

This week’s topic: Management

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Writer: Dean Swanson, Past Chairperson of SCORE SE Minnesota Chapter

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Management

Ask SCORE

Dollars and Cents of Small Business

I was counseling a small business owner recently and this owner said, “Dean, I wish I had known how much cash I really needed before starting my own business”. This reminded me to again spend some time emphasizing the dollars and sense of a business. Whether you’re starting a business or expanding one, sufficient capital is essential. While poor management is most often cited as the reason businesses fail, inadequate financing is a close second.

First, there are start up costs to consider. Some businesses can be started on a shoestring budget. Others require considerable investment. It is important to know you will have enough money to launch your business. A realistic startup budget should include those costs necessary to begin the business.

Essential expenses are divided into fixed expenses (overhead) and variable expenses (related to producing sales). Fixed expenses include monthly rent, utilities, administrative and insurance costs. Variable expenses include inventory, shipping and packaging, sales commissions, and other costs of selling a product or service. The most effective way to calculate your startup costs is to use a worksheet that lists all the various categories of costs (both one-time and ongoing) you will need to estimate prior to starting your business. If you need help to calculate this, email me and I will share a worksheet with you that I use in our SCORE Business Plan course.

Another consideration is that to get your business growing you may need financing. The two types of financing are: equity and debt financing. When looking for money, consider your company’s debt-to-equity ratio — the relation between dollars you’ve borrowed and dollars you’ve invested in your business. History has shown the more money owners have invested in their businesses; the easier it is to attract financing.

Most small or growing businesses use limited equity financing such as friends, relatives, employees, customers or industry colleagues for resources. However, the most common source of professional equity funding comes from venture capitalists. These institutional risk-takers may be groups of wealthy individuals, government-assisted sources or major financial institutions. Most specialize in one or a few closely related industries.

There are many sources for debt financing: banks, savings and loans, commercial finance companies, and the SBA are the most common. State and local governments have developed programs in recent years to encourage the growth of small businesses in recognition of their positive effects on the economy. Family members, friends and former associates are all potential sources, especially when financing requirements are smaller.

Banks are the major sources of small business funding. They offer short-term, demand loans, seasonal lines of credit, and single-purpose loans for machinery and equipment. Banks generally are reluctant to offer long-term loans to small firms. The SBA guaranteed lending program encourages banks and non-bank lenders to make long-term loans to small firms by reducing their risk and leveraging the funds they have available. SBA's loan programs are an important part of success for thousands of firms nationwide.

Here is the bottom line. The reality of small business financing is that there are basically no grants!. Don't expect that you are going to "get" some free money. There are precious few of those sources. Expect that you are going to need some of your own capital along with some commercial lending.

To learn more about financing your small business, contact America's free and confidential source of small business mentoring and coaching. Also, watch for the SCORE series of workshops through Community Education starting the end of this month. Go to www.score-rochester.org.

Dean L. Swanson
South East Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
*Dean is a volunteer SCORE Counselor.
