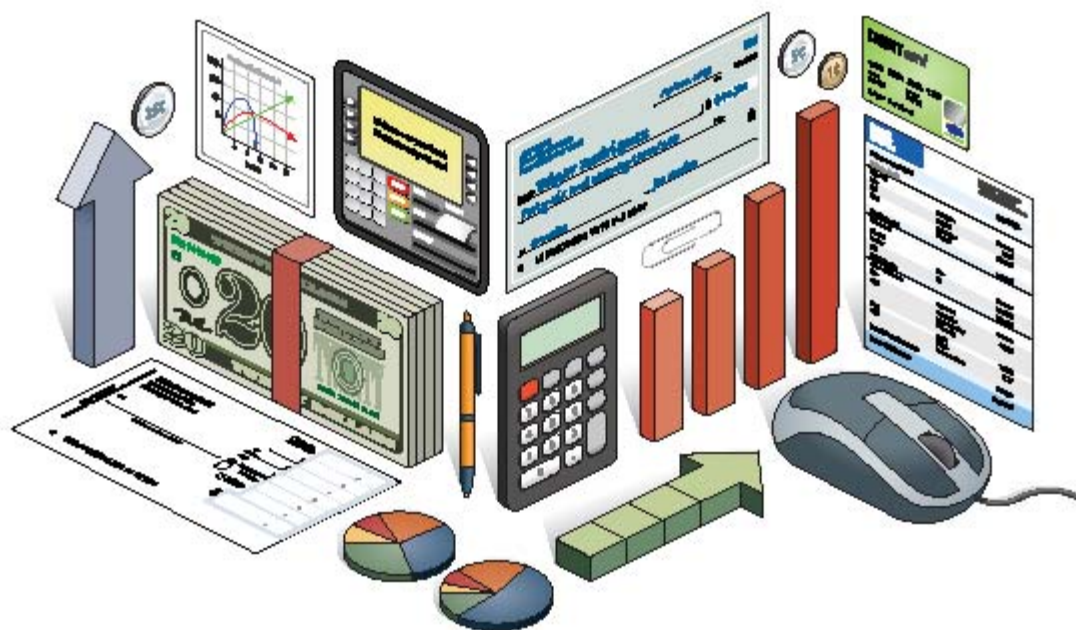




Hands on Banking[®]

ADULTS INSTRUCTOR GUIDE



Money Skills You Need For Life

A program by



Version 4.0

TOPIC 8 – MANAGING A SMALL BUSINESS

WELCOME TO WELLS FARGO'S HANDS ON BANKING® PROGRAM!

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

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

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

Program Overview

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

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

Using the Instructor Guides

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

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

1. Basics of Bank Services
2. Money Management Tools and Tips
3. Protect Yourself Financially
4. Using Credit to Your Advantage
5. Planning Your Future
6. Buying a Home
7. Starting a Small Business
8. Managing a Small Business
9. Growing a Small Business

Each Instructor Guide includes:

- A glossary of all the relevant terms introduced in the topic
- A lesson introduction which includes:
 - An overview
 - Learning objectives
 - Sample discussion questions to start the lesson
 - "The Basics"—a list of bullet points outlining the key concepts of the lesson
- A lesson summary of all the key concepts of the lesson
- Activities, quizzes, discussion questions, handouts and important tips for key concepts
- A topic summary that lists all the major concepts of the topic
- Additional activities designed to extend the concepts presented in the topic to the real world
- A Library Resource section that includes additional reference materials and handouts

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LESSON CONCEPTS AND ICONS

Each lesson of a topic will present several key concepts. These concepts are introduced to your participants in a variety of ways which are represented in the guides by these icons.



Activity

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



Discussion

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



Quiz

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



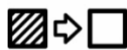
Handout

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



Activity and Discussion Handouts

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



Transition

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



Library Articles

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

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

You can photocopy these articles and distribute them to participants to start a discussion, or you may want to give them away as handouts for participants to read on their own time. These library articles expand the topic content.

Pre-and Post-tests for Adults and Young Adults

When you use the Adults and/or Young Adult courses with a group or in a classroom setting, we invite you to use the *Hands on Banking* pre and post test we've developed. They can be accessed in the "Instructional Resources" section of handsonbanking.org.

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

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

How to Access the Interactive Program

Hands on Banking is available free of charge in both English and Spanish.

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

ONCE AGAIN, THANK YOU!

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

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

TOPIC 8 – MANAGING A SMALL BUSINESS

MANAGING A SMALL BUSINESS

TOPIC OVERVIEW

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

This topic includes seven lessons:

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

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

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

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GLOSSARY

Instructor note:

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

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

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GLOSSARY

401(k) plan	A flexible retirement plan for businesses with employees. Investors in the plan don't have to pay taxes on the income they invest until they withdraw the funds at retirement age.
Accounting, bookkeeping	To keep an exact listing or record of financial transactions. Also called bookkeeping.
Asset	Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.
Break-even point	The point at which a business has brought in enough money to cover its costs of manufacturing and selling during a specific time period (usually a month, quarter, or year). Money brought in above the break-even point is profit.
C corporation	A separate tax-paying entity with any number of stockholders and multiple types of stock.
Cash flow	A measure of the changes in a company's cash during a specific period of time (usually a month, quarter, or year). Specifically, a company's cash income minus the cash payments it makes.
Collateral	Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn't repay the loan as agreed.
Consumer	An individual who buys products or services for personal or household use.
Cost of goods sold	A company's cost of purchasing raw materials and manufacturing finished products.
Deferred compensation	When a portion of your income is paid out at a date after the income was earned.
Defined Benefit Plan	A corporate retirement plan that pays employees a fixed retirement benefit either as a lump sum or as a pension (a lifetime payment) Payments are determined by salary earned and length of employment.
Defined contribution plan	A corporate retirement plan, such as a 401 (k) or 403 (b), where employees defer a percentage of their salaries and invest for retirement.
Fixed costs	For an individual, a fixed cost is an expense that stays the same each month, such as rent or a car payment. For a business, a fixed cost is an expense that does not vary depending on production or sales levels, such as an equipment lease or property tax.
Guarantor	An individual or company who has a legal obligation to pay a debt.

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Income shifting	Transferring some of your earnings to other family members to reduce your taxes.
Individual Retirement Account (IRA)	An account that holds your investments to help pay for your retirement. The major benefit is that the government doesn't tax the interest you earn until you withdraw the money. You may have to pay a penalty if you withdraw money before age 59½. You can currently contribute up to \$4,000 a year to your IRA account, up to age 70½. Beginning at age 70½ you must begin to make withdrawals. Your IRA contributions may be deductible on your tax return. Check with your tax advisor.
Internal Revenue Service (IRS)	U.S. Government agency responsible for tax collection and tax law enforcement.
Inventory	A company's merchandise, raw materials, and finished or unfinished products that have not yet been sold.
Liability	The amount of money an individual or business owes to someone else: a debt.
Limited Liability Corporation (LLC)	Members, comparable to corporate shareholders, hold interests. LLCs are classified as partnerships for tax purposes.
Liquidity	The ability of an asset to be converted into cash quickly.
Manufacturer	A business that produces products.
Marketing	The activities of a business (such as advertising, offering special sale prices, etc.) designed to gain new customers and to interest customers in continuing to do business over time.
Matching Contributions	When an employee invests a dollar(s) that investment is matched by the employer as a type of reward or compensation.
Merchandise	The products a business offers for sale to its customers.
Merchant card processing	A service offered by credit card providers, including many banks, that allows a company to accept credit card and debit card payments where it does business or online.
Overhead	The ongoing administrative expenses of a business, such as rent, utilities, and insurance.
Partnership	An option for operating a business with two or more individuals as co-owners.
Payables	Money owed by a company to others that must be paid within one year or less. Also called current liabilities or current debt.
Payroll deductions	Money subtracted from an employee's paycheck for such items as federal and state taxes, Social Security contributions, and health insurance.
Penalty fee	A fee charged for the violation of a rule in a financial agreement.

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Pension	An annual yearly income paid to an employee usually after retirement. Payments will be based upon employee's age at retirement, final salary, and number of years on the job.
Production process	The method or system used by a manufacturer to create its products.
Profit	The positive gain from an investment or a business operation after subtracting all expenses.
Profit & Loss Statement (P&L)	A financial document showing a company's earnings, expenses, and net profit for a specific time period, such as a month, quarter, or year. Also called an income statement or earnings report.
Profit sharing	An arrangement in which an employer shares some of the company's profits with its employees. Payments can be in cash, stock, or bonds, and may be immediate or held until an employee's retirement.
Receivables	Money owed to a company that must be paid within one year or less.
Reinvesting	In a business, using the profits from the business to further improve or expand. In regard to investing, using the dividends, interest, or profits from an investment to buy more of that investment, rather than receiving a cash payout.
Retail	Selling directly to consumers.
Retirement plan	SEE 401(k), Defined Contribution Pan and Defined Benefits Plan.
Return on investment (ROI)	The income that an investment produces for the investor.
Rollover	The transfer of funds from one investment to another. For example, when an employee leaves a job that offered a 401(k) retirement plan, the funds can be moved, or rolled over, to his or her new employer's plan, usually without tax penalty if done within sixty days.
Roth Individual Retirement Account (IRA)	An individual retirement account with non-deductible contributions, subject to certain income limits, designed to provide tax-free distributions during retirement. Contributions may be withdrawn tax-free at anytime. Tax- and penalty-free withdrawals of earnings may begin when the account has been established for at least five years, and you're at least 59½ years old, for a first time home purchase (\$10,000 lifetime limit), or in the event of disability or death. Non-qualified distributions of earnings may be subject to income tax as well as a 10% IRS penalty. Unlike Traditional IRAs, you aren't required to start taking distributions at age 70½.
S corporation	A business with 25 or fewer shareholders, including sole proprietorships.
Secured credit card	A credit card secured by a savings account. The money in the savings account is collateral and may be claimed by the company issuing the card if the account holder fails to make the necessary payments. Using a secured credit card, and paying according to the terms of the agreement, can be a good first step for individuals or businesses that want to establish or rebuild their credit.

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Service delivery process	The method or system used by a service company (for example, a dry cleaner or a photo finishing lab) to deliver its services to its customers.
Simplified Employee Pension Individual Retirement Account (SEP)	Pension plan in which both the employee and employer contribute to an IRA. Limited to small businesses with less than 25 employees. Employee participation must be at least 50%. As with an IRA, contributions are tax-deductible.
Small Business Administration (SBA)	An independent agency of the Federal Government whose purpose is to help people get in business, stay in business, and grow.
Sole proprietorship	A business structure in which an individual and his or her company are considered a single entity for legal and tax purposes. The owner does not pay income taxes separately from the company, but reports business income and losses on his or her individual income tax returns.
Tax-deferred	Income for which paying taxes can be delayed to a later date. Examples include money you put into an IRA or 401(k) plan.
Traditional Individual Retirement Account (IRA)	An individual, tax-deferred retirement account for employed persons. Subject to certain limits, contributions are deductible against income earned that year. Interest and profits accumulate tax-deferred until the funds are withdrawn at age 59 1/2 or later. Early withdrawals are subject to a 10% penalty. Withdrawals also may be subject to income tax.
Variable costs	A business expense that changes from month to month, for example, electricity or telephone expense. Also, a business expense that occurs only a few months each year and the amount is different each time, for example, taxes.
Wholesale	The sale of goods in quantity for resale purposes. For example, when a manufacturer sells cases of soup to a retail grocery store, who in turn sells individual cans of soup to the public.

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LESSON 1: THE BASIC SKILLS AND KNOWLEDGE YOU NEED

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

Learning Objectives

After completing this lesson, participants will be able to:

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

Start the Discussion

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

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

The Basics

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

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Six Basic Skills (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following two pages. Then, lead the discussion about these six basic skills.

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

Six Basic Skills For Business	
Skill #1: Planning	<ul style="list-style-type: none"> • Planning ahead will help you to use your limited resources—time, money and materials—to your best advantage. • How are you going to achieve your goals? Be realistic and specific: who’s going to do what, by when? • Think ahead about your business budget. How much money do you need, when do you need it, how will you use it? • Consider what you hope to get in return for the money you spend. This is called your return on investment, or ROI • Ask yourself some basic questions: <ul style="list-style-type: none"> ○ What products or services will I provide? ○ Who will be my customers? ○ How will my products and services meet my customers’ needs? • As you gather the answers to these and related questions, start putting your plan down on paper.
Skill #2: Buying	<ul style="list-style-type: none"> • All small business owners are involved in buying, also called purchasing. • Profit is the difference between how much you spend and how much your customers pay you, so save money wherever you can. Being a smart buyer will help your business become more profitable. • To be a better buyer, think of your spending in categories—you’ll see how you’re spending your money, which will help you to make better business decisions. • If money is tight, you’ll be able to quickly spot where you might be able to cut back. If you have money to spare, you’ll see how you might use it to grow your business. This is called reinvesting. • Being a skillful buyer also means you’ll get the <i>quality</i> you need in the things you buy – and avoid wasting your money. • Finally, being a good buyer means you’ll have the goods and services you need <i>when</i> you need them. Timing is important in business.
Skill #3: Producing	<ul style="list-style-type: none"> • “Producing” means providing products and services for others to buy. Manufacturers call this the production process. Service businesses might call it the service delivery process. • Improving your production process can improve your profitability. If you can figure out how to save money by delivering your product or service more quickly or inexpensively, you can increase the amount of money you make. If you can deliver products or services of higher quality, you’ll probably make more sales.

TOPIC 8 – MANAGING A SMALL BUSINESS

Six Basic Skills (Instructor Copy), Continued

Six Basic Skills For Business	
Skill #4: Selling	<ul style="list-style-type: none"> • In order to sell, understand your customers: what they want, how and when they want it, and what price they're willing to pay. • Customers must have a need for what you're offering. They must know that your business exists and be interested in buying from you. They must believe that your product or service will meet their need. Finally, they must feel comfortable that the price you're asking is reasonable and affordable for them. • Also, consider your payment policies. Depending on what you're selling, you need to decide not only how <i>much</i> you will charge, but the <i>timing</i> you require for payment. For example, some businesses charge 50% when the order is placed, and 50% on delivery. • You also need to decide whether to extend credit to customers, in what amount, and for what length of time.
Skill #5: Tracking	<ul style="list-style-type: none"> • "Tracking" refers to the skill of keeping good business records. • You could lose money if you don't keep track of the money in your business, and what you buy, produce, and sell, • Keeping track is <i>also</i> important for filling out your tax forms accurately. • Keep your money records accurate and up-to-date. Track your deposits, withdrawals, and current balances; how much you owe and how much customers owe you. That way you'll always know how much cash you'll have on hand. • Keep your business and personal records separate so you can clearly see how your business is performing. • Track information about your sales efforts, your customers, and your product or service delivery process. • By tracking useful information, you can make smarter decisions to improve the efficiency, sales, and profitability of your business.
Skill #6: Managing	<ul style="list-style-type: none"> • Managing means having a vision of what you want your business to become, and constantly adapting to change in order to guide it toward those goals. • If you have employees, managing <i>also</i> means being the leader of a team that is critical to your success. • Most experienced business owners consider their employees to be their company's most valuable resource. They represent your business to your customers, your suppliers, and to the public. They must believe in your business and commit themselves to doing good work in order for your business to succeed. • For most businesses, employees are also their largest expense – so they can't afford to have people who are not productive. (Remember that the total cost of employees includes not just their salaries, but also benefits, payroll taxes, and the time and expense involved in managing them.) • Be a better manager by working for or listening to experienced managers who have learned from their own mistakes and successes.

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Six Basic Skills

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

Six Basic Skills For Business	
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TOPIC 8 – MANAGING A SMALL BUSINESS

Six Basic Skills, Continued

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Skill #6: Managing	<ul style="list-style-type: none"> • Managing means having a vision of what you want your business to become, and constantly adapting to change in order to guide it toward those goals. • If you have employees, managing <i>also</i> means being the leader of a team that is critical to your success. • Most experienced business owners consider their employees to be their company's most valuable resource. They represent your business to your customers, your suppliers, and to the public. They must believe in your business and commit themselves to doing good work in order for your business to succeed. • For most businesses, employees are also their largest expense – so they can't afford to have people who are not productive. (Remember that the total cost of employees includes not just their salaries, but also benefits, payroll taxes, and the time and expense involved in managing them.) • Be a better manager by working for or listening to experienced managers who have learned from their own mistakes and successes.

TOPIC 8 – MANAGING A SMALL BUSINESS



Vital Vocabulary Activity (Instructor Copy)

Instructor note:

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

Instructions:

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

Word Bank

Asset	Accounting or bookkeeping
Cost of goods sold	Break-even point
Fixed costs	Cash Flow
Inventory	Marketing
Liability	Payables
Overhead	Profit
Variable costs	Receivables

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



To succeed in business:

1. Keep your overhead as low as you can.
2. Know your customers and put them first.
3. Keep good records to make smarter decisions; you can’t manage what you don’t measure.

TOPIC 8 – MANAGING A SMALL BUSINESS



Vital Vocabulary Activity

Instructions:

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

Word Bank

Asset	Accounting or bookkeeping
Cost of goods sold	Break-even point
Fixed costs	Cash Flow
Inventory	Marketing
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Variable costs	Receivables

Term/Phrase	Definition
	The copy machine you bought increases what your business is worth.
	The money you owe.
	The products, or merchandise, that you offer for sale to your customers.
	A manufacturer’s expense for materials they use to make products.
	Expenses that are the same amount every month, such as rent or equipment leases.
	Expenses that may change from month to month, such as electricity or taxes.
	The amount of monthly fixed and variable costs required to be open for business.
	Everything a business does to both gain and keep customers.
	The minimum amount of money a business must bring in to pay all expenses.
	When your business has positive gain after paying all expenses.
	Tracking the money in your business is called “keeping the books.”
	All of your monthly bills and expenses.
	The money your customers owe you.
	Money that constantly moves in and out of a business.



To succeed in business:

1. Keep your overhead as low as you can.
2. Know your customers and put them first.
3. Keep good records to make smarter decisions; you can’t manage what you don’t measure.

TOPIC 8 – MANAGING A SMALL BUSINESS



Three Types of Small Business Credit (Instructor Copy)

Instructor note:

Review these key points with your participants and then discuss the three types of small business credit.

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

TOPIC 8 – MANAGING A SMALL BUSINESS



Three Types of Small Business Credit Activity (Instructor Copy)

Instructor note:

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

Instructions:

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

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



Lenders make an investment in you and your business. It can be helpful to work with a lender who is familiar with your type of business.

TOPIC 8 – MANAGING A SMALL BUSINESS



Three Types of Small Business Credit Activity

Instructions:

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

Secured Credit	Unsecured Credit	SBA Credit



Lenders make an investment in you and your business. It can be helpful to work with a lender who is familiar with your type of business.

TOPIC 8 – MANAGING A SMALL BUSINESS



Instructor note:

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

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

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

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON SUMMARY

Instructor note:

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

Key points from the Skills and Knowledge You Need lesson:

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

LESSON 2: KEYS TO FINANCIAL MANAGEMENT

In this lesson, participants will learn about bank products and services designed for small businesses. They will learn valuable tips for managing cash and credit, creating a business budget and more.

Learning Objectives

After completing this lesson, participants will be able to:

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

Start the Discussion

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

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

The Basics

- As a small business, it's extremely important to effectively manage the *money* in your business.
- You have to be a good money manager to have a profitable business that can pay you for your time and effort.
- There are three basic money management tools you need: business banking relationship, a bookkeeping system and monthly management reports.

TOPIC 8 – MANAGING A SMALL BUSINESS



Basic Business Tools Activity—Part I (Instructor Copy)

Instructor note:

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

Instructions:

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

Online banking	<ul style="list-style-type: none"> • Banking on the Internet is one of the most useful money management tools a small business owner or manager can have. • Managing your money online can be a tremendous time-saver. • Online banking is safe and convenient: you can monitor your account activity at any time, check your transactions and balances, transfer funds between bank accounts, and pay bills.
Checking accounts	<ul style="list-style-type: none"> • Business checking accounts are similar to personal ones. • They make it easy for you to access your money and to transfer money between accounts. • It's important to have a business checking account that's separate from your personal one, you can clearly see how your business is performing and how much cash you have on hand. It will also be quicker and easier to fill out your tax forms. • Many banks offer accounts that let you write checks and use online banking and automated teller machines, or ATMs. • Some banks offer special ATM cards that allow the business owner to control how the ATM card can be used by employees. For example, a bookkeeper could make deposits but <i>not</i> have full access to the business' money. • Ask your local bank about the different kinds of business checking accounts they offer.
Savings accounts	<ul style="list-style-type: none"> • Many small businesses have a business savings account that's separate from their personal one. • With savings set aside, you'll be able to handle emergency business needs, you can plan ahead for making large purchases in the future, and you'll be ready to pay your business' taxes when they're due. • At most banks, your business savings account can be used as overdraft protection for your business checking account. This can save you money on bounced check fees, and help keep your credit strong. • When you put your money in a business savings account, the bank rewards you on a regular schedule by adding interest that makes your savings grow.
Payroll services	<ul style="list-style-type: none"> • Paying your employees – and keeping track of what you pay them – can be complicated and time-consuming. Payroll tax laws change frequently. • As an employer, you can be charged penalties if you don't keep up with the new laws. • A payroll service can make the entire process of paying your employees, and keeping track of what you pay them, faster and more convenient. • The payroll service provider also takes responsibility for following the current payroll laws – and paying any penalties if they make an error. • Many banks offer payroll services. Ask your local bank for details about what they provide and how much they charge.

TOPIC 8 – MANAGING A SMALL BUSINESS



Basic Business Tools Activity—Part I

Instructions:

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

Business Tool	Benefit
Online banking	
Checking accounts	
Savings accounts	
Payroll services	

TOPIC 8 – MANAGING A SMALL BUSINESS



Basic Business Tools Activity—Part II (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into small groups. Instruct them to brainstorm the benefits of each of the business tools listed in the left column. Then, when they're finished use the key points in the table to frame the discussion.

Instructions:

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

Loans & lines of credit	<ul style="list-style-type: none"> • Loans are typically used to make large, one-time purchases. • Process of borrowing for business is similar to borrowing for you. • When you borrow money for your business it should be for improving or expanding your business and its profitability. • A line of credit gives a business a flexible way to borrow money at any time and manage cash flow. The bank agrees to lend you up to a certain amount on an ongoing basis. You can use as much as you need (up to your limit) and pay back at least a minimum amount every month. You pay interest only on the amount you borrow.
Personal guarantee	<ul style="list-style-type: none"> • When you want to borrow money, the lender will study the financial performance and credit history of your business to decide how much and what kind of credit to give you. They will also look at your personal financial picture. • A personal guarantee means that an individual, called the guarantor, signs a legal agreement to repay the loan if the business can't. • If you're planning to borrow money for your business, be sure that you clearly understand what your business – and you personally – are agreeing to. Get legal advice before signing a loan agreement.
Credit cards	<ul style="list-style-type: none"> • Business credit cards can be very convenient, especially for making smaller purchases and when traveling on business. • Having a business credit card that is separate from your personal one makes it easy to identify your business expenses. • Many credit card programs offer monthly or quarterly statements that show how much was spent in different expense categories. This can save you bookkeeping time. • Most business credit card programs will let you have multiple cards, so you can give them to employees. • To keep control of your employees' spending, assign a spending limit or kinds of purchases they can make to their cards. • Secured credit cards are ideal for new businesses or for those that need to rebuild their business credit. To qualify, you're normally required to open an account with a balance equal to the credit limit of the card.
Merchant card processing	<ul style="list-style-type: none"> • It's important to make doing business convenient for your customers.. Credit card providers, including many banks, offer merchant card processing. These services allow you to accept credit card and debit card payments from your customers, including online. • Research shows that consumers buy more-expensive items and spend more when they use a credit card. Accepting credit/debit cards might help your business. • Ask your local bank if they offer merchant card processing services and how much they charge.

TOPIC 8 – MANAGING A SMALL BUSINESS



Basic Business Tools Activity—Part II

Instructions:

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

Business Tool	Benefits
Loans & lines of credit	
Personal guarantee	
Credit cards	
Merchant card processing	

TOPIC 8 – MANAGING A SMALL BUSINESS



Scenario Activity: Controlling Cash & Credit (Instructor Copy)

Instructor note:

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

Instructions:

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

Alison's Story

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

1. Learn to keep the books herself.

Consequences:

After considering different ways to become a better bookkeeper, Alison talked to another small business owner and her banker for advice. They suggested hiring a bookkeeper to help tutor her. A system was set up that was easy for her to use and the bookkeeper taught her how to use it. It was hard to find the time to devote to this, but she's glad now that I did it.

Feedback

This advice worked out well, despite Alison's busy schedule. She was smart to make sure her recordkeeping system was easy for her to understand and maintain.

2. Trust Fred to handle the finances so she can give focus on her painting jobs.

Consequences:

Not a good choice. Fred set-up a complicated system that Alison didn't understand. Then, six months later when he moved away, she had to spend hours getting it straightened out because he was so disorganized. At least he was honest. Now she realizes that another bookkeeper could have stolen money because she wasn't paying close attention.

Feedback

This situation could end badly. She'll need to pay close attention and limit his access to her accounts and cash. More than a few business owners have lost money because of employees who were disorganized or dishonest.

3. Participate in setting up the system; let Fred maintain it, but limit his access to funds

Consequences:

This is a good choice. She made sure that her recordkeeping system is easy to understand and maintain. She also made sure that she's the only person authorized to sign checks or use the company credit card. Fred is good at the computer work, and that let's her focus on other aspects of the business – without worrying about losing cash or good credit.

TOPIC 8 – MANAGING A SMALL BUSINESS

Scenario Activity: Controlling Cash & Credit (Instructor Copy) (Continued)

Feedback:

This is the best choice. Even though Alison will have Fred keep her books, she can wisely restrict his access to her accounts, cash, and credit. She also can make sure her bookkeeping system is easy for her – the business owner – to understand.

TOPIC 8 – MANAGING A SMALL BUSINESS



Scenario Activity: Controlling Cash & Credit

Instructions:

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

Alison's Story

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

1. Learn to keep the books herself.

Should Alison choose this option? Why or why not?

2. Trust Fred to handle the finances so she can give her full attention to her painting jobs.

Should Alison choose this option? Why or why not?

3. Participate in setting up the system; let Fred maintain it, but limit his access to funds

Should Alison choose this option? Why or why not?

TOPIC 8 – MANAGING A SMALL BUSINESS



Create a Business Budget Activity (Instructor Copy)

Instructor note:

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

Instructions:

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

Follow these steps to create your business budget.

1. *Review your income and expenses.*

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

2. *Divide expenses into categories such as debt, employees, and overhead.*

Look for spending patterns in each category. Also, remember to save money for emergencies or economic downturns.

3. *Project income and expenses for a future period based on past figures and trends, and any changes that you foresee.*

Regularly review your projections and adjust them if conditions change.

4. *Be disciplined; stick to your plan.*

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



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

TOPIC 8 – MANAGING A SMALL BUSINESS



Create a Business Budget Activity

1. *Review your income and expenses.*

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

2. *Divide expenses into categories such as debt, employees, and overhead.*

Look for spending patterns in each category. Also, remember to save money for emergencies or economic downturns.

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



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

TOPIC 8 – MANAGING A SMALL BUSINESS



The Money You Need Activity (Instructor Copy)

Instructor note:

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

Follow these tips to help maximize your cash flow.

Instructions:

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

Word Bank:

Improve your cash tracking
 Invoice and collect promptly
 Lower prices selectively

Lower your overhead
 Work with reliable vendors

Tips for maximizing cash flow	
Lower your overhead	<ul style="list-style-type: none"> • Look for ways to lower your overhead. • Shop for better pricing on what you buy. • Cut back on non-essentials.
Work with reliable vendors	<ul style="list-style-type: none"> • Work with reliable vendors that deliver quality merchandise on time. • If a shipment is late or of poor quality, you miss opportunities to sell your inventory and bring in cash.
Lower prices selectively	<ul style="list-style-type: none"> • When necessary, lower prices when items don't sell. • You'll be able to recover your cash and put it into products that will sell more quickly.
Improve your cash tracking	<ul style="list-style-type: none"> • Create a monthly cash flow chart that shows when cash may come in or go out. This will help you anticipate possible cash shortages. • Streamline your bill collection process so that you get paid more quickly whenever possible. That way, you'll have your own cash to work with, rather than paying interest on borrowed money. • Double-check your bookkeeping to avoid fraud and overpayments.
Invoice and collect promptly	<ul style="list-style-type: none"> • Invoice and collect promptly from your customers. Consider having a 14-day payment cycle rather than a 30-day payment cycle. • Be sure that your invoices permit you to charge interest for late payments. • Be careful to track accounts for prompt payment. • When you extend credit, you lose access to cash and the interest it may generate if invested. • Follow past-due accounts closely. The more overdue an invoice is, the less likely you are to collect it.

TOPIC 8 – MANAGING A SMALL BUSINESS



The Money You Need Activity

Follow these tips to help maximize your cash flow.

Instructions:

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

Word Bank:

Improve your cash tracking
 Invoice and collect promptly
 Lower prices selectively

Lower your overhead
 Work with reliable vendors

Tips for maximizing cash flow	
	<ul style="list-style-type: none"> • Shop for better pricing on what you buy. • Cut back on non-essentials.
	<ul style="list-style-type: none"> • Work with these people who deliver quality merchandise on time. • If a shipment is late or of poor quality, you miss opportunities to sell your inventory and bring in cash.
	<ul style="list-style-type: none"> • When necessary, change things up when items don't sell. • You'll be able to recover your cash and put it into products that will sell more quickly.
	<ul style="list-style-type: none"> • Streamline your bill collection process so that you get paid more quickly whenever possible. That way, you'll have your own cash to work with, rather than paying interest on borrowed money. • Create a monthly cash flow chart that shows when cash may come in or go out. This will help you anticipate possible cash shortages. • Double-check your bookkeeping to avoid fraud and overpayments.
	<ul style="list-style-type: none"> • Be sure that you can charge interest for late payments. • Get paid promptly from your customers. Consider having a 14-day payment cycle rather than a 30-day payment cycle. • Be careful to track accounts for prompt payment. • When you extend credit, you lose access to cash and the interest it may generate if invested. • Follow past-due accounts closely. The more overdue a payment is, the less likely you are to collect it.

TOPIC 8 – MANAGING A SMALL BUSINESS



Instructor note:

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

Recommended Article: Maximize Cash Flow

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

TOPIC 8 – MANAGING A SMALL BUSINESS



Manage Your Expenses

Instructor note:

Lead a discussion about creating an organized logical approach to managing expenses.

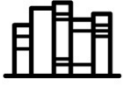
What do you think is an organized approach to managing expenses?

1. **Categorize your expenses** as short-term (may change within 6 months), long-term (may last up to a year), or fixed (rarely change). Then rank them in descending order of cost within each group.
2. **Create a schedule** to review each expense. Review short-term expenses more frequently than long-term costs because you can change these more easily. Look for more opportunities to cut costs.
3. **Establish goals** for reducing each expense by a realistic percentage. If you have employees, assign someone to each cost-cutting goal, or consider rewarding employees for finding ways to cut costs.



If you own a small business it's especially important to control expenses. The consequences of a smaller company spending too much are far greater than for larger companies.

TOPIC 8 – MANAGING A SMALL BUSINESS



Instructor note:

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

Recommended Article: Manage Your Business Expenses

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

TOPIC 8 – MANAGING A SMALL BUSINESS



Tips For Compensating Yourself (Instructor Copy)

Instructor note:

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

- As a small business owner, there are many options for taking money out of your business to pay yourself.
- Individually and in combination these different methods may offer you some real advantages in terms of tax-savings and liquidity (having assets that can be readily converted into cash).
- Compensation options can include:
 - *Deferred compensation* (when a portion of your income is paid out at a date after the income was earned) may postpone your payment of taxes on that income.
 - *Income shifting* (transferring some of your earnings to other family members to reduce your taxes), may also have financial benefits related to your estate, the wealth you'll pass on to your family when you die.

Explore these options and advantages with your tax advisor:

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



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

TOPIC 8 – MANAGING A SMALL BUSINESS



Tips For Compensating Yourself

- As a small business owner, there are many options for taking money out of your business to pay yourself.
- Individually and in combination these different methods may offer you some real advantages in terms of tax-savings and liquidity (having assets that can be readily converted into cash).
- Compensation options can include:
 - *Deferred compensation* (when a portion of your income is paid out at a date after the income was earned) may postpone your payment of taxes on that income.
 - *Income shifting* (transferring some of your earnings to other family members to reduce your taxes), may also have financial benefits related to your estate, the wealth you'll pass on to your family when you die.

Explore these options and advantages with your tax advisor:

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



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

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON SUMMARY

Instructor note:

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

Key points from the Keys to Financial Management lesson:

- As a small business, it's extremely important to effectively manage the *money* in your business
- You have to be a good money manager to have a profitable business that can pay you for your time and effort.
- There are three basic money management tools you need: business banking relationship, a bookkeeping system and monthly management reports.

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON 3: YOUR PROFIT AND LOSS STATEMENT (P&L)

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

Learning Objectives

After completing this lesson, participants will be able to:

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

Start the Discussion

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

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

The Basics

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

TOPIC 8 – MANAGING A SMALL BUSINESS



What is a P&L? Quiz (Instructor Copy)

Instructor note:

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

Instructions:

Have participants read each question and select the best answer.

1. The Profit and Loss Statement (P&L) is also known as:
 - a. Income statement
 - b. Earnings report
 - c. Statement of revenues and expenses
 - d. Operating statement
 - e. **All of the above**
2. The P&L measures:
 - a. Growth in revenues from one quarter to the next
 - b. **Activity of a business over a period of time**
 - c. Loss of profit from year to year
 - d. All of the above
3. As a business owner, it's important to keep in mind that:
 - a. **Profit is not the same as cash flow**
 - b. Cash flow is not the same as asset allocation
 - c. Revenue is the same as profit
 - d. All of the above

Key points:

The Profit and Loss Statement (P&L):

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



The basic formula for a Profit & Loss Statement: Revenues – Expenses = Net Profit

TOPIC 8 – MANAGING A SMALL BUSINESS



What is a P&L? Quiz

Instructions:

Read each question and select the best answer.

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

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

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

Tip!

The basic formula for a Profit & Loss Statement: Revenues – Expenses = Net Profit

TOPIC 8 – MANAGING A SMALL BUSINESS



Definitions of Terms Used in a P&L Statement Activity (Instructor Copy)

Instructor note:

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

Instructions:

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

Word Bank:

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

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

TOPIC 8 – MANAGING A SMALL BUSINESS



Definitions of Terms Used in a P&L Statement

Instructions:

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

Word Bank:

Gross Profit Margin

Income taxes

Net income (after taxes)

Operating Expenses

Operating income

Other income or expenses

Overhead, or Fixed Expenses

Pre-tax income

Revenue

Term	Definition
	Money you receive in payment for your products or services.
	Expenses that rise or fall based on your sales volume. Also known as Variable Expenses.
	Amount left when you subtract operating expenses from revenues. Also known as Operating Margin.
	Costs that don't vary much monthly or rise or fall with sales. Possible examples: rent, insurance.
	Money received after deducting operating and overhead expense.
	Money related to a business' finances, for example interest earned on savings or paid on loans.
	Money earned before federal and state governments take their share.
	Money paid to federal and state governments.
	The profit earned in the period minus all expenses. The final amount on most P&Ls.

TOPIC 8 – MANAGING A SMALL BUSINESS



Sample Profit & Loss Statement (Instructor Copy)

Instructor note:

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

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

Sample Company, Inc.	Profit & Loss Statement	August 2007
Operating Revenue		
Product sales		\$12,000
Service sales		3,000
Total Operating Revenue		15,000
Operating Expenses		
Cost of goods sold		7,000
Gross Profit		8,000
Overhead		
Rent		1,500
Insurance		250
Office supplies		150
Utilities		100
Total Overhead		2,000
Operating Income		6,000
Other Income (Expenses)		
Loan Interest		(500)
Earnings Before Income Taxes		5,500
Income Taxes		500
Net Earnings		\$5,000



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

TOPIC 8 – MANAGING A SMALL BUSINESS



Sample Profit & Loss Statement

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

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Loan Interest		(500)
Earnings Before Income Taxes		5,500
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Net Earnings		\$5,000



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

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON SUMMARY

Instructor note:

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

Key points from the Your Profit and Loss Statement lesson:

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

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON 4: HOW THE SBA CAN HELP YOU

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

Learning Objectives

After completing this lesson, participants will be able to:

- List the different resources available through the SBA

Start the Discussion

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

- Have you visited your local SBA office? What types of services did they offer you? Did you take advantage of any of their resources?
- What are some ways that small business owners can use their resources most effectively?

The Basics

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

TOPIC 8 – MANAGING A SMALL BUSINESS



How the SBA Can Help You Activity (Instructor Copy)

Instructor note:

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

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

The basic components of the SBA:

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

During this phase...	The SBA can help with:
Starting your business	<ul style="list-style-type: none"> • Small Business Start-up Kit; training and counseling; business planning tutorial; special assistance programs for minorities, women, the disabled, veterans, and other groups; workshops; shareware.
Financing your business	<ul style="list-style-type: none"> • Loan programs, including those that focus on: microloans (up to \$35,000) for start-up, newly established, or growing small businesses; low and moderate income areas. • Working capital lines of credit. • Assistance in developing a business plan and building business operations.
Managing your business	<ul style="list-style-type: none"> • Online workshops, courses, and guides
Finding new business opportunities	<ul style="list-style-type: none"> • Government contracting • Business development • Business Matchmaking events • Export assistance • Nonprofit grants • Expanding Your Business workshops

TOPIC 8 – MANAGING A SMALL BUSINESS



How the SBA Can Help You Activity

Instructions:

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

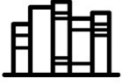
Basic components of the SBA are:

- 1.
- 2.
- 3.
- 4.
- 5.

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

During this phase...	The SBA can help with:
Starting your business	<ul style="list-style-type: none">• Small Business Start-up Kit; training and counseling; business planning tutorial; special assistance programs for minorities, women, the disabled, veterans, and other groups; workshops; shareware.
Financing your business	<ul style="list-style-type: none">• Loan programs, including those that focus on: microloans (up to \$35,000) for start-up, newly established, or growing small businesses; low and moderate income areas.• Working capital lines of credit.• Assistance in developing a business plan and building business operations.
Managing your business	<ul style="list-style-type: none">• Online workshops, courses, and guides
Finding new business opportunities	<ul style="list-style-type: none">• Government contracting• Business development• Business Matchmaking events• Export assistance• Nonprofit grants• Expanding Your Business workshops

TOPIC 8 – MANAGING A SMALL BUSINESS



Instructor note:

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

Recommended Article: How the SBA Can Help You

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

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON SUMMARY

Instructor note:

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

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

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

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON 5: WHAT ABOUT RETIREMENT?

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

Learning Objectives

After completing this lesson, participants will be able to:

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

Start the Discussion

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

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

The Basics

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

TOPIC 8 – MANAGING A SMALL BUSINESS



Types of Retirement Plans Activity (Instructor Copy)

Instructor note:

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

Instructions:

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

1. What components do you need to consider for a retirement plan?
2. What benefits does contributing to a retirement plan offer you?
3. Give an example of a retirement plan.
4. What should you do about retirement plans if you're a non-working spouse or have a business of your own?

Key points:

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

TOPIC 8 – MANAGING A SMALL BUSINESS



Types of Retirement Plans

Traditional Individual Retirement Account (IRA)

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

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

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

Defined Contribution

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

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

SEP

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

Defined Benefit

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



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

TOPIC 8 – MANAGING A SMALL BUSINESS



Introduction to 401(k) Plans (Instructor Copy)

Instructor note:

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

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

Instructions:

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

Word Bank:

Payroll deductions

Profit sharing

Matching employer contributions

Rollover

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

Key points:

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

TOPIC 8 – MANAGING A SMALL BUSINESS



Introduction to 401(k) Plans

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

Instructions:

Match the money source with its correct definition.

Word Bank:

Payroll deductions

Profit sharing

Matching employer contributions

Rollover

Money Source	Definition
	When business owners reward their employees by contributing a percentage of the company's profits.
	If your employees previously worked for companies that had 401(k) plans, they can transfer what they've already saved into their new account with you.
	If the employee invests a dollar, so does the business. This rewards employees and encourages contributions.
	Money that's deducted from the employee's paycheck

Key points:

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

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON SUMMARY

Instructor note:

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

Key points from the What About Retirement lesson:

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

TOPIC 8 – MANAGING A SMALL BUSINESS

LESSON 6: HELPFUL LINKS



SMALL BUSINESS RESOURCES

Instructor note:

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

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

U.S. Department of Labor – Employment Standards Administration Information about: employment law; workers' rights www.dol.gov/esa
U.S. Patent and Trademark Office Information about: Patent and trademark laws and procedures www.uspto.gov
U.S. Small Business Administration (SBA) Starting, financing, and managing a small business; Finding new business opportunities www.sba.gov
Wells Fargo www.wellsfargo.com
Wells Fargo Credit Resource Center www.wellsfargo.com/credit_center/
Wells Fargo Insurance Resource Center www.wellsfargo.com/insurance_center/
Wells Fargo Small Business Website www.wellsfargo.com/biz/
Wells Fargo Retirement Center www.wellsfargo.com/retirement_center/
Wells Fargo Tax Resource Center www.wellsfargo.com/tax_center/

TOPIC 8 – MANAGING A SMALL BUSINESS



SMALL BUSINESS RESOURCES

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

U.S. Department of Labor – Employment Standards Administration Information about: employment law; workers' rights www.dol.gov/esa
U.S. Patent and Trademark Office Information about: Patent and trademark laws and procedures www.uspto.gov
U.S. Small Business Administration (SBA) Starting, financing, and managing a small business; Finding new business opportunities www.sba.gov
Wells Fargo www.wellsfargo.com
Wells Fargo Credit Resource Center www.wellsfargo.com/credit_center/
Wells Fargo Insurance Resource Center www.wellsfargo.com/insurance_center/
Wells Fargo Small Business Website www.wellsfargo.com/biz/
Wells Fargo Retirement Center www.wellsfargo.com/retirement_center/
Wells Fargo Tax Resource Center www.wellsfargo.com/tax_center/

TOPIC 8 – MANAGING A SMALL BUSINESS

TOPIC SUMMARY

Instructor note:

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

Key points from the Basics of Banking Topic.

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

ADDITIONAL ACTIVITIES

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

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

TOPIC 8 – MANAGING A SMALL BUSINESS

APPENDIX

LIBRARY ARTICLES & ADDITIONAL TOPIC RESOURCES

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



Money skills you need for life.

Hands on Banking[®]



APPLYING FOR BUSINESS CREDIT

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

- First, look at whether your problem could be solved by improving your cash flow – rather than getting a loan. For example, can you get more cash by improving the efficiency of your collections (in other words, how fast your customers pay you)? Or, could you switch to a just-in-time inventory system so that your money isn't tied up in inventory that's not needed now?
- Next, study your financial situation. In addition to reports that capture what happened in the past, you need to create reports that represent your best-guess of future results. One key example is a cash flow projection. If you approach a bank to borrow money, they will probably want to see your cash flow projection and your business plan.
- Next, consider the risks of taking on debt. Remember, the lender will probably ask you to sign a personal guarantee. If you are unable to repay the loan, there will be negative consequences for your business and for your own personal credit.
- Finally, consider what are likely to be the future ups and downs of your business and how these will impact your finances. Through proper planning, watching your expenses, and collecting the money that's owed you more quickly, you can shorten the periods of time that are financially challenging.

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

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

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

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



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HOW THE SBA CAN HELP YOU

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

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

You can learn more by visiting the SBA Web site at www.sba.gov. The SBA has offices throughout the United States to assist you.

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

Starting Your Business

Small Business Start-up Kit

Training and counseling

Business planning tutorial

Special assistance programs for minorities, women, the disabled, veterans, and numerous other groups

Workshops

Shareware

Financing Your Business

A variety of small business loan programs, including those that focus on:

Microloans for start-up, newly established, or growing small businesses

Low and moderate income areas

Working capital lines of credit

Business district revitalization

Export businesses

How the SBA can help you (continued)

Managing Your Business

Online workshops, courses, and guides

New Business Opportunities

Government contracting

Business development

Business MatchMaking events

Export assistance

Nonprofit grants

Expanding Your Business workshops

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MAXIMIZE CASH FLOW

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

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

- **Look for ways to lower your overhead.** Shop for better pricing on what you buy. Cut back on non-essentials.
- **Work with reliable vendors** that deliver quality merchandise on time. If a shipment is late or of poor quality, you miss opportunities to sell your inventory and bring in cash.
- Make the hard decision, when necessary, to **lower prices** when items don't sell. You'll be able to recover your cash and put it into products that will sell more quickly.
- **Improve your cash tracking.** Create a monthly cash flow chart, showing when you expect cash to come in and go out. This will help you anticipate possible cash shortages. Streamline your bill collection process so that you get paid more quickly whenever possible. That way, you'll have your own cash to work with, rather than paying interest on borrowed money. Double-check your bookkeeping to avoid fraud and overpayments.

Invoice and collect promptly from your customers. Consider having a 14-day payment cycle rather than a 30-day payment cycle. Along with having a shorter payment cycle, be sure that your invoices permit you to charge interest for late payments. Be careful to track accounts for prompt payment. When you extend credit, you lose access to cash and the interest it may generate if invested. Follow past-due accounts closely. The more overdue an invoice is, the less likely you are to collect it.

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



Money skills you need for life.

Hands on Banking[®]



MANAGE YOUR BUSINESS EXPENSES

- **Categorize expenses**
- **Create a review schedule**
- **Establish goals**

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

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

- **Short-term** items are things like wages for part-time and seasonal workers, because these may change within a six-month period.
- **Long-term** expenses are items such as leases and contracts with vendors, which may last up to a year.
- **Fixed** costs, such as mortgage payments, rarely change.

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

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

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

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