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small business survival GUIDE

By Todd Matthews

EACH YEAR, our Small-Business Survival Guide shares with you the hottest tips, the most absorbing case histories and various other bits of collected wisdom that you need to run a small business in the Puget Sound area. ¶ While the "Survival Guide" title is usually meant to be tongue-in-cheek hyperbole, this year the mood is a bit different. With fears of recession hanging in the air for 2008, the word "survival" is more apt than ever before. Sometimes, a little sage advice can mean the difference between boom and bust—especially if that advice comes at little or no cost. ¶ In these pages, *Seattle Business Monthly* shows you how free counseling services and classes from the **U.S. Small Business Administration**, the **Service Corps of Retired Executives** and the **Northwest Entrepreneur Network** can help carry you through the rough early days of your startup and avoid common mistakes. And it's all for *free*—what are you waiting for? —*The editors*

A Risk Taker's Best Friend

The U.S. Small Business Administration isn't for everyone. But after 50 years, it remains one of the best deals around for small-business owners seeking help. BY TODD MATTHEWS

FOR THREE DAYS every month, Carol Andersen clears her calendar to meet Puget Sound's biggest risk takers: prospective small-business owners.

As the public information officer for the Small Business Administration's (SBA) Seattle office, Andersen shuttles between locations in Seattle and in Tacoma to lead informal Thursday roundtable meetings, which serve as entry points for would-be small-business owners turning to the SBA for assistance.

If you are expecting Andersen to be a stuffy, bureaucratic government suit, you better think again. This petite woman with shoulder-length brown hair, thick glasses and a laid-back, approachable air, delivers information about the 50-plus-year-old federal agency with direct and practical candor. Her knowledge springs directly from her 24 years of experience working at the agency.

"In Washington state, 99 percent of all business activity is considered 'small,' " she explains one recent morning over a cup of coffee at a café across the street from Bates Technical College in Tacoma's Hilltop neighborhood. "When you think about Weyerhaeuser, Boeing and Microsoft, put those aside. There's a heck of a lot more small-business people in Washington state than there are large businesses. Small businesses are driving this economy."

It's a small-business world, after all

Those small businesses also keep Andersen and her colleagues busy. According to the SBA Office of Advocacy's 2006 report (the most recent one available), Washington state is home to 578,300 small businesses, generating a total income of $19.4 billion in 2006, an increase from $18.6 billion in 2005. In 2006, about 26,000 people turned to the SBA's district office in Seattle to sharpen their skills in areas of business-plan development, marketing analysis, record keeping, financing and securing government contracts.

"Most of the people I see are still in the very early startup stages," says Andersen. "Anywhere from thinking about starting a business to owning a business only three or four years."

Later, Andersen crosses the street to the Bates campus to find two loan briefing participants waiting outside her office. One is an African-American man who owns a small cab company. Recently, he spent $10,000 to purchase a van. The van needs repairs and he hopes the SBA can help foot the bill. The other is an African-American woman who operates a Mary Kay franchise out of her home and wants to grow her business. As they settle in behind a conference table, Andersen gently debunks the first rumor that has dogged the SBA for years.

"The biggest myth is that we give away money," she explains, which visibly disappoints today's participants. Indeed, most people turn to the SBA thinking that the government, in a good-of-the-nation spirit, has plenty of money to donate to go-getters who want to start their own businesses.

Another big myth: The SBA is a direct lender. It isn't. It guarantees loans between individual businesses and financial institutions, but it doesn't cut checks. Some other types of SBA assistance, says Andersen, can be just as valuable as cash. Through its Loan Guaranty Program, for instance, the agency facilitates the loan process by helping small-business owners realize the requirements needed for such loans and the paperwork involved.

It also has developed special relationships with "preferred lenders," giving entrepreneurs an entry point to 41 Washington-state banks

[CONTINUED ON PAGE 30]

To read more about the details of SBA's popular Loan Guaranty Program, visit the Web Exclusives section of seattlebusinessmonthly.com.

[SBA]

Contracting for Success

With the Small Business Administration's help, Karen Say has built a thriving construction business.

In 1992, Karen Say was a receptionist at Omega Environmental, a petroleum industry contractor in Bothell. Little did she know that soon she'd actually own her own construction company.

After five years on the job, she remained inquisitive about the business and took on more responsibilities with every opportunity. When a project manager left, Say asked for the job.

"At the time, I was very young and very inexperienced," says the now-married mother of two children. "I didn't even have many life experiences."

In the male-dominated construction world, Say felt that the only way to prove herself was to complete projects on time and within budget. She worked her way up from project manager to operations manager, before finally being named the company's Seattle branch manager.

In 1997, however, the branch folded and Say found herself unemployed. "I thought, 'Wow! Now what do I do?'" she recalls.

She decided to start her own construction firm and turned to the Small Business Administration for guidance in getting started. Soon after, Saybr Contractors Inc. was born.

For Say, the SBA was most helpful in offering the budding entrepreneur the business education she lacked. "For me, it has to do with training," she says. "I took all kinds of classes in every aspect of business. I went to every SBA class and asked every question."

In the beginning, Say hired three people and worked out of a spare room in her Seattle home. The business grew fast. In its first year, Saybr Contractors earned $2.3 million in revenue. Today, Say employs 45 people, and her company generates $25 million in revenue. She's even hired her former boss to run the company's day-to-day operations.

After such business growth, Say is once again turning to the SBA for a little guidance in building her firm. The company has had to move three times to find enough room for Say's expanding workforce. The SBA's Loan Guaranty Program has helped Saybr by facilitating the purchase of three different buildings—each larger than the last—during the past 10 years.

The SBA even helped her to secure multimillion-dollar contracts with the Army, Navy, Coast Guard and National Park Service.

Say is a strong supporter of the agency and its ability to help fledgling entrepreneurs just like her.

"The SBA can give you resources for whatever you need," she says. "They can provide direction."—*T.M.*

Karen Say, founder of Saybr Contractors, says the SBA's training courses were instrumental in launching her $25 million business.

PHOTOGRAPH BY CHRISTOPHER CUMMING

[CONTINUED FROM PAGE 28]

and credit unions that specialize in SBA loan programs. The agency can also help applicants create or fine-tune their business plans. And it hosts scores of networking seminars that give participants practical insight into the pitfalls of starting a small business.

"Really, we want to see small businesses succeed," Andersen tells her participants. "We are the only federal agency whose sole mission is to help small businesses. That is our main goal."

The original small-business consultant

Before there were business consultants, networking breakfasts, how-to seminars, entrepreneur workshops and the internet, there was only the SBA. It is the beginning of small-business assistance, and its roots date back to July 30, 1953, when Congress passed the Small Business Act to create the federal agency. The SBA was charged with "aiding, counseling, assisting and protecting—insofar as is possible—the interests of small business concerns."

The act also ensured that a "fair proportion" of government contracts and sales of surplus properties went to small businesses. The SBA spent the next decade identifying itself as the primary resource for small-business owners—the key place to go for help in writing a business plan, securing a bank loan or landing a government contract. Nationally, between 1991 and 2000, the SBA assisted nearly 450,000 businesses secure a total of $95 billion in loans.

Today, the agency has 65 district offices throughout the country. In the Pacific Northwest, its regional office is headquartered in Seattle and covers Washington, Oregon, Idaho and Alaska (see resource list, page 36).

"I think because of its name recognition, people automatically think of the SBA when they think of getting help with their small business," says district director Nancy Gilbertson. "We've been in existence for so long, and we have a solid reputation. We've been doing this for years."

Still, changing demographics among the state's small businesses have encouraged the SBA to expand its services. The biggest change has been in the number of women-owned small businesses, which is now the fastest-growing segment of the state's small-business community.

Today, women own nearly 159,000 businesses in Washington, a jump of about 37 percent since 1997.

In response SBA created the Office of Women's Business Ownership, which allowed district offices throughout the United States to partner with the Washington, D.C.-based nonprofit, Women's Business Center, to give assistance to women seeking to start their own businesses. In the Puget Sound region, there are three WBC offices: one at Bates Technical College in Tacoma, one in Seattle's Central District (both at *seattleccd.com/wbcmain*) and one in Everett (*nwwbc.org*).

Similarly, the SBA started to notice that executives were retiring at a younger age, yet still wanting to offer their expertise to small-business owners. To that end, it partners with the nonprofit Service Corps of Retired Executives, or SCORE, to fund a chapter in Seattle (see "Knowing the SCORE," page 32).

In addition, the SBA contracts with the Washington Small Business Development Centers (*wsbdc.org*), which have offices at Washington State University and Western Washington University.

"As a federal agency, we know we can't be everything to everybody," says Andersen. "When people come to our agency, we try to figure out who could best meet their needs. Is it someone from the Women's Business Center? Is it someone from SCORE? Is it one of our loan officers?"

Survival of the fittest

Still, the SBA isn't for everyone. Nonprofit organizations are excluded from its loan programs. The same goes for those wanting to start a non-independently owned and operated franchise. And the SBA won't guarantee loans to pay for past-due taxes, personal debt refinancing or cases in which the borrower owns less than 100 percent of the business.

"We will be very up front with people, and say, 'You know what, this is an area that SBA can't help you with. But let me refer you to somebody,'" says Andersen. "Whether they get the SBA involved or not, I think we are very up front saying this is where we can help you."

Andersen is also aware of the high rate of small-business failures. She says more than half of all the small businesses started in the country fold within their first five years of existence. Most small-business owners start out with ambitious goals, Andersen explains, but they don't think about how to survive financially if the business fails.

"They say, 'I'm going to make a gazillion dollars and pass it down to my kids and grandkids,'" she explains. "When starting a business, people really need to think through how they are going to exit out of the business. Their exit strategy has to be thought through as well. Most of the time, people don't want to hear that."

After nearly three decades at the SBA, Andersen says the one thing that hasn't changed is the importance of a business plan. She estimates 75 percent of the people who turn to the SBA seek help with their business plans.

"The biggest challenge, I think, is getting their plan on a piece of paper," she says. "A small-business owner is a different breed of person; they're risk takers. They're very entrepreneurial in their way of thinking. They have great ideas, high vision. But to get it out of their heads and onto a piece of paper, in a business plan, is sometimes a challenge."

By the end of Andersen's hour-long Thursday meeting, both participants agree to study SBA's loan packet information and possibly follow up with an appointment with a SCORE counselor. Whether the SBA is part of their business future is unclear.

"There are a lot of tire kickers out there," Andersen says after the meeting. "They have an idea. I think the SBA is a safe place to come, talk to a counselor, pick up some information and use it as a sounding board for their business idea."

The SBA's Five C's

Helping small businesses secure loans from banks has long been one of the SBA's most popular programs. Last fiscal year, the Seattle SBA office guaranteed a total of more than $440,000 in loans to small-business owners. But there are tricks to the trade. Before a loan application lands on a banker's desk, SBA counselors work extensively with individuals on what Carol Andersen, the outreach and marketing coordinator for the Seattle office, calls "the five C's" that every lender looks for. Here is Andersen's checklist:

- ☑ **Capacity:** What is your business experience and educational background?
- ☑ **Cash flow:** How do you plan to repay the loan through the operation of your business?
- ☑ **Character:** What is your credit history?
- ☑ **Contribution:** How much of your own money do you plan to invest in the business?
- ☑ **Collateral:** Do you have any assets to help repay the loan should your business fail?

Tammy Dunakin tends to her "employees" at Rent-A-Ruminant. Dunakin used SCORE's help to come up with her unique business plan.

PHOTOGRAPH BY RICK DAHMS

[SCORE]

Getting Her Goat

SCORE alumnus Tammy Dunakin has developed her own niche market with Rent-A-Ruminant.

Tammy Dunakin's business is certainly unique.

First, there is her job title: "Chief goat wrangler." Then, there are her employees: dozens of hungry goats, plus a few sheep, who munch their way through blackberries, ivy and other invasive plants. Contractors turn to Dunakin's Rent-A-Ruminant to clear brush-covered construction sites for development and to tidy up the landscape. Notable clients include the King County Parks Department and the University of Washington, which tapped Dunakin's business last year to clear a path near the Drumheller Fountain.

And then there's the business model. When she started her company three years ago on Vashon Island, she found no other business to mimic. "It wasn't like opening a Wendy's franchise," laughs Dunakin, who searched online for practical business help.

A friend told her about SCORE, and she scheduled an appointment. Through SCORE, she was able to identify her customer market and create a business plan. "I'm the kind of person who just gets on a horse and rides," she explains. "I don't do a lot of research. I went to SCORE to get my ducks in a row, like creating an LLC, writing a business plan and just general brainstorming."

Rent-A-Ruminant has grown like a goat's appetite. Today, Dunakin has more than 100 of the cuddly, four-legged lawn mowers, and the service has proven wildly popular in eco-friendly Seattle, where clients prefer goats over gas-powered edgers and grass-cutting machines. Unlike the usual business owner contacting the agency, Dunakin hasn't needed much help from SCORE on how to market her new enterprise.

"Marketing has never been an issue," she adds. "Wherever the goats go, people come out of the woodwork. The business just gets so much publicity [on its own]."

The biggest advantage Dunakin has found in using SCORE has been that most of the program's services are free.

"The fact that you're not paying for any of the counseling, especially when you are putting out all this money for your own business, that's a big thing."—*T.M.*

Knowing the SCORE

Getting advice from business veterans at the Service Corps of Retired Executives can help new business owners avoid trouble. BY TODD MATTHEWS

IN THE LATE 1960s, Brenda Velasquez had a goal to start her own business distributing beauty supplies to salons throughout Seattle.

She was in her early 30s at the time, and had very little business experience. So, like many other small-business newcomers, Velasquez turned to a local chapter of the Service Corps of Retired Executives, or SCORE. "They helped me so much," she recalls.

Velasquez ran BJ Beauty Supply (the "BJ" stood for "Brenda Joyce," her first and middle names) at various locations for 26 years. Any business skills she didn't learn on the job were picked up through SCORE's low-cost workshops and free one-on-one adviser meetings.

In 1981, she felt it was time to expand the business. Again with SCORE's help, she was able to select a prime location in the heart of the Central District. At the corner of 23rd and Jackson, Velasquez opened one of the area's first African-American-owned beauty products supply businesses. After being in business for nearly three decades, she sold the shop in 2005 and prepared to retire … sort of.

Like most retired executives who volunteer at SCORE, Velasquez, now 61, was not ready to putter around the house. She felt indebted to the people who helped her get her start. Last year, Velasquez signed up to join SCORE as a volunteer counselor.

"I always felt that I wanted to give back to SCORE and the community," she explains. "When I owned the store, people always asked me about getting into business. Now, I always refer them to SCORE."

Experienced guidance

Velasquez's story is familiar. Since SCORE's creation in 1964, 12,000 retired executives have joined the nationwide, nonprofit organization, providing their business expertise to 7.8 million people at 389 chapter offices. Last year alone, 26,000 people visited SCORE's offices in Seattle, Bellingham and Tacoma.

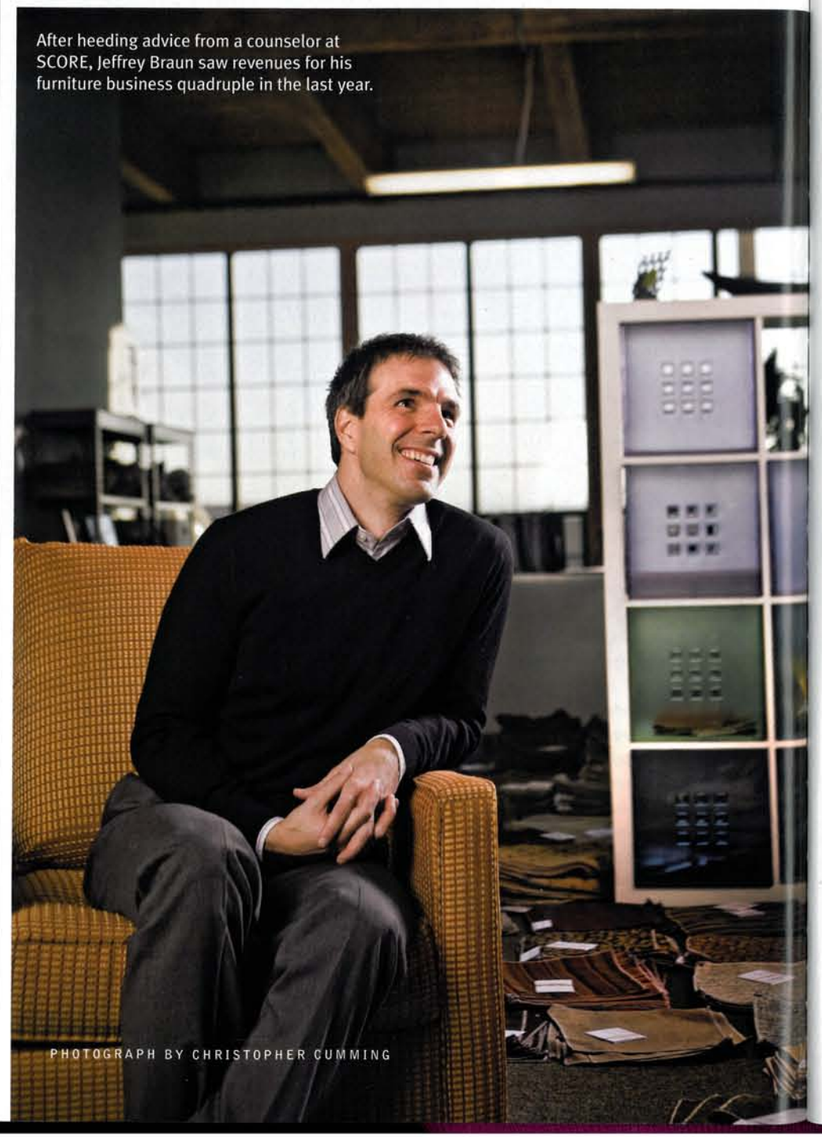
At the Seattle chapter office, approximately 90 volunteer counselors work next door to the U.S. Small Business Administration (SBA), which partners with SCORE on many levels and often refers small-business owners to get help from the program. Annually, the SBA provides about 35 to 40 percent of SCORE's nationwide budget, which is then allocated to individual SCORE chapters.

Before counselors spend any face time with clients, they are required to complete three months of training. When Velasquez joined last fall, she was assigned a mentor, observed one-on-one counseling sessions, and attended most of the all-day and half-day workshops. In the future, she hopes to spend 100 hours per year volunteering at SCORE.

"I want to be able to go back and help other businesspeople—particularly minority business owners," she explains. "A lot of people have business in the area where I live, and a lot of them need assistance."

Businesspeople contact SCORE for a variety of purposes. Some of the most common reasons are that their business has dropped off and they are looking for help identifying new customers. Another main motive is that they need an experienced eye to assist in fine-tuning their business plans.

Counselor Walter Moore, 69, a former banker who joined SCORE seven years ago, says that the tip he offers most frequently to would-be business owners is to spend more time on your business plan.



After heeding advice from a counselor at SCORE, Jeffrey Braun saw revenues for his furniture business quadruple in the last year.

PHOTOGRAPH BY CHRISTOPHER CUMMING

Because many people don't thoroughly review their business models or study their markets, Moore says, many new business owners aren't able to make the necessary changes when things start to go wrong—which they almost always tend to do.

Another common reason to visit SCORE is to get help deciding whether to change business locations. That is an issue faced by Lauri Jordana, founder and owner of Conexión Marketing, which focuses on helping businesses reach Hispanic consumers. Jordana wanted to move her business out of her Capitol Hill home and into office space in downtown Seattle to offer a more professional atmosphere to visiting clients. It was a big leap for her, and she knew she would need help deciding whether she could afford it. She set up an appointment with SCORE adviser Ed Milan, and together they started looking at relocation costs, Jordana's business plan and ways they could increase revenue to pay for the office upgrade.

"Moving was something I needed to do if I wanted to grow the company, hire more staff and have a larger presence in the community," she explains. "It was creating a new image for ourselves to have this professional space."

In the summer of 2007, Jordana moved Conexión into an office on the 13th floor of the Vance Building in downtown Seattle. SCORE'S help, she says, gave her the confidence she needed to make her difficult decision—one that she has never regretted.

"Ed and SCORE are absolutely amazing," she adds. "He has a CFO's brain, but he also has a human touch. He has prepared me for difficult business conversations that seemed daunting, and he has a way of getting to the meat of the matter."

Finding the right fit

Whatever the reason is for making that initial call, small-business owners will find several programs that may be of service to them.

One of the most popular is SCORE's free, one-on-one counseling sessions. Attendees who schedule an appointment are asked to provide as much information about their business as possible and describe what they hope to learn. SCORE also provides a variety of affordable two-hour ($25), half-day ($45) and day-long ($85, including lunch) workshops covering a range of topics that include the basics of starting a new business, creating a business plan, preparing financial statements, effective marketing and promoting your business on the internet.

Probably the biggest service it provides, according to several SCORE counselors, is an experienced, unbiased look at a company's business goals. "I think the major role we play, especially for existing business people, is that we have no axe to grind," says counselor Milan, vice chairman of the Seattle office.

The former executive in the energy industry, who spent 20 years traveling the globe, joined SCORE's New York chapter when he retired in 2002. Three years ago, Milan and his wife, Rebecca, moved to Seattle, where he now works out of SCORE's Belltown office.

"If you look at most small-business people, they have a constituency of family members, employees and investors who each have a dog in the fight," says Milan, explaining the need for objectivity when talking to small-business owners. "Maybe a family member wants a particular business owner to work less. Or maybe an employee wants the business owner to give him a bigger piece of the pie. When someone comes to SCORE, the only objective we have is to give that individual the best possible set of alternatives to a question. We have no ulterior motives [other] than his success."

Milan, 73, has heard almost every business dilemma, mostly through his experience at the hectic New York SCORE branch. Ninety percent of the participants were walk-ins off the street; many hadn't put much thought into their business ideas. "Some people would come in saying, 'I want to open a new restaurant because everyone says I'm a good cook,'" recalls Milan.

In Seattle, where potential clients have to schedule appoints with SCORE officials, the process is more organized. Milan also has a steady roster of regular clients: an organic farmer, a high-end furniture designer, a public relations consultant—even a handyman.

"I like working with people who have that entrepreneurial flavor," he says. "Especially people who are already in business and need help in how to grow their business, and also people who have really thought out their idea and need assistance in getting there."

Find out more about SCORE counsellors and how they can make your business more profitable by visiting the Web Exclusive section of seattlebusinessmonthly.com

[SCORE]

Sitting On Profits

Jeffrey Braun's collaboration with SCORE counselor Ed Milan helped the furniture designer build a sturdy foundation.

In November 2006, Tacoma-based furniture designer Jeffrey Braun was just about ready to give up on the struggle of developing his own furniture company.

"I was at a low point in terms of sales and self-esteem," says Braun, who opened his one-man operation in 2002. "I decided to give myself six months to turn my business around or I was out."

While attending a seminar on bookkeeping at the Seattle chapter office of the Small Business Administration, Braun dropped by the offices of SCORE and happened to meet a counselor named Ed Milan. The two scheduled an appointment, and Braun laid out his main business concern—the need to increase company revenues.

Milan, an expert in finance and contract negotiations, gave Braun advice on negotiating better terms with manufacturers and finding a representative to get his products into more stores. Milan's involvement also made Braun feel responsible for following through on the plans the two had discussed.

"I'm a small-business owner," Braun explains. "I work for myself, and I'm the only one in my office. With Ed involved, it was great to have accountability with him—to show up to our meetings and be accountable for the action items we came up with."

Braun recalls being in the middle of a large negotiation with a manufacturer and calling Ed for advice. "It's great to get an outside, objective viewpoint in these decisions," Braun says. "He's not as emotionally attached to the company as I am."

Today, Braun's furniture can be ordered through local designers and is found in a number of specialty furniture stores, including Schoenfeld's in Bellevue, Home Site in Seattle and Dana's Showcase on Bainbridge Island.

In 2007, Braun didn't just meet his goals. He blew them away. And Braun gives a considerable amount of the credit to his collaboration with Milan.

"Ed was a sounding board for my ideas and helped prioritize what needed to get done," Braun says of Milan's guidance. "My revenues during the last year have quadrupled. I attribute a great deal of that to working with SCORE and Ed." —*T.M.*