HOW TO BUILD A BUSINESS

Kovo, a public benefit company

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Contents

13 Practical Steps to Build Your Own Business

In today's world, working for someone else may not always be feasible nor desirable. You may dream of building your own business to fulfill a personal goal or see a need in the community that you can help fix. Whatever your reason, building a business is not always simple, but it is achievable. The following guide can help you ease the tension of this daunting task.

Building a business begins with an idea. How do you develop that idea into a successful business? Here are 13 helpful steps for making your dream come to fruition.

1. Develop Your Idea

If you want to start your own business, you likely already have an idea of what you want to do, create or sell. This phase is called the ideation phase. It's when you figure out the specific idea behind the business that you want to build.

The next step would be to look up companies in the field you hope to get into. Look at what those industry leaders are doing, and ask yourself how you can do it better (i.e., faster, for less money, etc.). Is there something that you can offer customers that the other companies don't? Or, is the industry in such high demand that there are plenty of customers to go around? If the answer is yes, then your idea might be a good one, and it is time to start formulating a plan.

2. Understand the "Why"

When starting to formulate a plan to open a business, one important question to ask yourself is, "Why?" Understanding why you are starting a particular business helps you know how to plan better. Are you fulfilling a personal need, like creating art to sell to others, or a marketplace need, like providing mold remediation to homeowners? When serving a marketplace need, your business's scope will likely be larger, which will affect the steps you need to take to open your business.

You also might want to consider buying into a franchise. Is there a company that already does what you want to do and does it well? Franchises provide structure and support to a new business owner and can often refer customers to the business depending on its location. Opening a franchise in an already established company also provides brand recognition from the start and can provide a new business with an already established loyal customer following.

Regardless of your decision to build a business from the ground up or buy into a franchise, it is vital that you understand the “why” behind your idea. You should carefully consider your customer base and why they should want to buy from or hire you. Then clarify why you want to work with these particular customers. If it will be art you are selling, do you want people to enjoy something you create? Or, are you wanting to provide a service that makes people’s lives easier? Once you understand the “why” behind your business idea, you can formulate your business plan and start nailing down other details, including naming your company and planning a logo (more about that later).

After careful examination, if you find that there is not a solid market for your idea, or you do not feel passionate about the idea anymore, you may want to begin brainstorming a different business venture.

3. Remain Flexible

After solidifying your business idea, it is important to remain flexible as you formulate a business plan. Perhaps you have a very solid idea that would work in one location, but not another. For example, say that you want to open an art gallery in one city but find a better suited customer base in another. Or, that franchise mold remediation business you have your heart set on is only available in a different zip code. You may find yourself having to pivot your business strategy. Can you change the location of your proposed business? Or perhaps you were planning on using social media to drive business to your website, but after looking into it, you find that keeping a website "current" with fresh content reaches more people in your desired customer base. Are you okay with changing your marketing strategy to fit your needs? Being flexible when building your business will allow you to utilize the right tools to be successful. If you are rigid in your planning, you might miss great opportunities to help make your business a success from the start.

Once you start your business, you will need to continue being flexible. This means that you need to stay positive even if you get rejections from customers. Is there something you can change about your business to meet the needs of those you are serving? Or, is there a different set of customers that you should reach out to?

You may also need to find ways to maintain your stamina when you experience a rough patch. Small businesses usually face a few storms during the early years. That might mean making some personal changes to stay healthy and energetic, or changing your perspective if you feel bogged down when things get tough.

4. Write a Business Plan

Once you feel ready to sit down and write out a business plan, there are several things you will want to consider. First, you will want to conduct market research if you did not do this during the ideation phase. Market research helps you understand your customers--their needs, preferences, and habits. Understanding this can help you formulate a plan to save enough start-up capital and how to market your business when it's time to open.

Later, we discuss writing a business plan in more detail.

5. Consider Costs & Funding

When starting your business, it is crucial to plan your finances carefully. Starting a business can be quite costly, so a lot of thought needs to go into planning how you will cover those expenses. Will you save enough money yourself to open your business, or will you need to obtain a loan?

Many start-ups run out of money before opening. In essence, they fail before they ever have the opportunity to make a profit. That's why a lot of careful thought and consideration needs to go into the financial planning stage.

In order to assess how much money you need to start your business, you can perform what is called a break-even analysis. This analysis helps business owners determine at what point their business, product or service will turn a profit. The three most common reasons that business owners perform this analysis are:

- **Determine profitability**: Most business owners want to make as much profit as they can. By understanding how much money is needed to cover expenses, business owners can figure out ways to increase the profitable parts of the business and cut costs in other ways.
- **Price a product or service**: When business owners think about pricing, they usually consider the cost of creating their products and how much competitors are charging for the same or similar products and services. This helps business owners understand what prices are fixed, what costs are variable. Are costs based on physical cost of products or labor? By understanding these items, business

owners can understand how they can change if needed to increase their profitability.

- **Analyze the data**: Analyzing the data can help determine how much goods or services must be sold to profit. Knowing this information can help you determine how to reduce overall fixed and variable costs. It can also cause you to question how to increase sales.

The formula to perform the break-even analysis is relatively simple:

- Fixed Costs/(Average Price - Variable Costs) = Break-Even Point

By performing this analysis, every business owner can determine the least amount of revenue that needs to be generated to avoid losing money. It can also help you understand the most profitable area of your business, which can help you set proper goals.

Many start-ups overspend on unnecessary items when first starting out. Think out each expense and whether it is necessary for your company's functionality when you first start out. Some purchases would make your life easier but are not necessary to function in the beginning before bringing in income. That fancy machine may help you run your business more efficiently but might not help you reach your financial goals if you cannot afford it at the start. Spending as little as possible, only on essential items, when first starting out can be the key to business success.

After performing a break-even analysis and determining necessary start-up costs, you need to decide if you will need financial assistance. You may want to consider securing a commercial business loan through a bank, but they can be difficult to obtain. If you are unable to secure a loan through a bank, you can apply for a loan through the Small Business Administration (SBA) or a different lender.

Later, we discuss getting a business loan in more detail.

Some start-ups requiring a significant amount of funding to open may want to consider looking into an investor. Investors can provide a significant amount of money for both start-ups and failing businesses. An investor may charge interest, want equity in the company, or both. Some may also want a say in how things are managed.

Another way to raise money for starting your company is through crowdfunding. Crowdfunding is when a group or "crowd" funds a business or project, rather than one or small group of investors. There are different types of crowdfunding, and some are considered donations and do not get repaid, while others get repaid in different ways.

6. Protect Your Finances

After determining how to raise the funds to open your business, you need to carefully consider protecting your assets by making your business a corporation or LLC. Starting a business as a "sole proprietorship" can put your personal assets at risk should the business accrue any debts or liabilities. Starting a business as an S corporation, C corporation or a limited liability company (LLC) can protect your personal assets should something negative occur during your business' tenure.

Some individuals mistakenly believe that they are completely protected from personal liability if they file a Certificate of Incorporation for a corporation. This is not correct. To lessen personal liability, the owner should follow these guidelines:

- Use only the corporate name: Use the corporate name in its entirety and include "Inc." or "Corp." on all documents
- Use a proper signature: Sign on behalf of the corporation using your title

- Adhere to corporate formalities: Follow all corporate formalities, including adhering to corporate bylaws, holding meetings with the Board of Directors, recording meeting minutes, and issuing stock properly
- Be sure to keep funds separate: Do not keep corporate funds and funds of individual shareholders in the same account
- Be sure to keep taxation separate: Taxes for the company should be paid separately and paid from only corporate accounts
- Be sure to keep transactions made by the corporation completely separate from those made by the individual: Keeping all transactions separate can reduce your personal liability for any debt or liability accrued by the business

7. Register Your Business with the Government

To be officially recognized as a business, you need to register the business with government agencies. Corporations need a document called "articles of corporation" which contains important information, including business name, business purpose, stock information, and an outline of the corporate structure to name a few.

If you are not a corporation, you will need to register the business name, which may be your legal name, a fictitious business name (a name that you decided to call your company). You may even want to think about trademarking your business name to prevent copycats from using your name as their own.

If you are in a sole proprietorship or a general partnership, your state may require you to file a "doing business as" (DBA) name and/or certificate. A quick visit to your local county clerk's office can help you determine the requirements and fees associated with filing a DBA.

After registering your company, you will likely need to file for an Employer Identification Number (EIN) from the IRS. Not all businesses need an EIN number, and the IRS has provided a checklist to help determine if you will need one for your business. Sole proprietorships with no employees do not need this number, but you may still want to file for one to keep separate your individuals and business taxes or to save you time down the road should you decide to hire an employee.

In addition to the EIN number, you will need various forms to file your federal and state taxes. These vary depending on the business structure. You can find helpful information on the SBA website. You will also want to check your specific local or state government websites for tax information.

8. Look Into Licenses and Permits

Certain businesses may need federal, state, or local licenses to operate. You can obtain a business license at your local city hall building. You may also want to look at the SBA's Database to search for license requirements for your business type and/or state.

Specific business or trades may require professional licensing. One such trade is a general contractor. In most states, general contractors must be licensed by the Contractors State License Board (CSLB). They must take and pass an exam regarding laws and general building code information, as well as building practices to qualify for the license.

Some cities and states require companies to obtain a seller's permit, which allows your business to collect sales tax from customers. Since each city and state have different requirements, check out their web sites to see if it applies to you.

9. Purchase an Insurance Policy

Purchasing an insurance policy for your company can be an essential step in securing your company's protection. It is important to have the right insurance policy before launching your business. That way, if something does go wrong, you are better protected from day one.

Some insurance policies you may need:

- General Liability (GL): This covers property damage, personal injury, and bodily injury to both yourself and a third party
- Worker's Compensation (needed if you have employees)
- Unemployment Insurance (needed if you have employees)
- Other industry-specific insurance policies

10. Build and Train a Strong Team

Unless you plan on running your business by yourself, you will want to hire a great team. Putting in the time to hire the right people and taking the time to train them properly from the start, can help make your business a success. Not all applicants are created equal. Some have strong backgrounds that can help bolster your specific company or be a great asset when working with a specific clientele. Defining business roles and responsibilities and how different team members will work together in unison are important aspects to think about before training your employees.

11. Choose the Right Vendors

Even after you have carefully constructed a strong team, you might still need help from outside companies. Most industries, from construction to bakeries, have third-party companies that you can partner with to help make your business run more smoothly. If your business will be sharing sensitive information with a partnering company, it is crucial to be selective and find a vendor that you can trust.

12. Brand Yourself from the Start

Even before you launch your business, you will want to begin the process of branding yourself. Branding is the marketing practice of defining one's business with a name and logo that is easily identifiable as belonging to that particular business. The business brand can also help influence other aspects of the business, such as color scheme, customer service, promotional merchandising products, and the design of business spaces. This important marketing practice starts with choosing a great name for your business.

When choosing a name, follow these guidelines:

- Avoid difficult names to spell
- Search the Internet for names that you like
- Don't pick a name that is too limiting
- Pick something that you and your employees will like saying
- Ask others' opinions of the name- including peers, potential customers, and partners, to name a few

For more tips on naming your business, read 12 Tips for Naming Your Start-up Business.

After choosing a name and establishing your business brand, you will want to launch an excellent website. Prospective customers or professional partners are going to check out your web site. That is why it is important to impress them with a well-executed product. In many cases, this will be the first impression that your company can make, so it needs to come off professional with a high-quality layout and content. To start your website, follow these steps:

- Draw up a template of what you envision for your website
- Check out competitors websites and see what you like or don’t like
- Hire a good website developer and provide a few websites that you like as a reference for what you are looking for
- Ensure that your site is search engine optimized
- Be sure that it is optimized for all devices
- Include high-quality, original content
- Keep the website decluttered and clean while still keeping it visually interesting
- Consider asking customers to “opt-in” to your marketing campaigns

Having a strong brand and website are important marketing tools to use to drive people to your business. For more tips, see Tips for Creating a Business Marketing Plan.

13. Grow Your Business

Even if you successfully establish your business after its launch, you have to continuously work to grow it. It is important to stay on top of new industry standards or innovative breakthroughs that can change your business's direction. You may also want to collaborate with other businesses in your industry to grow in new ways. There is no one way to run your business. You can try one thing, and if it doesn’t work, change direction and try something new. You never know what might be the ticket to helping your business grow.

Conclusion

Hopefully, these 13 steps will serve as a guide map to help you start your venture. Starting your own business has its risks, but great rewards can follow. Educate yourself as much as possible, take your time in making big decisions, and never hesitate to ask for advice and guidance.

How to Write a Business Plan in 7 Easy Steps

You've come up with a great idea for starting (or buying) your own business. Before starting that business, it is a good idea to write a business plan. Many people find the thought of formulating a business plan a daunting task, but it doesn't have to be. Follow our guidelines to help formulate your idea into a structured plan outlining a successful business venture.

What is a Business Plan?

A business plan is a formally written document that outlines a prospective business's objectives and strategies for reaching them. A typical business plan includes six distinct sections called: executive summary, opportunity, execution, company and management strategy, financial plan, and appendix.

Plan for Writing Your Business Plan

Before diving into the step-by-step process of constructing your business plan, you first need to plan for your plan. This means you need to think about some "big picture" plans for your business to ensure that you are writing a business plan applicable to exactly what you want to do.

Understanding the Why and How

You likely already have an idea of what you want to do, create, or sell. You've probably done the work to figure out the distinct idea behind the business you want to build. Now consider asking yourself, "Why?". As we discussed in previously, understanding your "why" is essential.

Understanding *why* you are starting a particular business helps you know how to plan better. Identifying your “why” should go beyond skin-deep reasons like “I want to make a lot of money.” Dig deeper to the root of your purpose. For instance, “I want to make a lot of money so I can travel and buy a house.” A deeper “why” will not only help motivate you, but also help narrow down your goals to measurable achievements. If you want to travel and buy a house, to continue with the example, you now have a better idea of how much money you want to make, and can plan accordingly.

The next step before writing a business plan is to conduct some market research. This helps you understand the "how" behind your business idea. By reviewing what is happening within your market, you can better understand what other businesses are doing and their strengths (and weaknesses). In your market analysis, look for trends. What are those companies doing? What specifically do your competitors do (or not do)? Can you do it better? Or something similar, but with a twist? Answering these questions helps you understand how you want to operate your business, and is key to formulating a plan.

Now It's Time to Write Your Plan

Now that you have thought about the "why" and "how" behind your business idea, it's time to write out that formal business plan. Although not all business plans are alike, most typical business plans have seven components:

1. Executive Summary

An executive summary is essentially an introduction to your company. It helps explain what you do and specifically what you are looking for from the readers of your business plan. It is often considered the most important part of the business plan since it outlines and highlights the specifics of your detailed plan. In fact, some investors may only ask to see your executive summary, and if they like it, they will ask to see the rest of your detailed plan. That is why this document needs to be well-written, concise, and be able to act as a stand-alone piece highlighting only the important aspects of your detailed plan. In other words, do not include too much detail in this section. Ideally, you should keep your executive summary to 1-2 pages in length at most.

Although this is the first section of your business plan and serves to introduce the rest of your detailed document, you may want to consider writing it last. That will help you remain concise and clear by only outlining your business plan's most important information.

2. Opportunity

The next section of your business plan is called opportunity. This section will expand on your executive summary and provide detailed information about your business, such as the problem you are solving, how you plan to accomplish this, who your customers will be, and how your service or product will fit into the existing marketplace. In other words, this section outlines the "why" and "how" behind your business idea and will include a detailed market analysis, a complete description of your competition, and a section outline of the ways in which you would like to grow.

In the market analysis section, you will want to explain the problem you see in the market and how you plan to solve it. In addition, you will need to aptly explain your target market. Who will you be selling to? Make yourself shine here by explaining what you see missing from other companies and how you can help fill that gap with your plan. When identifying a target market, a good rule of thumb is to use what's called the TAM, SAM, and SOM breakdown:

- TAM: Your Total Available or Addressable Market (the people that you hope to reach with your service or product)
- SAM: Your Segmented Addressable Market or Served Available Market (the portion of TAM that you will target)
- SOM: Your Share of the Market (the target from SAM that you will likely reach--especially in the first years of opening your business)

Other details that you will want to include are a description of your ideal customer and key customers (the ones that are critical to your success).

After your market analysis section, you will want to describe your competition. Who else is providing the same product or service that you are? And how can you do it better, faster, or different? Consider including a "competitor matrix"– a matrix that outlines you and your competitors and the features of each business. The hope is that each competitor is missing one key feature of your business idea and that your company can cover all important key features of your particular industry.

Finally, include a section that outlines your plans for future products and services. It is essential to illustrate to investors your vision for future growth.

3. Execution

After writing your opportunity component, you will move onto the execution portion. This is the section where you will outline your specific plans to make your business plan work. In this section, you'll outline your marketing and sales plan, guidelines for how you plan to operate the business, plan to measure success, and the key milestones that you hope to achieve:

Marketing and Sales Plan

You will want to detail how you plan to reach your target market, how you will sell to those customers, your price point plan, and other activities or partnerships that you will need to make this plan successful. Prior to writing your marketing plan, be sure to clearly identify your target market because without clearly knowing who you are selling to, a marketing plan will have little success. Include these components in your marketing plan:

Position Statement

This part includes the way in which you will present your company to customers. Think about the customer base that you are appealing to. If it is a luxury business, you will approach customers in a different way. Here is a simple formula for writing this position statement: *For [target market description] who [target market need], [this product] [how it meets the need]. Unlike [key competition], it [most important distinguishing feature].*

Pricing

Your positioning strategy can strongly influence your pricing. Again, if you are offering a luxury service, your pricing will reflect that. Here are some basic rules to follow when setting your pricing:

- Covering your costs: In general, you should charge more than it costs to deliver your product or service
- Primary and secondary profit: You may not make a lot on the selling of a product, but rather make a bundle on offering a service (like a service plan) that goes with the product that you sell
- Matching the market rate: Prices should match both the customer demand and expectations for your product

Promotion

This details how you plan on communicating with your prospective customers

Packaging

You will want to think about how packaging relates to your positioning plan

Advertising

You will want to outline the kinds of advertising you plan to use

Public Relations

Getting media coverage or a strong review of your company or product can be a great boost to your company's success

Content Marketing

This outlines how your company might share free expertise to help grow a trusting consumer base

Social Media

Outline a strategy to use social media, at least the same ones that your target market uses, to help secure a customer base

Strategic Alliances

If you plan on partnering with another company to reach more of your target market, outline it in this section

Operations

This section outlines the logistics and technology that will need to be put in place to make your company run. Describe the operations of the inner workings of your company in detail.

Distribution

If you have a company selling a product, you will outline how your product will get into the hands of the consumer in this section. If you are service-based, you can skip this section.

Milestones and Metrics

This describes, in detail, how to get the work done (products made or service to be completed), complete with schedules and key roles and responsibilities.

Key Assumptions and Risks

You should acknowledge in this section the assumptions that you have made that will be important for your business' success. What risks might there be? You will acknowledge those here.

4. Company & Management Strategy

This section outlines the structure of your company and the important team members. Investors like to see the people that the business already has in place.

You will also want to outline the company overview, but keep it brief. Do plan to include:

- Mission statement
- Intellectual property
- A review of your company's legal structure and ownership
- The business location
- A brief history of the company if applicable

5. Financial Plan

In this section, you will want to outline your financial plan. You will want to include:

- Sales forecast
- Personnel plan
- A profit and loss statement
- Cash flow statement
- Balance sheet
- Use of funds
- Exit strategy

6. Appendix

An appendix is not a requirement of a business plan. Yet it can be a great place to stick charts, graphs, tables, or other critical items that felt out of place to put anywhere else in the document.

7. Edit, Edit, Edit

After taking the time to carefully write up your business plan, take a step back from it. Have dinner, watch the game, or grab a bite with a friend to take your mind off of it. Then, when you are refreshed, come back to it and read it through. What feels right? What doesn't? Should you change some wording or cut and paste a section of your plan? Editing is always best done after a break from the initial composition of an important document.

Writing a business plan can feel like an intimidating process. Don't scare yourself by looking at the big picture from the start. Slowly work your way through each section. Before you know, you will have your detailed document in hand, ready to present to your investors or guide your next steps.

Securing a Business Loan in 7 Simple Steps

Perhaps you have a fantastic business idea. Or, maybe you have an existing business but want to expand into a new market. Whatever the case may be, you might find yourself in need of a business loan. Read on for our tips for success in securing a business loan.

Once you have determined that you need a business loan, it can feel like a daunting process to actually secure one. Take a deep breath and follow these seven steps to help ease that process:

1. Figure Out How Much Money You Will Need

Starting a new business can feel exciting. However, that excitement can quickly turn into anxiety when figuring out how to afford your new business venture. Start-ups can be quite costly, and careful consideration needs to be put into planning for those costs. Will you save for it yourself? Will you get a business loan? Before you can answer those questions, you must first figure out how much money you need to open your business.

One way to determine the amount of money you will need to start your business is by performing a break-even analysis. We discussed this in earlier, but will explain it again here. It is also called a break-even point and can help business owners understand at what point their business, product, or service will turn a profit.

The three most common reasons that business owners perform this analysis are:

- **Determine profitability**: Most business owners are aiming at turning a profit. By determining the amount of money needed to cover expenses, business owners can figure out ways to increase the business's profitable parts and cut costs in other ways.
- **Price a product or service**: When determining the pricing of a product or service, most business owners consider the cost of creating their products or services and how much competitors are charging for the same or similar products and services. This allows business owners to determine what prices are fixed and what costs are variable, which can help them understand how they can change if needed to increase their profitability.
- **Analyze the data**: Analyzing data helps business owners determine how much goods or services must be sold to turn a profit. This information can help you understand how to reduce overall fixed and variable costs. It can also help you determine how to increase sales.

The formula to perform the break-even analysis is relatively simple:

- Fixed Costs/(Average Price - Variable Costs) = Break-Even Point

By performing a break-even analysis, business owners can determine the least amount of revenue that needs to be made to avoid losing money. It can also help you understand your business's most profitable area, which can help you set reasonable goals.

2. Decide Which Type of Loan Best Fits Your Needs

Once you determine how much money you will need to open your business, it's time to select the loan that will best fit your needs. You may want to consider securing a commercial business loan through a bank, but they can be difficult to obtain. If you are unable to secure a loan through a bank, you can apply for a loan through the Small Business Administration (SBA) or a different lender. Here is an overview of different options to choose from:

Bank loan

A bank loan is a type of installment loan and is paid back in fixed monthly payments. They are generally offered as short-term loans (usually six to 24 months) or long-term loans (usually three years or more). They are also offered as secured or unsecured loans. Secured loans usually offer lower interest rates than unsecured loans.

SBA guaranteed loans

The United States Small Business Administration, known as the SBA, is a government agency that helps small businesses. Although it doesn't issue loans itself, it does partner with specific lenders, like banks, credit unions, and nonprofit organizations, to guarantee that a portion of the loans they offer are to small businesses. This guarantee allows lenders to be willing to take a chance on small businesses.

Microloans

If you find that you need a small loan, something less than a bank is willing to lend, then a microloan might be your answer. A microlender focuses on small loans. SBA-guaranteed microlenders will offer loans up to $50,000. Other nonprofit organizations also offer microloans. Their focus tends to be businesses that have missions that align with that of the nonprofit or disadvantaged business owners.

<u>Equipment loans</u>

If you need to purchase equipment or machinery, consider applying for an equipment loan. These types of loans are similar to car loans in that they use the equipment itself as collateral. They are paid in fixed monthly installments. You can apply for equipment loans from companies specializing in equipment loans, directly from equipment manufacturers or banks.

<u>Business line of credit</u>

A business line of credit allows you to borrow up to a specific credit limit, much like a home equity line of credit. As you paw down the loan, the funds become available to borrow again. This type of loan can be particularly helpful if your customers take a long time to pay you. It allows you to have working capital on hand while waiting for their payments.

<u>Accounts receivable financing</u>

Accounts receivable financing is also known as invoice financing. This loan type uses your business's receivables as collateral. In other words, the lender advances money based on what is owed to your business in outstanding invoices. You do not have to wait to get paid from the customers, but can have the money in hand sooner. Once you do get paid by your customers, you'll get the remaining percentage of the invoice, minus the financing company's fees and interest.

3. Check Your Credit Score

There are two different types of credit scores: business and personal. A new business will not have much credit history. If your new business is a sole proprietorship, lenders may look at your personal credit score when going over your loan application. After being in business for a while, your credit score will not matter as much since there is other profit and loss information to look at. But it will still be a consideration during the loan application process.

Before beginning the loan process, consider getting both a business credit as well as a free credit report to start addressing any problem areas. Getting your credit report the strongest that it can be before applying for a loan will help boost your chances of securing that loan. If you have bad credit, you may want to check out this article for ideas on securing a loan with bad credit.

4. Evaluate Your Collateral

Offering collateral can make it easier to secure a business loan and may help you get better terms. Business collateral can include equipment, real estate, vehicles, machinery, inventory, or accounts receivable. Personal collateral may be required if your business has little or no collateral. It may include vehicles, jewelry or art (if valuable), your home, and retirement and savings accounts. Pledging personal collateral can be risky. Be sure it is something you are okay to lose.

5. Look Around for the Best Business Loan Terms

Be sure to shop around for the best business loan. Many lenders offer different terms. Look on their websites to see what they offer and go with the one that best fits your needs. Consider these when looking at different loan terms:

- Annual percentage rate (APR)
- Amount and term of the loan
- Penalties and fees
- Length of time for the loan to go through

6. Gather the Necessary Documents

Once you shop around and determine where you want to apply for a loan, contact the lender to determine what documentation you will need. Banks tend to have strict requirements and may ask for the following items:

- Business financial statements
- Financial projections (three to five years' worth)
- Business tax returns
- Business bank statements
- Leases and business licenses
- Written business plan

Other lenders will likely ask for less documentation, but that is why it is best to directly contact them or visit their web site to see exactly what documentation they want to see.

7. Apply for a Business Loan

Now that you have determined where you want to apply for your business loan, and have gathered the necessary documentation, start working on your loan application. Some lenders can take weeks or even months to get a loan approved, so do not waste precious time waiting to apply. Any missing information can delay your approval, so be sure to apply with as complete an application as possible.

Alternatives to a Business Loan

Some start-ups requiring a significant amount of funding to open may want to consider looking into an investor. Investors can provide a significant amount of money for both start-ups and failing businesses with the expectation that the investors will be involved in running the business and/or hold equity.

Another way to raise money for starting your company is through crowdfunding. Crowdfunding is when a group or “crowd” funds a business or project, rather than one or small group of investors. There are different types of crowdfunding, and some are considered donations and do not get repaid, while others get repaid in different ways.

Conclusion

Applying for a business loan can feel daunting. Breaking it down into easy-to-follow steps can help eliminate some of the anxiety that goes with the loan process. Always be mindful of the risks, and be honest with what you are willing to lose. Risks are necessary when it comes to business, but all should be carefully calculated.