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Biz Savvy

Need capital? Have a solid business plan

Show you understand the risks you and your banker may have to take

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When good things happen to small businesses, they tend to run out of cash. Between customers who pay slowly, vendors who want to be paid fast, marketing and building your team, growth is expensive. If you've been successful growing your business, you're eventually going to need more money, and a banker is often your best source of funds.

A banker is a business person just like you, someone you are going to want to develop a strong relationship with. They rent money from their depositors and the federal government and loan it to you for a profit. Just like you, they need to make good business decisions and do business with people they can depend on. They, too, are looking for companies to do business with, companies with opportunity for growth.

Now is the time to write a business plan for your banker.

Understand the Risks

It's impossible to run a business without making assumptions, and it's foolish to assume you will always be right. The good news is bankers are in the risk business. They don't want to lose money, and they do take risks -- risks they understand, risks that will help the borrower, risks with good odds of paying off.

Plan for the unexpected and be prepared when your assumptions don't pan out. Don't bet the farm on one idea, and be prepared to be flexible. The last thing a banker wants to do is enter into a business transaction with someone who doesn't understand the risks of their own business.

Bob Stackhouse, a former banker who has packaged or approved 3,000 business loans, says, "The biggest overriding thing is to understand the risk of your business and communicate that you understand that risk. Then talk about what you are doing about it." If your business plan does nothing else, make sure it covers this area.

Talk about your expectations and the risks you're aware of, explain what you are doing about them now as well as backup plans. Describe choices you will make if things don't go exactly as expected, and don't make the mistake of ignoring the obvious. Show that you know what's going on and are in control. The trick is to demonstrate you understand your risks and are prepared to manage them.

Plan for SMART growth

Because you are talking to your banker about lending you money, you need to create a clear understanding of what you want to use it for and why it's a good idea Paint a word picture of what you want to do and the benefits it will bring. Describe your next steps through strategic objectives.

A good strategic objective will help you be clear about what you are trying to accomplish by describing the value your actions will bring, how you will measure that value, and how long it will take to achieve it. The objective demonstrates foresight and clarity on your part and creates a sense of confidence in your preparation for the next steps on your journey.

Another critical process is to identify the two or three magic business numbers. Every business has them, and they aren't sales or gross profit. Those are important measures, but they can't alert you to problems until it is too late to do something about them.

The numbers you are looking for are more subtle, more hidden. These numbers will give you an instant sense of how the business is functioning moment to moment. Maybe it is the time between repeat orders, average order size or number of line items, or maybe it's the number of daily inquiries on a product or service.

Make sure you know those numbers and explain why they are your key indicators. Those are the numbers you will need to be watching constantly and be prepared to react to if they start to head in the wrong direction.

Bottom line: Show that you are in control of your business, not the other way around.

Financials

"Financial projections are all about assumptions and looking at how they will unfold over time," Stackhouse says. "People do the unfolding but fail to elaborate on their assumptions.

Without 'full-bodied assumptions,' financial projections mean nothing."

Make sure your numbers match up, that you can get where you are headed on the path you have chosen and things are all in sync. Don't make the mistake of setting up a scenario in which you can't get there from here.

"P&L (profit and loss) projections need to reconcile to historical balance sheets, otherwise the full financial projection cannot possibly come true," Stackhouse adds.

Treat your projections as an extension of these assumptions. This means you begin by creating what you expect will happen (business events), then explain how things will look financially if the events happen as expected.

Other Key Areas

Every business plan has several sections, and those described above are certainly critical. But don't neglect other details. "Market research is important," says Renee Bonzell, a commercial loan oficer with Wells Fargo. "You need to prove you can speak to your customer base and the trends in your market. You need to be strong in your product or service and describe it well. You also want to be able to compare yourself to your competitors."

The moral of this story? Know your business and be sure your plan has a logical flow. When you approach a bank for a loan, it's just like asking a pretty girl to the prom. Don't try to pretend to be something you are not. Make sure your plan is honest and real, be yourself, and enjoy the dance.

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