

Financial Empowerment in Life A Shop 52 Seminar and Business

Financing your Small Business



1. Considerations for Starting a Business

- Richard Harris, SmartMoney Community Services

2. What is a Business Plan?

- Tom Lunney, SCORE Counselors to America's Small Business

3. Types of Businesses

- Greg Heimkreiter, Cooney, Faulkner & Stevens CPAs

4. Financing a Small Business

- Don Stock, PNC Bank

5. Micro-Financing

- Willie Hill, Greater Cincinnati Microenterprise Initiative

1. Considerations for Starting a Business

Richard Harris

SmartMoney Community Services

Business Schematic

1

Getting Prepared

- *Self Assessment*
- *Business Skills*
- *Business Plan*
- *Business Development Aides*
- *Business News Sources*

3

Operating

- *Marketing Approaches*
- *Promotion & Lead Generation*
- *Formal & Informal Networks*
- *Revenue Generation*
- *Sales Scripts*
- *Budgeting*
- *Legal*
- *Personnel*
- *Production*
- *Distribution*
- *Tracking Results*

2

Starting

- *Market/Business Assessment*
- *Creating a Business*
- *Obtaining Capital*
- *Align w/ proven skill, knowledge & abilities*

4

Sustaining

- *Strategy Calibration*
- *Frequent Analysis*
- *Investor Work-Bench*
- *Business Alliance*
- *Think Tanks*
- *Expansion*
- *Long-Term Contracts*



2. What is a Business Plan?

Tom Lunney

SCORE Counselors to America's Small Business

What is a Business Plan?

- Main purpose is to serve as a working guide for the business.
- Parts of the plan
 - ✓ Operations
 - ✓ Objectives
 - ✓ Management
 - ✓ Marketing
 - ✓ Financial
 - ✓ Other

What is a Business Plan?

- Operations – Is there a real need for your product or service?
 - Describe business specifically; products or services.
 - How is the product/ service produced and delivered.
 - Location and size of facility; capacity to produce.
 - Equipment and space required vs. that available.
 - Suppliers you intend to use.

What is a Business Plan?

- Objectives
 - List them all out, most important first
 - List estimated completion dates
 - List drop dead dates
 - Have a backup plan

What is a Business Plan?

- Management
 - Type organization: sole proprietorship, partnership, LLC, or corporation.
 - List manager(s) name, addresses, and phone numbers
 - Describe each manager's experience and expertise.
 - Duties of each manager; list job descriptions.
 - Number of employees and their jobs.

What is a Business Plan?

- Marketing

- Describe your target segment.
- List primary competitors; their strengths/ weaknesses.
- Determine your unique competitive advantages.
- Price your product or services.
- Advertising, business cards, sales literature.
- Decide how contacts will be made.
- Decide who will make them.

What is a Business Plan?

- Financial
 - Budgets, Profit/ Loss, Balance Sheets, Forecasts.
 - Funds required for your business and sources.
 - Insurance needs – BWC, Liability, Umbrella.
 - Decide whether to use accrual or a cash basis.
 - Separate bank account.

3. Types of Businesses

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Business Entity Selection

Types of Entities

- **Sole Proprietorship:** a business owned by one individual. It is not considered to be a separate legal entity, but rather is considered to share identity with its individual owner.
- **General Partnership:** is formed where two or more individuals (entities) join together to operate a business with the intent of making a profit.
- **Limited Partnership:** consists of at least one limited and one general partner. Similar to a general partnership except limited partners are not personally liable.
- **Limited Liability Company (LLC):** is a separate legal entity that is a hybrid between a corporation and a partnership.
- **Corporation:** is a separate legal entity which may own assets and be responsible for its own debts. Shareholders are not personally liable for debts of the corporation.



Business Entity Selection

Tax Classifications for Entities

- **Disregarded Entity (Schedule C or E, Form 1040):** Such entities are disregarded for tax purposes only, and tax items are treated the same by the owner as other tax items.
- **Partnership Taxation (Form 1065):** Partnership Taxation may be designated by general and limited partnerships as well as multi-member LLCs. A multi-member LLC's default tax classification is partnership taxation. Partnership taxation is based on a flow through or conduit type of taxation meaning there is not a partnership level of tax (only tax is at the partner level).
- **“S” Corporation Taxation (Form 1120S):** Corporations and LLCs may file an election to be taxed as an S Corporation.
- **“C” Corporation (Form 1120):** Corporations are by default taxed under Subchapter C of the Internal Revenue Code. LLCs may make an election to be taxed as a “C” Corporation.

Business Entity Selection

Tax Classifications for Entities Continued

- Advantages/Disadvantages of Partnership Taxation
- Advantages/Disadvantages of “S” Corporation Taxation
- Advantages/Disadvantages of “C” Corporation Taxation



COONEY
FAULKNER &
STEVENS, LLC

Certified Public Accountants
Business Advisors

Business Entity Selection

Tax Filings

- **Federal Employer Identification Number (FEIN):** A FEIN can be obtained by filing Form SS-4 with the IRS either by telephone, fax, mail or even on-line. It is generally recommended that even disregarded entities obtain FEINs so that business owners may avoid identity theft of their personal information.
- **Corporations:** IRS Form 1120 and Ohio Form FT 1120
- **S-Corporations:** IRS Form 1120S, Ohio Form FT 1120S, Ohio Form IT 1140 (Form IT 1140 only required if non-resident owner)
- **Partnerships:** IRS Form 1065 and Ohio Form IT 1140 (Form IT 1140 only if non-resident owner)
- **Sole Proprietorship:** No special filings other than Schedule C or E of IRS Form 1040.



4. Financing your Business

Don Stock

PNC Bank

Financing your Business

Donald Stock
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Agenda Topics

- 1. Sources of Funds**
- 2. Loan Types**
- 3. Loan Programs**
- 4. Greater Cincinnati Microenterprise Initiative**

\$\$\$ Sources of Funds \$\$\$

#1 **YOU!!!**

#2 Home Equity Loan

#3 Seller Note

#4 Credit Cards

#5 Family & Friends

#6 Banks (Business Loan)

#7 Suppliers / Customers



\$\$\$ Sources of Funds \$\$\$

Your Personal Savings

- Cheapest source of funds
- Comes with the least amount of strings
- Leave enough for personal expenses
- Budget needing more than you think

Home Equity Loan

- 2nd Cheapest source of funds
- Can be term or Line of Credit
- Usually can get up to 85% LTV
- Requires good personal credit score



\$\$\$ Sources of Funds \$\$\$

Seller's Note

- Good if purchasing an existing business
- Will keep seller interested in your success
- Rates and terms similar to that of Banks
- Will finance up to 80% of purchase price
- Good option to help with down payment

Credit Cards

- Easiest source of funds
- Most expensive source of funds
- Dependent on personal credit score
- Considered personal debt
- Very easy to get in trouble



\$\$\$ Sources of Funds \$\$\$

Family & Friends

- Source with the most strings and most at risk
- Make sure promissory note utilized
- Include due date & late payment terms
- Openly discuss default prior to loan
- Set expectations on level of involvement
- If parents, discuss what to do if they pass

Banks

- Business plan needed
- Helps build track record for future growth
- Dependent on personal credit score
- Ask if special government loans available

\$\$\$ Sources of Funds \$\$\$

Suppliers / Customers

- Most suppliers have payment terms
- Terms may include zero interest
- Make sure you pay within terms
- Have customers pay at time of order
- Give customers discounts if paid within terms
- Accept credit card payments

\$\$\$ Types of Loans \$\$\$

Line of Credit

- Short term working capital needs
- Revolving line similar to credit card
- Set amount 75% of A/R, 10% annual sales max
- Can be secured or unsecured
- Personal Guarantee
- Interest paid monthly
- Interest rate prime + 1% to 4% (prime 5.00%)
- Annual fee \$150 to \$250

\$\$\$ Types of Loans \$\$\$

Term Loan

- Used to Finance
 - Purchase or start-up of a business (20% down)
 - Equipment (10% down)
- Lien on business assets (A/R, Inventory, Equip.)
- Personal Guarantee
- Fixed interest rate 6.75% to 9%
- Principal & interest due monthly (fixed payment)
- Term 3 to 7 years (5 yrs. average)
- 1 time documentation fee 1% of loan amount

\$\$\$ Types of Loans \$\$\$

Small Business Administration (SBA) Loans

- SBA does not make loans
- Works with banks and financial lenders
- Guarantee a percentage of the loan will be repaid
- Guarantee utilized for
 - start-up businesses
 - business expansions
 - collateral shortfall

Not utilized to mitigate

- Poor personal credit
- Poor cash flow

\$\$\$ Types of Loans \$\$\$

SBA 7A Loan Program

- Term loan up to \$2,000,000
- Term 7 yrs. for equipment & 25 yrs. for real estate
- Rate not to exceed Prime plus 3.25% <7 year term
- Rate not to exceed prime plus 3.75% >7 years
- 2% to 3.5% SBA guarantee fee

\$\$\$ Types of Loans \$\$\$

SBA 504 Loan Program

- For long-term financing of major fixed assets
- Most commonly used for land or building
- Participation Certified Development Company
- 10% client, 50% Bank note, 40% CDC note
- \$1,500,000 max loan amount



5. Micro-Financing

Willie Hill

Greater Cincinnati Micro-Enterprise Initiative

Greater Cincinnati Microenterprise Initiative

Willie Hill III
Executive Director
whill@cincy-caa.org

Greater Cincinnati Microenterprise Initiative, Inc. (GCMI)

Willie Hill III, Executive Director

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GCMI's mission is to promote individual self-sufficiency and community economic development by stimulating and supporting entrepreneurship among low and moderate income people.

Programs and Services

Entrepreneurial Training Academy (ETA): GCMI provides a 12-week course on business basics and writing your business plan. This is a comprehensive class that will enlighten the new business owner/entrepreneur and provide existing business owners with refresher information to enhance their business development

Business Coaching/ Technical Assistance: An in depth one on one counseling and guidance program. Our business coaches will meet with our clients as needed to discuss, business plans, marketing, to financial reporting. Business advice and access to business resources is essential to business growth. Our coaches want your success to be our success.

GCMC

Programs and Services

Business Plan Evaluations: Our Business Coaches can review your business plan, critique and evaluate its strengths and weaknesses. GCMC can provide feedback as you develop each stage of your business plan. For existing businesses that are changing and developing their current business plan. This is a great opportunity to have our team support its development.

Access to Capital: GCMC is committed to helping our clients find the financing they need to start, develop, and grow their business. We have partnered with several organizations to help find various traditional and non-traditional financing options.

GCMC

Access to Capital (Loan Products)

GCMC Loan Fund (\$500.00 to \$20,000.00)- Small loans used for Working Capital, machinery & Equipment; Leasehold Improvements; Fixed Assets; Start-up and Expansion Expenses. Rate is typically at or below the Prime rate.

GCMC

Access to Capital (Loan Products)

Microcity Loan Fund (\$1,000.00 to \$35,000.00) (City of Cincinnati program)- a micro loan for established or qualified emerging small businesses **within** the City of Cincinnati. Must create one full time employee. Rate is typically at the Prime rate. Must comply with other City requirements.

SBA Community Express Program (\$5,000.00 to \$50,000.00)- Loans available to Minorities, Women, Veterans, Low to moderate income areas, hub zones and other SBA designated areas. Rates range from Prime + 3.75 or Prime + 4.75. Flexible terms. Must comply with other SBA requirements.

Grow Cincinnati Fund (\$50,000.00 to \$250,000.00)- loans are underwritten and administered and serviced by Grow American Fund, inc (licensed by the SBA). For businesses that have sufficient collateral to secure the loan and have adequate historical or projected cash flow to repay the debt. Rate varies. Job creation and low-moderate income area benefit or prevention/elimination of slum and blight.

All loan products are for new and emerging small business owners. We also have relationships and partnerships with area financial Institutions and brokerage firms for additional finance opportunities.

General requirements include; a completed loan application/package; A completed business plan; Demonstrate the ability to repay the loan within the specific time; Agree to ongoing Technical Assistance and Business Coaching through GCMI.

THESE LOANS CANNOT BE USED TO REFINANCE ANY EXISTING DEBT.

GCMI

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