

Accessible Text File
Module #4
Business Planning and Operational Management
Pre 8(a) Business Development Training Curriculum
US Small Business Administration
Office of Government Contracting and Business Development
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Slide 1 Module #4 – Business Planning and Operational Management

This is about federal contract markets and participating in the 8(a) Business Development Program.

Welcome to Module 4, Business Planning and Operational Management. This is the fourth module in a four-part, Pre 8(a) Business Development, training series.

Slide 2 Introduction

The 8(a) program is a federal program designed to assist socially and economically disadvantaged small businesses.

The multi-part training series is intended to inform, educate and engage qualified small firms in the 8(a) program. The first three modules in the series provide prospective 8(a) firms with an overview of federal contract markets; describe federal contracting procedures and rules; and, explain how to prepare proposals, market to the government and win federal contracts.

Other training specific to the 8(a) program is available. Please contact your local SBA office.

Slide 3 Course Contents

This module, Module 4 builds on the previous three training presentations and focuses on planning, financial management, operational management, including compliance requirements and targeted resources that support 8(a) program participants.

Slide 4 Course Objectives

This presentation has three key objectives: (1) help firms to understand the importance of planning and business development, especially in the 8(a) program; (2) provide an overview of what is meant by financial management and a discussion about financial statements and raising capital; and (3) to help prospective program participants better understand the compliance and operational requirements associated with the 8(a) program.

Slide 5 Program Governance

Governance...

The 8(a) program is an important tool in federal contract markets. It was established by Section 8(a) of the Small Business Act of 1953 and is primarily governed by 13 CFR 124 Subpart A and FAR Parts 19.8 – 19.812.

Slide 6 Perspective and Summary

Perspective...

A foundational component in the planning and operational management of an 8(a) firm is the Partnership Agreement that must be acknowledged and signed by program participants. This agreement – as well as the governing regulations and policy requirements of the program -- lays out the terms and conditions of the program and is a catalyst for many of the planning and management actions taken by the company.

The agreement, in a way sets the tone for the program. It requires, among other things that financial statements, tax returns and other financial data be prepared and submitted annually to the SBA. It also outlines specific requirements for business planning and management actions. The agreement drives many of the planning and operational activities undertaken by the company.

A discussion about planning and operational management of an 8(a) firm cannot be fully understood without reviewing the 8(a) Participation Agreement.

Slide 7 Part 1 – The Planning Function

Topic divide – no narrative.

Slide 8 Importance of Planning

Planning is critical to the success of any business. It is the process that will help a firm create a structural blueprint to follow.

A business plan is also a communications tool for lenders, investors, potential partners, government vendors, employees and others. If you don't plan for the success of your 8(a) firm, you will probably not succeed.

Slide 9 The Business Plan

Most businesses have some kind of a business plan. However, that is not to suggest that most firms have a current business plan and that they follow it.

Participants in the 8(a) program are required to maintain a current business plan and are urged to use it as a guide.

In order to increase the success rate of firms participating in the 8(a) program, SBA requires that such firms develop and annually update a business plan that is specific to growing and diversifying the

business. In this way, firms will have a definitive plan for development and will increase their chances of being competitively viable in both federal and private contract markets.

Importantly, a firm is not eligible for 8(a) program benefits, including 8(a) contracts, until SBA reviews and approves its business plan.

Slide 10 8(a) Business Plan – Key Components

The 8(a) business plan is unique. Specific and required components include:

- a detailed description of the firm's products and services, as well as any future plans to enter into new markets;
- the firm's designation of its primary industry classification;
- an analysis of market potential, competitive environment and the firm's prospects for profitability, during and after its participation in the 8(a) program;
- a review of the firm's strengths and weaknesses, with particular attention on ways to correct any financial, managerial, technical or work force conditions which could hinder the firm's ability to receive and perform non-8(a) contracts;
- specific targets, objectives and goals for the business development of the firm during the next two years;
- estimates of both 8(a) and non 8(a) contract awards that will be needed to meet the firm's objectives and goals; and
- other information that maybe required by the SBA.

Many components of the 8(a) business plan do in-fact mirror traditional business planning. However, other components are very unique to the 8(a) program and focus on business development and diversification of both federal and private contract markets.

Slide 11 8(a) Business Plan Template

SBA has created an electronic 8(a) business plan template -- SBA Form 1010C -- for participants in the program to use. The template includes eleven sections and is developed from a series of 49 questions that will guide the user through the creation of the 8(a) business plan.

The template should be carefully reviewed before attempting to prepare your business plan.

Slide 12 8(a) Business Plan – Updates and Modifications

The business plan – especially the 8(a) business plan -- is not meant to be a stagnant document. It should be a living document, updated and/or modified as circumstances change.

SBA monitors updated plans relative to a firm's progress, projections and changing circumstances, especially contract forecasts and transition management strategies. The updated plans are also used by the SBA as an opportunity to discuss business development needs a firm may have.

Slide 13 Annual Review – Business Plan

All 8(a) participating firms must update and review their business plans with an assigned SBA Business Opportunity Specialist, annually. This is an important requirement of the program.

Updated and modified plans are required to be submitted to the SBA within 30 days after the close of each program year. The firm must also submit a capability statement describing its current performance capabilities, as part of its updated business plan.

Slide 14 Contract Forecast

Unique to the 8(a) program, with regards to updating business plans, participants are required to forecast anticipated contract awards for the next program year. This is an integral part of the annual review and must include:

1. the estimated total dollar value of 8(a) contracts to be pursued;
2. the estimated total dollar value of non-8(a) contracts to be pursued;
3. the types of contract opportunities to be explored; and,
4. other information that maybe requested by the SBA.

Slide 15 Transition Management Strategy

The 8(a) program is designed to help participating firms to grow. It is a program where participation is limited to 9 years, beginning from the date a firm is certified by the SBA as an 8(a) program participant. The first four years in the program are considered the developmental stage. The last five years in the program are considered the transitional stage.

The planning process and specifically the 8(a) business plan are used to help participating firms focus on business activity targets, as they enter the transitional stage. Beginning in the first year of the transitional stage of the program, participants must include in their business plan a transition management strategy. This strategy is required to describe two things: how the firm intends to meet the applicable non-8(a) business activity target imposed by the program during the transitional stage; and, the specific steps the firm plans to take to continue its business growth and expand its profitable operations after the expiration of its program term.

Slide 16 The Bottom Line

Business planning in the 8(a) program is more than just a good idea, it's a requirement. Item 6 in the partnership agreement states it clearly. It reads in part...

"I agree that the business plan submitted by this firm to the SBA will include specific targets, objectives and goals for the business development of the program participant. These development goals must be based upon the industry mean for small businesses in the participant's primary NAICS code in seven categories: total assets, current ratio, debt/net worth ratio, net worth, net sales, pre-tax profit, sales/working capital ratio, and determined to be satisfactory to SBA. "

"Further, I agree that SBA will determine that this firm has substantially achieved these development goals when the firm exceeds the industry mean for small businesses in four of these seven categories for two consecutive years." --- When a firm reaches this point, SBA will graduate the firm from the 8(a) program.

Slide 17 Part 2 – Financial Management and Access to Capital

Part 2, financial management and access to capital.

Slide 18 Financial Management

Financial management.

Slide 19 Management and Control

Management decisions establish what a business will do. Control measures the accomplishment of a firm's management goals.

The overriding management direction for an 8(a) firm, or any business for that matter is to find market needs that can be satisfied, while making a profit. Implementing a firm's management direction depends on planning and using the plan and financial management applications as means of controlling the business.

Slide 20 Financial Statements

So what financial tools are used to help manage and control the business?

Managing a business -- for profits -- requires, an accounting process or system that can provide raw data to generate financial control documents, primarily the balance sheet, income statement and cash flow statement. Other important financial control documents include, sources and uses analysis, breakeven analysis and risk management analysis.

Financial statements provide the structure for financial planning and management efforts.

Slide 21 Financial Data – 8(a) Program

As the SBA is concerned and involved in the business development and continued eligibility of participating 8(a) firms, it does monitor and require certain financial data.

Specific financial documents required annually by the SBA include, the firm's balance sheet and income statement, federal tax returns and personal financial statements. SBA may request other documents as well.

Slide 22 Balance Sheet and Income Statement

Participating firms are required to submit to the SBA at least annually, or as required by the agency a balance sheet and income statement. The income statement must also indicate separately the amount of revenue generated from 8(a) and non-8(a) contracts.

Depending on the size of the firm, the statements must be audited, reviewed by a licensed public account or verified by the owner or an authorized officer of the 8(a) firm.

Slide 23 Tax Returns

In addition, 8(a) firms are required to provide federal tax returns each year to the SBA.

Slide 24 Personal Financial Statements

Further, for individuals and their spouses claiming disadvantaged status for eligibility in the 8(a) program, a personal financial statement or SBA Form 413, must also be filed each year with the SBA.

Slide 25 Annual Review – SBA Analysis / RMA

Ok..., so it should be pretty clear that SBA is committed to helping 8(a) firms plan for their success, especially through business development growth and diversification of both 8(a) and non-8(a) contract markets.

SBA, as earlier highlighted, uses annual reviews, as well as the financial data and planning information provided, to analyze the performance and development goals of the 8(a) company. It reviews the firm relevant to the norms, targets and risk factors of like industry firms performing in the same NAICS codes. Specifically, it applies financial and risk related tests in seven categories: total assets, current ratio, debt-to-net worth ratio, net worth, net sales, pre-tax profit, and sales-to-working capital ratio.

The financial and risk management analysis conducted by the SBA is not unlike the review and analysis that should be conducted by the firm's management team on a regular basis. It is important to note, failure to comply with the annual review requirements can result in suspension or termination from the 8(a) program. A participating firm must make certain that it responds timely to annual reporting requirements.

Slide 26 Surety Bonding

Another aspect of financial management is surety bonding. A surety bond is often used to ensure contract completion in the event of a contractor default.

An 8(a) firm or contractor can – if needed -- obtain a surety bond from a surety company. If the contractor defaults, the surety company is obligated to find another contractor to complete the contract or compensate the project owner for the financial loss incurred. There are four types of surety bonds: bid bond; payment bond; performance bond; and ancillary bond.

Any federal construction contract valued at \$150,000 or more requires a surety bond when bidding or as a condition of contract award. Most state and municipal governments as well as private entities have similar requirements. Many service contracts, and occasionally supply contracts, also require surety bonds.

During the annual review of an 8(a) firm, SBA will request proof of bonding, if it is applicable. Basic information about surety bonding is available by the SBA via the link in the slide.

Slide 27 Access to Capital

Topic divide – no narrative.

Slide 28 Access to Capital / Raising Funds

Capital is an important aspect of any business.

Access to capital is about the ability to raise needed funds when necessary. Most businesses from time to time require an infusion of capital that is not available from the cash flow generated by the firm. In such circumstances, firms will seek to raise debt or equity capital from sources outside of the business.

Debt capital is capital that is obtained by a loan and must be paid back. Equity capital is capital that is raised by selling a portion of the business and generally does not have to be paid back.

Slide 29 Sources of Capital

Raising capital is a foundational business activity.

The primary sources of funding come from principals' resources, lenders and equity investors.

Slide 30 Financial Positioning

So, because most businesses require an infusion of capital from time to time, such firms, including participating 8(a) firms should position themselves to be able to raise capital, if it's needed.

Financial positioning is nothing more than preparing the business for the prospects of raising debt or equity capital. In this discussion, we will focus only on debt financing or obtaining a loan – which is far more common than equity financing and very relevant in the world of 8(a) firms.

To obtain a loan, a firm must be able to convince a lender that it is a good credit risk. The borrower's character, capacity and collateral, among other credit factors, will be considered in making a loan decision.

Slide 31 Character, Capacity and Collateral

Character is actually a check on a firm's financial status and personal credit history, including previous loan payment records. The theory is -- people are creatures of habit – if a firm and its principals have repaid prior debts on time and in full, they will likely pay future loans on time. Also considered is past performance in business activities, experience of management, including level of responsibilities, education and business management training.

Financial capacity is about having sufficient cash flow to pay-off a loan. This underlies the importance of preparing current financial statements, including a cash flow statement with future cash projections. Reviewing and understanding your firm's financial statements indicate that you are knowledgeable about your firm's financial capacity. In the lender's mind, this shows you are "financially aware" and that you may be better able to avoid a cash shortage that could jeopardize making monthly loan payments.

Lastly, while cash flow is the primary source of loan repayment, lenders will want a back-up or a secondary source, as an "exit of last resort," should the business not prove profitable. Collateral is that secondary source and it is important to the lender because it lowers risk. You should be aware of possible collateral options.

It's all about lowering risk so that a lender feels confident that a loan made to a firm will be paid on time and in full. It is not coincidental that many items and questions in the 8(a) business plan and the annual review update document are focused on helping both the firm and the SBA identify and evaluate the financial strengths and weaknesses of the firm.

Slide 32 Debt Financing – Loan Options

There are many types of debt instruments and many lender organizations available to assist 8(a) and other small businesses with loans, credit lines and other forms of debt. It is in the best interest of all firms to do their homework and consider all options. SBA loan guaranty programs are but, one option.

Slide 33 SBA's Loan Guaranty Programs

SBA administers several loan programs. Through these financial initiatives, loans are made by private lenders to small firms with a guaranty by the SBA.

The guaranty transfers the risk of the borrower, up to the amount of the guaranty, from the lender to the SBA. As such, when a business applies for an SBA loan, it is actually applying for a commercial loan, structured to SBA's requirements and receiving an SBA guaranty. These loans offer longer terms than typical commercial loans, which generally mean lower monthly payments at competitive interest rates.

The SBA offers four distinct loan programs: the basic 7(a) loan program which is its biggest financial assistance program; the microloan program; real estate and equipment loans in a program known as the 504 program; and, disaster assistance loans.

At your convenience, use the SBA LINK program to find available small business lenders and loans.

Slide 34 How to Prepare a Loan Package

As long as we are discussing the prospects of raising capital, it's important to note that the SBA has assembled a number of helpful guides outlining how to prepare a loan package.

Review these documents at your convenience.

Slide 35 Proof of Loans, Lines of Credit or Other Sources...

Ok, so we have established that it's important for a firm to have good credit, a strong financial capacity and be positioned to raise capital, if and when it's necessary. That's a sign of financial strength and good management.

During the annual review process, SBA requests and reviews proof of loans, lines of credit and other sources of capital for participating 8(a) firms. The agency throughout the review, is looking for signs of financial strength and good management.

Slide 36 Part 3 – Managing Daily Operations

Part 3, managing daily operations.

Slide 37 Managing Daily Operations of an 8(a) Firm

Managing the day-to-day operations of an 8(a) firm is not that much different than managing any other business for growth and profits, except for the compliance and reporting requirements unique to the program.

Annual reviews and interactions with the SBA are used to help participating 8(a) firms acknowledge, understand and comply with the requirements of the program.

Slide 38 Financial Requirements

Compliance requirements for the 8(a) program are specific and unique. They are interwoven and applied throughout many aspects of the participating firm and its principals.

However, compliance which is statutory and regulatory-driven is centered around eligibility and continuing eligibility in the program – which is further driven by disadvantaged status, business size, current financial data, business planning, character, program term limits, achieving business development targets, annual and timely reporting to the SBA and other operational aspects of the business.

SBA has prepared a compliance guide for the 8(a) program.

Slide 39 Reporting – Annual Review

Participating firms are required to demonstrate program compliance by reporting specific information to the SBA on an as needed, periodic or requested basis. However, much of the reporting to the SBA is accomplished through the required Annual Review and the continuing eligibility review conducted by the agency.

Slide 40 The Annual Review

The Annual Review is an important, integral and required process where participating 8(a) firms submit certain documents and information to the SBA each year for review. Some aspects of the annual review have already been discussed in this presentation.

The SBA, through the firm's assigned Business Opportunity Specialist – BOS, and the firm review the information to make sure that the firm is on track regarding business growth, planning, and contract targets.

Slide 41 Annual Review – The Process

The Annual Review requires numerous forms and documentation to be submitted to the SBA. Much of the client information from the forms is required to be included in the agency's electronic database, which is known as the Business Development Management Information System or BDMIS.

Slide 42 Key Components of the Annual Review

Key components of the annual review include, Form 1450 – 8(a) Annual Update; Form 1623 – Certificate Regarding Adverse Matters; Form 1790 – Compensation Paid for Services; Form 912 – Statement of Personal History; Form 413 – Personal Financial Statement; and, Form 4506 T – Request for Transcript of Tax Return.

Other important components include current financial statements and federal tax returns; and, updates and modifications to the 8(a) Business Plan. We will take a brief look at each of these components.

Slide 43 Form 1450

Form 1450 is the primary Annual Review Update document. The form is a stand-alone document, but it is also embedded in the agency's electronic data system, currently known as BDMIS. This document highlights basic information about the firm and its tenure in the program, references and seeks to validate

current financial data, defines business development targets, describes loans and sources of capital, reports applicable bonding information and describes other important information.

The attachments to this document address compensation of principals and Mentor Protégé alignments, if applicable.

Slide 44 Form 1623

Form 1623 is a certification regarding debarments, suspensions, and other potentially adverse matters. If a firm responds “False” to any of the questions identified on this form, it must provide detailed information regarding the issue.

Slide 45 Form 1790

Participating 8(a) firms are required to submit a semi-annual written report -- SBA Form 1790 -- that includes a listing of any agents, representatives, accountants, consultants, etc., receiving fees, commission, or compensation or any kind to assist the firm in obtaining or seeking federal contracts. This report becomes part of the annual review.

The form needs to be signed and dated even if there has been no representative used or paid.

Slide 46 Form 912

Form 912, Statement of Personal History, is intended to ensure that the principals of the 8(a) firm continue to maintain “Good Character,” which is a requirement of the program.

This form must be completed, signed and dated by individuals claiming disadvantaged status as well as for all officers, directors, general partners, managing members, and holders of more than 10 percent ownership in the firm. Also, managers with significant authority and individuals with signatory authority on the firm’s bank accounts should complete this form.

Slide 47 Form 413

Form 413, Personal Financial Statement, is an important document, regarding eligibility in the 8(a) program. It is used to evaluate the financial status of individuals influencing the 8(a) firm. This document is referenced earlier in the presentation in discussions about financial data and financial management.

Slide 48 Form 4506-T

Form 4506-T is used by the SBA to request transcripts of tax returns, submitted by the 8(a) firm and the individuals involved with the business, from the IRS. The form should be completed by the 8(a) firm and each appropriate individual.

Even if copies of the tax returns are submitted directly to the SBA, this form is still required and must be signed and dated by all appropriate individuals.

Slide 49 Financial Statements and Tax Returns

Financial statements and tax returns are a critical component of the annual review. 8(a) firms are required to submit current financial statements, as well as business and personal tax returns, annually for review.

A broader discussion about financial statements and tax returns is highlighted earlier in this course.

Slide 50 8(a) Business Plan

The 8(a) Business Plan is more broadly discussed earlier in this course. It is also a critical component of the annual review.

Participating firms are required to submit modifications or changes to their business plans within 30 calendar days after the close of each program year. These changes and modifications are an integral part of the annual review.

Slide 51 Interaction with the SBA

Interaction with the SBA...

This is an important, but often underemphasized element of the 8(a) program. Each participating firm in the program is assigned a Business Opportunity Specialist or BOS, by the SBA. The role of BOSs is to help firms benefit from the program. Specifically, they are trained to help firms understand eligibility and program requirements, assist with business planning, help establish contract goals and provide guidance regarding business training, counseling, marketing and other technical assistance.

Further, a key responsibility of a Business Opportunity Specialist is to conduct client annual reviews to make sure firms are on track regarding business growth, planning, contract targets, and compliance with program requirements and continued eligibility.

So, is interaction with the SBA important? Yes!

Slide 52 Part 4 – Resources for 8(a) Participating Firms

Part 4, resources for 8(a) participating firms.

Slide 53 Learn from the Wisdom of Others

Learn from the wisdom of others.

Slide 54 Network – Learn from Others

One message should be consistent throughout this presentation: knowledge is everything. You don't know what you don't know. A business can waste a lot of time and expend unnecessary resources if it doesn't fully understand how to participate within the requirements of the 8(a) program.

Learn from the wisdom of others. Others, who have seasoned knowledge and experience in federal contracting and specifically in the 8(a) program. Network, ask questions and cultivate relationships. Engage knowledgeable people who can help guide you through the challenging aspects of participating in the 8(a) business development program.

Slide 55 Building Relationships is Good Business

Truly successful business people don't necessarily have a mountain of contacts whose names they barely know and who are listed in some electronic file. Rather, they have a carefully developed and cultivated portfolio of relationships.

Building solid relationships of experienced contracting professionals is good business.

Slide 56 Resources and Tools

Resources and tools.

Slide 57 Resources and Tools

Numerous resources are available to assist individuals who are interested in learning more about and participating in the 8(a) Business Development Program.

Slide 58 Resources and Tools

Use these resources to become better informed and improve your chances of being a successful participant in the 8(a) program.

Slide 59 Contact Us...

Thank you for taking the time to learn about the 8(a) Business Development Program. Much information has been discussed and we hope it is helpful. Please contact us with any questions you may have. This is the fourth module in a four-part Pre 8(a) training series. Consider viewing all of the modules in SBA's online **Government Contracting Classroom**.

Thank you.

GCBD|joconnor|February|2015 (draft revised)

Hyperlinks Contained in the Module

- Federal Acquisition Regulations
 - <https://www.acquisition.gov/far>
- 13 CFR 124
 - <http://www.gpo.gov/fdsys/pkg/CFR-2006-title13-vol1/content-detail.html>
- 8(a) Program Certification FAQs
 - <https://sba8a.symlicity.com/applicants/faqs>
- Acquire Surplus Property
 - <http://www.sba.gov/sites/default/files/files/qa%20surplus%20property.pdf>
- Acquisition Central
 - <https://www.acquisition.gov/>
- System for Award Management
 - <http://www.sam.gov>
- FAR Part 19 – Small Business Programs
 - <http://www.acquisition.gov/far>
- Access & Register in GLS
 - https://eweb.sba.gov/gls/dsp_addcustomer.cfm?IMAppSysTypNm=8ASDB
- Code of Federal Regulations (13CFR)
 - <http://www.gpoaccess.gov/cfr/index.html>
- Federal Business Opportunities
 - <http://www.fbo.gov>
- SBA-Government Contracting
 - <http://www.sba.gov/aboutsba/sbaprograms/gc/index.html>
- Learn more about:
 - [Non-manufacturer waivers](#) (SBA information)

- [SBA Size Standards](#)
- [8\(a\) Business Development Program](#)
- [WOSB Program](#)
- [HUB Zone Program](#)
- Local (client) resources:
 - [SBA district office](#)
 - [Procurement Technical Assistance Center \(PTAC\)](#)
 - [SCORE chapter](#)
 - [Small Business Development Center](#)
 - [SBA/SBDC Program Office](#)