

# **BUSINESS DEVELOPMENT**

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## CLASS RULES

- Participate
- Ask Questions
- Share your experience
- Relax
- Enjoy yourself
- Please shut off cellphones

## THE FIVE C's OF CREDIT/ THE BASIS OF ALL DECISIONMAKING

1. Cashflow
2. Character
3. Capital
4. Collateral
5. Conditions

## THE FIVE C's OF CREDIT/CASHFLOW

- Cashflow

Will the business generate enough cash through its business operations to repay the loan?

## THE FIVE C's OF CREDIT/CHARACTER

- Character

Is the borrower the type of person that is honorable, based on past financial and other dealings?

## THE FIVE C's OF CREDIT/CAPITAL

- Capital

Does the borrower have an investment in the business venture? Are they at risk if the venture fails? Have they committed personal resources?

## THE FIVE C's OF CREDIT/COLLATERAL

- Collateral

What are the assets being financed worth, if the lender needs to liquidate them?

## THE FIVE C's OF CREDIT/CONDITIONS

- Conditions

What conditions are present that may impact the business' performance? SWOT Analysis (**S**trengths, **W**eaknesses, **O**pportunities and **T**hreats)



## **CAUSES OF BUSINESS BORROWING**

- Business Startup
- Inventory Purchase
- Increase in Permanent Working Capital (PWC) or Working Investment Requirements, especially for a startup venture
- Expansion of a business. That results in the Replacement of or Increase in Fixed Assets

# CAUSES OF BUSINESS BORROWING (CONT'D)

- Extraordinary (often onetime) expenses such as lawsuits
- Decrease in equity (sources of funds)
- To finance losses; i.e. expenses exceed revenue resulting in a lack of profits
- To refinance existing debt

## **HOW DO BUSINESSES REPAY LOANS?**

- Cashflow: The business has positive cashflow and uses some of this cashflow to reduce debt
- Conversion of assets into cash; i.e. inventory is sold to customers who pay the business which repays loans
- Increase in liabilities other than debt : substitution of one liability (source of funds) for another
- Increase in Equity or Officer Debt: Injection of Capital by an owner, current or new
- Refinancing through other sources

# **SMALL BUSINESSES AND SMALL BUSINESS OWNERS**

## DEFINING SMALL BUSINESSES

Small businesses as those typically found in the communities in which we live and are often family-owned businesses. They can be retail, service, wholesale or manufacturing enterprises. Typically, these businesses have

< 100 employees (often < 10)

< \$1 million in annual sales

*The U.S. Small Business Administration defines small businesses differently according to the industry type.*

*Generally, the SBA definition include businesses with less than 500 employees (90% of all US firms and likely a higher % of New England Firms).*

# What's the **BIG** Deal!!!!!!

- 23.6 Million Small Businesses
- They create over 80% of all jobs
- \$ 600 billion in Bank Loans in 2015
- \$ 593 Billion additionally from angel investors, finance companies, and venture capital

# What's the **BIG** Deal!!!!!!

- Most rapidly Expanding Loan category for Banks
- Can Improve ROA
- 73% of all businesses used financing in 2015

# What's the **BIG** Deal!!!!!!

- Increases Deposits
- Non-Business Lending Loan growth slowing
- Improved Yield



## CHARACTERISTICS OF A SUCCESSFUL SMALL BUSINESS

- Good Business Owner
  - Strong knowledge of the business/industry
  - Disciplined
  - Persistent
  - Hard working
- Good Location
  - Good customer service
  - Good financial controls
  - Marketing strategy
  - Selling the right type of products and services at the right price

# SMALL BUSINESS CHALLENGES

- Many engaged in retail and personal services
- Limited capital of their own
- Limited access to financing
- Lack of management expertise
- Family-owned
- Compete with foreign entities in the case of manufacturing or category killers in the case of retail

## **WHY DO PEOPLE START BUSINESSES?**

- Job Security
- Income Substitution(more in times of recession)
- Money
- Lifestyle
- Power
- Empire Building

**ONE SIZE DOES NOT FIT ALL!!! TRY TO FIND OUT WHAT MOTIVATES THE BUSINESS OWNER.**

# CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS

- Risk Takers
- Initiative/aggressiveness
- Self-confident
- Thrive on ambiguity/Lack of structure
- Determination
- Persuasive
- Ego-driven

## **CHARACTERISTICS ALL BUSINESSES SEEK**

- Limited Investment of their own capital
- Recognized, established market
- Product need
- Dependable sources of input supply
- Limited (if any) government regulation
- Labor that is qualified, affordable, and available
- Healthy gross profit margins

## **CHARACTERISTICS ALL BUSINESSES SEEK (cont'd)**

- An established, reliable distribution or delivery system
- Customers who pay on time
- No product obsolescence
- Limited and fair competition
- Continuous revenue flow
- No physical perishability
- Exit potential

I'm too Busy to talk right now!

“That is fine – the reason I was calling was to set up an appointment – would Thursday at 2:00 be okay?”

## Send me some Literature

“Can we just get together? How about Tuesday at 3:00”



# **What is the Purpose of an Introductory Call?**

## **INFORMATION GATHERING**

- Information about the Owner
- Information on the Business
- Determine Potential Needs

# **SOME SPECIFIC TOPIC AREAS/QUESTIONS TO ASK**

# INITIAL LOAN INTERVIEW QUESTIONS

- Who are the business' owners?
- How is the business organized? Sole proprietorship, partnership, LLC, S-Corporation, C Corporation
- What does the business do? What is the product or service?
- Who are the business' main customers and suppliers?

# INITIAL LOAN INTERVIEW QUESTIONS (cont'd)

- How much debt does the company currently have and with whom?
- How much money does the company want to borrow and for what purpose?
- Is the company growing quickly? 20-25% annually
- What is the business' tax situation? Are all taxes current?
- Who is the contact for more information?

## LOAN APPLICATION INFORMATION

- **Company Ownership:** Who are the stockholders and how much of the company do they own?
- **Management:** Identify key management personnel, their roles, and their compensation. Ask for complete resumes'
- **Affiliates:** Find out if the business has any subsidiaries and affiliates

## LOAN APPLICATION INFORMATION (cont'd)

- **Personal Guarantors:** Who are they? How much financial strength do they have? Personal Financial Statements
- **Existing Loan Information:** Lender, amount outstanding, security pledged, type of credit, (e.g. line of credit, term loan)
- **Accounts Receivable:** Request an aging of A/R

## **LOAN APPLICATION INFORMATION (cont'd)**

- **Accounts Payable:** Request an aging of A/P
- **Real Property:** Does the business own or lease its building? If leased, what are the lease terms and conditions?
- **Insurance:** Insurer, amount
- **Contingent Liabilities:** How likely are they to come due?



## **LOAN APPLICATION INFORMATION (cont'd)**

- **Pending Litigation:** Personal and business
- **Federal Income Tax Audit:** If applicable, time and date
- **Financial Information**
  - Three years of financial statements to include balance sheets, profit and loss (P & L) statements and cashflow statements
  - Interim financial statements
  - Projected P & L Statement and balance sheets

## **BUSINESS PLANS/ A USEFUL ROADMAP**

- A sound and complete business plan should answer most of the questions that a lender needs to ask about a business

## CONTENT OF A BUSINESS PLAN

- Executive Summary
- Management and Organization
- Product and Services
- Market Research
- Marketing Plan
- Financial Information
- Operating Systems
- Appendix

## **PRESENT THE DEAL**

- Present Products or Services
- Explain Benefits
- Deal with Objections
- Close the Sale

# HOW IS THIS DONE?

## **FOLLOW UP CALL**

- Is the customer satisfied ?
- Problem Resolution
- Other Needs
- Maintain Rapport

# **A DIFFERENT APPROACH**

# **COMMON TO ALL BUSINESS OWNERS?**



**LIMITED TIME !!!!!!!!**

## TWO CHOICES

- **Be an order taker (Consultative selling)**

**OR**

- **Sell Ideas (Creative selling)**

**What Differentiates Your Bank?**

**What is your Unique Selling Advantage (USA)?**

**HOW CAN YOU STAND OUT!**

## **Solve Client Problems**

- Save Time
- Save Money
- Move Money
- Borrow Money
- Protect Assets

## **Creative selling**

- Sets you apart by creating a relationship
- Proactive
- Creates Demand
- Demonstrates Interest

## **Preparing for the First Call**

- Background on the Business
- Background on the Principals
- Background on the Industry

## **Background of the Business**

- Internet
- Library
- Other Staff
- Local Chamber



## **Background of the Principals**

- Internet
- Library
- Other Staff
- Local Chamber

## **Background of the Industry**

- Industry Publications
- Google
- Macro Issues
- Micro Issues

# Setting Goals

## Setting Goals

- Establish Rapport
- Convey Interest
- Communicate an Idea of Benefit

## Establish Rapport

- Be Professional
- Body Language
- Everyone loves a compliment
- Be sincere

## **Convey Interest**

- Demonstrate you have done research
- Ask informed questions
- Body Language (Again)

# Communicate an Idea of Benefit

- Determine if they are Ready for the Presentation.....Then
- Present the Idea.....if not
- Drop a morsel, a tease then
- Schedule another appointment

## A Few Tips

- Watch out for jargon or finance language
- Know your customers jargon
- Alter tone, volume and cadence
- Use gestures
- Silence is Golden – dramatic pauses
- Ask questions
- Most business owners love to talk about their businesses



# Dealing with Objections

## Dealing with Objections

- Actively listen to the objection
- Restate the objection
- You may win the debate and lose the sale
- Agree

## Objections

- I'm not interested in .....

*Then why did they agree to the meeting?*

- *Product*
- *Presentation*

## Objections

- I don't need it.....

*What do they need???*

*Ask the question*

## Objections

- It's Too Expensive.....

*Stress the value of your product and the additional benefits*

## The Closing

- No Simple Answer
- Develop Your Own Style
- When in Doubt just Ask for the Business

**REVIEW A SUCCESS!**

# REVIEW A FAILURE!



## Follow Up Calls

- Ensure Satisfaction
- Identify New Needs
- Keep Them Happy
- “What Have You Done for Me Lately?”
- “What can you do for me in the future?”

## **Needed Information**

- What is the Product?
- Be familiar with the Forms
- Be prepared for additional Objections
- Get it Right the First Time
- Joint Sales Call

## **Become a Resource**

- Understand the Customer
- Understand the Industry
- Understand the Business

**STAY CURRENT**