

FYI For Your Information

September 2003

Financing Your Business

*From the 2003 US Small Business Administration
Michigan Small Business Sourcebook*

Securing appropriate financing is key to any business' success. But as many new entrepreneurs quickly discover, raising capital may not be easy; in fact, it can be a complex and frustrating process. If you are informed and have planned effectively, raising money for your business will not be a painful experience. The first step is preparing a small business owner for the lending process.

FINDING THE MONEY YOU NEED

Although this section focuses on commercial loans, there are several sources to consider when looking for financing. It is important to explore all options before making a decision, including the following:

- **Personal Savings:** The primary source of capital for most new businesses comes from savings and other forms of personal resources. While credit cards are often used to finance business needs, there may be better options available.
- **Family and Friends:** Many entrepreneurs look to private sources such as friends and family when starting a business venture. Often, money is loaned interest free or at a low rate, which can be very beneficial when getting started.
- **Banks and Credit Unions:** The most common source of funding, banks and credit unions, may provide a loan if you can show that your business proposal is sound.
- **Venture Capitalists:** These firms help expanding companies grow in exchange for equity or partial ownership.

A WORD ABOUT GRANTS

Unfortunately, there is much misinformation circulating about the availability of grant funds.

The Small Business Administration does not provide grants to individuals to help them start a business, nor does any other public or private source of which we are aware. Our advice to grant seekers is to save your money and avoid purchasing a book or software program about grants. All government grants are listed on the Internet, free of charge, in the Catalog of Federal Domestic Assistance at www.cfda.gov. SBA also provides links to other Federal agencies' grant resources at www.sba.gov/expanding/grants.html.

BORROWING MONEY

It is often said that small business people have a difficult time borrowing money. This is not necessarily true. Banks make money by lending money. However, the inexperience of many small business owners often prompts banks to deny loan requests. Requesting a loan when you are not properly prepared sends a signal to your lender: High Risk!

To be successful in obtaining a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

TYPES OF BUSINESS LOANS

Terms of loans may vary from lender to lender, but there are two basic types of loans: short-term and long-term. Generally a short-term loan has a maturity of up to one year. These include working capital loans, accounts receivable loans and lines of credit. Long-term loans have maturities greater than one year but usually less than seven. Real estate and equipment loans have maturities of up to 25 years. Long-term loans are used for major business expenses such as purchasing land and real estate, construction, durable equipment, furniture and fixtures or vehicles.

Continued on page 2



**Schoolcraft
College**
Business
Development
Center

18600 Haggerty Road
Livonia, MI 48152

Phone:
734-462-4438

Fax:
734-462-4673

Email:
inforeq@schoolcraft.edu

HOW TO WRITE A LOAN PROPOSAL

Approval of your loan request depends on how well you present yourself, your business, and your financial needs to a lender. Remember, lenders want to make loans, but they must be loans that will be repaid. The best way to improve your chances of obtaining a loan is to prepare a written proposal. A good loan proposal that you can take to the lender will contain the following elements:

General Information

- Business name and address, and name and social security number of each principal.
- Amount required – the exact amount needed to achieve your purpose.
- Purpose of loan – exactly what the loan will be used for and why it is needed.

Business Description

- History and nature of the business.
- Ownership structure, i.e. details on the company's legal structure.

Management Profile

- A short statement on each principal in your business, including background, education, experience, skills and accomplishments.

Market Information

- Clearly define your company's product as well as your market.
- Identify your competition and explain how your business competes.
- Profile your customers and explain how your business can satisfy their needs.

Financial Information

- Financial statements – balance sheets and income statements for the past three years. If you are starting out, provide a projected balance sheet and income statement.
- Personal financial statements on yourself and other principal owners of the business.
- Collateral you would be willing to pledge as security for the loan.

WHAT TO TAKE TO THE LENDER

Documentation requirements may vary; contact your lender for the information you must supply. Common requirements include:

- Purpose of the loan.
- History of the business.
- Financial statements for three years on existing businesses.
- Schedule of term debts (existing businesses).

- Aging of accounts receivable and payable (existing businesses).
- Projected opening-day balance sheet (new businesses).
- Lease details.
- Amount of investment in the business by the owner(s).
- Projections of income, expenses, and cash flow.
- Signed personal financial statements.
- Personal resumé(s).

HOW YOUR LOAN REQUEST WILL BE REVIEWED

When reviewing a loan request, the lender is primarily concerned with repayment. Loan officers judge loan applications based on what is commonly referred to as the five C's of Credit.

Character. Lenders will order a copy of your credit report and look at debt repayment trends. They want to know simply if you pay your bills and if you pay them on time. If there are blemishes on your report, explain them. The major credit agencies are Experian (888) 397-3742 or www.experian.com, Equifax (800) 685-1111 or www.equifax.com, and Trans Union (800) 888-4213 or www.transunion.com.

Cash Flow. Lenders will look at historical and projected cash flow statements to determine whether you will be able to repay the loan and still have money to adequately run the business. Include written justification for your projections in your loan proposal.

Collateral. Collateral is an asset (something you own) which a lender may claim to satisfy a loan in the event the loan is not repaid according to the required terms. Often the assets purchased with the loan may serve as collateral. If the business does not have enough collateral, the bank will look to personal assets.

Capitalization. Capitalization refers to the basic resources of the company including owner's equity, retained earnings, and fixed assets. You do not have to be fully capitalized to qualify for a loan.

Conditions. Factors that affect the success of the company, yet are external to the business, will also be considered by the lender. Examples include government regulation, competition, and industry trends.

Building a Company Image

Entrepreneur® Magazine's – Growing Your Business

A Step-By-Step Guide to Success; Guide #1812

Evaluating Your Image

The key to having an image you can grow with is to match your company's image to your target market. Know who your target market is, and carefully and consistently build an image around that market.

First determine your target market – that segment of the market most likely to purchase your product or use your service. A veterinarian's target market may be pet owners within a one-mile radius of his office. The market for an online vendor of hard-to-find videos may be film fans anywhere in the world who are ready to spend \$100 or more to get their hands on a rare movie.

When you've identified your target market, ask questions to develop the image these people will feel most comfortable with. These questions include:

- What is the lifestyle of my customers?
- What are my customers' buying habits?
- Are they budget-conscious?
- Where do they live?
- What features do customers like about my competitors' product(s)?
- What benefits do my competitors list in their promotional materials?
- What benefits does my product have that give my company a competitive advantage?
- How are my competitors' promotional materials designed? What colors are they using? What typefaces are they using?
- What kinds of packaging are my competitors using?
- What is the pricing like in the market I am targeting?

Choosing the Right Image

Any mismatches between your image and your target market's needs are likely to be obvious. For instance, if you have an economical image but you're marketing to an affluent customer who spends freely, you need to change that before you

can achieve significant growth. Here are some other image selection considerations:

- Develop an image that defines your company as narrowly as possible. Few businesses fail from being overly focused. Many fail by trying to be too many things to too many people.
- Make sure you can describe what your image is in a single, clear sentence. For instance, "Everything In Its Place, Inc. is the senior executive's personal organization service." Being able to describe your business in a consistent, memorable fashion is a great way to position your company in your customers' minds.
- Define your image by selecting a coherent, interesting, engaging design for business cards, letterhead and envelopes. You can echo the colors and typefaces from your stationery in any subsequent marketing materials.
- Hire a graphic designer to create a distinctive logo. You can use that logo on all printed materials to express a catchy visual image.

Selecting your image may result from a flash of inspiration and insight. More likely, it will be an evolution, occurring over months or years as you add layers to your marketing materials and marketing message. Just be sure that each time you make a new image-related decision, it stays consistent with existing marketing materials. That way, you'll always present the same image to your customers.

Establishing a New Image

Establishing a new image is an ongoing effort. Any time you air an advertisement, mail printed materials, make a sales call, sponsor an event, hire a spokesperson, or even paint your building, you are contributing to the image you project.

Establishing a new image starts, however, with a few major moves that need to be implemented throughout your company. They range from the really monumental, such as changing your company's name, down to the less significant, such as adopting a new corporate slogan or motto. Making these basic decisions about your new image, and then implementing them carefully in everything you do, will go a long way toward establishing a new image for a growing company.

Government Seeks Expedited Comments on Proposed Rule Implementing Controversial Safety Act Product Liability Limitations

George W. Ash, Dykema Gossett PLLC

A proposed rule announced July 11 by the Department of Homeland Security (DHS) is the first step in the Department's implementation of the highly controversial Support Anti-Terrorism by Fostering Effective Technologies Act of 2002, referred to as the SAFETY Act. The SAFETY Act has been the target of extensive criticism on Capitol Hill because it dramatically restricts the potential product liability of firms that supply anti-terrorism products or services to the government or private sector. A copy of the proposed rule can be found at 68 Federal Register 41419-41432. The Federal Register is available on the Web at www.regulations.gov.

In enacting the SAFETY Act -- one of the most critical elements of the Homeland Security Act of 2002 -- Congress recognized the need to provide incentives for developing and deploy-

ing effective, innovative anti-terrorism technologies by providing broad protection against liability for sellers of those technologies. While the Act set forth the categories of protection and the requirements for sellers to avail themselves of those protections, it left the DHS to announce the rule implementing these provisions.

DHS's much-anticipated proposed rule now sets the regulatory process in motion, seeking comments from potential sellers, insurers, and other interested persons that will shape the content of the final DHS regulations.

The proposed rule attempts to accomplish DHS's goal of implementing the SAFETY Act "as quickly as possible" by setting forth DHS's administrative interpretation of the Act and seeking comments on an expedited basis. Significantly, the proposal reiterates the expansive scope of the protections afforded under the Act and provides an early indication that DHS intends to view the Act's protections broadly.

How to Start a Small Business: From Vision to Reality

October 1, November 12,
OR December 10, 2003
6:00 p.m. – 8:30 p.m.

September 17, October 15, October 29,
OR December 17, 2003
9:30 a.m. – Noon
\$25 per person

This two and a half-hour seminar is designed for those interested in learning a practical step-by-step process for starting a new business. The session will provide participants with a network and resources to use when questions arise.

How to Write a Business Plan: Your Road Map to Success

October 15, 2003
6:00 p.m. – 9:00 p.m.

November 12 OR December 17, 2003
9:30 a.m. – 12:30 p.m.
\$40 per person

This one-time seminar provides an overview of what is included in a dynamic business plan. It is designed for new and existing business owners who do not currently have a business plan in place. Attendees will receive worksheets that outline the basic items in a business plan, so that they can complete a plan on their own.

RESERVATIONS REQUIRED for all seminars

For more information contact the Business Development Center at 734-462-4438.

For example, the proposed rule makes clear that the range of technologies subject to the Act's protections will be construed "very broadly," to include not only any products, equipment and information technologies that meet the criteria under the Act, as determined by the Secretary at his discretion, but also services and support services.

Moreover, the proposed rule reiterates that the Act's protections apply to any technologies that DHS determines to qualify under the Act -- not just technologies supplied to the federal government. If a product or service qualifies in DHS's eyes, the seller is entitled to the Act's protections whether the product is sold to a federal, state or local government or to private entity.

At the same time, however, the DHS rulemaking discussion stresses the interrelationship between federal agency procurement and the SAFETY Act, and the likely interplay DHS will have with procurement agencies when an anti-terrorism technology is involved.

Citing the need to act expeditiously, DHS allowed only 30 days, until August 11, for comments on the proposed rule. DHS may issue an interim final rule after the 30-day period while it seeks additional comments on some or all aspects of the program. DHS intends to begin implementation of the SAFETY Act for federal procurements

immediately and will begin accepting other SAFETY Act applications on September 1, 2003.

Because the SAFETY Act and proposed rule apply to virtually any product or service used in an anti-terrorist context and include products and services sold both to governments and the private sector, the range of products, services and companies potentially affected is enormous.

Commercial sellers, government contractors, insurers and governmental and private sector technology purchasers all have a significant stake in the DHS SAFETY Act rulemaking process, and should pay close attention to the Act's implementation.

George W. Ash is a member of the law firm of Dykema Gossett PLLC in Detroit, where he specializes in government procurement issues. He may be reached at 313-568-6797.

Note: This update provides information of general interest presented in summary form, and does not constitute individual legal advice.

Government Contracting Seminar

September 18, October 16, OR
November 13, 2003
9:00 a.m. – 1:00 p.m.
\$35/person

Did you know that the Federal Government purchases more than \$200 billion of goods and services every year? Find out what it takes to successfully sell your goods and services to the Federal Government and the State of Michigan. In addition, learn about the services and resources the Business Development Center has available to help your company with the contracting process.

Registration Assistance

September 25, October 23, OR
November 20, 2003
8:30 a.m. – 11:30 a.m.
\$15/person

Business Development Center clients looking for assistance completing their Central Contractor Registration (CCR), SBA's Procurement Marketing and Access Network (Pro-NET), or any other online registration are invited to the BDC's open lab. Counselors will be available to help clients understand and complete their registrations, using the BDC's computer lab.

RESERVATIONS REQUIRED for all seminars

For more information contact the Business Development Center at 734-462-4438.

Helping Small Businesses Access International Markets

Ten Important Recommendations for Successful Exporting:

1. Obtain qualified export counseling and develop a master international marketing plan before starting an export business. The plan should clearly define goals, objectives and possible problems.
2. Secure a commitment from top management to overcome the initial difficulties and financial requirements of exporting. Although the early delays and costs involved in exporting may seem difficult to justify in comparison with established domestic sales, the exporter should take a long-range view of this process and carefully monitor international marketing efforts.
3. Take sufficient care in selecting overseas distributors. The complications involved in overseas communications and transportation require international distributors to act more independently than their domestic counterparts.
4. Establish a basis for profitable operations and orderly growth. Although no overseas inquiry should be ignored, the firm that acts mainly in response to unsolicited trade leads is trusting success to the element of chance.
5. Devote continuing attention to export business when the U.S. market booms. Too many companies turn to exporting when business falls off in the U.S. When domestic business starts to boom again, they neglect their export trade or delegate it to a secondary position.
6. Treat international distributors on an equal basis with domestic counterparts. Companies often carry out institutional advertising campaigns, special discount offers, sales incentive programs, special credit-term programs, warranty offers and so on in the U.S. market, but fail to make similar offers to their international distributors.



7. Do not assume that a given market technique and product will automatically be successful in all countries. What works in Japan may fall flat in Saudi Arabia. Each market has to be treated separately to ensure maximum success.
8. Be willing to modify products to meet regulations or cultural preferences of other countries. Local safety and security codes as well as import restrictions cannot be ignored by foreign distributors.
9. Print service, sale and warranty messages in locally understood languages. Although a distributor's top management may speak English, it is unlikely that all sales and service personnel have this capability.
10. Provide readily available servicing for the product. A product without the necessary service or support can acquire a bad reputation quickly.

A publication of the Michigan Small Business & Technology Development Center

Jackie Stavros and Judi Zima

Team SBA Financing Roundtable

September 11, 2003
9:00 a.m. – 11:00 a.m.
No admission charge

If you are starting or expanding a business and need financing, attend a TEAM SBA Financing Roundtable. You will meet with bankers, SBA loans officers, and small business consultants to discuss your financing needs. The roundtables are limited to a small number of business owners, and you must register to attend. Call the SBA at 313-226-6075 to register.

RESERVATIONS REQUIRED for all seminars

For more information contact the Business Development Center at 734-462-4438.

Women's Economic Development Outreach Initiative

What will WEDO?

The Women's Economic Development Outreach (WEDO) is a coalition of dynamic women leaders working together to bring resources and information on business financing, certification, networking and goal setting to your community. Speakers will share their tips for building a successful business while getting the most from life.

In addition, you will have the chance to win valuable prizes such as memberships to chambers of commerce and the National Association of Women Business Owners or tickets to the Athena Foundation's Annual Conference in 2004. Start each day 8:30, end at noon and use the time after to network with speakers and attendees.

Who is WEDO?

WEDO is a group of professionals from the U.S. Small Business Administration, National City Bank, the Michigan Small Business & Technology Development Center and the National Association of Women Business Owners who are committed to your business success!

Why WEDO?

You are a busy professional with little time to waste and you need information, resources, contacts, and a plan. We will bring all of this to you in a FREE morning session so you can get on with your day.

General Services Administration

September 11, 2003
9:00 a.m. – Noon
\$35 per person

Mike Kleiwicki is a GSA guru who will enlighten clients on the many mysteries regarding the GSA procurement arena. This class is intended for those who would like to learn about supply schedules, buying potential and marketing with a GSA schedule.

RESERVATIONS REQUIRED for all seminars

For more information contact the Business Development Center at 734-462-4438.

Attending WEDO is something you don't want to miss.

Get connected... get inspired... get to WEDO!

WEDO is sponsored by:

National City
U.S. Small Business Administration
National Association of Women Business Owners
Athena Foundation
Michigan Small Business & Technology Development Center

WEDO LOCATIONS & DATES

Freedom Hill County Park - 9/08/03

14900 Metropolitan Parkway, Sterling Heights, MI 48312; Tel: 586.268.7820; www.freedomhill.net

Southfield Public Library - 9/9/03

26300 Evergreen Road, Southfield, 48076; Tel: 248.796.4200; www.sfdlib.org

Washtenaw Community College - 9/10/03

Morris Lawrence Bldg., 4800 E. Huron River Drive, Ann Arbor 48106; Tel: 734.973.3300; www.wccnet.org

Lakeside Treatment Center - 9/12/03

3921 Oakland Drive, Kalamazoo, 49008; Tel: 269.381.4760; www.lakesidetlc.org

WEDO is in partnership with:

Center for Empowerment and Economic Development, Detroit Entrepreneurship Institute, Inc., Grand Rapids Opportunities for Women, Michigan Economic Development Corporation

Sterling Heights Partners: Central Macomb Chamber of Commerce, Macomb County Board of Commissioners, Freedom Hill County Park, The Geary Group, PC

Southfield Partners: Crestmark Bank, Southfield Business Development Team, Farmington/Farmington Hills Chamber of Commerce, Derderian, Kann, Seyferth & Salucci, P.C. CPAs, Southern Wayne Chamber of Commerce

Ann Arbor Partners: Jackson Chamber of Commerce, Ypsilanti Chamber of Commerce, Women Business Owners of Southeastern Michigan, Business and Professional Women/Michigan

Kalamazoo Partners: Kalamazoo County Chamber of Commerce, Kalamazoo Area Women's Festival, Lakeside Treatment Center

Upcoming Seminars and Events

Certified: Woman Business Enterprise

October 24, 2003 OR December 15, 2003
9:00 a.m. – 11:00 a.m.
\$25 per person

The Michigan Women's Business Council invites women business owners to an orientation session to learn what it means to be certified as a Woman Business Enterprise. If you have a product or service that you would like to market to American corporations, here is your chance to explore certification. The Michigan Women's Business Council is a program of the Center for Empowerment and Economic Development, an SBA Women's Business Center. Call the Michigan Women's Business Council at 734-677-1444 to register.

Cost Accounting for the Government Contractor

November TBD, 2003
9:00 a.m. – 1:00 p.m.
\$40 per person

A government contracting attorney and several government contracting accounting personnel will present a seminar on the importance of setting up an efficient method for cost accounting. The cost accounting procedure is especially important for audit purposes when the government is your customer.

RESERVATIONS REQUIRED for all seminars

For more information on any of these seminars, contact the Business Development Center at 734-462-4438



Schoolcraft College

Business Development Center
18600 Haggerty Road
Livonia, MI 48152-2696

NONPROFIT ORGANIZATION
U. S. POSTAGE
PAID
Schoolcraft College

BOARD OF TRUSTEES

Mary Breen..... Chairperson
Gregory J. Stempien..... Vice Chairperson
Brian D. Broderick..... Secretary
Patricia Watson.....Treasurer
Richard J. DeVries..... Trustee
Kevin McNamara..... Trustee
Carol M. Strom..... Trustee
Conway A. Jeffress, President