



SEARCH

[HOME](#) | [ARCHIVES](#) | [SUBSCRIBE](#) | [ADVERTISE](#) | [FAQ](#) | [FEEDBACK](#) | [CONTACT US](#)

Article Tools: [Print](#) | [Email](#) | [Add Comment](#)



**WHAT'S INSIDE**

INDUSTRY NEWS & TRENDS

PPAI NEWS

PRODUCTS

DECORATION PROCESSES

SALES & MARKETING

BUSINESS OPERATIONS

RESEARCH

PROFILES

EDITORIAL/OPINION

ONLINE EXCLUSIVES

PPAI PUBLICATIONS

PPB NEWSLINK

PPB SUPPLEMENTS

PROMOTIONAL CONSULTANT

PROMOTIONAL CONSULTANT TODAY

SHOW DAILY

THE NAVIGATOR

**THIS MONTH'S POLL**

How long have you been a SAGE user?

- 1-5 years
- 6-10 years
- More than 10 years



### Capital Gains

By: Brittany Glenn  
Issue: 2011jun

These days, owning a small business is tricky. It requires capital just to stay afloat; even more to take your company to the next level. Sure, you've got business on the books, but clients are holding onto their money, waiting to pay those invoices as long as they can. So much for net 30.

Meanwhile, you have commissions, payroll and overhead costs to pay now.

Once you've exhausted family and friends—it's time to look at other ways of acquiring capital for your business, including traditional bank loans, SBA-backed loans and alternative financing options.

### Credit Conundrum

As a result of the 2008 financial crisis, banks are not as willing as they once were to loan money to businesses. John Herman, founder and CEO of PPAI business partner Promotional Capital LLC (UPIC: PROMOCAP) based in Cleveland, Ohio, believes this development has unfairly affected smaller companies.

"The banks are focusing on their largest, most credit-worthy customers, and there seems to be a lack of focus on small businesses," Herman says. "The credit standard that the banks are seeking today from small businesses is rigorous. That's making it very difficult for the small-business owner."

"A few years ago, you walked into the bank and they had open arms—they wanted to do business," Herman continues. "Today, we know that doesn't exist, so you have to be creative and think about other ways to finance your business."

David Woods, MAS, CEO of Neenah, Wisconsin-based distributor franchise firm Adventures in Advertising Corporation (UPIC: ADVINADV), explains the situation as he sees it. "I think it's a lot more challenging today to get a loan because everyone has come through a difficult time," Woods says. "There's been a lot of loss, so everyone is much more cautious."

Joy C. Manbeck, senior vice president, director of SBA lending, for Private Bank of Buckhead in Atlanta, agrees that it's harder to get a traditional bank loan today than it was before the 2008 crash.

"Not only have we intensified our own underwriting, but the FDIC and state regulatory agencies have become much more intense," Manbeck says. "All banks are held to a higher standard than they were before. A lot of banks are in trouble now. They are under cease and desist, and they can't loan money. But things are improving slowly from the whole economic downturn that started in 2008."

The challenge to get loans goes far beyond the promotional products industry, affecting businesses of just about every size in every sector of the economy. Eric Sedransk, president and founder of a New York City-based dotcom called The Early Birdie, has had to find creative ways to raise funds for his company, which provides a service similar to Groupon, only for golfers.

"It's not easy for a small business with a lack of a track record to raise funds," Sedransk says. "The most success I've had so far is with family and friends as well as people in the industry. You need to really be creative and open-minded."

Lou Davenport, a SCORE volunteer counselor and a member of the SCORE national advisory council who lives in Lancaster, Pennsylvania, says not only have banks raised the bar on credit standards, but so too has the Small Business Administration (SBA). (SCORE is a program backed by the Small Business Administration that teams retired business executives with small-business owners looking for guidance.)

"Both the banks and the SBA have tightened their lending criteria in response to the

increased riskiness of lending to small businesses," she explains.

As a result of the stricter credit requirements, small-business owners are seeking alternative sources of funding, says Jenny Magill, resource development manager for ACCION Chicago, a nonprofit microlender that provides loans and business consulting to small-business owners and start-ups in the Chicago area.

"We have seen a huge increase in clients in the current economy with banks tightening their loan pools and requirements," Magill says. "We've seen a 50-percent increase in just the first quarter of 2011 compared to 2010. We're also seeing an increase in start-up loans and the average credit scores of our applicants.

"I think small-business owners need to know that it is more difficult today to get a loan, so they're going to have to do more work on their own," she explains. "If they have had credit problems in the past, it's important to start fixing those."

If you are ready to apply for a traditional bank loan, Manbeck recommends getting your papers in order. "Be prepared when you go to the bank," she says. "Have all of your numbers ready: three years of tax returns, your current financial statement, your balance sheet and your P&L statement for the current period as well as your personal information."

Manbeck recommends finding a bank that has a small-business lending department and that is a preferred lender participant ("PLP" for short) with the SBA.

"A preferred lender participant has been approved by the SBA to properly analyze and make good credit decisions," Manbeck says. "Preferred lenders can get a loan from the SBA within a day. Also, a bank with a small-business lending department is an indication of the bank's willingness to work with small businesses."

She also believes that approaching a community bank—versus a large, national bank—will net you better odds of success when applying for a loan. "All banks are looking for non-interest-bearing deposits and total relationships," she says.

### **The SBA Guarantee**

The U.S. government-supported Small Business Administration does not make loans directly to small businesses but rather acts as a guarantor on bank loans. You can apply to any bank for an SBA loan, but it is more advantageous to work with a preferred lender participant since this kind of bank is pre-approved by the SBA and can expedite the process.

"Typically, loans guaranteed by the SBA require a smaller amount of cash injection from borrowers and provide a longer repayment period than conventional bank loans," Manbeck says.

"SBA loans are designed for borrowers who may not be completely bankable under conventional terms, but they are credit-worthy. The SBA program is an outstanding choice for new borrowers or small borrowers."

It's also much easier to qualify for an SBA loan than for a traditional bank loan, explains SCORE's Davenport. "The SBA is there to say 'yes' to loan proposals that a commercial bank might otherwise say 'no' to because the loan proposal does not meet all of their credit criteria. If the SBA gives the bank an 80-percent guarantee of the loan amount then the bank is much more comfortable in saying yes."

Another advantage of an SBA loan is that although most bank loans are collateralized (usually to the real estate of the principle), with some SBA loans you may not need collateral.

However, there is a catch. "With an SBA-guaranteed loan, the interest rate is higher," Davenport says. "The SBA charges the bank a fee for the guaranteed benefit and the bank passes that fee on to the client in the interest rate. If you were paying your bank six percent for a term loan, you might be paying 7.5 percent for an SBA-guaranteed loan."

There are multiple SBA loan programs, but the most popular loans are the 7(a) and the

504 says Denise Beeson, small-business consultant and loan advisor, and broker associate for BaySierra Financial, Inc. in Santa Rosa, California.

The 7(a) loan program is the SBA's primary program to help start-up and existing small businesses obtain financing when they might not be eligible for business loans through normal lending channels. The name comes from section 7(a) of the Small Business Act, which authorizes the SBA to provide business loans to American small businesses.

"The 7(a) loans provide an opportunity to get working capital to purchase machinery, help with marketing and advertising, and expand or grow the business," Beeson says. "Usually somebody is interested in the \$200,000 to \$250,000 range for a 7(a) all the way up to \$5 million."

The 504 loan program provides small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. "The 504 loan is designed to provide assets," Manbeck says. "Either you're buying real estate or you're buying equipment, furniture or fixtures."

If you've ever applied for an SBA-guaranteed loan, you know there are lots of forms to fill out. Beeson specializes in helping small-business owners complete the SBA's forms.

"The typical business owner gives too much information on these forms," Beeson says. "For instance, your husband is your partner in your business and he just became disabled—that may not be something you'd want to share. On the other hand, if you just got stopped for a DUI or you are being sued, then you have to divulge that. That may be terms for no loan."

### **Industry Options**

If you're not ready to apply for a loan, there are other financing options available that are specific to the promotional products industry. One such alternative is PPAI business partner Promotional Capital.

"Promotional Capital is the only company that exclusively provides financing to promotional product businesses," Herman says. "We work more with both distributors and suppliers."

Herman was once a distributor himself, so he knows the industry. "There's always been a funding gap in the industry," he says. "Often suppliers want money upfront for their orders while distributors' clients want terms to pay their bills. So the distributor is stuck having to pay for an order today that ships in 30 days, and then they bill their client who wants 30 to 60 days to pay. That's the gap we are trying to fill."

Promotional Capital provides two primary services: accounts-receivable financing and purchase-order financing.

"Just like a bank, we can provide a credit line based on our clients' accounts receivable," Herman says. "We typically provide an 80-percent advance on their invoices immediately after they send them to their clients. The fee ranges from two to four percent, depending on the creditworthiness of the client."

That last sentence is important to note because, as Herman points out, Promotional Capital bases its credit decisions on the creditworthiness of your clients, not you. "If a distributor or supplier has mediocre credit, we don't care about that because they might be working with a very credit-worthy client," Herman adds.

The other service Promotional Capital provides is purchase-order financing. "We will advance 100 percent of the money needed to pay the supplier for the cost of the goods," Herman says. "That solves the problem of needing to pay your supplier an advance."

One of the benefits of the PPAI Working Capital program is it offers flexibility by providing financing on a per-transaction basis.

"These two services literally can provide a company with its working capital to be in business," Herman says. "We're providing the financing piece of the puzzle for the distributor who chooses to stay independent."

Another industry alternative for distributors who are seeking a more permanent solution to cash flow is to join a franchise program, such as Adventures in Advertising.

"AIA is having very good results recruiting independent distributors because we can provide high levels of financing," Woods says. "We finance the business cycle for distributors. What happens in a system like ours is the distributor creates the order from the end user and crosses it into our operating system, so the purchase order would go directly to a supplier. We pay the supplier and bill the end-user customer. For that, the

independent distributor pays a fee, which ranges from seven to 10 percent of the gross sale.”

Because AIA fully funds orders, you can target larger accounts that may have previously been out of reach. In addition to the cash-flow solutions provided by AIA, the franchiser offers back-office support; marketing and technology tools; professional development; and end-quantity pricing from suppliers.

“For the smaller distributor in today’s market, not only is the financing challenging but you really have to invest a lot in terms of marketing tools, technology and back-office support,” Woods says. “AIA provides a turnkey solution.”

Woods offers one more piece of advice: “Choose a partner, choose an investor or choose a lender as you would choose a spouse,” he says. “It’s just like getting married. These situations are easy to get into and they’re tough to get out of. You want to team up with somebody that you can live with happily, professionally, for a long time.”

Brittany Glenn writes about current issues, trends and the economy for consumer and business-to-business magazines. She is a former associate editor of PPB magazine.

---

### Resources For Finding Funds

Check out these online resources to help you raise capital for your business:

[www.ppai.org](http://www.ppai.org) – Click on Members and Business Partners with your PPAI-member login to find information about the PPAI Working Capital program with business partner Promotional Capital. It can provide financing for any size transaction from \$500 to \$1 million or more. It will advance the money to your suppliers if any up-front payments are required for your domestic and international purchase orders and provide advances for the amounts due on your invoices usually within 24 hours after sending the bill to your clients. Members of PPAI are automatically pre-approved.

[www.40billion.com](http://www.40billion.com) – 40billion.com facilitates business capital fundraising through gifts and loans from the entrepreneur’s network of friends and family online. Using online tools, entrepreneurs create fundraising profiles and invite their connections to offer funding in exchange for discounts or potential returns.

[www.accionusa.org](http://www.accionusa.org) – ACCION USA is a microfinance organization that lends business loans of up to \$50,000 to business owners who are unable to obtain loans from traditional lenders. You must have a minimum credit score of 575 and not have more than \$3,000 in past-due debt.

[www.asbdc-us.org](http://www.asbdc-us.org) – Visit the Association of Small Business Development Centers website to find your local small-business development center, where you will find a wealth of information and straight answers to questions. (Example: North Texas Small Business Development Center at [www.ntsfdc.org](http://www.ntsfdc.org).)

[www.lendingclub.com](http://www.lendingclub.com) – A person-to-person lending website that pairs borrowers and lenders through a matching system that combines a search algorithm, credit decisioning, a secondary market and a choice of loan durations.

[www.prosper.com](http://www.prosper.com) – A peer-to-peer lending site, Prosper.com enables borrowers to post loan listings and investors to invest in the listings that meet their criteria. Once the process is complete, borrowers make fixed monthly payments and investors receive a portion of those payments directly to their Prosper account.

[www.resourcenation.com](http://www.resourcenation.com) – Resource Nation connects businesses with local and national vendors and allows them to compare prices, geographic regions, industry specialties and other specifications. It also provides free how-to guides, downloadable business forms and other articles and guides on business and entrepreneurial topics.

[www.sba.gov](http://www.sba.gov) – The U.S. Small Business Administration (SBA) provides support to small businesses and small-business owners across the nation by providing access to SBA loans, ensuring that 23 percent of federal contract dollars go to small businesses and through counseling.

[www.score.org](http://www.score.org) – A resource partner with the SBA, SCORE is a nonprofit association dedicated to educating entrepreneurs and helping small business start, grow and succeed. SCORE has more than 13,000 volunteers at 350 chapters nationwide who provide individual mentoring and business workshops for small-business owners.

---

## How To Prepare To Apply For A Loan

Here are some tips to keep in mind when looking for a lender and requesting a loan:

- All banks are looking for non-interest bearing deposits and total relationships. Be ready to move all or much of your non-loan banking business with your borrowing relationship, and let your lender know that.
- Find a bank that has a small-business lending department and is a preferred lender participant lender with the SBA. A PLP lender is approved by SBA to make credit and other unilateral decisions, and can provide a very quick turn-around on loan requests.
- Be able to clearly articulate your request: the amount to be borrowed, what the proceeds will be used for and how you plan to pay back your loan.
- Come prepared with good financial information, including a minimum of three years of personal and corporate tax returns, a recent interim balance sheet and P&L on your business (within the last 45 to 60 days), a current personal financial statement and a two-year projection outlining how your company financials will look after the impact of the financing.
- Include a concise, comprehensive business plan. Bullet points are great, and try to keep the narrative to a minimum—just provide the facts. A two- or three-year projection with assumptions is critical. Be able to support your projections.
- Be prepared to offer collateral. Demonstrate you have ample cushion or liquidity such as equity in property that can be used to borrow additional operating capital if your company encounters cash flow challenges.
- Plan on giving your personal guaranty. Most, if not all, lenders will require personal guarantees on small-business loans, particularly of shareholders owning 20 percent or more.

*Source: Joy C. Manbeck, senior vice president, director of SBA lending, for Private Bank of Buckhead in Atlanta, Georgia.*

Comments (0)

Add Comment

\* Name:

\* Email:

Company:

\* Title:

\* Comments: