BUSINESS PLANNING: A GUIDE TO EXPORTING

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INTRODUCTION

Want to grow your business? Are you looking for new customers? Do you want to increase your profits? Any business owner looking to succeed will answer yes to these questions. Although there are several ways to achieve these goals, one of the best ways to grow a business is by exporting.

Nearly 96% of the world’s customers and 66% of their buying power resides outside of the United States*. Yet, so many United States companies only market within their own borders, virtually ignoring the rest of the world as a viable marketplace for their products and services. Why? The most common reasons cited are:

“Exporting is too complicated”
“It’s too risky – I won’t get paid”
“I have all the market share I need here in the US”
“I’m not large enough to export”
“Different languages, currencies, and cultures make it too difficult”
“It’s more costly to export”
“Too much paperwork”

As with any business transaction, there are risks associated with international trade. However, exporting can be a very profitable component of a company’s overall marketing strategy. Sales in a new market can boost revenues. Selling to foreign markets can enhance a company’s diversification, spreading its risk to countries whose economic cycle may not coincide with the variances found in the U.S. market. Properly prepared, a small business can compete with its rivals in the global marketplace. With advances in technology, the world’s marketplace is becoming more accessible to US companies, increasing their opportunity to gain market share.

* Source: US Small Business Administration (www.sba.gov)

Most potential exporters need basic information on how to export. The purpose of this planning guide is to help you prepare for the opportunities and challenges encountered in bringing a product or service to foreign markets. It provides a step-by-step process to move your company from a domestic market-only business to a blended market of both domestic and international customers. The guide will help you:

- Assess your company’s ability to export
- Learn how to conduct market research to determine viable markets for your products/services
- Develop an export business plan to clearly define your goals and objectives
- Find buyers of your products/services
- Understand the various methods of shipping products to foreign countries
- Learn how to secure international trade financing to fund exporting, mitigate risk and ensure payment

It’s time to get started. Let’s determine if your company is ready to export.
ASSESSING YOUR COMPANY’S ABILITY TO EXPORT

There are several ways to determine if your company is ready to export. One of the most common methods used by companies is evaluating the success of selling your product domestically. If sales of your product in the U.S. have a strong track record, the likelihood of selling your product in a foreign market will be good. Even if your product may have declining sales in the U.S. due to technology, style changes or market obsolescence, foreign countries may continue to show a strong demand for a more mature product. Their buyers may not want, need, or be able to afford the most advanced, expensive product.

Another way to determine your company’s export readiness is to evaluate your product’s Unique Selling Proposition (USP). A USP is a marketing concept that gauges how a product differs from other competitor products. Will your product have a competitive edge over already-established products in your targeted market? Are there many competitors in your industry sector? What competitive advantage characteristics will your product have over others? Price? Quality? Service? Answers to these questions and others will help your company determine if it’s ready to export.

Your management team must also be committed to leading the organization in its efforts to attract new customers from foreign countries. Without a commitment from top management, an export initiative will have difficulty surviving when obstacles are encountered. What are management’s reasons and expectations for wanting to pursue an export effort? Are the foreign markets merely a supplement for domestic sales or is there a new vision from the top to be a true global company? Some of the most common reasons management pursues an export strategy are to:

1. Enhance competitiveness of the company
2. Expand the company footprint into the global marketplace by increasing sales volume
3. Improve the company’s return on investment
4. Find new markets for “mature” products in less-developed countries

Management should go through the process of conducting an assessment of its export-readiness. The U.S. Government offers an assessment questionnaire to help companies determine if they have the necessary strengths to capitalize on the export markets. The assessment can be found at [http://export.gov/begin/assessment.asp](http://export.gov/begin/assessment.asp). A wealth of additional information regarding the export process can be found at [www.export.gov](http://www.export.gov). The export.gov website brings together resources from across the government’s spectrum of agencies to assist U.S. companies in planning their international trade strategies and succeed in the global marketplace.

Finding new customers may require an increase in production capabilities and hiring of additional employees. New equipment may need to be purchased, more operating space may be required and new methods will need to be integrated into the company’s marketing mix. All of these considerations have financial implications that must be addressed prior to any commitment to exporting is made. A company must have sufficient financial resources to manufacture, market and ship its products overseas. Without adequate capital to fund this operation, the chances of launching a successful export operation are slim.

Excellent customer service is a fundamental component of any successful business. An assessment must be conducted by your company on how it intends to provide excellent customer service for its remote clients. You will need to determine how to service defective products cost-effectively and satisfy customer
expectations. You must also make the commitment to maintain a high level of service to your domestic customers while pursuing a presence in the international marketplace.

Depending on the type of business, there are also packaging and labeling requirements and regulations that must be met. A thorough review of a country’s regulations is necessary to conform to the rules. Failure to do so will likely prevent the sale of products into the market. Production must have the capability to modify packaging and printed materials for translation of information into several different languages.

Another important factor in the assessment phase is consideration about whether your company has the shipping expertise to deliver its product quickly and efficiently to customers. Problems in shipping a product can be costly from a financial standpoint as well as damaging to a customer relationship. Future sales may be jeopardized by delays in shipments or lost goods.

Does your company have knowledge of, and access to, export payment methods such as export financing, letters of credit and export insurance? Getting paid is oftentimes the most challenging part of the export process. Without these financing tools, poor cash flow can inhibit and ultimately stop future export transactions.

Finally, determining your company’s readiness relies upon a thorough, well-written export business plan. The preparation of this document will help you complete an assessment of the many factors required to start a successful export operation. The plan will provide consistent guidance for management and staff in achieving your company’s goals and objectives.

Recapping, here are the most critical areas you must assess before moving ahead with an export plan:
1. Goals of management
2. Qualifications of management and staff
3. Production capacity
4. Ability to modify product if necessary
5. Financial capabilities of company
6. Shipping expertise

Once you have completed your export readiness assessment, your next step is to conduct market research.
MARKET RESEARCH

To be successful in starting an export operation, your company must determine which markets are best suited for your product. Some questions you will want answered are:

- Who are your potential customers?
- What is the profile of your typical customer?
- Where are the high growth markets?
- Who are your main competitors in these markets?
- Can you determine their strengths and weaknesses? What are yours?
- What is your Unique Selling Proposition in your targeted markets?
- How much product will you have to sell to justify the additional costs of exporting?
- What sales channels will you use to get your product into the markets?
- What legal requirements must you comply with in your identified markets?

There will be many other questions as well, depending on the type of product you are selling and the business sector in which you are competing.

Market research is an essential process toward increasing your chances of succeeding in international markets. It will help you to determine the economic, political and cultural factors that may have an effect on your decision to export. Information from these and other factors will help you decide if your product will sell in a particular market.

There are two main types of market research:

1) Primary Market Research

This type of research collects data and information directly from the targeted market through a variety of solicitation methods conducted by your company. Methods include telephone and social media surveys, focus group meetings, potential customer interviews, scouting competitors’ products and other information-gathering approaches. Since this method requires time and resources, it tends to be more expensive than secondary market research. However, the information gathered is customized to the specific needs of your company.

2) Secondary Market Research

Using this approach, a company will gather its data and information on potential markets from trade assistance organizations, published sources or the internet. Trade assistance organizations include the New York State Small Business Development Center, the U.S. Department of Commerce, U.S. Small Business Administration, World Trade Centers, Chambers of Commerce, international trade consultants and other export resource entities. Published resources include trade journals, reports from international trade organizations, industry journals, news reports, etc. The internet provides access to many public agency or governmental websites which possess a wealth of statistical data as well as the latest information on economic, political and cultural changes taking place within a country or region. The U.S. Department of Commerce Commercial Service offers companies customized market research reports. The reports can be customized to a company’s
specifications. The reports can contain information about the sales potential of your company’s target markets, effective marketing and distribution strategies for those markets, characteristics of competitors in the target markets, specific barriers to exporting, the best new markets for your company’s products, and other market research information. This approach tends to be less expensive to implement than primary research. However, many sources only collect data on a periodic basis and consequently, the information may not be the most current available. It may not be as focused as the information gathered through a primary market research approach.

Product Classification

Classifying your product is essential in making market research relevant. Although there are many different classification systems, the most common one used is the Harmonized System (HS), administered by the World Customs Organization in Brussels, Belgium. The HS is an international commodity coding system used by most countries to classify their products. Most trade data is reported in terms of volume and value of the products being exported. Using the HS system will help you gather the market data on your product since all import and export codes used by the U.S. are based on it. The HS is also the standardized system trading parties must use to base their tariff schedules. An HS number has six digits that are harmonized to reflect the same product regardless of its origin or the language in which it is described. Often times the six-digit code will be followed by either two or four additional digits. These additional digits provide sub-divisions of categories to better define the qualities of a particular product. Companies in the U.S. also refer to this statistical classification of commodities system as Schedule B. All Schedule B numbers are ten digits in length.

In conducting your market research, you will find most trade lead databases use HS numbers to identify products rather than the product name. This is because product names used in the U.S. may be different than the name for the same product in another country. Market research reports frequently identify growing markets by using the HS for industry sectors, rather than just for individual products.

Market Research Checklist

After you have decided on the type of market research your company will conduct, and have identified the commodity codes for the products you intend to export, it is time to identify the fastest growing markets for your product. You will need to gather market information on a broad spectrum of topics including: demographics, political stability, tariff regulations, competition and economic climate to name a few. It is important for you to develop a checklist of the most important data and information available to help you in your decision to select a particular market or markets.

Here are some of the research topics you need to consider:

1. **Market** – the size and type of market (i.e. fully developed or developing market).

2. **Business Essentials** – business practices and regulations, government involvement, currency used, language spoken, relationship with the US, structure of the legal system.

3. **Competition** – Who are they? How do they do business? How dominant are they?

4. **Economic climate** – economic trends, the strength of the domestic economy, a country’s acceptance of foreign products.
5. **Political climate** – the policies of the ruling government toward imports, the support it receives from its people, threats from other countries.

6. **Ease of entry** – tariff regulations, availability of market research information, access to trade events like international expositions, trade missions, industry associations and other networking opportunities.

7. **Joint venture or cooperative agreement opportunities** – ability to establish a relationship with a local company for the purpose of gaining market access and sharing resources.

8. **Culture** – language and customs can play an important role in deciding if a market is accepting of your product. Product names, size, colors and numbers all are important factors that must be fully researched to ensure there is no negative connotation with the product.

Completing this market research will help you determine the most attractive growth markets for your product. Once you have a short-list of countries as your target markets, here are some steps you should take to further assess these markets:

1. **Examine product trends.** Look at the product you are planning to sell as well as related products, since these products may influence demand for yours. Try to determine the consumption trend for your product.

2. **Assess the impact of competitors.** Sources of competition include the domestic industry in each targeted market as well as the competitors from other countries.

3. **Determine marketing factors.** Analyze factors such as economic, cultural and political, distribution channels, language, customs and other issues that may affect the marketing of your product.

4. **Look at trade barriers.** Foreign barriers can be tariff or non-tariff. Licensing issues will need to be determined.

5. **Seek out incentives.** Either the U.S. government or the targeted market country may offer incentives for the products you intend to sell.

This assessment process will further narrow your focus to one or two markets. Your next step should be to prepare for a visit to these potential markets. Traveling to the countries and reviewing your research findings first-hand will assist you in making the final decision about your export strategy. If the countries are in geographic proximity to each other, try to visit all the countries in one trip. This may be tiring, but the information will be fresh in your mind when it’s time to make a decision. This approach also tends to be more cost effective.
Once you have selected the market(s) you wish to target, you will need to conduct some marketing research. Marketing research is the process of determining the marketing strategies that will be used to gain market share. Whereas market research is an assessment of the potential markets for your products, marketing research requires an assessment of the techniques you will use to price, advertise, sell and deliver your product to the market. These techniques will comprise the formal marketing plan you will develop for your export initiative. Some questions you will need to answer are:

- What marketing mix will best promote my products?
- How will I deal with different languages for websites, literature, brochures, labeling and other printed materials?
- How do I price my products for exporting?
- How will I sell and distribute my products?
- What type of payment terms will I use to gain more business?
- How will I get paid?

Marketing Mix

Your marketing mix is the blend of marketing approaches you will use to sell your product. In many cases, management executives follow the “four P’s” when determining the marketing mix for their company. The four P’s are: product, price, promotion and placement.

Product

The goods and services you sell are your products. The products must have a perceived value to the customer. Otherwise, they will not generate any interest in the market and eventually sales will deteriorate to a point where it is unprofitable to continue to market the products. The products must also be able to be modified to suit the particular needs of each foreign market without greatly increasing the production or delivery cost. Some of the questions to be addressed include:

1. What need is the product satisfying for the customer?
2. Do you need to modify an existing product for your new markets?
3. How is it unique from competitors’ products?
4. How will you brand it?
5. Will you change the product’s name? Size? Shape? Color?
Price

You will want to factor in all possible costs involved in the manufacturing, marketing, shipping and servicing of your product before you set the price. This approach will ensure that your product will be sold at a profit. Here are some of the more common pricing considerations you need to consider:

1. Manufacturing cost – What is the unit cost of the product you wish to sell? Regardless of the number of units you sell, once you have the unit cost projected, you will be able to estimate the total cost of an order. You will also want to estimate a fixed cost for your overhead. This will include costs such as property expenses, utilities, marketing and other operational expenses.

2. Packaging and Insurance – Preparing labels, instructions, disclosure documents, etc. to conform to the regulations of the country where the product will be shipped will add an expense to the preparation. Ensuring the product will not be damaged in shipment will require protective packaging, labeling and insurance. If the terms of the sale require the buyer to provide the insurance for the transaction, you should always request evidence that the insurance is in place before shipping the product. You may also insure the product under a “freight forwarder’s” policy for a fee.

3. Shipping costs – If you are using a freight forwarder’s services to deliver your products, they will provide you with an itemized listing of their fees. If you are handling the shipping, your costs will vary depending on the agreed upon INCOTERMS between the buyer and seller. INCOTERMS is an abbreviation for International Commercial Terms. INCOTERMS define responsibilities of sellers and buyers for the delivery of international goods.

4. Commissions – If your product is being sold by agents or distributors, you should include the fee or percentage of sale they receive for closing the sale. Other factors in this category include any discounts or allowances the agents or distributors are permitted to give the customer to induce them to buy your product.

5. Tariffs – If you are shipping to a country that has entered into a free trade agreement with the U.S., tariffs may not be an issue when determining your product’s final cost. However, shipping to countries without a free trade agreement may require a tariff be imposed on your goods. The country’s tariff duties and tax rates must be factored into the overall cost of your product. More information on tariffs can be found at www.export.gov.

6. Cost of financing a transaction - When extending credit terms to your customer, you will need to factor in the cost of the working capital for the length of time before payment is received. If you buy credit insurance, allow for this cost.

7. Currency Exchange – Any fees related to converting the foreign buyer’s currency into U.S. dollars needs to be included.

8. Other costs – This is a “catch-all” category for any export-related cost not already shown. Typical expenses could be storage charges, communications charges, translation services and other miscellaneous costs associated with the selling, producing and shipping of your product.

Once you have estimated and compiled all expenses associated with your transaction, you will want to add your profit margin to these costs. This total will be the export price you will quote to your customer.

If the price is higher than the value perceived by the customer, the product will not sell. An adjustment in
profit margin should be considered to influence their decision to buy. However, you do want your price to reflect your product’s overall quality. Another option for the seller is to offer non-price incentives to the buyer. This may include better payment terms, customer service options as well as concessions on other services associated with the sale of the product.

Naturally, your pricing will have to be somewhat competitive in the market. Make sure your competitors’ prices in each potential export market are in line with what you intend to charge.

Promotion

Promoting a product in a foreign market requires attention to the differences found in each market or country. Generally speaking, you will need to evaluate the four most common methods of promotion, which are:

- Personal Selling – Will you use agents, distributors, employees or a mix of all these human resources?
- Advertising – How will you reach your market? Internet? Print? Media? An advertising strategy must be formulated based on your market research.
- Direct Marketing – The message you are delivering is aimed directly at the consumer. This can be accomplished through email, mobile devices or postal mail.
- Publicity – Creating an event or situation that is newsworthy and may draw the attention of the media is considered publicity. Some methods of creating publicity will have a cost associated with it, such as a sponsorship, arranging an exhibition or some other type of event. Other methods such as giving a speech, receiving or presenting an award, releasing a report and other attention-grabbing actions oftentimes have little or no cost associated with them.

All forms of promotion have two main objectives:

1. Increase the potential consumer’s knowledge and awareness of the product and its benefits.
2. Motivate the potential consumer to take action and purchase the product.

You may want to evaluate how your competitors promote their products. Based on their level of success, you may choose to imitate their promotional approach. As with the domestic market, you will want to factor in seasonal fluctuations based on the nature and use of your product.

Placement

How you distribute your product in a country is determined by its regulations, culture, competition and distribution points. You must select the best method of delivering and storing your product easily and conveniently for the customer. Direct shipping and retail stores are two of the most common means of making your product available to existing and new customers. Again, what your competitors do may influence your decision to imitate or differentiate the placement of your product. Market research will help you determine its placement.

With your research complete, the next step in the process is to develop an export plan.
Once you’ve made a commitment to export, your overall Vision, Mission Goals and Objectives must be clearly defined. An export plan is an extension of your business plan. It enables you to evaluate the potential benefits and risks to your business, and describes the approach you will take to reach your international sales objectives. It focuses on the strengths, weaknesses, opportunities and threats your company would face in a foreign market. An export plan should help you define your objectives clearly so that you can use the right tactics to reach your goals. In addition, it will give you more credibility with lenders, who will ask you to prove your capacity for exporting.

The plan should spell out which countries are you targeting, what opportunities exist there, who your competitors are and how you will market and distribute your products in each location. It should also state whether you will need to adapt your products for the foreign market, how you will determine your export sales price and how much time will be required to meet your objectives. The plan should describe the staffing levels needed to implement your export initiative, how you plan to reach the target market - through distributors or an on-site sales team - and how you will evaluate results to modify your plan when needed.

See Appendix A: Outline for an Export Plan for help with outlining your business plan.

For an in-depth look at creating/writing a complete business plan, please see “Your Business Plan” on Page 38.
The internet has transformed how business is done in the world today. E-commerce (the buying and selling of goods and services through the internet) has enabled small and medium-sized businesses to cost-effectively access the global marketplace. The number of companies and people using the internet to conduct business continue to grow rapidly. It is estimated that more than 2.2 billion people accessed the internet by the end of 2011.*

* Source: www.internetworldstats.com

Marketing on the internet can reduce variable costs for many companies. Having a virtual presence in countries around the world enables companies to avoid market development costs commonly associated with having a physical presence in a country or region. Costs associated with accepting payments, handling orders, servicing products and other market development activities are usually less than maintaining sales and service centers abroad.

There are various types of websites being used today to transact business via e-commerce. Some of the most common websites are:

**Informational**

The earliest type of website developed to promote business internationally was the informational site. This site promotes the products and services of a company by providing detailed information much the same as a multi-color corporate brochure. Contact information is provided on the site to help the prospective customer in the purchasing process. The informational site is a low cost option for the seller since it does not require the security, encryption and other software systems that are required to process online transactions. As a result of having a “low-tech” approach to marketing a company’s products and services, regular maintenance of the site is usually less costly. This type of site works well with products and services that cannot be sold online.

**Transactional**

Transactional websites are constructed for the purpose of processing a sale. The seller will build a site with extensive information, pictures, technical specifications and pricing to induce the buyer to complete the purchase online. Companies must be cognizant of the various payment practices used by countries around the world to enable buyers to complete the transaction. The most common types of payment mechanisms are credit cards, electronic funds transfers and third party transfers. Some of these payment methods enable the seller to process the transaction in the seller’s preferred currency, calculating the exchange rate at the time of the transaction.

**Virtual Marketplaces**

These websites rely upon third parties to construct virtual sites where there are numerous sellers offering a broad array of products and services. The third party will normally broker the transaction, providing the seller with an efficient way of finding large groups of buyers. This type of site minimizes the seller’s cost by eliminating the expense of constructing a transactional site. Types of virtual marketplaces include auctions, malls and matching services.
Other E-Commerce Considerations

Businesses looking to sell their products and services overseas via e-commerce must customize their website to the language, laws, customs, currency and measurement standards of their target markets. Although English is considered an international language, translating a website into the language of a targeted country will enhance business development opportunities. This option will enable potential customers to search and access your information in their language. When you select the domain name for your website, you may want to consider making it multilingual.

Before advertising on your website, you should research any restrictions or laws placed upon companies by the countries to which you are marketing. Regulated products may have disclosure requirements and limitations on any claims you make about the product. The same holds true for products that may require government approval to be sold in the country.

Several countries have laws pertaining to the sending of unsolicited email messages for the purpose of selling products or services. This marketing initiative is commonly known as “spamming.” To avoid being labeled as a spammer and the risk of being subjected to penalties or having your messages blocked from their targeted destination, be sure to offer an opt-out feature in your message. Don’t use deception in the subject section of your message, and properly identify your company or who you are. Respect your recipient’s wishes.
FINDING QUALIFIED INTERNATIONAL BUYERS

In conducting your market research, you considered many factors to help you determine which markets would be best suited for your products. This research helped you to narrow a lengthy list of potential markets to a select few. In developing your export business plan, you outlined your strategies for penetrating those markets.

Following market research, you completed your marketing research to determine the strategies you will use to attract new customers for your company. You incorporated these strategies into the marketing plan section of your Export Business Plan. Based on your research, putting these strategies into action should generate customers who are interested in buying your products. They will learn about your products through your website; from email messages sent by you; social media like Facebook, LinkedIn, Twitter and YouTube; sales representatives and distributors; trade shows and trade missions; telephone calls; and from in-person visits. However, not all potential buyers are legitimate buyers. Many exporting companies have been tricked by unscrupulous “buyers” to ship product before receiving some form of partial or complete payment. In most cases, once the product is delivered, the seller’s chances of getting paid drops considerably. To minimize this risk, exporters should identify and qualify their buyers.

The U.S. Department of Commerce helps exporters identify and qualify leads for potential buyers. It offers a variety of programs designed to provide the sellers with enough information and data to qualify the buyer. The U.S. Department of Commerce has an extensive network of commercial officers working in most of the countries around the world. A brief summary of their programs will follow. For additional information about these programs, please contact the nearest U.S. Department of Commerce Export Assistance Center.

You may also call the Trade Information Center at 800-USA-TRADE (800-872-8723) or visit them online at www.trade.gov.

BuyUSA.gov Matchmaking
BuyUSA.gov Matchmaking is a convenient online program of the U.S. Commercial Service that matches U.S. exporters with buyers and importers in overseas markets. Based on the exporter’s profile submitted to BuyUSA.gov, he or she will receive notification of information on potential buyers in their identified market. Further information can be found at www.buyusa.gov.

Commercial News USA
Commercial News USA (CNUSA) is the official U.S. Department of Commerce showcase for American-made products and services. The program provides worldwide exposure for a company’s products and services through an illustrated catalog-magazine and through electronic bulletin boards. For more information, visit the CNUSA home page at www.thinkglobal.us/.

Featured US Exporters
Featured US Exporters (FUSE) is a directory of U.S. Products presented on the websites of many U.S. Commercial Service offices around the world. It provides the exporter with an opportunity to target markets in specific countries in the local language of business. To determine if your company qualifies for this service, go to www.buyusa.gov/home/fuse.html.

Customized Market Research
Customized market research reports help U.S. exporters evaluate their sales potential in a market, choose the best new markets for their products and services, establish effective marketing and distribution strategies in their target markets, identify the competition, determine which factors are most important to overseas buyers,
pinpoint impediments to exporting and understand many other pieces of critical market intelligence. Additional information on how to order a report can be found at a local Export Assistance Center or www.export.gov/eac/.

**Gold Key Matching Service**

The Gold Key Matching Service is a customized buyer-finding solution offered by the U.S. Commercial Service in key export markets around the world. The service includes orientation briefings, market research, appointments with potential partners, interpreter services for meetings, assistance in closing a deal, shipping the goods and getting paid. For more information about the Gold Key Matching Service, contact a local Export Assistance Center or visit www.export.gov/eac/ and type “gold key” into the search box at the top right corner of the page.

**International Company Profiles**

An International Company Profile (ICP) is a background report on a specific foreign firm that is prepared by commercial officers of the U.S. Commercial Service at American embassies and consulates. These reports provide a wide variety of information on a foreign firm including: year established, relative size, number of employees, general reputation, territory covered, language capabilities, product lines handled, principal owners and a wealth of financial and trade references. To order a profile, contact a local Export Assistance Center or visit www.export.gov/eac/ and type “international company profile” into the search box at the top right corner of the page.

**International Partner Search**

After you provide your company’s marketing materials and background information, the U.S. Commercial Service will provide a list of five pre-screened companies that match up well with the products and services you are selling. The International Partner Search allows you to obtain high-quality market information in 15 days. The information includes the potential partner’s size, sales, years in business and a statement from each potential partner on the marketability of your product or service. For more information about getting an International Partner Search, contact a local Export Assistance Center or go to www.export.gov and type “international partner search” into the search box at the top right corner of the page.

**International Buyer Program**

The International Buyer Program (IBP) supports major domestic trade shows featuring products and services of U.S. industries with high export potential. Commercial Service officers recruit prospective foreign buyers to attend selected trade shows. The shows are extensively publicized in targeted markets through embassy and regional commercial newsletters, catalog-magazines, foreign trade associations, chambers of commerce, travel agents, government agencies, corporations, import agents and equipment distributors. Each year, the U.S. Commercial Service selects and promotes more than 30 trade shows representing leading industrial sectors, including information technology, environmental products and services, medical equipment and supplies, food processing and services, packaging, building and construction products, sporting goods and consumer products. For more information, visit www.export.gov/ibp.

**Trade Fair Certification Program**

The U.S. Department of Commerce Trade Fair Certification Program is a partnership arrangement between private sector show organizers and the International Trade Administration to assist and encourage U.S. firms to promote their products at appropriate trade fairs abroad. Certification of a U.S. organizer signals to exhibitors, visitors and the government of the host country that the event is an excellent marketing opportunity and that participants will receive the support of the U.S. government. For more information, visit www.export.gov/tradeevents.
Trade Missions
The U.S. Department of Commerce organizes or supports numerous trade missions each year. The missions involve travel to foreign countries by U.S. companies and Commerce Department employees. Participants meet face to face with prescreened international business people in the markets of their choice. For more information, visit www.export.gov/trademissions.

International Catalog Exhibition Program
The U.S. Commercial Service’s International Catalog Exhibition Program offers U.S. companies a convenient, affordable way to stimulate interest in their products and services while never leaving the office. Commercial Service trade specialists located in international markets will translate the company profile into the local language, display the company’s marketing materials, collect sales leads from interested local buyers and assist the U.S. company as it follows up with the local contacts. For more information on all trade event programs offered by the U.S. Department of Commerce, visit www.export.gov/tradeevents.
HOW TO SELL YOUR PRODUCT

There are various ways to sell your product overseas. Here is where your market research, marketing research and export business plan play an important role in determining how you sell your product.

**Direct Exporting**

Simply stated, this method of exporting requires you to sell directly to the buyer. Whether you generate new business leads by having a sales team, an e-commerce marketing strategy or a website, the buyer is dealing directly with you. If you do not have an intermediary in the transaction, your profit potential is higher and you will have the opportunity to build a close and long-lasting relationship with the buyer. Your company will have complete control of the transaction. However, there is a cost involved in direct selling. The cost is in the amount of time, human resources and other resources your company will have to dedicate to support international selling. A significant amount of time must be dedicated to the export process in order for it to be profitable.

**Indirect Exporting**

This method of selling utilizes the services of other people or companies to represent and sell your product overseas. Advantages to indirect selling include: immediate access to foreign markets; benefitting from the experience of a third party that is actively selling products in foreign markets; working with professionals who have established networks of distributors, agents and buyers who may be interested in selling and/or purchasing your product. The main disadvantage is that you relinquish direct control over the transaction. The intermediary is handling the sale and you are relying upon them to represent you in a professional manner. If they do not perform the transaction in an appropriate manner, your relationship with the buyer is jeopardized. Future sales may be lost if there is poor service, inaccurate information given or products are priced improperly.

Here are some of the more common export trading companies and representatives:

**Export Management Company (EMC)** - An export management company essentially functions as an export department for a company. It actively seeks new business opportunities through its network of contacts, representing your product either in your own name, or in its name. Many EMCs specialize by a specific country, region or product. This level of expertise provides access to markets that may require significant planning, preparation and development.

**Export Trading Company (ETC)** - An export trading company often is demand driven. It tends to perform like an independent distributor, identifying a market for a specific product and then finding U.S. companies who can produce the product to the customer’s specifications. The ETC will canvas the foreign markets through constant contact with its customers and distributors. It will then try to link up the buyers and sellers to complete the transaction.

**Export Agents (EA)** - An export agent buys products directly from the manufacturer. He or she then packages and labels it according to their own specifications. The products are then sold through the agent’s network of customers in his or her own name and the agent assumes all the risks associated with it.

**Buying Agents (BA)** - A buying agent usually represents foreign firms that are interested in purchasing a specific group of products. Buying agents tend to buy in volume and work on a commission basis. Sometimes the buying agent will represent a foreign government agency.
Channels of Distribution

After you have decided how you will export, an effective channel of communication must be selected. Here are some of the types of distribution:

**Distributors** - A distributor purchases your product at a discount and resells it for a profit. Your agreement for the distributor to sell your product is formalized by a contract. Distributors will often provide the necessary support, service and inventory for your product.

**Representative** - A person who has authority to make commitments on behalf of your company.

**Foreign Retailers and End Users** - Some companies engage in exporting by selling directly to major retail businesses or end users in foreign countries. Travel to the retailer’s business is usually required to build these relationships.
TERMS OF SALE

When completing a transaction with a foreign buyer, it is essential for all parties to agree on the delivery terms. The costs, risks and shipping obligations must be clearly documented prior to proceeding with the shipment of the goods.

To facilitate the common acceptance of terms of sale, the International Chamber of Commerce issues a list of terms that are widely used in international commercial transactions, known as INCOTERMS. INCOTERMS are a series of three-letter trade terms related to common international sales practices. They are intended to clearly communicate the tasks, costs and risks associated with transportation and delivery of goods. INCOTERMS are accepted by governments, legal authorities and practitioners worldwide for the interpretation of most commonly used terms in international trade. The terms help to reduce or remove uncertainties arising from a different interpretation of the rules in different countries. For more information about INCOTERMS, visit www.export.gov and type incoterms into the search box in the upper right corner of the page.

The most recently published International Commercial Terms, INCOTERMS 2010, are divided into two categories based on method of delivery. The larger group of seven rules applies regardless of the method of transport while the smaller group of four rules applies only on transactions involving transportation over water.

The seven rules for any mode of transport are:

**EXW – Ex Works** (named place of delivery)
The seller makes the goods available at its premises. This term places the maximum obligation on the buyer and minimum obligations on the seller. EXW means that a seller has the goods ready for collection at his premises on the date agreed upon. The buyer pays all transportation costs and also bears the risks for bringing the goods to their final destination.

**FCA – Free Carrier** (named place of delivery)
The seller hands the goods, cleared for export, into the disposal of the first carrier (named by the buyer) at a named place. The seller pays for carriage to the named point of delivery and risk passes to the buyer when the goods are handed over to the first carrier.

**CPT – Carriage Paid To** (named place of destination)
The seller pays for carriage. Risk transfers to the buyer upon handing the goods over to the first carrier.

**CIP – Carriage and Insurance Paid To** (named place of destination)
The seller pays for carriage and insurance to the named destination point. Risk transfers to buyer when the goods are handed over to the first carrier.

**DAT – Delivery at Terminal** (named terminal at port or place of destination)
The seller pays for carriage to the terminal, except for costs related to import clearance, and assumes all risks up to the point where the goods are unloaded at the terminal.

**DAP – Delivered at Place** (named place of destination)
The seller pays for carriage to the named place, except for costs related to import clearance, and assumes risks prior to the point where the goods are ready for unloading by the buyer.

**DDP – Delivery Duty Paid** (named place of destination)
The seller is responsible for delivering the goods to the named place in the country of the buyer and pays all
costs in bringing the goods to the destination including import duties and taxes. This term places the maximum obligations on the seller and minimum obligations on the buyer.

The four rules for sea and inland waterway transport are:

**FAS – Free Alongside Ship** (named port of shipment)

The seller must place the goods alongside the ship at the named port. The seller must clear the goods for export. FAS is suitable only for maritime transport but not for multimodal seas transport in containers. This term is typically used for heavy-lift or bulk cargo.

**FOB – Free on Board** (named port of shipment)

The seller must load the goods on board the vessel selected by the buyer. Cost and risk are divided when goods are actually on board the vessel. The seller must clear the goods for export. The term is applicable for maritime and inland waterway transport only but not for multimodal sea transport in containers. The buyer must instruct the seller on the details of the vessel and the port where the goods are to be loaded.

**CFR – Cost and Freight** (named port of destination)

Seller must pay the costs and freight to bring the goods to the port of destination. Risk is transferred to the buyer once the goods are loaded on the vessel. This term is for maritime transport only and insurance for the goods is not included.

**CIF – Cost, Insurance and Freight** (named port of destination)

This term is the same as CFR except the seller must arrange and pay for insurance of the goods. The term is for maritime transport only.

### INCOTERMS – Chart of Responsibility

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<tr>
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<th>Export-Customs declaration</th>
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When you are preparing your product for export, careful planning and research must be undertaken to satisfy the needs of your customer. To build a lasting relationship with the buyer, the seller should not only address his or her needs, but also comply with the legal requirements of the country. Satisfying these needs and requirements may involve extensive modifications to your domestic product. Will these modifications require significant and costly changes to your production process?

Modifications must account for buyer preferences, government regulations and shipping concerns. Government regulations help protect domestic industries, the safety and health of its people, the environment and the impact on national culture. To accommodate these regulations, perform an assessment on your product’s features. Determine if the product’s design, size, packaging, labeling, branding, color and warranty all conform. If they do not, you should assess the cost of these changes and whether or not market potential would be large enough to make it profitable to sell your product in this country. Buyer preferences created by religious practices, local customs and other unique factors also play a role in the preparation of your product.

The worldwide use of the metric system requires U.S. companies to engineer their products in compliance with these standards, as well as the instructions and diagrams. The same holds true for electrical standards of your target market. It is not unusual to find phases, cycles and voltages much different than those used in the United States. Failure to adapt to the standards used in the country may damage the product or make it unusable. Information on foreign standards and certification systems is available from the National Center for Standards and Certificates Information, National Institute of Standards and Technology, U.S. Department of Commerce. You may visit them at www.nist.gov.

Non-performance or damage to the product leads to the importance of extending warranties to your foreign customers. Levels of expectations and consumer’s rights vary by country, but most consumers have high service expectations on U.S.-made products. Failure to honor service agreements will jeopardize any trading relationships you may have with this country. If the product requires technicians from your company to assemble and/or install it, you will want to factor these expenses into the price of the product.
HOW TO SHIP YOUR PRODUCT

Once you have agreed upon the terms of a sale with your buyer, you still have to ship the goods to them in an efficient and reliable way. There are many matters to consider when shipping your product. The documentation must be clear and concise; the product must be packed securely to prevent damage or theft; the labeling must be legible and conform to the country’s regulations and requirements; and insurance must be purchased to protect your interests should the item be lost, stolen or damaged. If your company does not possess the proper experience or knowledge in all of these matters, any profit realized in the sales transaction could quickly vanish. According to the U.S. Department of Commerce, U.S. companies lose more business in the movement of products overseas than in any other phase of the export process.

Packing

The buyer will normally provide the seller with requirements for packaging the goods for shipment. To protect products being shipped, the seller should always use appropriate packing materials for shipping containers to minimize any damage. However, since transportation costs are determined by volume and weight, the seller should avoid using heavy containers whenever possible. Filler materials in the containers should withstand degradation and prevent the product from shifting in transit. If wooden pallets or packing materials are used, make sure you comply with wood-packaging requirements and markings for fumigation and chemical treatment.

Labeling

Much like packing, the buyer should provide the seller with labeling requirements and any shipping regulations to ensure proper handling. Any identifying markings on the containers and packages should help identify the contents for the buyer, but conceal it from others. This will help minimize theft of the goods.

Some of the more common labeling on shipping packages includes:

- Shipper’s mark
- Country of origin
- Weight (in metric if required)
- Number of packages and size of cases (in metric if required)
- Handling marks
- Cautionary markings (fragile, this side up, use no hooks, etc.) should appear in the language of the destination country as well as in English.
- Port of entry
- Labels for hazardous materials

Documentation

Some of the required and more common documents used to transport goods are:

- **Bill of Lading** – a contract between the owner of the goods and the carrier. The buyer will need the original bill of lading to take possession of the goods.
• **Commercial Invoice** – the billing mechanism a seller uses to obtain payment from the buyer for the shipped goods.

• **Consular Invoice** – a required document in some countries, it describes the shipment of goods. Certified by the consular official of the foreign country, it is used by the country’s customs officials to verify value, quantity and nature of shipment.

• **Certificate of Origin** – a signed statement where the seller attests to the origin of the export item. A North American Free Trade Agreement (NAFTA) Certificate of Origin is required for products traded if the importer is claiming zero-duty preference.

• **Shipper’s Export Declaration** – a source document for U.S. export statistics to maintain control of exports. The Shipper’s Export Declaration (SED) is required when the value of the goods, classified under any single Schedule B number (See Chapter 2, Conducting Market Research) exceeds $2500. SEDS must be prepared and submitted for all shipments, regardless of value, that require an export license or are destined for countries restricted by the Export Administration Regulations.

• **Export License** – a government document authorizing the export of specific goods in specific quantities to a particular destination.

• **Export Packing List** – a detailed list of all items packed in the containers being shipped. The list describes the weight, measurements and type of packages being used. The list should also include package markings to help identify the shipment for the buyer.

• **Insurance Certificate** – a document used as proof that insurance is in force to protect the value of the goods being shipped.

Great care should be taken in preparing any export documents. Errors or omissions may delay payment, or even result in non-payment for the goods. Discrepancies or the lack of proper documentation may also result in your goods being seized by customs officials. For further assistance with documentation requirements, contact your local U.S. Department of Commerce Export Assistance Center. Listings of office locations can be found at www.export.gov/eac.

**Freight Forwarders**

Freight forwarders serve an important role in the export process. As an independent third party, a freight forwarder facilitates the movement of cargo from the seller to the buyer. His or her knowledge of the regulations and requirements for shipping product all over the world is invaluable for most small to medium-sized exporting companies. A freight forwarder can provide many services to the shipper at a cost. He or she can help prepare price quotations by providing the seller with all costs associated with shipping a product to a particular country, and recommend the type of packing methods and containers to use in the shipment process as well as the method of transportation. Choices of transportation may include air, water and ground. The freight forwarder should verify that all documentation is complete, accurate, complies with customs regulations and is ready for presentation to the party receiving the goods. The fees charged by the freight forwarder for its services must be factored into the overall cost of shipping the goods to determine if it is profitable for the seller to complete the transaction.
Insurance

Insurance is an important part of the exporting process. Both the seller and the buyer of the goods being shipped are interested in the goods being received on time, without being lost or damaged in transit. In order to protect the value of the goods and the transaction, insurance is strongly recommended. When negotiating the sale, agreement should be made between the seller and the buyer on which party will pay for the insurance. The party providing the insurance should show proof that sufficient coverage is in place to preserve the integrity of the transaction.
LEGAL ISSUES

Export Regulations

Selling your products to other countries requires a thorough knowledge of trade law and regulations for your targeted markets, but also knowledge of what the U.S. government requires of businesses involved in exporting. In the U.S., the Export Administration Regulations (EAR) govern the exporting of all goods and services. In some cases, these regulations will require the exporter to apply for a license to sell its product to a particular country. The application is submitted to the U.S. Department of Commerce’s Bureau of Industry and Security (BIS). Licensing is dependent on an item’s technical characteristics, destination, end use and end user. Once a classification is determined, the exporter will be able to decide if a license is needed to ship its product to a particular country.

The regulations are all encompassing. A few of the more notable regulations are:

- Antidiversion Clause – To help ensure that U.S. exports are destined for legally authorized countries, the U.S. government requires a destination control statement on shipping documents. The commercial invoice and bill of lading for almost all commercial shipments leaving the United States must display a statement notifying the carrier and all foreign parties that the products have been approved for export only to designated destinations and may not be diverted.

- Antiboycott Regulations – The U.S. has an established policy of opposing restrictive trade practices or boycotts fostered or imposed by foreign countries against other countries friendly to the U.S. This law prohibits U.S. companies and persons from participating in foreign boycotts or taking actions that further or support such boycotts.

- Foreign Corrupt Practices Act – Under the Foreign Corrupt Practices Act (FCPA), it is unlawful for a U.S. person or company to offer, pay or promise to pay money or anything of value to any foreign official or organization for the purpose of obtaining or retaining business. More information about the FCPA can be found by visiting www.usdoj.gov/criminal/fraud/fcpa.

Foreign governments also have their own set of import regulations which must be adhered to. Although they vary by country, many foreign governments require health certification, certificates of inspection, consular invoices and other types of documentation. It is incumbent upon the exporter to be knowledgeable and comply with all regulations that pertain to the products being shipped.

Intellectual Property Rights

Intellectual property refers to a broad collection of rights relating to: works of authorship, which are protected under copyright law; inventions, which are protected under patent law; marks, which are protected by trademark law; and designs and trade secrets.

The rights granted by a U.S. patent, trademark registration or copyright protect rights only throughout the U.S. and its territories and possessions. They confer no protection in a foreign country. Most countries require companies and persons to apply for a patent or trademark within their jurisdiction. Copyright protection depends on national laws, but registration is usually not required.
Free Trade Agreements

The U.S. government has entered into several free trade agreements with countries around the world. These agreements provide for the elimination of tariffs on most goods originating in the participating countries. In shipping products to these participating countries, the exporter must provide a certificate of origin to support the importer’s claim that no tariff is due on the products.

U.S. Foreign Trade Zones

Foreign trade zones are domestic U.S. sites that are considered outside U.S. Customs territory and are available for activities that might otherwise be completed overseas for customs reasons. For export operations, the zones provide accelerated export status for purposes of excise tax rebates. There is no issue of drawback (refunds paid on tariffs for imported products that are then exported) because duties are not collected when the goods are in the zone. For import and re-export purposes, no customs duties, federal excise taxes or state or local value-added taxes are charged on foreign goods moved into the zone unless or until the goods or products made from them are moved into U.S. Customs territory. For more information about foreign trade zones in the U.S., visit the website of the National Association of Foreign Trade Zones at http://www.naftz.org/.

Export Processing Zones

Export processing zones are being established all over the world. There are a wide variety of these zones, including free trade zones, special economic zones, bonded warehouses, free ports and customs zones. These zones now include logistic centers, finance zones and high technology and science parks. Many U.S. companies and their distributors use these zones for receiving shipments of goods that are subsequently reshipped in smaller lots to customers throughout the region.

Customs-Bonded Warehouses

A customs-bonded warehouse is a building or other secured area in which dutiable goods may be stored, manipulated or undergo manufacturing operations without payment of duty. When goods enter a bonded warehouse, the importer and warehouse proprietor incur financial and legal liability under the bond. The liability is canceled when the goods are exported, destroyed under U.S. Customs supervision, withdrawn for supplies to an international vessel or aircraft or withdrawn for use within the U.S. after the payment of duty. Some of the advantages of using a customs-bonded warehouse include:

- No duty is collected until the goods are withdrawn for use.
- The importer has control over use of money until the duty is paid on withdrawal of the goods from the warehouse.
- If there is no domestic buyer, the importing company can export the goods and cancel their obligation to pay duty.
METHODS OF PAYMENT

As your company enters into a contract with a buyer to purchase your goods or services, you must agree on the method of payment to be used to complete the transaction. Most important to you as the exporter is the assurance you will be paid. Most important to the importer is the assurance the goods or services will be received. There is risk to both parties in every transaction. The key to a successful transaction is to minimize the risk you assume in selling your product.

Depending on how well you know the customer and the relative bargaining power of each party in the transaction, there are several methods of payment to be considered by the exporter. The four most common methods of payment are:

- Cash in Advance
- Documentary Collections
- Letters of Credit
- Open Account

Cash in Advance

Cash in advance occurs when a buyer sends payment in agreed currency and through an agreed method to the seller before the product is manufactured or shipped. Upon receipt of payment the seller ships the goods and all the necessary shipping and commercial documents directly to the buyer. The seller has virtually no risk in this type of transaction while the buyer assumes all the risk. The buyer’s risks include not receiving the goods or having no leverage with the seller if the goods do not meet specifications agreed upon in the sales contract. This is the most beneficial method of payment for the seller. However, since most international buyers prefer financing terms, the seller may end up losing sales to competitors who offer more attractive payment terms.

Documentary Collections

Using a documentary collections process requires a seller to ship the goods and create a negotiable document, usually a letter of credit or a draft. Drafts paid upon presentation are known as sight drafts while drafts paid at a later time are known as time drafts. The draft and shipping documents are processed either through a buyer’s bank or through the seller and buyer’s banks. Upon arrival at the buyer’s bank, the buyer is notified to make payment. Once the payment is made, the documents are released and used to clear the shipment through customs upon arrival.

The primary advantage of the documentary collection method of payment is that the seller holds an enforceable debt instrument in the form of a trade acceptance. The seller’s rights to payment are protected under the negotiable instruments law of the buyer’s country. In the event the buyer defaults, the seller can withhold release of the documents that would clear the goods through customs and holds a strong position in any legal jurisdiction related to resolution of the transaction. Documentary collections may be a more attractive method of payment than a letter of credit since their fees are usually less and they do not require the buyer to tie up their credit lines.
Letters of Credit

A letter of credit is a bank instrument that is used to reduce the level of risk between the seller and the buyer. Using a letter of credit, the seller is guaranteed to receive payment if he or she has complied with the exact requirements of the buyer. A letter of credit offers the seller numerous advantages in completing the transaction, but only if the seller complies exactly with the terms and conditions of the transaction. In addition to providing reduced risk for both the seller and the buyer, there are many options that can be used with a letter of credit to reduce political and commercial risk.

A letter of credit issued by a foreign bank can be confirmed by a U.S. bank. This confirmation means that the U.S. Bank adds its promise to that of the foreign bank to pay the seller. If a letter of credit is not confirmed, it is advised through a U.S. bank. Exporters should have letters of credit issued by foreign banks confirmed through a U.S. bank if they are unfamiliar with the foreign bank or are concerned about the political or economic risk associated with the country in which the bank is located.

A letter of credit may be irrevocable which means that it cannot be changed unless both parties agree. A revocable letter can be changed by either the buyer or the seller. On receiving a letter of credit, the seller should carefully compare the letter’s terms with the terms of the quote. The terms must be fulfilled exactly as stated on the letter or the seller may not get paid. If any of the information is incorrect, contact the buyer immediately and request an amended letter of credit. Documents must be presented by the date specified for the letter of credit to be paid. Documentation must also be provided showing that the goods were shipped by the date specified in the letter of credit.

Open Account

The open account method of payment places the greatest risk of not getting paid on the seller. Simply stated, the seller ships the goods and all the necessary shipping and commercial documents to the buyer who agrees to pay the seller at a future date. The seller should consider this option only if they have complete trust, or a long-standing relationship with the buyer. The risks to the seller are: buyer defaults on his or her obligation; payment is blocked due to political events in the buyer’s country; delays in availability of foreign exchange; and transferring of funds from the buyer’s country occur. Export credit insurance can be used to reduce the risk associated with this method of payment.

One of the risks associated with international trade is the fluctuating rate of exchange for currencies. If the method of payment calls for payment sometime in the future, the relative value between the buyer’s and seller’s currencies may change between the time the deal is concluded and the time the payment is received. Devaluation of the foreign currency may cause you to lose money on the transaction. One of the best ways for you to avoid the risk associated with fluctuating currency rates is to quote prices and require payment in U.S. dollars. This method of payment places the risk on the buyer. If the buyer asks to make payment in a foreign currency, you should check with your international banker before negotiating the sales contract. The banker will provide you with expert advice on the foreign currency exchange risks associated with your transaction.
EX PORT FINANCING

Your company has completed the contract negotiations and is about to close the sale. You are expecting payment for your goods immediately, or at least as soon as possible. You need the cash to maintain operations and sell more products overseas. The buyer, on the other hand, wants to delay payment to you as long as possible, or at least until he or she receives the goods. How do you bridge this financial gap between the buyer and the seller? Most exporters look to export financing as a solution. Export financing is an important tool used by exporters to complete a transaction and accommodate a buyer’s needs. In the competitive global marketplace, financing may give the exporter an edge in selling its products.

Why Finance?

There are a variety of reasons why a company would want to finance an export transaction. As already mentioned, financing may give the seller an edge in competing with companies providing similar goods and services. Favorable financing terms may induce the buyer to purchase your product even if your price is slightly higher than your competitors. Another reason for financing may be the length of time the buyer needs to make payment. The buyer may not have immediate access to the cash needed to complete the transaction. With financing, a specific term can be arranged that will suit the needs of the buyer. Another reason companies secure export financing is to ensure adequate working capital. If the company receives a large order, or it receives several orders within a short period of time, the availability of sufficient working capital to fulfill all these orders may be compromised. This constriction of working capital may prevent a company from pursuing new customers or even responding to inquiries from potential buyers. It may hamper the fulfillment of domestic orders as well.

Credit Insurance

Risk may also play a factor in determining your need to finance a transaction. A buyer may be located in a country or region that is subject to economic, political or cultural instability. Purchasing export credit insurance will offset the risk associated with these factors. Most credit insurance policies will protect the exporter from non-payment due to default, insolvency and bankruptcy by reimbursing them according to the terms of the policy. The insurance not only mitigates the risk of non-payment of a company’s accounts receivables, it also can be used by the company as collateral to obtain a loan or line of credit. This type of secured financing is attractive to the lender, increasing the likelihood it will extend credit to the exporter. Premiums for credit insurance are usually charged monthly since it is mostly used for short-term transactions. The premiums are calculated as a percentage of sales or as a percentage of outstanding receivables.

Export-Import Bank of the United States

Many companies use The Export-Import Bank of the United States (Ex-Im Bank) to mitigate risk. Ex-Im Bank is an independent U.S. government agency that administers export trade financing and export credit insurance programs. Ex-Im Bank’s programs encourage exporting businesses and financial institutions to actively pursue trade opportunities overseas. The bank’s loan guarantee and credit insurance programs are designed to reduce commercial and political risk associated with exporting that could result in non-payment.

Ex-Im Bank offers both pre-export and post-export financing to assist exporters complete their transactions and get paid. Regarding pre-export financing, the working capital guarantee enables lenders to provide financing for exporters to purchase or produce a product for export, as well as to finance short-term
accounts receivable. If the exporter defaults on a loan guaranteed under this program, Ex-Im Bank reimburses the lender for the guaranteed portion of the loan. Higher guaranty percentages are available for qualified loans to minority, woman-owned and rural businesses. The working capital guarantee can be used either to support ongoing export sales or to meet a temporary need for cash flow arising from a single export transaction. Guaranteed working capital loans are secured by export-related accounts receivable and inventory connected to an export order.

Ex-Im Bank offers export credit insurance to offset the commercial and political risks that are sometimes associated with international trade. Under most of the policies, the insurance protects an exporter’s short-term credit extended for the sale of consumer goods, raw materials, commodities, spare parts and other items for which payment is expected within 180 days. If the buyer fails to pay, Ex-Im Bank reimburses the exporter in accordance with the terms of the policy. The majority of the payment terms are up to 180 days, with some transactions qualifying for terms up to 360 days. With prior written approval, an exporter can assign the rights to any proceeds from an Ex-Im Bank insurance policy to a lender as collateral for financing. Exporters must meet U.S. content requirements and, under some policies, must insure all eligible foreign sales. Private insurance is also available to established exporters who have a proven history.

Ex-Im Bank also offers a guarantee to encourage banks and other lenders to make export loans to creditworthy foreign buyers of U.S. goods and services. Ex-Im Bank’s guarantee supports financing for equipment delivery and installation or for heavy equipment and capital projects. As an alternative to guarantees, Ex-Im Bank also offers medium and long-term loans. The loans are made on the same terms and conditions as guarantees except the bank sets the interest rate in accordance with international agreements. For more information on Ex-Im Bank programs, visit www.exim.gov.

The United States Small Business Administration

The Small Business Administration (SBA) also provides financial assistance to U.S. exporters. Through its partnership with national, regional and community lenders, the SBA provides loan guarantees for export working capital and acquisition of plant and equipment, as well as capital for enabling small businesses to start or expand export activity.

SBA’s Export Working Capital Program (EWCP) will guarantee 90 percent of loans up to $5 million. The EWCP provides working capital for export transactions and finance export receivables. The loans can also support standby letters of credit used as bid or performance bonds. They can be set up to support individual transactions or as revolving lines of credit. Interest rates are negotiated between the borrower and the lender and may be fixed or variable. The EWCP uses a one-page application form and streamlined documentation. SBA and Ex-Im Bank joined their working capital loan programs to offer a unified approach to the government’s support of export financing.

The SBA’s International Trade Loan Program (ITL) is designed to help small businesses enter and expand into international markets and make the investments necessary to be more competitive. The ITL offers a combination of fixed asset, working capital financing and debt refinancing with a maximum guarantee of 90 percent on loans up to $5 million. Applicants must meet the same eligibility requirements as for the SBA’s standard 7(a) Loan Program. Applicants must also establish that the loan will allow the business to expand or develop an export market, or demonstrate that the business has been adversely affected by import competition.

The Export Express Loan Program may be used for business purposes that will enhance a company’s export development. The SBA delegates the authority to approved lenders to unilaterally approve SBA
guaranteed loans. The lenders can use their own forms and can provide an answer in thirty-six hours or less. Export Express loans have a cap of $500,000. To be eligible, a business must be in operation for at least one year and must show that it will enter into or increase its export sales as a result of the loan. Eligible use of proceeds includes financing of export development activities, transaction-specific financing for export orders, revolving export lines of credit, fixed asset loans and financing of standby letters of credit used as bid and performance bonds. For more information on SBA’s programs, visit www.sba.gov.

The United States Department of Agriculture

The Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA) provides several programs to assist in the financing of exports of U.S. agricultural goods.

The USDA’s Commodity Credit Corporation (CCC) administers export credit guarantees for commercial financing of U.S. agricultural products. The guarantees encourage exports to buyers in countries where credit is required to maintain or increase U.S. sales but where financing may not be available without CCC guarantees.

The Export Credit Guarantee Program (ECGP) underwrites credit extended by the private banking sector to approved foreign banks using dollar-denominated, irrevocable letters of credit to pay for food and agricultural products sold to foreign buyers. The program covers credit terms up to three years.

The Supplier Credit Guarantee Program (SCGP) is designed to make it easier for exporters to sell U.S. food products overseas by insuring short-term, open account financing. Under SCGP, U.S. exporters become more competitive by extending longer credit terms or increasing the amount of credit available to foreign buyers without increasing financial risk. Foreign buyers benefit because they can increase their purchasing power and profit opportunities and can gain significant cash flow management advantages.

The Facility Guarantee Program (FGP) provides payment guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. By supporting such facilities, the FGP is designed to enhance sales of U.S. agricultural commodities and products to emerging markets, where demand for such commodities and products may be constrained due to inadequate storage, processing or handling capabilities for such products. For more information on the Foreign Agricultural Service programs of the U.S. Department of Agriculture, visit www.fas.usda.gov.

Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) is a federal agency that facilitates U.S. foreign direct investment in developing nations and emerging market economies. OPIC is an independent, financially self-supporting corporation that is full owned by the U.S. government.

OPIC encourages U.S. investment projects overseas by offering political risk insurance, all-risk guarantees and direct loans. OPIC can offer up to $400 million in total project support for any one project – up to $250 million in project financing and up to $250 million in political risk insurance. OPIC also provides services to facilitate wider participation by smaller U.S. businesses in overseas investment, including a computerized data bank, investment missions, and investor information services. For more information on OPIC programs, visit www.opic.gov.
State and Local Export Finance Programs

Several cities and states have funded and operate export financing programs, including pre-shipment and post-shipment working capital loans and guarantees, accounts receivable financing and export insurance. To be eligible for these programs, an export sale must be made under a letter of credit or with credit insurance coverage. A certain percentage of state and local content may also be required.
WHERE TO FIND HELP

The challenges you will face in establishing an export program will require you to seek assistance at some point in time. There are many sources of assistance available to you. There are government agencies tasked with the responsibility of assisting businesses with their export operation. There are public organizations that offer export assistance to businesses. There are world trade centers and chambers of commerce throughout the world, all serving their members and businesses in their quest to develop international trade relationships. There are also private, for-profit businesses that provide a broad array of international trade and exporting services on a fee-for-services basis.

It is not possible to list all of these resources here, but we will briefly describe the services of a few of the major players in the international trade arena.

U.S. Commercial Service Export Assistance Centers

The U.S. Commercial Service of the U.S. Department of Commerce maintains a network of international trade specialists in the United States to help American companies export their products and conduct business abroad. Each export assistance center can offer information about the following:

- Services to locate and evaluate overseas buyers and representatives, distributors and partners
- International trade opportunities
- Foreign markets for U.S. products and services
- Foreign economic statistics
- Export documentation requirements
- U.S. export licensing requirements and import requirements of foreign nations
- Export trade finance options
- International trade exhibition participation and certification
- Export seminars and conferences

For more information on their services, or to locate an Export Assistance Center near you, please visit www.export.gov.

U.S. Small Business Administration (SBA)

Part of the SBA’s mission is to help small businesses start or expand export operations. SBA has international trade and finance managers at U.S. Export Assistance Centers who can advise you on SBA export finance programs and other federal government export assistance programs. SBA’s district offices have international trade specialists in every state and territory. Counseling and training programs are available through Small Business Development Centers (SBDC), many of which have an international focus; the SCORE – Counselors to America’s Small Business; and Women’s Business Centers (WBC). For more information, visit www.sba.gov.
New York State Small Business Development Center

The New York State Small Business Development Center (NYS SBDC) is the premier business assistance organization funded by the SBA and the State of New York. The program provides a range of assistance and services to start-up and existing businesses across the state.

The International Business Development (IBD) program, a division of the NYS SBDC, assists small businesses to take advantage of trade and business development opportunities that exist in the global marketplace. The IBD provides direct assistance for businesses to enter, expand and develop their business and trade in a cost-effective way. Assistance includes a better understanding of cultural, linguistic, business practice and regulatory matters in the largest and fastest developing countries in the world.

The IBD offers the following services:

- Export information and opportunities, trade shows, evaluation and selection of markets
- Counseling on international business practice, business networks, culture and customs
- Identification of matchmaking of partners, suppliers, manufacturers, distributors and agents
- Assistance with investment, joint venture, outsourcing, co-production and export processing
- International conferences, seminars, training programs and matchmaking meetings
- Organized business trade missions to foreign countries
- Assistance with entry visas and arranged meetings with government officials and economic development representatives
- International business investment and trade cooperation with foreign countries
- Receiving foreign business delegations in the U.S.

For more information on the New York State Small Business Development Center International Business Development Program visit www.nyssbdc.org/services/international/international.html.

World Trade Centers

World Trade Centers are located around the world, providing services to businesses that promote prosperity through international trade and investment. The centers offer trade information and market research. They also offer a variety of business services to their members, including trade education services, group trade missions, World Trade Center clubs and more. Since World Trade Center services are reciprocal, members can access them at any location around the world. For more information, visit www.wtcaonline.com.

Chambers of Commerce

A chamber of commerce is a trade organization designed to promote commerce for its members within the community it serves. Services include training events, networking, advocacy and other business services. Being a member of a chamber provides a degree of credibility to a business. For more information about chambers of commerce to identify your local chamber, visit www.uschamber.com.
Other Sources

There are many other sources of export assistance and information. These sources include state and local governments, district export councils, Export-Import Bank of the United States, banks with international operations, industry and trade associations, private international trade companies and international trade consultants. When choosing a trade company or consultant, be sure to research the service provider’s knowledge and expertise in the field. Some providers are more experienced and specialized than others.
YOUR BUSINESS PLAN

Every business requires a plan. Why should you go to the effort of creating a written business plan? There are three major reasons:

• The process of putting together a business plan, including the thought you put in beforehand, forces you to take an objective, critical, and unemotional look at your business project in its entirety.

• The finished product—your business plan—is an operating tool which, when used properly, will help you better manage your business and work toward its success.

• The completed business plan is a way to communicate your ideas to others and provides the basis for your financing proposal.

The importance of planning cannot be overemphasized. By taking an objective look at your business, you can identify areas of weakness and strength, pinpoint needs you might otherwise overlook, spot problems as they arise, and begin planning how you can best achieve your business goals. It may even help you to avoid some problems altogether.

This guide has been designed with these considerations in mind. It is important that you complete as much of the work as possible. A professionally prepared business plan won’t do you any good if you’re not familiar with every aspect of the plan. This deep understanding comes from being involved with your plan’s development from the very start.

No business plan, no matter how carefully constructed, will be of any value unless you use it. Going into business is a very serious matter in terms of your future and your family’s future—over half of all new businesses fail within the first two years of operation. A major reason for failure is lack of planning.

Use your plan. Don’t put it in a bottom drawer of your desk and forget about it.

A business plan can help you avoid going into a venture that is doomed to failure. It can help you see if your proposed venture is marginal.

Finally, your business plan provides the information others need to evaluate your venture, especially if you need to seek outside financing. A thorough business plan automatically becomes a complete financing proposal which will meet requirements of most lenders.

Suggested Business Plan Outline

Cover Sheet

• Name of business
• Names of owners
• Address and phone numbers of business
Statement of Purpose

The Business
- Description of business
- Market
- Competition
- Location
- Advertising
- Management
- Personnel
- Application and Expected Impact of Loan (if needed)
- Summary

Financial Data

Supporting Documents
- Personal resumes
- Personal financial requirements and statements
- Cost-of-living budget
- Credit reports
- Letters of reference
- Job descriptions
- Letters of intent
- Copies of leases, contracts, legal documents, and anything else relevant to the plan

Cover Sheet

The cover sheet should:
- Identify the name of the business and the date of the plan
- Identify the location and telephone numbers of the business or where the owners can be reached
- Identify the person who wrote the business plan.

The cover sheet should not be elaborate, but should be neat and attractive. If you have a logo, use it. If the plan is to be submitted as a financing proposal, use a separate cover sheet for each bank or capital source you want to submit it to.

Statement of Purpose

The first page should state the plan or proposal objectives as simply as possible. If for your sole use, the statement should be a brief description of how you intend to use the plan.

If the plan is also to be used as a financing proposal, the statement of purpose becomes more complex. It should include responses to the following questions:
- Who is asking for the money?
- What is the business structure (sole proprietorship, partnership, corporation, etc.)?
- How much money is needed?
- How will the money be used?
- How will the funds benefit the business?
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• Why does the loan or investment make sense?
• How will the funds be repaid?

The deal you are proposing — the loan or investment, its use and expected effects on the business, and how you will repay it — should be supported by the rest of the plan.

If you are not seeking a loan, the plan should still support and justify the use of your own money (or the money of partners, friends, family).

Keep the statement short and businesslike. It will usually be no longer than half a page, but may be longer if necessary. Use your judgment.

Contents Page

The Contents Page should follow your Statement of Purpose. The remainder of the plan should be devoted to elaborating on and supporting the Statement of Purpose. A business plan, even for a modest project, generally runs to 20 pages or more.

There are three main sections of your plan:

• The Business
• Financial Data
• Supporting Documents

Description of Your Business

This is the most important, most complex part of your business plan. It should make a clear statement of:

• What the business is (or will be)
• What market you intend to service, the size of the market, and your expected share
• Why you can service that market better than your competition
• Why you have chosen this particular location
• What management and other personnel are available and required for the operation
• Why (if appropriate) borrowed money or an equity investment will make your business more profitable

These six considerations are crucial. They are the written policy of your business—rules you should not deviate from without compelling reasons. Since policy gives stability and direction to your business, it requires a great deal of thought and planning.

Your business will reflect your personality and abilities—not someone else’s. In describing your business idea, aim at clarity and simplicity. A rule of thumb: If you can’t describe your idea clearly and simply, you haven’t thought it through.

Deciding what your business is—and where you want it to be in five years—is the most important decision you will have to make. If a small business is involved in more than one activity, your judgment of what the central activity or central activities are is crucial. Your entire planning effort is based on your perception of what business you are in. Be sure to take the time to think this decision through.
The description of the business includes:

- Type of business: Is your business primarily merchandising, manufacturing, or service?
- The status of the business: Is your business a start-up, an expansion of a going concern, or a takeover of an existing business?
- The business form: sole proprietorship, limited liability company (LLC), partnership, or corporation?
- A statement of why your business will be profitable
- The date you plan to start the business
- The hours your business will be open (if your business is a seasonal business, describe how the hours will be adjusted seasonally).

Knowing exactly what your business does and how it operates enables you to plan for profits effectively. Before you begin to consider profit-making, you must be able to clearly state the aims and goals of your business. As the business progresses, the question of how to make profits must be continually asked.

For a New Business

Your description of the business should contain responses to the following questions:

- Why will you be successful in this business?
- What is your experience in the business?
- Have you spoken with other people in this kind of business? What were their responses?
- What will be special about your business?

Many businesses fail to take advantage of the insights and experience of actual and potential competitors. Your best single source of information, they will often give you much valuable advice for nothing more than a chance to share their expertise. Talking with competitors (and observing their business practices) will also help you define what the special advantages of your own business could be.

Two more questions to consider:

- Have you spoken with prospective trade suppliers to find out what managerial and/or technical help they will provide?
- Have you asked about trade credit?

Trade credit is a source of funds. “Net due in 30 days” allows you to use the supplier’s money for the 30 days—like a non-interest-bearing loan. This means, however, that you may forgo any frequently available cash discount if you pay the bill within 10 days. Taking the discount your supplier offers can represent a substantial savings. If you can borrow the funds somewhere else at a lower rate of interest, you should do so. However, such credit is often not available until a business has been in operation long enough to establish a reputation for paying on time.

Many suppliers also offer free services as an inducement to buy their products. For instance, store fixture manufacturers give free layout advice, and utility companies give hints on how effective use of light can create more sales. Two additional considerations:

- If you will be doing contract work, what are the specific terms of the contract? (Reference any firm contract or letter of intent, and include it as a supporting document.)
- How will you offset any slow payment by the customer?
Especially important for anyone contemplating contract work is to find out how and when you will be paid. Get a feel from other contractors about their experiences. Remember that a slow-paying customer can put you out of business if you aren’t prepared. If you find that slow payment is a fact of life, plan ahead to compensate for the shortfall.

For a Takeover

Your description should contain a brief history of the business you plan to take over and should respond to the following questions:

• When and by whom was the business founded?
• Why is the owner selling it?
• How did you arrive at a purchase price for the business?

Businesses that are strong and growing are infrequently offered for sale, and most sellers may give—not necessarily deliberately—misleading reasons for selling their business. Protect yourself. Ask your banker to check out the business. This is a routine activity for the bank, which has the means to find out such information. You can also ask your lawyer or accountant who are often experienced in this area.

Pricing a business requires professional expertise and ethics. Paying for a professional appraisal may turn out to be an excellent investment, as it not only establishes a fair price for the business but also provides justification for the price if outside financing is needed. Include a copy of the appraisal as a supporting document. The price should reflect business assets, the rate of expected income on your investment, and perhaps a “goodwill factor,” such as patents which can be capitalized, a reputation for excellent service, or an advantageous lease.

Since you will be repaying the purchase price out of profits, make sure that you get what you are paying for. Consider the following:

• What is the trend of sales?
• If the business is going downhill, why? How can you turn it around?
• How will your management make the business more profitable?

These last two items should be supported by income statements and tax returns. If a business is sliding downhill, there may be reasons which aren’t obvious. Discuss the owner’s reasons for selling. Ask the bankers involved with the business. It is difficult to restore a tarnished reputation. It can’t be done overnight.

Some additional thoughts as you check out the business: Have you evaluated and aged the inventory? Checked with trade creditors? Aged the receivables? What is the condition and age of operating machinery? Does the business owe money—and if it does, will you inherit the liabilities? Check with state, federal, and local agencies concerning outstanding taxes due.

Determine exactly what you are buying. You are planning to put your money on the line. Don’t be afraid to ask for advice before you commit yourself to any deal. A good attorney is essential at this point to help determine what you are buying and to make sure that the terms of the sale are in your favor.

For Purchasing a Franchise

Many small business owners have been helped in getting a start by investing in a franchise. You may want to consider such an investment.
Most franchises require some or all of the following:

- Initial franchise or license fee
- Training costs
- On-site start-up and promotional costs
- Periodic royalties
- Charges for the building, equipment, inventory, supplies
- Bookkeeping charges (occasionally)

Along with the franchise costs, you should have on hand working capital for at least three months of operation, and preferably more. You can determine working capital needs by a simple formula: multiply living expenses by three and add total franchise costs.

Keep in mind that a parent company is involved in franchising for two basic reasons: to expand, and to raise capital. So if you have a reasonably good credit record and pass all financial requirements, most franchisors will bend over backwards to get you on their team. The help that franchisers provide usually includes assistance with business plans, loan application help, introduction to lending sources, and, in many cases, they serve as guarantor of the loan.

Remember that the price of the franchise does not always reflect the actual cost of the business. Additional costs can include down payments on the land, building, and equipment, fixtures, signs, and many other items.

Be sure you understand the requirements of your cash investment. Do a thorough search of the company in which you will be investing your money. Federal franchise laws require that all franchisers give the franchisee a full and complete disclosure, including a description of the business, training programs, services provided, number of franchises, financial statements, and audits. They must fully describe all that will be required of the franchisee.

It is imperative that you, as the potential franchisee, retain legal counsel to review all contracts, agreements, and other documentation that may be required before signing them.

The Market

To generate an ongoing sales flow, you must become knowledgeable about your market — the people who will be buying your service, product, or merchandise.

Basic market considerations are:

- Who is your market?
- What is the current size of the market?
- What percent of the market will your business expect to capture?
- What is the market’s growth potential?
- As the market grows, does your share increase or decrease?
- How will you satisfy your market?
- How will you price your service, product, or merchandise to make a fair profit and also be competitive?
Define Your Market

In marketing terminology, define your target market—the target of all your efforts. You do this by considering:

- Who needs your product or service?
- Who buys the kind of merchandise you stock?

It may be necessary to alter your service, product, or merchandise mix to meet the needs of the market you have targeted.

However, you must first know exactly who your market is. Perhaps it is defined by geographic location, socioeconomic or ethnic factors, age, gender, or other conditions.

Whatever your market elements, make sure you identify them. One way to do this is to simply list all important characteristics, and then, by using Census data or other available information, find out to what extent these characteristics are present in different areas.

You must then measure your target market. As simple as this may sound, remember, having too few customers puts you out of business. Although your business will receive cash from four sources—sales, loan proceeds, sale of fixed assets, and proceeds of new investment—it will ultimately rely on sales as the main source of money. (If there are no sales, there is no business.)

You can obtain information about the size of your market from your Chamber of Commerce, the SBDC, trade publications, marketing consultants, other business persons, libraries, schools and colleges. Census data, which you can find at your nearest library or online, is an excellent source of information.

Get help in assessing the market from such sources rather than trying to guess by watching passing traffic and hoping for the best. Good marketing strategy must be planned, and it must be based on good information.

When you have a feel for your market, answer the following questions:

- How will you attract and keep this market?
- How can you expand your market?

These two critical questions lead to other ideas to consider, such as how and where to advertise, the suitability of your location, and how attractive your office or store is to the clientele you hope to draw.

The second aspect of your marketing strategy concerns price:

- What price do you anticipate getting for your product?
- Is the price competitive?
- Why will someone pay your price?
- How did you arrive at the price? Is it profitable?
- What special advantages do you offer that may justify a higher price?

To make a profit, your business must make more on sales than it spends (both directly, as in cost of goods sold, and indirectly, as in overhead and selling costs). Many businesses flounder because they lose sight of this simple truth.
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A Brief Note on Credit

Will you offer credit to your customers? If you do, you are, in effect, making a loan to them. Can you afford to do this? Do you have to extend credit? Can you evaluate credit risk? Can you collect? Can you afford to write off bad debts?

Customer credit can represent an unexpected cash drain on the business. If you must offer credit, make sure that you plan how to absorb its effects. Offering credit to your customers costs you money, especially if you then have to borrow funds to cover these accounts. It may strangle your business by tying up funds you could possibly use for other purposes.

Pricing

Keep in mind that pricing reflects a total package of product and service and expenses.

There is no point in pricing yourself out of the market, nor is there anything to be gained from a price which puts your business in the red.

Competition

If you have decided on your target market, and it is large enough to be profitable, and it contains reasonable expansion possibilities, the next step is to identify and assess your competition. Consider these questions:

- Who are your five nearest competitors?
- How will your operation be better than theirs?
- How is their business: Steady? Increasing? Decreasing? Why?
- How are their operations similar and dissimilar to yours?
- What are their strengths and weaknesses?
- What have you learned from watching their operations?

This section should enable you to make your business more profitable by picking up good competitive practices and avoiding your competitors’ errors. Opening a business in a market that is already more than adequately serviced is a common error. Carefully evaluating the competition will sometimes lead you to alter your basic business strategy or modify operations to compete more effectively. This should be an ongoing practice, since market shift and success attract competition.

Learn from competitors’ mistakes, and go after the market segment currently being inadequately served. A good practice is to identify an unserved or underserved target market, identify the needs of that market, and go after it. An advantage for a small business is its ability to operate profitably in a market too small for big businesses to consider. Checking out the competition is a valuable extension of your marketing efforts.

Location

Proper site location can help your business make money. If you are going into business, first try to identify the ideal site, then figure how close you can come to it, remembering that rent is computed as the combination of space and advertising.
Information about specific geographic areas is available from Chambers of Commerce, trade sources (such as magazines and associations, planning commissions, bankers, and lawyers), and industrial development commissions. They may also have information about tax breaks and financing incentives for businesses that will employ substantial numbers of people in towns under their commission.

Do not go into business in a given spot simply because the price is low. Rent and purchase prices are usually fixed by market forces, and a low price can reflect low desirability. Although for some operations, this consideration is beside the point, for others—merchandising operations in particular—it is a very important factor.

Each business has its own location needs. If your enterprise is manufacturing or wholesale, low rent and easy access to transportation routes are very important. For most retail operations, however, exposure to people and accessibility are most important. Traffic studies may be available for the area you are considering. Sources of this information may include the state or local highway agencies, the local library, or Chambers of Commerce. Your local banker may well be one of your most useful information sources. Some locations seem to be “jinxed,” and most likely he or she will know why and will tell you.

In this section of your business plan, you should answer the following:

- What is your business address?
- What are the physical features of your building?
- Is your building leased or owned? State the terms.
- If renovations are needed, what are they?
- What is the expected cost? Get quotes in writing from more than one contractor. Include quotes as supporting documents.
- What is the neighborhood like? Does zoning permit your kind of business?
- What kind of businesses are already in the area?
- Have you considered other areas? Why is this one desirable for your business?
- Why is this the right building and location for your business?
- How does this location affect your operating costs?

The key to correct site selection: keep in mind that a bad site can put you out of business, while a good site can increase your profits. Once you get started, or if you are already located, keep a constant eye on changes in your location—new roads may be built, populations may shift, zoning ordinances may change. Such changes could mean you need to alter your business plan.

Advertising

Effective advertising can help owner-managers of small companies achieve benefits such as increased sales, sustained sales volume, and reduced selling costs. The secret to such results is not so much in the amount of money budgeted for advertising, but in how it is spent.

Advertising can be one of small businesses’ most effective weapons in an intensely competitive business climate. It can offer a creative and effective way for retailers to bid for their fair share of the market in the face of stiff competition and rising costs.

Advertising is not an end in itself, but rather, a means of providing customers with convincing reasons why they should patronize a particular business.
Businesses should always build their advertising messages around the particular advantages they are prepared to offer their customers. Usually, these advantages relate to price and quality of products, convenience and accessibility of store location, or quality of service.

Planning for Timely Advertising

While frequently considered a temporary expedient, advertising should be based on long-range planning, which includes more immediate plans and goals. Moreover, it should be consistent throughout the year as a cumulative sales effort. Although this planning should be the controlling factor, advertising plans should be flexible.

Because small businesses have limited funds, they must plan carefully to obtain maximum effectiveness from their advertising expenditures. Advertising should be planned in relation to the overall merchandising program. It should also be coordinated with such specific management activities as buying, inventory balancing, and acquisition of new customers. In other words, the effectiveness of a limited advertising budget can be greatly strengthened if advertising goals are planned in relation to the total merchandising and selling program.

Timing is possibly the most important single consideration in the planning of effective small business advertising. Timing involves adjusting the advertising plans not only to seasonal sales patterns but also to the business’s special days and to the community’s or shopping district’s special events. Coordination of the advertising program with the buying schedule is also necessary. A promotional advertisement which is not backed up by adequate merchandise can do more harm than good.

Media, Copy, and the Internet

It is becoming a truism that you will not be taken seriously as a business without an Internet presence. Businesses should explore fully the opportunities of presenting themselves to customers via the Internet. An Internet presence can be inexpensive and effective.

The newspaper is a medium used by many small businesses. Other effective media for business are direct mail, radio, television, handbills, billboards, and increasingly, the Internet—through a company website. Also don’t discount the effectiveness of a well-designed sign for your location.

The key to success in direct-mail advertising is a carefully selected and maintained mailing list. Small businesses should not overlook the use of radio and television where local rates are low enough to fit the budget of a small shop. These media can be used occasionally with great effectiveness to advertise outstanding promotional events.

Each business must determine the type of advertising copy most appropriate to the identity or image they are seeking to establish in the public mind. All advertising copy benefits from observing the basic rules of eye appeal, simplicity, brevity, straightforwardness, and credibility. An advertising message that is obscure, confusing, or misleading may be successful in the short run, but generally is bound to fail.

To be effective, an ad must:

- Attract attention of the reader or audience
- Offer visual persuasion showing how the product will benefit the customer
- Show why the product is necessary and why it should be purchased at this time
- Encourage purchase, giving reasons for buying, particularly from the business doing the advertising.
Sources of Advertising Help

Businesses can find many outside sources of assistance, such as the following:

- The advertising departments of newspapers offer assistance in preparing copy, art work, and layout. They are often willing to advise the business on general merchandising and sales promotions planning.
- The firms that supply the retailer with merchandise often provide advertising materials free of charge, grant advertising discounts, and participate cooperatively in the business’s advertising by sharing a portion of the cost.
- Direct-mail agencies compile specialized mailing lists which the business can use to contact selected customer groups. These agencies also assist in the preparation of mailing literature.
- Trade newspapers and magazines often provide useful information to the business manager about advertising practices. Trade associations, Chambers of Commerce, and Better Business Bureaus also provide information on advertising and advertising ethics.
- Some advertising agencies specialize in servicing small businesses, and typically will take full responsibility for all aspects of advertising.

In addition, businesses should keep well informed about their competitors’ advertising. The larger ones usually have effective advertising, and a study of the methods they use, the merchandise they feature, the style of their copy, and the size and layout of their advertisements can provide helpful ideas.

Budgeting

Advertising has three basic goals:

- Sell goods and services
- Create a positive business image
- Allow the advertiser to compete successfully

Budgeting for advertising is necessary for maximum returns. The amount to spend depends on many factors, such as specific promotional objectives, store location, competition, age of store, and past success in attracting customers. Often, businesses discover that what they need to spend on advertising and what they can afford to spend are not the same. They must study their own situation carefully and, within the limits of their financial capabilities, allocate funds on a planned basis over an extended period, usually six months.
MANAGEMENT

Roughly 98 percent of small businesses fail because of managerial weakness; fewer than two percent of the failures are due to factors beyond the control of the people involved.

Your business plan must take this into account. If you are preparing a financing proposal, you should make sure that your prospective financial source is aware of the steps you have taken or are taking to correct any weaknesses in your managerial staff. If you are to use your business plan to the fullest, you should highlight both management strengths and weaknesses.

There is no known cure for incompetence, but there are direct cures for inexperience: Acquire the necessary experience yourself, or find a partner or employee who does.

In preparing the Management section, you should cover five areas:

• Personal History of Owners and Key Managers
• Related Work Experience
• Duties and Responsibilities
• Salaries
• Resources Available to the Business

Properly treated, these five will help make a proposal convincing, and a business plan useful. The aim is to spot areas of potential weakness before problems arise and threaten to put you out of business.

Personal History of Owners

In this segment, include responses to these questions:

• What is your business background?
• What management experience have you had?
• What education (including both formal and informal learning experiences) have you had which has a bearing on your managerial abilities?
• Personal data: age, where you live and have lived, special abilities and interests, reasons for going into business. Keep in mind that your family will be affected by your decision to go into business. Try to assess the potential impact. While they may be supportive now, will they continue to be supportive a year from now?
• A personal financial statement must be included as a supporting document in your business plan if it is a proposal for financing.

Bankers and other lending sources want to see as much collateral as possible to secure their loan. Be forewarned: Under most circumstances, the personal credit worthiness of the principals will be a major concern for the banker. Also, you will undoubtedly be expected to sign personally for the loan. This means that your personal assets could be taken if the business fails — even if it’s set up as a corporation.

Related Work Experience

This segment is an expansion of the experience factors mentioned earlier. It requires, but is not limited to, information on the following:
• Direct operational experience in this type of business
• Managerial experience in this type of business
• Managerial experience acquired elsewhere—whether in totally different kinds of businesses, or as an offshoot of club or team membership, civic activities, church work, or some other activities.

While some managerial skills are transferrable, others are not. Managerial experience and expertise that is not carefully balanced can cause serious problems. The talents required of a financial specialist are quite different from those of a used-car salesman. A combination of both sets of talents in one individual is rare.

**Duties and Responsibilities**

Once you have filled in the experience and skills—and have a feel for the weaknesses—of the proposed management, this segment is relatively simple.

Make sure that you spell out in advance:

• Who does what
• Who reports to whom
• Where the final decisions are made

 Allocating duties and responsibilities is critical. If the chain of command is unclear to your employees, you will have personnel problems. This is a major responsibility of management and must not be evaded under the guise of “we can work it out later when we see where the problems are.”

**Salaries**

When completing this section, include salaries of management and all employees. Don’t forget to include employee benefits as well as salaries (e.g., medical, pension, Social Security, insurance coverage). Be realistic when computing upper-level salaries.

Knowing what you need, as distinguished from thinking you know what you need, takes effort. One sure way to damage a small business is to take the money out for family necessities. If your business can’t afford to pay you a living wage, and you have no other income or savings, you had better reconsider your deal.

**Resources Available to the Business**

All businesses, no matter how small, need the services of:

• Accountant
• Lawyer
• Insurance broker

If you don’t have any of these services, make sure you get them immediately!

Other sources of assistance include:

• Small Business Development Centers
• Business, trade, civic organizations, which often have a pool of talent available to their members
Small Business Administration technical assistance and SCORE programs

Avail yourself of all of these. And don’t forget: Your banker can be among the most helpful partners you have. If you borrow money, the bank has a vested interest in the success of your business.

You won’t necessarily have to use all of these secondary resources, but it is a good idea to know what help is available if you need it.

Summary

This section should make you aware of the necessity of developing your management skills, and, for the skills you do not possess, of accessing all outside resources (legal, financial, etc.) available to you. Keep in mind the necessity of managing your business rather than letting the business manage you. Constantly review and re-evaluate the status of your business. In this way, you will drastically diminish the odds of failure. Keep this section short, direct, and honest.

Personnel

Businesses stand or fall on the strength of their personnel. Good employees can make a marginal deal succeed; poor employees can destroy the best business. Studies have consistently shown that out of 100 customers who stop patronizing the average store, more than 70 do so because they didn’t get prompt, courteous attention.

Here are some questions to think about in determining your hiring needs:

- What are your personnel needs now? In the near future? In five years?
- What skills must your staff have?
- Are the people you need available?
- Do you need full or part-time staff?
- Will you pay them salaries or hourly wages?
- Will you offer fringe benefits?
- Will you pay for overtime?
- Will you have to train people? If so, at what cost to the business?

Application and Expected Impact of Loan

This section is important, whether you are seeking a loan or planning to finance your deal yourself. In determining how much money you will need and for what purposes, do not rely on guesses when exact prices are available. Specify how you arrived at your figures. It may be helpful to make a list.

Fill out your reasonable choice. It may be important to you to have a luxury item or two, but weigh the cost. A tabular worksheet is particularly useful for a start-up business and can be used whenever a purchase of additional equipment is contemplated.

Make sure that this section contains responses to the following:

- How is the loan or investment to be spent? This can be fairly general (working capital and new equipment, inventory, supplies).
What is the item to be bought?
Who is the supplier?
What is the price?
What is the specific model name and number of your purchase?
How much did (or will) you pay in sales tax, installation charges, and freight fees?

Your banker may be interested in using whatever it is that you are buying as collateral for the loan. By having a list, your loan can be processed faster.

Consider the possible advantages of leasing some of the capital equipment you need, and definitely look into the advantages of renting rather than owning your business building. If you have the money to buy, owning may (or may not—ask your accountant) be less expensive than leasing. If you are short of cash, a lease arrangement may enable you to ease cash problems by lowering your investment in fixed assets (perhaps a sale/lease-back deal). Leases also have greater flexibility. As your business grows, you can often make changes more readily. It is also possible to save money on taxes by deducting lease payments as business expenses.

Most important, ask yourself how the loan will make your business more profitable.

Interest is an expense which reduces profits. If you propose borrowing money or investing your own, you must know how the money is going to work for you.

Make sure it earns more than it costs! A well-thought-out business plan can be an asset to any small business. If you have followed the steps outlined in this guide, you should be able to develop a good, workable plan.

Financial Plan

To effectively manage your finances, plan a sound, realistic budget by determining the actual amount of money needed to open your business (start-up costs). The first step to building a sound financial plan is to devise a start-up budget. Your start-up budget will usually include such one-time only costs as major equipment, utility deposits, down payments, security deposits, etc.

A start-up budget should allow for these expenses:

- Personnel (costs prior to opening)
- Occupancy (lease, rent or mortgage)
- Legal/Professional Fees
- Equipment
- Supplies
- Salary/Wages
- Income
- Utilities
- Payroll Expenses
- Internet
- Licenses/Permits
- Insurance
- Advertising/Promotions

The operating budget is prepared when you’re actually ready to open for business. The operating budget will reflect your priorities in terms of how money will be spent, the expenses you will incur and how you will
BUSINESS PLANNING: A GUIDE TO EXPORTING

meet those expenses. Your operating budget should also include money to cover the first three to six months of operation. It should cover the following expenses:

- Personnel
- Lease/Rent/Mortgage
- Loan Payments
- Legal Fees
- Accounting
- Supplies
- Salaries/Wages
- Dues/Subscriptions/Fees
- Repairs/Maintenance
- Insurance
- Advertising/Promotions
- Depreciation
- Payroll Expenses
- Internet
- Payroll Taxes
- Travel
- Entertainment
- Miscellaneous

The financial plan should also describe the type of financing you’re seeking, the amount of money you’re looking for, how you plan to use these funds and the preferred terms for repayment.

The financial plan will be the tool prospective investors, bankers, and even you will use in order to determine the feasibility of the business you are presenting. If the business already exists, it should illustrate the current financial status of your business and represent your best estimate of its future operation. If the business is new, a projection will suffice. The results presented should be both realistic and attainable. The financial forecasts should come in the form of three-year cash flow and balance sheet statements.
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**CASH FLOW PROJECTIONS**
# CASH FLOW PROJECTION

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## Cash In-Flows
- Sales
- Other Income

## Total In-Flows

## Cash Out-Flows
- Cost of Goods Sold
- Rent/Mortgage
- Owner's Salary
- Other Salaries
- Payroll Taxes
- Advertising & Promotion
- Utilities
- Loan Payments (current)
- Loan Payments (previous)
- Telephone
- Office Expense
- Dues & Subscriptions
- Accounting
- Insurance
- Professional fees
- Internet
- Repairs & Maintenance
- Licenses & Permits
- Travel & Entertainment
- Legal fees
- Bank charges
- Miscellaneous

## Total Out-Flows

## Net Cash Flow

## Beginning Cash Balance

## Ending Cash Balance
### Pro-Forma Balance Sheet
(Opening Day of Business)

#### ASSETS
- Cash
- Accounts Receivable
- Inventories
- Prepaid Expense
- Other Current Assets

#### TOTAL CURRENT ASSETS

#### FIXED ASSETS
- Land
- Leasehold Improvements
- Equipment
- Vehicles
- Other Fixed Assets

#### Subtotal Fixed Assets

Less: Accumulated Depreciation

#### TOTAL FIXED ASSETS

#### TOTAL ASSETS

#### CURRENT LIABILITIES
- Accounts Payable
- Current Portion of Long-Term Debt
- Accrued Expenses
- Other Current Liabilities

#### TOTAL CURRENT LIABILITIES

#### LONG-TERM DEBT, net of current portion

#### OWNER'S EQUITY
- Paid-In Capital
- Retained Earnings

#### TOTAL OWNER'S EQUITY

#### TOTAL LIABILITIES & OWNER'S EQUITY
<table>
<thead>
<tr>
<th>Pro-Forma Income Statement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td></td>
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<tr>
<td>Gross Profit</td>
<td></td>
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<tr>
<td>Operating Expenses</td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td></td>
</tr>
<tr>
<td>Rent/Mortgage</td>
<td></td>
</tr>
<tr>
<td>Owner's Salary</td>
<td></td>
</tr>
<tr>
<td>Other Salaries</td>
<td></td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td></td>
</tr>
<tr>
<td>Advertising &amp; Promotion</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
</tr>
<tr>
<td>Office Expense</td>
<td></td>
</tr>
<tr>
<td>Dues and Subscriptions</td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
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</tr>
<tr>
<td>Internet</td>
<td></td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td></td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td></td>
</tr>
<tr>
<td>Travel &amp; Entertainment</td>
<td></td>
</tr>
<tr>
<td>Legal fees</td>
<td></td>
</tr>
<tr>
<td>Bank Charges</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
</tr>
</tbody>
</table>

| Operating Expenses |       |       |       |
|                   |       |       |       |

| Net Income |       |       |       |
Advertising as Part of Your Marketing Plan

Marketing and advertising are often mistaken for one another. Advertising is actually part of the marketing process. Advertising includes all activities in the paid promotion process, whereas marketing includes planning what, where, how, and to whom you will sell your product or service.

Putting together an advertising campaign for your business should entail a clear idea of:

- How much to spend
- What type of media to use
- What market area to reach
- How often to run any ads

If you make decisions haphazardly or use a “seat-of-the-pants” approach, the results will probably show it.

To help organize a cohesive plan, it is wise to commit your ideas and decisions in the form of a written advertising plan. This helps you identify areas that need to be looked at in developing an advertising campaign. And it gives you a written reference that you can and should periodically review during the course of the year.

Marketing Plan Format

Although there is no one marketing plan format for all businesses, a plan can be developed using the following topic list as a guide:

- **Advertising Objectives.** What are you trying to achieve? Establishing a particular identity for your project, such as “the most dependable” or “lowest price” (often called positioning), or simply trying to increase sales?

- **Advertising Strategy.** This should contain the overall methodology to meet advertising objectives. For example, if the primary objective is to convey the message that your product is “the most dependable,” the strategy should explain how this is to be carried out.

- **Creative Strategy.** This contains guidelines or specifics to assist in the creative aspects of advertising. Creative aspects include slogans, themes, use of graphics and colors, logos, copy guidelines, and mechanical specifications (e.g., typestyles and sizes, use of photography, and details of reproductions).

- **Media Plan.** This should identify the media mix (combination of print, broadcast, and other). A media schedule details the types of media that should be used for advertising throughout the year. This may be generic and contain only types of media that will be used, such as the Internet, radio and newspapers, or specific and contain types of media and corresponding identities, such as WXYZ Radio and the Daily News. The media budget includes costs associated with each ad placement (cost of airtime, newspaper space, magazine placement). The media budget is then used as part of your advertising budget.

- **Advertising Budget.** This has two components: the media budget and the production budget. The production budget contains all costs associated with production of advertisements. Typical items include: time and materials from in-house staff (normally not included if your company does not cross-charge departments), photography, purchased services such as typesetting or use of consultants,
or the entire creative and production charge if you use an advertising agency. Transfer the total to your master budget, where you can represent it as either a total advertising line item or break it down into media and production components.

**Overall Promotional Strategy**

The primary goal of advertising is to position your company and product in the mind of the potential customer. Advertising is one of three major promotion methods. The others are personal selling and public relations.

**Personal Selling**

Personal selling is the dominant form of promotion, done through sales clerks, telemarketing, and/or field salespeople. Personal selling is flexible and enables greater control over the sale, since questions can be answered, the sales pitch can be customized, and the sale can be closed. Many customers build strong bonds with salespeople, counting on them for in-depth information on a product, on industry trends, and on special treatment in pricing and order lead times. For these reasons, it is necessary to maintain adequately trained salespeople and keep them well informed about your current products, and your competitors’ products as well.

Salespeople must know how much flexibility they are allotted for adjusting prices, modifying standard product offerings, extending credit, and promising delivery dates. The ability to respond to customer inquiries helps build confidence. Many companies assign titles such as marketing representative, marketing specialist, or sales engineer to indicate this type of authority.

Salespeople are often responsible for customer support in addition to getting orders. This allows valuable input to the company that could affect other sales. Good sales techniques can forge strong customer-company relationships and can result in repeat business and secondary promotion through word of mouth. Friendly, knowledgeable salespeople can be one of your best promotion assets.

Sales promotion includes activities supporting personal selling. These include brochures, fliers and catalogs, novelties, displays, and trade shows.

**Public Relations**

Public relations includes any type of publicity that is generally not paid for, and that seeks to create interest or favorable recognition for the company and its products or services. Public relations provides an economical way to enhance your company’s image. The disadvantage: You have little or no control over how much of your message gets through.

Many activities present excellent public relations opportunities; these include new product announcements, giving or receiving awards or significant contracts or grants, hiring new key personnel, as well as stunts, shows, exhibits, grand openings, guest appearances by celebrities or dignitaries, sponsorships, and fundraisers.

For most public relations activities, the company must take the initiative to generate media interest. In most cases, this involves preparing and distributing a press release describing the activities, and including photographs, when available.
The Four “Ps” of the Marketing Mix

Promotion is only one component of marketing, more specifically, the marketing mix, which consists of **Four Ps: Promotion, Product, Place and Price**. Marketing involves managing decisions about the mix, that is, type and amount of promotion, product, place, and price.

***Promotion***

Promotion consists of your overall strategy for putting your product or service in front of the appropriate buying public and creating an environment in which sales result. In considering all of the elements of promotion (marketing, advertising, public relations, etc.), do not overlook the Internet, potentially and actually the most powerful business promotion tool to arrive in decades. Increasingly, almost every business, if it is to be taken seriously, will have an Internet presence in the form of a website. Your SBDC business adviser can explore with you the opportunities and options the Internet offers your business.

***Product***

Product refers to the goods and services that your company provides. You need to define your product in terms of the target market.

Typical key product decisions include:

- Product features
- Accessories
- Packaging
- Warranty
- Service
- Installation
- Instructions and/or training

Pay close attention to trends, and minimize the possibility of making product decisions based on fads. Product decisions are not only initially important, but must be updated to reflect changing consumer wants and needs.

***Place***

Place refers to the where your product or service is distributed, or where your customer comes in contact with you.

For retail establishments, location is the primary factor. Obviously, a retail store should be accessible to the target market and have adequate parking, if necessary. Other location pluses include frontage exposure and proximity to other major, non-competing retail stores.

Other types of businesses must decide whether to sell through dealerships, distributors, mail order, jobbers, the Internet, or a combination of methods.

***Price***

Prices should conform to the overall company pricing strategy. Ask yourself: Does your company have a low price strategy, an at-market strategy, or upscale market strategy?
How does your pricing compare to that of your competitors? If your pricing is consistently higher, does your product offer recognizable differences that will justify the additional price? If so, maybe this is something you should bring out in your advertising.

**External Factors Affecting the Market Mix**

We have just described the four internal factors that you can control as a business manager. This marketing mix is central to your marketing strategy. But there are also external factors—technological, economic, societal, political, legal, and natural—that you cannot control.

**Technological Factors**

Introduction of new technologies, and obsolescence of old technologies, has a direct impact on the marketing mix by making a continuous stream of new products available which are priced for, promoted in, and sold to new markets.

An example of a major new resource created through advancements in technology is the Internet, made possible through developments in integrated circuit technology, the spread of personal computers, and the conversion of an advanced defense-oriented system to civilian purposes.

Technological advances in areas such as biotechnology, medicine, chemistry, automation, metals, and advanced materials provide the knowhow for similar development for countless new products.

The Internet is another example of a technology producing profound change in the ways in which we do business and conduct our lives.

**Economic Factors**

The state of the economy influences demand for particular products, and determines how they are sold and promoted and at what price they are offered.

A sluggish economy decreases consumer demand for most products. Increased advertising may be required to stimulate sales.

Carefully monitor economic indicators, such as the Consumer Price Index, interest rates, and unemployment rates, and make adjustments to the marketing mix as needed.

**Societal Factors**

Cultural and social customs, values, and lifestyles require special attention. You may need to take into account issues of multiculturalism, religion, economic status, health, diet and nutrition, crime, and public opinion.

Responding to societal wants and needs with the right product at the right time gives your company a competitive edge.

**Political and Legal Factors**

Government policies, regulations, and legal actions at federal, state, and local levels can have a dramatic effect on all aspects of the marketing mix.
Two examples of government regulations that impact the marketing mix are those related to product labeling and to the environment. Alcohol and tobacco products must bear special warnings on their labels; where and to what age group they can be sold are heavily regulated. Environmental regulations have placed mandates on industry to develop products that are not harmful to our environment.

**Natural Factors**

Factors such as geographic location, weather and climate, and availability of natural resources all can influence your marketing mix.

The agriculture industry, for example, requires not only a good geographic location for the type of product being produced, but good weather during growing seasons. These conditions will influence the type of products and growing season yield and price. The occurrence of natural disasters such as floods and hurricanes not only can create hardship for the agricultural producer, but can also result in unexpected delays or depletion of expected agricultural products for companies selling or processing them.

**Infrastructure Factors**

Finally, the cost and availability of transportation, communication, and energy dictate how markets will be accessed, and how much it will cost to produce and transport products.

High-quality, reliable roads, railways, air transportation, and utilities must exist to enable large-scale economic activity. Improvements must constantly be made to accommodate increasing demand.

**Developing a Marketing Plan**

To develop a marketing plan, your company should formulate a marketing strategy which identifies target market, marketing objectives, and marketing mix. A marketing strategy defines the game plan for your business. It provides information about your markets and how you intend to penetrate them. It defines the character of your business—for example, as an innovator, challenger, or follower.

While the marketing strategy outlines constraints under which your business will operate, the marketing plan details how the strategy will be carried out. For example, a clothing retailer should provide information on promoting the latest trends in men’s sportswear in the marketing plan.

**Format**

As with the advertising plan, no one marketing plan format is ideal for every business. The following topic list, however, provides a useful guide for constructing a marketing plan:

- **Mission Statement.** Describe your business purpose, its goals and objectives, and specific strategies to reach them.

- **Product/Service.** Identify each of your products and/or services, their cost to you, specific characteristics (including competitive advantages and disadvantages), and expected annual sales volume.

- **Market.** Provide a complete demographic analysis of the customers in each market, including market size. Identify current or projected market or industry trends, as well as information from supporting market studies or test markets.
• **Distribution.** Identify how products will reach the customer, including labeling, packaging, and shelving information. If you will use distributors, include a list of distributors and satisfaction level from previous experience (if applicable). If you plan to offer cooperative advertising programs with them, include guidelines. Identify details on incentives and sales quotas, and on the handling and returning of goods.

• **Competition.** Identify competitors by divisions, product lines, and markets. Include competitive strengths and weaknesses. Identify and compare marketing techniques.

• **Pricing.** Develop price schedules, including discounts, where applicable. Include comparative price lists of competing products, and explanations of price variations.

• **Marketing.** Provide guidelines for developing your advertising plan. For example, will you do advertising in-house or hire an agency? Do you have preferences in advertising media? Be sure to identify any planned marketing events, such as seasonal sales, new product announcements, and promotions. Provide guidelines for advertising expenditures.

• **Sales Forecast.** Include a detailed sales forecast for the year. Identify sales commission plans and expected sales quotas.

• **Action Plan.** Identify major marketing activities, their priorities, completion schedule, and the people or organizations responsible for carrying them out.

• **Production.** Include product production information, if applicable, to ascertain availability of products in the face of projected demand. Identify contingency plans to increase product availability, if required.

The marketing plan should be a pivotal document for developing your advertising plan. Re-evaluate and update your marketing plan regularly so it is always up to the moment and can be used reliably.

**Putting It All Together**

Managing an effective advertising program for a business requires a great amount of research and planning. While larger companies devote an entire staff to advertising responsibilities, smaller companies should delegate advertising responsibilities to at least one individual. This advertising specialist should be (or become) knowledgeable in advertising media—in particular, rates and coverage areas.

Advertising should not be a one-time event at the time an ad is placed, but rather a continuous process. Databases of media information should be maintained and updated frequently so that when this information is needed, it is complete and up to date. You can use media directories such as Standard Rates and Data, available in the reference section of many libraries, or call or write or visit the website of the sales department of any newspaper, magazine, radio station, television station, cable company, or other medium.

Past advertising effectiveness should be evaluated to determine which strategies have worked in the past, enabling you to adjust the marketing mix. Don’t forget to adjust your advertising messages to conform to changes in the external environment, as well as competitive advertisements.
Develop an advertising budget from the bottom up, by determining true costs of planned advertising activities, rather than by simply allocating an arbitrary dollar amount for your total advertising effort. This gives the most accurate cost projection, and enables you to better identify true costs for future advertising budgets.

Above all, use good business sense. Although advertising requires a substantial share of a company’s financial resources, it also projects a lasting image of your company, its products, and services for years to come.
ACCOUNTING AND RECORD KEEPING

“If you don’t understand the need for good records, you don’t have enough experience to be starting a business.”
— Anonymous

This quotation emphasizes the importance of accounting and record keeping. Many businesses have failed because the owners did not maintain the records necessary to allow for sound management of the business.

Why Keep Good Bookkeeping Records?

The Internal Revenue Service requires that everyone in business keep records. “The law does not require any special kind of records. You may choose any system that is suited to your business and that will clearly show your income,” says the IRS.

Good record-keeping also helps you monitor the business for planning, controlling, and budgeting purposes. As an owner, you must plan for the future of the business, based on financial knowledge rather than guesswork. Good business decisions are made from timely and accurate information about the company.

Up-to-date bookkeeping records should provide useful data for you to make intelligent decisions to operate your business successfully. Your records should yield information such as:

- sales information and operating results
- fixed and variable costs
- profit and loss
- inventory levels
- data comparisons - current & prior
- financial statements
- tax returns and reports to regulatory agencies

What System Should You Use?

Small business owners should use a simple and practical bookkeeping system. Because owners are usually busy with daily operations, it is imperative that the bookkeeping not be cumbersome.

A good system should be:

- simple to use
- easy to understand
- reliable
- accurate
- consistent
- timely

Cash and Accrual Methods of Accounting

Before we consider the fundamental elements of bookkeeping systems, let’s talk about cash and accrual methods of accounting.

Using the cash method of accounting means you record your sales at the time you actually receive the cash. You also record your expenses when you pay out the cash. This method follows the cash flow in and out of your business and is used by most small businesses because of its simplicity.
Under the **accrual method** of accounting, you would record all sales and all expenses when the service is performed or the goods are delivered, regardless of when payment is received or made. Using this method requires the use of an account for “receivables” and another for “payables” in your records to allow you to keep track of what is owed to you and how much cash you owe.

You may use what is known as the **hybrid method**, which incorporates both methods: Using the cash method during the year and the accrual method at year-end allows you to accurately state your income because you can record unbilled sales and expenses in the year they have actually occurred. An “account receivable” and “account payable” would again be necessary. This method is preferred by businesses with 30-day credit accounts because it allows a more accurate accounting of profit and loss without the bother of keeping these two extra accounts throughout the year.

Any of these methods is acceptable. It is up to you to decide which one best suits your situation.

**Elements of Bookkeeping**

Currently, there are many bookkeeping systems to choose from on the market—all fulfill the six requirements of a good system. Choose a system with rules and methods for collecting, processing, and summarizing financial and economic data that is useful in your decision making.

Any bookkeeping system should include at least the following:

- business checkbook
- chart of accounts
- daily summary of cash receipts
- disbursements journal
- monthly summary of cash receipts and disbursements

**Storage Medium**

Although there is no requirement to keep your records in bound books, you should use either pre-packaged forms or columnar paper designed for bookkeeping purposes. Your records are your tool for the present and future management of the business.

**Business Checking Account**

The first step in setting up your system is to open a separate checking account. Shop around to learn which financial institution charges the price you want to pay and offers the services you need for your operation. Banks are competitive, and prices for services can vary.

Take into consideration the location, reputation, hours of operation, and friendliness of the bank you select. You may be interested in “one-stop shopping.” If your business grows and at some later date you are looking for funding, cultivating a good banking relationship will be a priority.

**Visa/MasterCard Privileges**

If you plan to offer credit to your customers through Visa/MasterCard, you will want to ask the bank if they provide this service and what the bankcard discount would be. Offering Visa/MasterCard allows your customers to buy without having to pay cash. There is no risk to you of customer no-payment. This security does not come without a cost. The bank charges a percentage of the ticket price, which is called the bankcard
discount, which is usually determined by the annual dollar amount of credit sales generated through your firm. For the initial year, a percentage is assigned and is adjusted each year thereafter accordingly.

**Business Checkbook**

Once you have opened the checking account, you will want to use it for all “cash in and cash out.” All money you receive, whether from sales, loans, personal equity advances, or other sources, should be deposited into the checking account. All payments, including deductible expenses and personal withdrawals, should be made by check. This gives you internal control over your most precious asset — cash.

Each deposit made and check written must also be recorded in your business checkbook. Be sure to keep deposit slips and sales invoices or statements on file. These will provide documentation of your business transactions and supply an “audit trail,” should the Internal Revenue Service ever decide to audit your company.

**Reconciling Your Bank Statement**

A basic principle of good recordkeeping is reconciling your bank statement with your checkbook each month. Normally, because of timing differences, your checkbook balance and the bank statement will not agree if your business has been active. You may have made deposits after the date of the bank statement or written checks that have not yet been cashed. It is also possible that the bank made special debits and credits to your account and included them on the bank statement but that these have not yet been entered into your records. Reconciling your bank statement to your checkbook is the only way to prove your cash account. The balance in your checkbook and the balance on the statement must be adjusted to the true cash balance, with the items causing the difference indicated. Below is an illustration of how to reconcile your bank statement:

**Sample Bank Reconciliation as of January 31, 2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance on bank statement</td>
<td>1,609.83</td>
</tr>
<tr>
<td>Add deposits not credited</td>
<td></td>
</tr>
<tr>
<td>1/27</td>
<td>701.33</td>
</tr>
<tr>
<td>1/30</td>
<td>380.65</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,081.98</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,675.53</td>
</tr>
<tr>
<td>Subtract outstanding checks</td>
<td></td>
</tr>
<tr>
<td>Check # 88</td>
<td>66.70</td>
</tr>
<tr>
<td>Check # 89</td>
<td>9.80</td>
</tr>
<tr>
<td>Check # 92</td>
<td>212.47</td>
</tr>
<tr>
<td>Check # 93</td>
<td>150.00</td>
</tr>
<tr>
<td>Subtotal</td>
<td>438.97</td>
</tr>
<tr>
<td><strong>Adjusted balance per bank statement</strong></td>
<td>2,236.56</td>
</tr>
<tr>
<td>Balance shown in checkbook</td>
<td>2,240.56</td>
</tr>
<tr>
<td>Add deposit of 600.40 for 1/8 entered as 594.40 (difference)</td>
<td>6.00</td>
</tr>
<tr>
<td>Subtotal</td>
<td>2,246.56</td>
</tr>
<tr>
<td>Subtract bank service charge</td>
<td>-10.00</td>
</tr>
<tr>
<td><strong>Adjusted checkbook balance</strong></td>
<td>2,236.56</td>
</tr>
</tbody>
</table>
Chart of Accounts

To achieve an efficient bookkeeping system, you must set up a separate account for each item that you plan to record. Every account is titled and numbered and classified as asset, liability, owner’s equity, revenue, or expenses. This procedure is known as selecting a chart of accounts for your business. Following is a model:

XYZ COMPANY Chart of Accounts

ASSETS (100-199)
- 100 Cash
- 110 Inventory
- 120 Equipment

LIABILITIES (200-299)
- 200 Loan(s) Payable
- 210 Sales Tax Payable

OWNER’S EQUITY (300-399)
- 300 Jane Doe, Capital
- 310 Jane Doe, Drawing

REVENUE (400-499)
- 400 Merchandise Sales
- 410 Service Sales

EXPENSES (500-599)
- 500 Purchases
- 510 Rent Expense
- 520 Utilities Expense
- 530 Salaries Expense
- 540 Interest Expense
- 550 Supplies Expense
- 560 Advertising Expense
- 570 Miscellaneous Expense

When a business transaction occurs, it must be entered into your records; the amount is entered as an increase or decrease in these accounts. For example, $150 of merchandise sold is entered into the Merchandise Sales account, increasing the Revenue. Recording the deposit of the $150 into the checking account increases the Assets - Cash account.

The accounts keep a tally of the monetary activities of your business.

There are no standardized account titles. You will want to select titles that clearly and precisely indicate the nature of the account. The accounts are numbered using at least a three-digit system to allow space for 100 account titles within each classification. However, you should have only as many accounts as necessary to keep tabs on your business operation.
Daily Summary of Cash Receipts

Not all cash received is income. Cash can come into a business from many sources, including sales income, bank loans, personal advances, interest earned, sale of equipment, and other. Every transaction involving the receipt of cash must be recorded in your bookkeeping system.

To accomplish this, use a Cash Receipts Journal. The form can vary according to the needs of your company. Typically, column headings are used to provide flexibility in identifying affected accounts. Remember that any sales on credit are not entered into a Cash Receipts Journal. This journal is used only to record cash actually received. Following is a model:

**Cash Receipts Journal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Explanation</th>
<th>Sales</th>
<th>Sales Tax</th>
<th>Other</th>
<th>Total Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/1</td>
<td>Merchandise</td>
<td>152.55</td>
<td>10.68</td>
<td>0.00</td>
<td>163.23</td>
</tr>
<tr>
<td>6/5</td>
<td>Service</td>
<td>80.84</td>
<td>5.66</td>
<td>0.00</td>
<td>86.50</td>
</tr>
<tr>
<td>6/12</td>
<td>Merchandise</td>
<td>179.84</td>
<td>12.59</td>
<td>0.00</td>
<td>192.43</td>
</tr>
<tr>
<td>6/26</td>
<td>Service</td>
<td>115.00</td>
<td>8.05</td>
<td>0.00</td>
<td>123.05</td>
</tr>
<tr>
<td>6/30</td>
<td>Bank Loan</td>
<td></td>
<td></td>
<td></td>
<td>1,000.00</td>
</tr>
<tr>
<td>6/30</td>
<td>Total Cash</td>
<td>662.00</td>
<td>46.34</td>
<td>1,000.00</td>
<td>1,708.34</td>
</tr>
</tbody>
</table>
**Disbursements Journal**

You must enter daily all expenditures made in cash or checks. These payments from company funds may be made for deductible and nondeductible disbursements. For a particular expense to be deductible when computing your taxable net profit, it must be an “ordinary and necessary” expense incurred in your trade or business for an item that is not a capital asset. A capital asset has a life of more than one year and is subject to special IRS rules in expensing and/or depreciating when you compute profit and loss on your tax return.

Since this journal accounts for all cash out of the business money, it is critical that each disbursement be carefully recorded and supported with objective evidence, usually in the form of a business document such as a supplier’s invoice. Following is a model:

<table>
<thead>
<tr>
<th>Date</th>
<th>Paid To</th>
<th>Check</th>
<th>Acct #</th>
<th>Account Title</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/1</td>
<td>ABC Advertising</td>
<td></td>
<td>224</td>
<td>Adv. Exp.</td>
<td>85.00</td>
</tr>
<tr>
<td>6/7</td>
<td>Mark Baker</td>
<td></td>
<td>225</td>
<td>Rent Exp.</td>
<td>400.00</td>
</tr>
<tr>
<td>6/9</td>
<td>National Grid</td>
<td></td>
<td>226</td>
<td>Util. Exp.</td>
<td>125.80</td>
</tr>
<tr>
<td>6/17</td>
<td>General Supply</td>
<td></td>
<td>227</td>
<td>Purchases</td>
<td>437.95</td>
</tr>
<tr>
<td>6/20</td>
<td>Jane Doe</td>
<td></td>
<td>228</td>
<td>Drawing</td>
<td>250.00</td>
</tr>
<tr>
<td>6/24</td>
<td>NYS Sales Tax</td>
<td></td>
<td>254</td>
<td>S.T.Payable</td>
<td>230.07</td>
</tr>
</tbody>
</table>

**6/30 Total Payments: $1,534.61**

Note: Two non-deductible disbursements were made—one to New York State to turn over the sales tax collected, and one to Jane Doe for a personal withdrawal.
Monthly Summary of Cash Receipts and Disbursements

It is important to have information available in summary form with year-to-date balances for each account. These balances provide the data to create financial statements, prepare government reports, and make decisions for operating and controlling the business. Following is a model:

510 Rent Expense Ledger

<table>
<thead>
<tr>
<th>Date</th>
<th>Increase</th>
<th>Decrease</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>20XX</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan</td>
<td>400.00</td>
<td></td>
<td>400.00</td>
</tr>
<tr>
<td>Feb</td>
<td>400.00</td>
<td></td>
<td>800.00</td>
</tr>
<tr>
<td>Mar</td>
<td>400.00</td>
<td></td>
<td>1,200.00</td>
</tr>
<tr>
<td>Apr</td>
<td>400.00</td>
<td></td>
<td>1,600.00</td>
</tr>
<tr>
<td>May</td>
<td>400.00</td>
<td></td>
<td>2,000.00</td>
</tr>
<tr>
<td>Jun</td>
<td>400.00</td>
<td></td>
<td>2,400.00</td>
</tr>
</tbody>
</table>

Keeping Records

The IRS says you must keep your records for as long as they may be needed to administer any IRS provision. Keep records that support an item of income or deduction on a return until the statute of limitations runs out — usually three years after the return is due or filed, or two years from the date the tax was paid, whichever occurs later.

You may wish to keep your records for a longer period. For instance, journals and ledgers should be kept indefinitely. Supporting documents can be discarded whenever you stop using them, provided it is past the three-year statute of limitations.

Business Versus Personal Records

Your business records must be kept separate from personal records. Do not commingle funds or information. If you have more than one business, you must keep a set of records for each business. For example, if you own a consulting firm and a car wash, you would need to keep three sets of records: one for each of the businesses and one for your personal records.

Getting Started

Ideally, getting your bookkeeping system up and running would occur at the time the first sales or expense has been incurred. The sooner you have your system in place and ready to accept the information from your business operations, the smoother the job of planning, controlling, and budgeting will be. Be accurate when recording dollar amounts of cash in and cash out, and keep supporting documents in your files. As you get more experienced, this process will become easier to handle. Above all, stay on top of your bookkeeping.

The IRS website contains a special section for small business and the self-employed. It offers a broad range of resources across federal and state agencies, as well as industry/profession specific information for self-employed entrepreneurs, employers and businesses.
BUSINESS PLANNING: A GUIDE TO EXPORTING

Here are the IRS site addresses that might be of specific interest:


IRS forms in espanol - http://www.irs.gov/espanol/article/0,,id=132230,00.html

APPENDIX A

Sample Outline for an Export Plan

Table of Contents

Executive Summary (one or two pages maximum)

Introduction: Why the Company Should Export

Part I - Export Policy Commitment Statement

Part II - Situation/Background Analysis
• Product or Service
• Operations
• Personnel and Export Organization
• Resources of the Firm
• Industry Structure, Competition, and Demand

Part III - Marketing Component
• Identifying, Evaluating, and Selecting Target Markets
• Product Selection and Pricing
• Distribution Methods
• Terms and Conditions
• Internal Organization and Procedures
• Sales Goals: Profit and Loss Forecasts

Part IV - Tactics: Action Steps
• Primary Target Countries
• Secondary Target Countries
• Indirect Marketing Efforts

Part V - Export Budget
• Pro Forma Financial Statements

Part VI - Implementation Schedule
• Follow-up
• Periodic Operational and Management Review (Measuring Results Against Plan)

Addenda - Background Data on Target Countries and Market
• Basic Market Statistics: Historical and Projected
• Background Facts
• Competitive Environment