



## When Smart Business Matters®

Economic times are still challenging and the elections will have impact – immediate and long term. Reports are that large companies are sitting on cash waiting to gauge the economic temperature and the impact of taxes. Yet, all is not gloom and doom.

Consumers are still buying. Entrepreneurs are still innovating. In fact, many privately-held businesses are having banner years.

Is your business to the point that you need capital to expand? If so, being smart and prepared when approaching your investors is key. If you have a solid plan and a good track record, money is out there. - Kathy

### So, You Want a Loan?

At some point, most small businesses will need to secure a loan in order to grow. In tough times that can be a difficult challenge. However, the better prepared you are, the better your chance of success.



**Put yourself in your banker's shoes.** Three of the first questions in your banker's mind are: Why do you want the money? How will you spend the money? Are you a good risk? Every step you take should prepare you to answer those questions honestly and with conviction.

**Determine your need.** Why do you need the money? Make sure your plan is well thought out, realistic, and practical. Be clear to both yourself and prospective lenders what business objective(s) you plan to achieve with a loan.

**List the costs.** Once you have specified why you need the money, do research to determine the costs for all items, services, supplies, etc. that you will need in order to achieve your goal. Cast a broad net. Factor in fees, taxes, and any and all associated costs. Once you have your figure, add a contingency reserve for unforeseen expenses. Determine whether you need all of the money up front or over a period of time.

**Determine how you will repay the loan.** Review your cash flow and financial projections to calculate your re-payment plan. Your banker wants to know that you are a good risk and will have the cash for regular payments. Show how you intend to repay.

**Determine what type of loan you need.** Two basic types of loans are secured loans and unsecured loans. A secured loan requires putting up one of your major assets as collateral (a bank account, home, etc.). One option is a home equity loan or home equity line of credit (HELOC). This puts your home at risk, so be cautious about using that option. There are additional costs for guaranteeing the collateral. However, if you have a poor credit history, this may be a way to improve it. Unsecured loans require no collateral but are much more difficult to obtain. You will need a high credit rating and will need to provide

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# One Small Change Can Yield Big Dividends

We sometimes take a slash and burn, all or nothing approach to change. However, great results also stem from one small change.



When faced with a large problem, or several problems, managers can be tempted to think that changing everything will fix everything. They believe sales will rise if only they fire the entire staff, completely change the product line, and/or outsource a department. Dramatic changes often divert focus from normal business goals to implementation of the change and working out its attendant issues. This can cause a bad situation to further deteriorate, alienate front-line and back-office workers, further frustrate management, and leave customers dissatisfied until the dust settles.

When you begin to examine any issue (flagging sales, customer complaints, product quality issues, poor communication), before you take drastic action, try to narrow down the root cause of the issue. Then pinpoint one change that might yield the best result.

For example, ask yourself and your team why the issue exists before jumping to solutions. If sales are flagging, is the issue a marketing issue, a sales issue, a product issue, or a service issue? If you determine a dip in sales is a result of poor customer service, narrow down further. Is there a particular part of the service process that is harming sales—lack of skills or information in your service department, a company procedure that blocks quick problem resolution, or insufficient reserve of replacement parts? Continue to dig—is there one particular skill on which you could refocus training, one procedure change that will speed up problem resolution, or one inventory item or group that you cannot afford to be without?

More often than not, small, targeted changes can yield better results for both the short- and long-term, causing less collateral damage. They may better enable you to boost poor performance, retain quality staff, improve customer satisfaction—and boost sales. Once you've pinpointed and resolved one specific problem, move on to the next one.



## Personal Line of Credit

Having trouble building credit? A personal line of credit is an unsecured loan product, another loan alternative useful to a small business. It allows you to borrow up to a set maximum, for example, \$5,000. You can tap into those available funds over time as needed. You pay interest only on the outstanding amount borrowed. Borrowing a little and paying back quickly can help you build credibility with a bank and facilitate obtaining future loans or a higher line of credit.

Depending upon the lending institution, you may be able to access the money through a branch, internet transfer, checks, or debit card. Compare the differences to determine if this choice is better for you than a conventional loan. Do you need all the cash up front or over time? Is there a grace period on minimum payments? Is the interest tax deductible? Can you pay only the interest for months you are short on cash? What can you qualify for with your credit rating?

**“A journey of a thousand miles begins with a single step.”**

Lao-tzu

much more personal and business financial information, including a business plan.

**You better shop around.** If you are looking for a secured loan, talk to the loan officer at your bank, and ask for information about their loan programs and the borrowing terms, rates, limits, and variables of each program. Before you make a decision, shop around. Research information from other local banks and internet lenders. Compare loan rates on the same basis, such as APR. Take into consideration the terms, conditions, fees, and penalties, as well as the rates, of each potential loan, and choose the loan program and bank that best fits your needs.

**Be prepared and be thorough.** Show your bank that you and your plan are a low-risk proposition. At a minimum, you should be prepared to present a complete loan application, have strong business and personal credit, address how the money will be used, and be able to prove your ability to repay the loan. For unsecured loans, you should prepare a typed cover letter and documentation listing your business objective, how much money the project requires, the amount of money you or others are investing in the project, the loan amount needed, and how the money will be spent. Include copies of cash flow and financial statement projections for at least three years, any pertinent graphs or brochures that support your request, and a business plan. No business objective is without risk, so be sure to address any risks you foresee and how you will overcome them.

**Make your case.** Before you present your case, review your information, practice what you will say, and be prepared to answer questions. Expect to spend about 30 minutes presenting your case to a loan officer. Dress professionally, treat bank officials with respect, and convey your case honestly and confidently, using accurate figures to support your claims.

If you do not succeed on your first attempt, learn from your experience and try again elsewhere. Ask the lender what factors led to denial of your request. Be prepared to overcome these before approaching the next lender.

### **Banks Need to Loan Money**

Banks need to loan money to stay in business. While your inclination may be to go to a large bank, also look into local credit unions, small local banks, and government backed loans. Smaller institutions may be more willing than a larger bank to take a chance on a small business or provide a small loan. You might also consider using a bank or credit union that specializes in lending to businesses similar to yours. Referrals to potential lenders from other business professionals may help.

## **Where's the Beef?**

Need a loan? You will need a solid business plan to help you to secure a loan, so make sure yours is well-written. The size of a business plan will vary according to the nature and scope of your business, but here are some basic requirements.

### **A well-written, compelling informational section with**

- a one page executive summary citing your objectives, mission, and expertise
- information about your services or products
- market analysis including your perceived target market and marketing plans
- analysis of your competition
- management structure including brief information about significant personnel
- numbers and graphs to back up key statements

### **A section containing detailed financial information including**

- past financial business history for three or more years
- financial and revenue projections for coming years
- cash flow and break-even analyses
- expenses and personnel costs
- sales projections
- balance sheet
- profit and loss statement with loan repayment factored in
- any other alternatives considered and the reasons for those selected

### **An appendix for any documents that support your text and financials such as**

- detailed resumes of key personnel
- market study details
- product pictures
- patents
- legal documents
- brochures, press releases, ads

You could spend the time and effort to research the content and formats and build a plan yourself. However, a professional business advisor is experienced with dozens or even hundreds of business plans and knows what lenders want. He or she can work with you to make sure your business plan is top notch. As an added advantage, a business advisor most likely will also be able to help you fully analyze alternatives and plan your actual objective.