

UTAH DISTRICT NEWSLETTER

Five Critical Steps to Securing Small Business Capital

Borrowers must be credit worthy. Small business owners must avoid depleting their current liquidity or cash position. They must immediately deal with negative financial issues including poor or inaccurate credit reports, and must resolve all business and personal tax issues. A negative credit report and/or credit score can be a "deal buster". Back taxes, liens, garnishments, multiple bounced checks all show increased risk for a lender. Borrowers should deal with recent bankruptcies by providing an explanation of why it occurred. Address all of these issues prior to applying for the business loan.

Immediately develop a stronger business plan.

Lenders have stressed that a business plan must be well thought out, and realistic. The business plan should outline the money, management, and marketing of a business. Borrowers must explain how the money will be used, and how will it be repaid. Repayment ability is the critical factor. Without repayment ability, no lender will make the business loan. Few, if any, lenders provide 100 percent financing.

Plan for the worst case scenario. All lenders require borrowers to provide a minimum of 12 months of financial projections. These projections should be broken down into a month by month format. The business owner must understand how these assumptions were developed, and establish their validity. All lenders agree that the projections must be presented with a best case, mid-case, and worst case scenario. How will the business survive if revenues nose dive by 10 percent, 20 percent, or 30 percent over the next 6 to 12 months? There are no crystal balls or Ouija boards to answer this question. This "hands-on" forecasting will help the borrower become more strategic in their thinking,

and help the lender feel more comfortable with repayment ability.

Two Years Business History is necessary.

Lenders make it absolutely clear that they are looking for established, financially strong, quality businesses to lend to. Working capital loans are becoming harder to approve, and lines of credit were being tightened or not extended. Loans to start-up businesses are more difficult to approve in the current economic climate. Lenders may require an additional cash equity injection by the owner, or even a seller carry back, to reduce the size of the loan. A proven franchise concept may help mitigate any risk.

Time to become a hands-on owner. This is not a time for business as usual. Collect accounts receivables in a timely manner – don't allow your customers to drag out the payment terms. If necessary, get in your car and visit the customers that have not paid timely and have large amounts of outstanding money owed to you.

Don't keep all your cash liquidity tied up in inventory. Review your business operations to see what work can be handled in-house and not contracted out.

Review each business expense item and eliminate discretionary expenses that could help generate additional cash flow.

Eliminating unprofitable account relationships could also help the bottom line. Increase your efforts to market your business. Cutting new marketing expenditures maybe a mistake. Many business owners make the mistake of cutting marketing expenses when business slows. That might be the wrong decision to make.

Success Story -South Ogden Great Harvest Bread

David Sean Elm owns and operates the South Ogden Great Harvest Bread Company. He has been involved in the bakery business for the past 18 years. He started out with Albertsons and worked up to manager. He got involved with Great Harvest in 1999 when he took over the management of one of three stores under the ownership of other individuals.

He was offered ownership in this store shortly after he started management and he began buying the business over time from the owners. This is the only store that he has ownership in and operates.

Great Harvest Bread Company is known for their fresh products. The flour that they use is actually ground on site to assure that is fresh when used in their products. They offer a variety of fresh breads, muffins, large cookies and giant cinnamon rolls.

They have seasonal items such as the cherry chocolate loaf bread for Christmas and the pumpkin loaf in the fall. All products are made from scratch on a daily basis to make sure that they are always fresh and wonderful tasting.

Sean received an SBA 504 loan in 2003 for the purchase of land to construct a new building to house this business in. The business had outgrown their leased location and they felt it was time to allow the business the room it needed to continue to grow. The employees enjoy working at Great Harvest and the customer is always greeted with a smile and sample of their choice of their products. Friendly customer service, a smile and good quality product for the money is always assured at this store.