited partnership is limited to such partner's equity investment in the partnership	Generally, liability of shareholders for corporate obligations is limited to the amount of the shareholder's investment in the corporation	Generally, liability of shareholders for corporate obligations is limited to the amount of the shareholder's investment in the corporation	Generally, liability of members for obligations of the LLC is limited to the member's amount of investment in the LLC
Transferability of Interest	Sole proprietor has complete freedom to transfer all or any portion of the proprietorship business, although such transfer constitutes a transfer of individual assets	No right to transfer partnership interest (except right to receive distributions) without consent of other partners	Limited partnership interests generally are freely transferable	Generally, shares are freely transferable unless subject to contractual limitations	Generally, shares are freely transferable unless subject to contractual limitations	Interests of members generally are not freely transferable
Tax	(1) Single taxation; sole proprietor reports business income and deductions on individual tax return; (2) Self Employment Tax-currently 15.3%	A partnership is not a separate taxable entity; income or loss flows to partners	Flow-through taxation to limited and general partners	Separate taxable entity subject to corporation taxation	Treated like a partnership for tax purposes; flow-through taxation to shareholders	A LLC is treated like a partnership for tax purposes; income or loss flows through to the members

FORMS OF BUSINESS ORGANIZATION

www.state.de.us/corp

Characteristics	Sole Proprietorship	General Partnership	Limited Partnership	Corporation "C" Type	Corporation "S" Type	Limited Liability Company
Management and Control	Sole proprietor has full right of management and control over business affairs	Unless otherwise agreed each partner has equal right to management and control; each partner is the agent of the partnership and one partner can bind all of the other partners to ordinary business obligations of the partnership	Limited partners have no right to exercise management or control over the business of the partnership and can lose their limited status by doing so	Ownership and control are separate; shareholders do not manage the business in their capacity as such; business is managed by officers subject to supervision and control of Board of Directors; When two or more shareholders exists, serious consideration should be given to executing a <i>Shareholders' Agreement</i> clarifying the rights of shareholders among one another with regard to such matters as sale of stock to each other or third parties, dissension regarding the direction of the company, election of directors, etc.	Ownership and control are separate; shareholders do not manage the business in their capacity as such; business is managed by officers subject to supervision and control of Board of Directors; When two or more shareholders exists, serious consideration should be given to executing a <i>Shareholders' Agreement</i> clarifying the rights of shareholders among one another with regard to such matters as sale of stock to each other or third parties, dissension regarding the direction of the company, election of directors, etc.	Members may designate one or more managers (who do not have to be members) or may reserve the management to themselves; control and management duties are set out in the <i>Operating Agreement</i> , which is analogous to the partnership agreement in the partnership context or the bylaws in the corporate context
Sources of Capital	Limited to funds invested by sole proprietor, funds borrowed from outsiders, and income generated from business	Same as sources for sole proprietorship except there will be more than one source of invested funds (i.e., two or more partners rather than one proprietor)	Same as general partnership, except it is generally easier to attract capital with limited partnership because of passiveness of investment and limitation liability	Similar to partnership and proprietorship except there is an even greater number of potential investors because of variety of forms that corporate investments can take (e.g., differing classes of common stock, preferred stock, debt instruments, etc.)	Similar to partnership and proprietorship except there is an even greater number of potential investors because of variety of forms that corporate investments can take (e.g., differing classes of common stock, preferred stock, debt instruments, etc.)	Depending on the number of members, it should generally be easier to attract capital because of potential sources of invested funds and limitation of liability

INSURANCE CONSIDERATIONS

This is a broad topic and cannot be fully addressed here; however, we can identify some areas that you should consider carefully and refer you to sources of additional assistance. Insurance needs can be divided into *essential coverages* and *desirable coverages*. More information about insurance can be found at

http://www.state.de.us/dedo/publications/startup_guide/Delaware_Guide_for_Small_Business.shtml#faq11.

ESSENTIAL COVERAGES

FIRE INSURANCE: In the event of a fire, your company must have the ability to replace lost assets in order to continue operation. Other hazards, such as windstorm, hail, smoke, explosion, vandalism, and malicious mischief represent similar risks, and can be insured by inclusion with fire insurance coverage for a relatively small fee.

LIABILITY INSURANCE: Any incident involving your company, its facility or vehicles, its products or services, or its personnel, and resulting in either bodily or personal injuries can be the subject of a suit involving your company (and you). The losses resulting from such a suit can range from time loss and court and attorney fees to large damage awards. Liability insurance protects you from most of these costs. Using a competent agent who is well versed in the complexities of this area is critical. Because one lawsuit over a seemingly trivial matter can result in a damage award great enough to destroy your company, having liability insurance with generous policy limits is a must.

AUTOMOBILE INSURANCE: All vehicles are required to carry liability insurance or other proof of financial responsibility. This, of course, applies to any vehicle used for your company's business activity. When any employee or subcontractor uses a vehicle on your behalf, you can be

legally liable even though you do not own the vehicle. As with other assets in the business, in the event the vehicle is damaged, you need to be able to pay for its replacement or repair. Collision/comprehensive coverage will facilitate this. If the vehicle is financed, the lender will usually require this coverage.

WORKERS' COMPENSATION: Federal and common law require that an employer provide employees with a safe workplace, hire competent fellow employees, provide safe tools, and warn employees of an existing danger. If an employer fails to provide these, he is liable for damage suits brought by employees and he may be subject to fines and prosecution. If your employees are covered by workers' compensation insurance, their remedies against you are limited to those prescribed by workers' compensation regulations. In other words, having workers' compensation insurance on your employees will protect you from substantial liability suit awards. This insurance is sold by commercial carriers, but the rates are strictly regulated by the state. It is critical that you use an agent who is knowledgeable of the risk categories and how they apply to your employees. In Delaware, worker's compensation is required for any business with one or more employees.

DESIRABLE COVERAGES

BUSINESS INTERRUPTION INSURANCE: In the event your business is forced to suspend operations temporarily because of fire or other similar circumstance, this type of insurance can provide funds for salaries to key employees, taxes, interest, utilities, and even lost profits. Similarly, if your business is interrupted because of a fire or other peril affecting a supplier or customer, that interruption can also be covered. With business interruption insurance in place you may be able to keep key employees and hasten the return to business after a fire or other insured peril. There are variations of this type of insurance and the extent to which it will cover your risks.

EMPLOYEE BENEFIT COVERAGES: Insurance coverages that can be used to provide employee benefits include

group life, health, and disability insurance and retirement incomes. Key employee insurance protects the company against financial loss caused by the death of a valuable employee or partner. Because of increasing health care costs, group health benefits have become a major job benefit for many companies. Having a good group plan may enable you to keep qualified personnel even when they may be able to obtain higher paying jobs elsewhere.

CRIME, GLASS, AND RENTAL INSURANCE: These types of insurance cover special risk situations that may apply to your business, depending on its location, environment, and facility. They should be discussed with an insurance professional to determine their applicability to your situation.



EMPLOYEE OR INDEPENDENT CONTRACTOR??

Many businesses assume they can reduce their expense and paperwork burden by arbitrarily "classifying" their workers as independent contractors. If a business employs someone, the business owner has certain payroll responsibilities. He has to:

- 1). Withhold estimated income taxes of the employee from his paycheck.
- 2). Withhold social security (F.I.C.A.) taxes and Medicare contributions.
- 3). Pay the employer share of FICA and Medicare.
- 4). Provide an accounting to that employee of these deductions each year, (W-2 form).

AND

He may have to *pay* unemployment taxes.

The penalties for failing to make these payments and withholdings can be as much as 100% of the tax not withheld or paid. All of these are requirements of the government if the workers are classified as *employees*. If those workers are classified as *independent contractors*, these responsibilities are eliminated or are shifted from the employer to the worker.

Unfortunately, many employers find out, after the fact, that the Internal Revenue Service has very strict guidelines as to who can be classified as independent contractors. The 20 classification factors relate to various aspects of the relationship between the business and the worker, specific responsibilities of the worker, and the way the worker conducts, or is expected to conduct, his assignments. These 20 factors are listed in detail in IRS Publication 15-A, available from the IRS. The publication also gives various examples of types of employer--employee/independent contractor relationships.

SMALL BUSINESS WORKSHOPS

THE SBDC START-UP SERIES

Start Your Business Right

A three hour presentation by DSBDC staff that provides an overview of the fundamentals of starting a business in Delaware. The workshop addresses issues you should consider before starting a business including the business plan, forms of business, and resources available to you.

Secrets to Successful Business Plan Writing & Start-Up Loans

This three hour workshop gives details of writing an effective realistic business plan and covers vital information concerning borrowing money to start your business. The topics include: Business Plan components such as Executive Summary, Marketing Plan, Operations/Management Team, and Financials, along with how to approach a bank for lending.

FastTrac NewVenture

FastTrac NewVenture is a ten-week certificate series that emphasizes the development of a business plan for a start-up venture/business. The program helps entrepreneurs to assess their ideas and their own personal abilities as an entrepreneur. Instructors are SBDC professional staff and guest speakers with various backgrounds.

ADVANCED BUSINESS SERIES

QuickBooks Pro

In this workshop you'll learn how to handle your basic business transactions in QuickBooks, the importance of reconciling your accounts and the usefulness of financial reports. We encourage you to seek out those parts of the workshop that will directly meet your needs. These materials have been prepared with you in mind.

Growth Venture

This 8 week workshop series focuses on the specific needs of small business owners to: increase revenue and profitability; operate the business with more efficiency; use the financials to manage the business; and outline specific action steps to reach your business vision.

PROCUREMENT TECHNICAL ASSISTANCE CENTER

SBA Certification Workshop: •8a Business Development Certification •Small Disadvantaged Business (SDB) Certification •HUBZone

"Take your business to the next level with the following SBA Certification Workshop." A concern meets the basic requirements for admission to the 8(a) BD program if it is a small business which is unconditionally owned and controlled by one or more socially and economically disadvantaged individuals who are of good character and citizens of the United States and which demonstrates potential for success. If your business is generating income and if you are able to produce a current financial statement and tax returns, this workshop is for you!



LICENSE, PERMIT, AND TAX REQUIREMENTS

Because there is extensive cost in time, fees, and red tape involved, obtaining licenses, permits, and tax requirements may be one of the last steps to take before opening a business. There are different requirements at the city, county, state, and federal levels that apply to different aspects of businesses. This information is arranged by level of government.

An agency or board specific to a given discipline regulates many occupations and/or businesses. Make sure that the business or job function you perform is licensed by the appropriate regulatory agency. **It is impossible to list all legal requirements for any business. This handout offers guidelines only.** This is why it is so important to have experience in or knowledge of the particular business. Business research should be thorough and ongoing to keep up with regulatory changes as they occur. Ask a lot of questions.

Getting Started – Local Requirements

Zoning Approval & Building & Sign Permits

Before applying for a business license, first verify that the type of business & its physical location complies with local zoning regulations. Although there is no fee associated with verifying zoning compliance, permit application fees to change zoning status vary.

- Zoning laws vary significantly throughout the state. Where zoning laws apply, they are strictly enforced.
- Generally, zoning approval is a one-time occurrence.
- Zoning offices can supply business license applications.
- If the proposed business site is not in compliance, you must apply for a permit to change the current zoning.
- Home-based businesses must apply for a home occupation permit. Certain limitations apply.
- Signage for your business requires a sign permit.
- If you plan to build a new building or to alter an existing building, apply for a building permit.

Please contact:

New Castle County Department of Land Use
87 Reads Way
Corporate Commons
Newark, DE 19711
(302) 395-5400
Website: www.co.new-castle.de.us/

Kent County Department of Planning
County Administrative Building, Room 320
414 Federal Street
Dover, DE 19901
(302) 744-2471
Website: www.co.kent.de.us/

Sussex County Planning and Zoning Department
Room 146 – Sussex County Administration
Building
P.O. Box 417 – The Circle
Georgetown, DE 19947

(302) 855-7878

Website: www.co.sussex.de.us

To learn more about signage for your business:
www.sba.gov/starting/signage

Business License (also known as CRA – Combined Registration Application)

After verifying zoning compliance, the next step is to apply for a business license. The application fee for obtaining a business license will vary depending on the type of business, but is generally \$75 for the first location.

- Some cities and counties do not issue business licenses.
- Generally, business licenses are renewed annually.
- Apply for a business license in the city in which the business is physically located. If located outside of the city limits, contact the county collector or clerk's office.
- If the business has a physical location in other areas, you will need to obtain a business license for each location.
- Businesses located outside the city limits may still need a business license to operate within the city limits.
- Depending on the type of business, there may be additional licenses & fees.

Please contact:

State of Delaware Revenue Division
Wilmington- (302) 577-8200
Dover- (302) 744-1085
Georgetown- (302) 856-5358
www.state.de.us/revenue

To learn more about “Starting a Business in Delaware”:
www.delawaresbdc.org

LICENSE, PERMIT, AND TAX REQUIREMENTS

Registering a Business Name

By law any non-incorporated business entity (sole proprietorship, or partnership) must also **register with the Prothonotary at the local county office of the Superior Court**. You must register separately in each county where you will do business. Go into the Prothonotary's office listed below to fill out the form and do a name search to be sure your chosen name hasn't already been used. They will show you how. Take a \$25 check and identification, because the form has to be notarized.

Doing this will protect your trade name from use by others in each county where registered. In case of a lawsuit, a business not registered could be fined \$500. Also they could lose use of the name to whoever properly registered it. Some banks require registration of names by business customers.

Please contact:

New Castle County Prothonotary Office
500 North King Street, Suite 500
Lower Level I
Wilmington, DE 19801
(302) 255-0800

Kent County Prothonotary Office
414 Federal Street
Dover, DE 19901
(302) 744-2314

Sussex County Prothonotary Office
2 The Circle
Georgetown, DE 19947
(302) 855-7785

Name Availability Search: <https://sos-res.state.de.us/tin/EntitySearch.jsp>

Incorporating Your Business

Contact the Delaware Secretary of State's Office to incorporate or register a state trademark. A business is not required to incorporate. SOS employees will not give any legal advice regarding the pros and cons of incorporating.

- There is a one-time \$89 filing fee to incorporate. Thereafter, a corporation will pay an annual franchise fee—a minimum of \$60.
- Incorporating a business offers individuals a safeguard in protecting personal assets from liability.
- Incorporating ensures a business name will not be used by other incorporated businesses within the state. However, a trademark offers the best name protection.
- The Secretary of State's Office can conduct a complimentary name or trademark search for the business. (See Internet address to perform a search).

Please contact:

Secretary of State's Office
Division of Corporations
John G. Townsend Building
401 Federal Street, Suite 4
Dover, DE 19901
(302) 739-3073
www.state.de.us/corp
[www.state.de.us/revenue/services/Business Tax/Become DE Corp.shtml](http://www.state.de.us/revenue/services/Business_Tax/Become_DE_Corp.shtml)

Determining the Legal Form of Business

Be sure to research and discuss the specific advantages and disadvantages of each form of ownership with a qualified accountant or attorney before you finalize your decision. If incorporating, contact the Delaware Secretary of State's Division of Corporations. Incorporating can be done using the Secretary of State's online services, as well as by searching their database of incorporated businesses to see if the business name is available. If a business files and never does business as a corporation, the business is still responsible for annual franchise taxes. The fee to dissolve a corporation is \$139 plus the current year's franchise taxes.



LICENSE, PERMIT, AND TAX REQUIREMENTS

Federal Requirements

Employer Identification Number (EIN)

Employer Identification Numbers, also known as Federal Employer Identification Numbers, are used to report withholding taxes and should be applied for 6-8 weeks prior to hiring. Apply for an EIN if hiring employees, incorporating or operating a partnership, administering a Keogh plan, filing excise, alcohol, tobacco, & firearms tax returns, or opening a bank account in the name of the business. Your EIN can be acquired from the IRS using Form SS-4. This form can be obtained from the IRS by calling 800-829-3676 or by visiting your local IRS, Social Security Administration office, or the IRS website at www.irs.gov. More information on EINs is available in IRS Publication 1635, Understanding your EIN.

The application can be faxed to the IRS, see below. Some vendors or suppliers will ask for a business' EIN. Requesting an EIN will not necessarily trigger an IRS audit or place scrutiny on the business. Once issued an EIN, the IRS will forward a booklet and materials for remitting federal withholding taxes on a monthly or semi-weekly basis and submitting tax reporting on a quarterly basis.

Please contact:

Internal Revenue Service (IRS)
(800) 829-3676
www.irs.gov

Federal Labor Laws

Contact the U.S. Department of Labor if the business' sales are over \$500,000 and there are greater than 4 employees. Ask questions about child labor laws, minimum wage, Occupational Safety & Health Administration (OSHA), the Americans with Disabilities Act (ADA) and the Family Medical Leave Act.

To learn more about Federal Labor Law Enforcement:

www.delawareworks.com/industrialaffairs/service/LaborLawEnforcement.shtml

To learn more about OSHA requirements and workplace safety:

www.osha.gov

To learn more about the ADA:

(800) 514-0301 to receive materials and publications

www.usdoj.gov/ada/adahom1.htm

Immigration

Employees must complete Form I-9, "Employment Eligibility Verification Form."

To learn more about immigration:

(800) 755-0777
www.uscis.gov

Please contact:

Delaware Department of Labor
4425 North Market Street
Wilmington, DE 19801
www.delawareworks.com/DeptLabor

Federal Unemployment Tax (FUTA)

FUTA works with the state unemployment systems (see page 4). Currently, the tax rate is 6.2% and is applied to the first \$7,000 in wages paid to each employee during the year. Employers may take credit against the FUTA tax for amounts paid into state unemployment funds. If entitled to the maximum credit, the FUTA tax rate is .8%. Employers utilizing independent contractors do not pay FUTA tax on these individuals. FUTA tax deposits occur quarterly, using Form 940 or 940-EZ.

Please contact:

Delaware Department of Labor
(302) 761-8484
www.delawareworks.com

LICENSE, PERMIT, AND TAX REQUIREMENTS

State Requirements

State Labor Laws

State labor laws apply to those employing 4 or more people and gross sales under \$500,000. If sales are over \$500,000, the federal labor laws apply. Phone the Department of Labor's office with questions concerning minimum wage, overtime, and child labor laws. Also, use the website listed below.

Please contact:

Delaware Department of Labor
4425 North Market Street
Wilmington, DE 19801

www.delawareworks.com/DeptLabor

State Withholding

Delaware law requires that every employer register with the Delaware Division of Revenue. Registration is accomplished by completing a Combined Registration Form (CRA).

- The EIN issued by the IRS will be the same number used by Delaware for the purposes of state withholding.
- Your initial withholding tax return is located in the CRA package. Please use this initial form to remit your first withholding payment. If you do not receive your booklet within four (4) weeks after making your payment, please notify the Business Master File Section at (302) 577-9778.
- Obtain from all employees a signed withholding Federal Form W4, W4A, or Delaware form SD/W4A or W-4NR at the time of employment.

Please contact:

Business Master File Section
(302) 577-9778

Local Taxes

There are several local taxes in Delaware. To learn more, log on to Delaware's Business Tax Center:

www.delaware.gov/egov/porto.nsf/egovment/taxcenter

Insurance Requirements

State Unemployment Insurance

Call the IRS to register the business' Employer Identification Number.

Please contact:

Unemployment Insurance Program
(302) 761-8446

IRS

www.irs.gov

Worker's Compensation Insurance

Applies to businesses with 1 or more employees, less depending on the type of business. Proprietors and partners do not count as employees; however, all members of corporations do count as employees. Contact a registered insurance agent.

- Employers must post a sign in a conspicuous place informing employees how to handle a workplace injury.

Please contact:

Delaware Department of Labor
Office of Worker's Compensation
P.O. Box 9954
Wilmington, DE 19809
(302) 761-8200
(302) 761-6601 fax

www.delawareworks.com/industrialaffairs/services/workerscomp.shtml



THE LOAN PROPOSAL

Lenders sometimes ask for a business plan when you talk with them about a loan for your business. The business plan that you develop as your management and operating guide contains more details than a banker has time to read. The plan, after all, is for your use and helps you stay on track toward the goals you have established for the business. The list below represents the key sections of your plan that address the management, market, and money elements of your proposed business. In evaluating your request for a loan, bankers particularly want the information noted below.

SUGGESTED CONTENTS

1. General Information

- Purpose of the loan
- Expected benefits of the loan
- Amount of money required, including a source and use of all funds in the project
- Sources of repayment
- Desired repayment terms
- List of available collateral, including market values

2. Description of Business

- Explanation of planned activities, or history information for existing businesses
- Planned changes to business operations, if any

3. Management Information

- Personal resume, including a description of any prior management or ownership experience
- Key staff, including description of their roles in the business (provide resumes)
- Other key advisors e.g., attorney, accountant, insurance agent

4. Market Information

- Products/services provided
- List of competitors, suppliers and clients/customers
- Define market area and method of distribution

5. Financial Information

- Balance sheets and income statements (three year-end statements and interim for current year if existing business)
- Federal tax returns (past three years)
- Projected income statement (minimum of twelve months into future)
- Projected cash budget (for same time period as projected income statement)
- Summary of key assumptions explaining basis of projections
- Personal financial statement

PROJECT COST ANALYSIS

The cost of starting a business is often referred to as the "project cost." This amount will include several types of costs. In order to help you itemize the various costs associated with your project, we have provided a worksheet below. The purpose of this worksheet is to help you determine *all* of the start-up costs, whether you are financing them with your own capital or outside funding.

CATEGORY	COST
<u>Land/Building Acquisition:</u> If your project requires you to occupy a building you own, you will have cost in this category. If you are purchasing the facility, the cost is the purchase price; if you currently own the facility, its market value is the project cost	
<u>New Construction:</u> If your project requires that additional facility space be constructed, this will be one of your costs. This also applies if you own the land and will need to construct a facility on that land. (The value of the land in the latter case is included in the preceding category.)	
<u>Modification of Existing Facility:</u> If your project requires that an existing facility be modified, the cost of that modification should be recorded here. This also applies if you plan to lease a facility that needs to be modified and the cost of those modifications will not be borne by the landlord.	
<u>Equipment, Furniture, and Fixtures:</u> If your project will require any equipment, furniture and fixtures, the cost of these items will be included here. Also, if you own equipment and will contribute it to the project, the value of that equipment is included here.	
<u>Initial Inventory:</u> If your project involves the sale of merchandise, you will need an initial stocking of inventory. The cost of this inventory is one of your project costs.	
<u>One-Time Start-Up Expenses:</u> You may have expenses that will occur only in your start-up phase. These may include rent/utility deposits, appraisal fees, loan origination or closing fees, etc. These should also be taken into consideration in the project cost determination.	
<u>Other Working Capital:</u> You need to include in your project cost enough cash to pay the company's monthly expenses until it is generating sufficient cash to cover all operating costs.. (Enough capital to operate the company for 3-6 months should be adequate.) You will have an idea about the business' monthly operating costs once you have completed your first year's profit/loss projections.	
Total Project Cost: This total of the above items should include the cost of the items you will need to purchase, as well as the value of the items that you are contributing to the project.	



PROJECT FINANCING WORKSHEET

Once you have determined how much your project (new venture) will cost to get started, you need to determine how it will be financed. This worksheet is designed to help you organize your financing needs so that they can be presented to your sources of financing (lenders/investors).

Before we begin, there are two concepts that you should understand. First time business borrowers often confuse these, and an understanding of them will improve your ability to communicate with your lender(s).

The first of these concepts is *equity*. Equity is the total value of all assets that the business owners have contributed, or will contribute to the business venture. If the owner contribution consists of cash, the amount of that cash is the amount of starting equity. If other assets are contributed, their value is the amount of starting equity. In order to be considered as equity, an asset has to be used in the business.

The second concept is *collateral*. Collateral is the asset or group of assets that a borrower pledges to a lender as security for a loan. Generally these are assets that are used in the business, but frequently they will also include assets that are not used in the business and may even be owned by someone other than the business borrower.

EXAMPLES:

1. You own 2 acres of appropriately zoned commercial property valued at \$20,000. You want to put up a \$50,000 building on the property and start up your business. To get the \$50,000 loan to finance your building you offer the lender a first lien on the 2 acres and the new building, when it is complete. In this case, you have a \$50,000 loan with \$70,000 in collateral; you also have \$20,000 equity in the project; the 2 acres is both equity and collateral.
2. In the previous example, you don't own the 2 acres. In this example you will purchase it and construct the building, financed with a \$70,000 loan. In this case, you have a \$70,000 loan with \$70,000 in collateral and, because you contributed none of the assets, \$0 equity.
3. In the example above, your banker won't finance the building without additional collateral. Your parents have \$30,000 home equity in their personal residence. With their consent, you offer the banker a 2nd mortgage on the house, in addition to the collateral previously mentioned. You will now have a \$70,000 loan with \$100,000 in collateral, but you will still have \$0 equity in your project because the asset you have offered as collateral (your parent's home equity) is not used in the business.

NOTE: These examples are used merely to demonstrate the concepts of *equity* and *collateral*. Except in very rare situations, banks WILL NOT finance projects in which the borrower has no equity. The same can be said of the Small Business Administration.

PROJECT FINANCING WORKSHEET

Once you have determined your Project Cost (see Project Cost Worksheet) you will then need to determine the amount of outside financing your project will need. The first step in this process is to determine the amount of equity that you are contributing. Total Project Cost minus your Total Equity Contributions equals the amount of outside financing that you will require.

Total Project Cost (from Project Cost Analysis worksheet) _____

LESS - Equity Contributions:

Cash to be Contributed _____

Value of Real Estate to be Contributed _____

Value of Equipment to be Contributed _____

Value of Other Assets to be Contributed _____

Total Equity Contributions _____

Outside Financing Required _____

Once you have determined the amount of financing required, the next step is to determine where this financing can be obtained. There are several different possible sources. Some of these are listed below.

Outside Financing Sources:

Loans from Friends or Family _____

Trade Credit _____

Loans from Financial Institutions _____

Loans from Other Institutions/Agencies _____

Total Outside Financing _____

As was stated earlier, banks and other financial institutions and agencies will almost always require that you have equity in your project. The amount required will depend on the lender, but usually varies between 10% and 50%. These same lenders will generally require enough collateral to secure the loan fully. If the assets of the business will not adequately secure the loan, the lender may require your pledging other assets to secure the loan.



REVENUE/EXPENSE PROJECTION

Any new venture must be able to provide income sufficient to meet expenses, make payments on debt, and provide a suitable income for the owners. The tough part is trying to *predict* this before the venture is started.

Although 100% accuracy is never possible, much insight can be gained by diligently preparing a well-thought out projection. This document has been prepared to help you get started and provide some suggestions for approaching a solution. A form is included that provides a detailed list of income and expense categories for many businesses. You may not use all categories or you may need to include categories that are not listed on the form. It is important to insure that you do not omit items that may significantly impact the projection.

A simple way to start is to write down each category of revenue and expense (as shown on the worksheet provided). Work first on the items you know or for which you can readily obtain estimates from others. Write down any information that others provide so that you can identify the source later. Search for information that will help you estimate items that you do not know.

Set the projection aside after you have completed it. After a few days have passed, review each item to see if you are still satisfied with your original estimates. Most people find that some estimates need to be changed before the projection is finalized.

A couple of definitions may be useful in categorizing your work and helping you "speak the same language" as your banker. The more knowledgeable you appear to the banker, the more likely he or she is to give your proposal consideration.

Revenue - Revenue consists of all receipts from the sale of products or services to your customers. This is the money generated from the normal operation of the business. This is often referred to as sales.

Costs and Expenses - In general, *costs* are the monies that your company spends for the purchase or production of inventory for resale. *Expenses* are the monies that your company pays for the operation of the business itself (i.e., rent, insurance, utilities, etc.). While the difference between costs and expenses is sometimes difficult to determine, usually it is self-evident.

Below we have listed the major revenue, cost, and expense items, along with some general guidelines about how to project them.

Revenue (Sales) - How much a new venture will sell is definitely an unknown. This item is often difficult; however, it is one of the most critical in a projection. If you cannot find any industry data for support you must make some kind of assumption(s) and proceed.

For example:

1. Estimate how much your average sale will be (e.g., \$10.00) and how many sales you will make per day (e.g., 50). Therefore, your daily sales will average \$10.00 times 50 or \$500 per day. Simple multiplication will then give you an estimate for weekly, monthly, and yearly sales.
2. If you have several items of income, you may want to estimate how much each item will generate. If you have *many* items then you may want to estimate the dollar value of sales per square foot of space available (or some other common denominator).
3. If your business' revenues are based on services performed, you may want to estimate the number of billable hours or number of jobs completed times the charge per hour or job. If you have a mixture of service revenue and product revenue then separate estimates for each would be appropriate.

The main idea is that you *can* make assumptions and turn them into estimates for revenues whether on a daily, weekly, or monthly basis.

To get an insight about how many potential customers are in your total market area, you may want to check vehicle traffic counts at potential storefront locations, population census data, or industry reports (when they are available).

Cost of Sales - If you know the cost of each item you sell, it is easy to compute cost of sales by multiplying the number of items sold by the cost per item.

REVENUE/EXPENSE PROJECTION

If you have a large mixture of products the most common way of estimating cost of sales is by developing an average. For example: If you expect to average 35 cents profit for every dollar of sales, your *average* cost is by definition 65 cents. This 65 cents also represents 65% of every dollar of sales. Therefore, you can multiply the 65% times the total sales dollars and estimate what your *total cost of sales* will be.

$$\$100,000 \text{ Total Sales times } 65\% = \$65,000 \text{ Total Cost of Sales.}$$

It may require some trial and error before you are satisfied with your estimate for the percent used for cost of sales. In addition, it should be noted that some businesses will break their sales down by different departments and calculate different costs of sales for each department. There are other, more detailed methods for calculating cost of sales and you may wish to examine these methods in depth.

Advertising - Begin by making some assumptions about what sources you will use, e.g., radio, newspaper, television, direct mail, etc. You can always estimate expenses for the first three by contacting them and getting quotes. Using direct mail or other types of advertising may require more investigation. For example, you may have to check with printers to determine the cost of producing your direct mail literature. You would then want to check with the post office or other delivery services to find out how much it will cost to get the literature to the prospective customer. In conjunction with this you will have to make an estimate of how cost-effective each advertising method will be in producing the revenue you desire.

Insurance - Decide on the types of insurance coverage you will need (e.g., liability, theft, property & casualty) and contact local insurance providers for quotes. If you will have employees, workers' compensation insurance should also be included. Get more than one quote, and remember that premiums may be reduced if you increase your deductible.

Interest - Interest expense on any funds you anticipate borrowing can easily be calculated if you have an amortization schedule. If an amortization schedule is not available, an estimate can be made by multiplying the expected interest rate times the total amount to borrow.

$$\text{Example: } \$60,000 \text{ Borrowed times } 9.5\% (.095) \text{ Rate} = \$5,700 \text{ Interest Expense.}$$

The actual expense will be somewhat lower than the amount calculated and you can make final adjustments once an amortization schedule is obtained.

Rent - Once you have decided upon a site and come to an agreement with the landlord, rental expense will be known. If a site has not been selected write down a description of the type of facility you will need. Then, do your own searching or check with a local realtor for possible quotes.

Repairs & Maintenance - Start by listing the types of repairs that might be expected over the first twelve months. Of course, you will want to factor in whether you will be obtaining new or used equipment for your business. You might then want to contact local repair shops for quotes on hourly repair rates. Manufacturers can be contacted for estimates of the cost of service contracts you anticipate.

Salaries - Prepare a work schedule as if you had already started the venture. You can then multiply the estimated hourly wage times hours worked for each potential employee. Add to this total any wages for salaried employees.

Payroll Taxes - If you are unsure of this expense, a good amount to start with is 15% of the total salary and wages you estimated earlier.

Utilities - If you have no comparable data you might want to take the square footage of the business facility and compare it to your residential costs. For example, if the business facility is 1.5 times larger than your residence, start your estimate by multiplying 1.5 times your residential utility costs. It would probably be a good idea to add 20% to 25% more to this estimate for a business.

Municipal and other local utilities may be able to provide some useful guidelines for making a projection for this expense.

Other Expenses - Specific examples are not used for every possible expense category you may need to consider. Do not overlook these items; simply use a logical approach in developing estimates for each expense item you expect to have in your business.



REVENUE/EXPENSE PROJECTION

Miscellaneous Expense - It is wise to budget some amount of money each month for the unexpected. This is usually shown in the projection as "miscellaneous expense." Depending on how confident you are of the other expense estimates you have made, the estimate for miscellaneous might range from \$50 per month to \$200 or more per month.

Final Suggestion

If you are still not comfortable with your projections, it is a good idea to estimate what will happen if your revenues/sales are not as great as you anticipated. Example - what will be the result if sales are no more than 75% of what you expect? or no more than half of what you expected?

With this guide we have tried to give you some ideas you may use in developing a projection for your proposed venture. The main idea is that you search out available information and then make logical assumptions based on that data.

If you are still unsure about how to project some of the items, do not despair!! Help is available. Some of the sources are listed below.

Other Entrepreneurs: Talk to owners of similar businesses. Choose some that operate outside of the geographic area in which you plan to operate so they know you will not be a competitor. They can be the best source for sales and expense estimates.

Local Libraries: Many of the state's local libraries are able to access census data that may be useful. They also may have resources that contain financial information about businesses in your industry. This data is very useful as you prepare your projection since it provides a benchmark for comparison of your estimates to typical industry financial performance. Look for such books as Risk Management Association *Annual Statement Studies* and Dun & Bradstreet's *Industry Norms and Key Business Ratios*. Both are published annually and list financial statement data on a wide variety of business categories. In addition, your local library may have several reference books on your industry.

Local Chambers of Commerce: Some local chambers of commerce may have their own business libraries, which may have helpful information.

Business Associations: Most businesses are in industries that have one or more associations whose purpose is to promote the welfare of the industry. Membership in an association of businesses in your industry may give you access to a great deal of information that will be helpful in completing your projections. *The Small Business Sourcebook* has a very good compilation of associations for all types of industries. Your library may have a copy of this book.

Delaware Small Business Development Centers: The regional offices will have the RMA statement studies book, the Small Business Sourcebook, and other types of information that may be of use to you.

REVENUE/EXPENSE WORKSHEET

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	TOTAL
INCOME													
1 Sales													
COST OF SALES													
2 Beginning Inventory													
3 Purchases													
4 Other Costs													
5 Less Ending Inventory													
6 Cost of Sales													
7 Gross Profit (Sales-C.O.S)													
OPERATING EXPENSES													
8 Advertising													
9 Auto & Truck													
10 Bad Debts													
11 Bank Charges													
12 Contributions													
13 Depreciation													
14 Dues & Subscriptions													
15 Employee Benefits													
16 Entertainment													
17 Equipment Rental													
18 Fuel													
19 Insurance													
20 Janitorial Service													
21 Legal & Accounting													
22 Miscellaneous													
23 Office Supplies													
24 Outside Services													
25 Rent													
26 Repairs & Maintenance													
27 Salaries & Wages													
28 Shop Supplies													
29 Taxes (real estate, property, etc)													
30 Taxes - Payroll													
31 Telephone													
32 Travel													
33 Utilities													
34 _____													
35 _____													
36 Total Operating Expenses													
37 Net Operating Income													
Profit - Total Operating Expenses													
OTHER INCOME (EXPENSE)													
38 Miscellaneous Income													
39 Interest Income													
40 Interest Expense													
41 Total Other Income (Exp.)													
NET INCOME													



PERSONAL FINANCIAL STATEMENT

AS OF _____

Complete this form for: (1) each proprietor, or (2) each limited partner who owns 20% or more interest and each general partner, or (3) each stockholder owning 20% or more of voting stock and each corporate officer and director, or (4) any other person or entity providing a guaranty on the loan.

Name	Business Phone: ()
Residence Address	Residence Phone: ()
City, State, & Zip Code	
Business Name of Applicant/Borrower	

ASSETS	(Omit Cents)	LIABILITIES	(Omit Cents)
Cash on Hand & In Banks		Accounts Payable	
Savings Accounts		Notes Payable to Banks and Others (Describe in Section 2)	
IRA or Other Retirement Account		Installment Account (Auto) Monthly Payment \$_____	
Accounts & Notes Receivable		Installment Account (Other) Monthly Payment \$_____	
Life Insurance – Cash Value Only (Complete Section 8)		Loans on Life Insurance	
Stocks & Bonds (Describe in Section 3)		Mortgages on Real Estate (Describe in Section 4)	
Real Estate (Describe in Section 4)		Unpaid Taxes (Describe in Section 6)	
Automobile(s) – Present Value		Other Liabilities (Describe in Section 7)	
Other Personal Property (Describe in Section 5)		Total Liabilities	
Other Assets (Describe in Section 5)		Net Worth	
Total		Total	

Section 1. Sources of Income	Contingent Liabilities
Salary	As Endorser or Co-Maker
Net Investment Income	Legal Claims & Judgments
Real Estate Income	Provision for Federal Income Tax
Other Income (Describe Below)*	Other Special Debt

Description of Other Income in Section 1.

* Alimony or child support payments need not be disclosed in "Other Income" unless it is desired to have such payments counted toward total income.

Section 2. Notes Payable to Bank and Others

Name & Address of Noteholders	Original Balance	Current Balance	Payment Amount	Frequency (monthly, etc)	How Secured of Endorsed Type of Collateral

PERSONAL FINANCIAL STATEMENT

Section 3. Stocks and Bonds					
Number of Shares	Name of Securities	Cost	Market Value Quotation/Exchange	Date of Quotation/Exchange	Total Value
Section 4. Real Estate Owned					
	Property A	Property B	Property C		
Type of Property					
Name & Address of Title Holder					
Date Purchased					
Original Cost					
Present Market Value					
Name & Address of Mortgage Holder					
Mortgage Balance					
Amount of Payment per Month/Year					
Status of Mortgage					
Section 5. Other Personal Property and Other Assets					
Section 6. Unpaid Taxes					
Section 7. Other Liabilities					
Section 8. Life Insurance Held (Face amount, cash surrender value, insurance company, and beneficiary)					
<p>I authorize SBA/Lender to make inquiries as necessary to verify the accuracy of the statements made and to determine my creditworthiness. I certify the above and the statements contained in the attachments are true and accurate as of the stated date(s). These statements are made for the purpose of either obtaining a loan or guaranteeing a loan. I understand FALSE statements may result in forfeiture of benefits and possible prosecution by the U.S. Attorney General (Reference 18 U.S.C. 1001).</p>					
Signature:		Date:		Social Security Number:	
Signature		Date:		Social Security Number:	



CASH FLOW WORKSHEET

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Ending Balance												
Cash In												
Cash Sales												
Loan Proceeds												
Owner's Contribution												
Other												
Total Cash In												
Cash Available												
Cash Out – Operating												
Rent												
Electric												
Phone												
H ₂ O												
Trash												
Bookkeeper												
Supplies												
Towel Service												
Postal Service												
Comcast												
Marketing												
Misc.												
Cleaning												
Bus Ins.												
Atty												
Prof. Fees												
Cash Out – Operating												
Cash Out – Other												
Renovations												
Purchase Equipment												
Software												
Inventory Products												
Total Cash Out - Other												
Ending Cash Balance												

SAMPLE BUSINESS CONCEPT STATEMENT

Antoinette Douglas - Mother Love Family Day Care

Mother Love Family Day Care provides day and evening childcare services with a focus on education and recreation for children ages 2 to 5 years old. Each child will have an opportunity to learn in the areas of arts, technology, academics, and storytelling. Mother Love Family Day Care is different from our competitors, because our services are offered for extended hours and approved test curriculum that prepares children for learning. We also provide extended care for parents working overtime. Our hours are convenient and flexible to match the work schedule of the parents in our area. Our services are geared toward parents who work and live in a 5-mile radius to my childcare center. Parents will utilize Mother Love Family Day Care, because we provide extended hours at our standard rate. We do not penalize parents for being late, we work with them to provide a Village environment. It takes a village to raise a child. We will assess a fee for late pick up, but it will be based on our standard rate and time frame. Our childcare facility will begin in my home located at (address). Mother Love Family Day Care will begin providing services to parents on September 1. Antoinette Douglas, owner, will create awareness of our Child care facility and services through brochures, networking with PTA groups, church groups, and local employers. Based on the marketing budget, Ms. Douglass will provide sponsorship to local children community sports, utilize print media for press releases, and submit a few childcare articles.

Source: <http://www.myownbusiness.org/s2/#5>



BUSINESS CONCEPT STATEMENT

Directions

Having a clear, concise, and complete concept statement is critical in clarifying your business concept and communicating that concept to others. An effective concept statement includes answers to these key components:

1. **WHAT** does the product or service do?

2. **HOW** is it different from other products or services?

3. **WHO** will buy it?

4. **WHY** will they buy it? Is the product or service different from other products or services?

5. **WHERE** will it be sold?

6. **WHEN** will it be ready to be sold?

7. **HOW** will it be promoted and sold?

READINESS ASSESSMENT TOOL

1. How did you hear about us? _____

2. Why do you want to start a business (*circle all that apply to you*)?
 - a. I have experience in my industry and feel that I can work for myself.
 - b. I am currently out of work and am looking for a way to earn income.
 - c. It has been a life long dream to start my own business.
 - d. I am unhappy with my current employment situation.
 - e. Other _____

3. What type of business do you want to start (*circle one and describe*)?
 - a. Retail/Wholesale _____
[type of product(s)]
 - b. Construction
(Residential Commercial Both)
 - c. Service _____
[type of service]
 - d. Manufacturing _____
[type of product(s)]
 - e. Invention _____

[describe briefly]
 - f. Other _____

[describe briefly]
4. How much funding will your business require to start (estimate)? \$ _____
5. When do you plan to start the business (month, year)? _____
6. Please estimate your first year sales? \$ _____
7. How do you plan to finance the start-up of your business (please check all that apply)?
 - a. Savings
 - b. Bank Term Loan/Line of Credit
 - c. Investors
 - d. Friends, relatives
 - e. Other _____
[Identify]
8. How much money do you have available to invest in the business? \$ _____
9. What is your current occupation? _____
10. Which industry do you work in? _____
11. How would you rate your credit history?
 _____Excellent _____Good _____Satisfactory
 _____Less Than Satisfactory
12. Which legal structure are you considering for the business (choose only one)?
 - a. Sole proprietorship
 - b. Partnership
 - c. Corporation
 - d. Limited liability partnership (LLC)
 - e. Unsure at the present time
13. Have you registered the name of your business?
☐Yes ☐No
14. Do you currently have a draft of your business plan?
☐Yes ☐No
15. Is anyone currently providing the same or similar services/product as your business?
☐Yes ☐No

 If yes, identify two companies if possible:
 1. _____
 2. _____
16. Do you have any collateral (real estate, inventory, equipment, vehicle, CDs, stock)?
☐Yes ☐No
 If yes, please identify type(s) of collateral _____
17. Is your business home-based?
☐Yes ☐No
 If no, have you found a location for your business?
☐Yes ☐No
18. Have you ever worked, or are you currently working in, the industry?
☐Yes ☐No
 If yes, for how long? _____



READINESS ASSESSMENT TOOL

19. Have you identified your target market?

☐ Yes ☐ No

20. Do you plan to contract with local and federal government agencies?

☐ Yes ☐ No

21. Do you plan to export?

☐ Yes ☐ No

22. Do you have an accountant?

☐ Yes ☐ No

23. Do you have a lawyer?

☐ Yes ☐ No

24. Will you need to hire employees for your business?

☐ Yes ☐ No

If yes, how many in the first year (estimate)_____

25. Do you have a recent copy of your credit history report (within the last year)?

☐ Yes ☐ No

26. Have you filed bankruptcy within the past ten years?

☐ Yes ☐ No

27. Have you ever owned a business before?

☐ Yes ☐ No

Comments:

Please return completed form to your local SBDC office, or bring it to your first Business Advisor meeting

New Castle County 1 Innovation Way, Suite 301 Newark, DE 19711	Kent County 1200 N. DuPont Hwy. MBNA Bldg. Suite 108 Dover, DE 19901	Sussex County 103 W. Pine St. Georgetown, DE 19947
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COUNSELING RESPONSIBILITIES & EXPECTATIONS

We are here to help you. But we need your help to do it. We will do whatever we can to aid and assist you in starting or improving your business. But we cannot do it for you.

The DSBDC can be much more effective in helping you if you, the client understand what we can do, what we cannot, and what we will need from you in order to get the most out of this experience.

What to expect from the DSBDC

We are not a bank or the Small Business Administration. We do not loan money, but we can help you prepare the business plan, financial projections, and other information you would need in order to present your business plan to a bank or other lending institution.

We will treat your idea and your business with respect. Our assistance with your plan is not an endorsement or an approval of your business idea. Nor is our assistance a guarantee of its success in receiving funding or in succeeding as a profitable business venture.

We will keep all information confidential. Unless specifically authorized by you, the client, we will not divulge the identity of any client or any confidential information. However, the DSBDC Network's relationship with the SBA requires us to disclose all counseling records on SBA clients or SBA referred clients to the SBA project officer, if requested.

We are not lawyers or accountants. We can help you research the law, tax code, and other regulations related to your business and will explain the implications to the best of our ability. But our services are not intended to be substitutes for the services of these and other professional advisors. If we feel we cannot provide the help that you need, we will when possible provide information on where to obtain additional assistance.

Your rights as a client

- To receive one-on-one counseling free of charge
- To hear from your counselor, in terms you can understand, the options available to you and any instructions required for continued assistance
- To know the general nature and risks of your venture
- To express a complaint or concern regarding the quality of assistance you receive and receive a response to that complaint

Your responsibilities

- To talk openly with your counselor. To be honest about circumstances that impact your business or its potential for success.
- To provide any and all information necessary to enable the counselor to assist you. This may include financial and operating data or personal financial information.
- To notify your counselor in advance if you are unable to make a scheduled appointment.
Please Note: Three instances of missed appointments without notification of the DSBDC will terminate your right to counseling.
- To ask questions about anything that is unclear.
- To advise us of any concern or dissatisfaction you have with the assistance being provided.
- To fill out and return all surveys asking for your feedback on DSBDC services and its impact on your business.

If you have any dissatisfaction with the DSBDC Network, its services or its personnel, please share these with the State Director, Clinton Tymes at 302-831-1555.



NOTES

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The Delaware SBDC funded in part through a cooperative agreement with the U.S. Small Business Administration, The University of Delaware Lerner College of Business and Economics, the Delaware Economic Development Office and Delaware State University. All opinions, conclusions or recommendations expressed are those of the author(s) and do not necessarily reflect the views of the SBA or the sponsoring agencies. All programs and services are extended to the public on a non discriminatory basis. An equal opportunity/affirmative action employer, The University of Delaware, SBA, DEDO, and DSU are all committed to assuring equal opportunity to all persons and does not discriminate on the basis of race, color, gender, religion, ancestry, national origin, sexual orientation, veteran status, age, or disability in its educational programs, activities, admissions, or employment practices as required by Title IX of the Education Amendments of 1972, Title VI of the Civil Rights Act of 1964, the Rehabilitation Act of 1973, the Americans with Disabilities Act, other applicable statutes and University policy. Inquiries concerning these statutes and information regarding campus accessibility should be referred to the Affirmative Action Officer, 305 Hullihen Hall, (302) 831-2835 (voice), (302) 831-4563 (TDD).

