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ABSTRACT

This publication, the fifth in a series, is directed toward teaching management skills to the small-business man. When the term "management" is used, it refers to administrative management functions rather than to purely operational features of business. This series of publications is intended to be particularly useful to Distributive Education in the smaller community where library research facilities are limited and equipment for the production of visual aids is not readily available. The lecture is designed to be presented to the businessman in nontechnical language. The Lesson Plan is an outline of the material covered which may be used as a teaching guide. The Presentation may be used as written or modified to meet local needs and conditions. The Visual Aids are photographic copies of the set of visual aids which are available for this topic. These visuals are 8- by 10-inch colored transparencies prepared for use on overhead projectors. The Supply Department contains materials which may be reproduced locally for distribution to course participants. Cases in Point are short actual small-business management cases which may be used to augment the presentation and to develop discussion. The Incubator contains ideas for stimulating further thought and discussion by the participants. A bibliography and list of Small Business Administration field offices are included.
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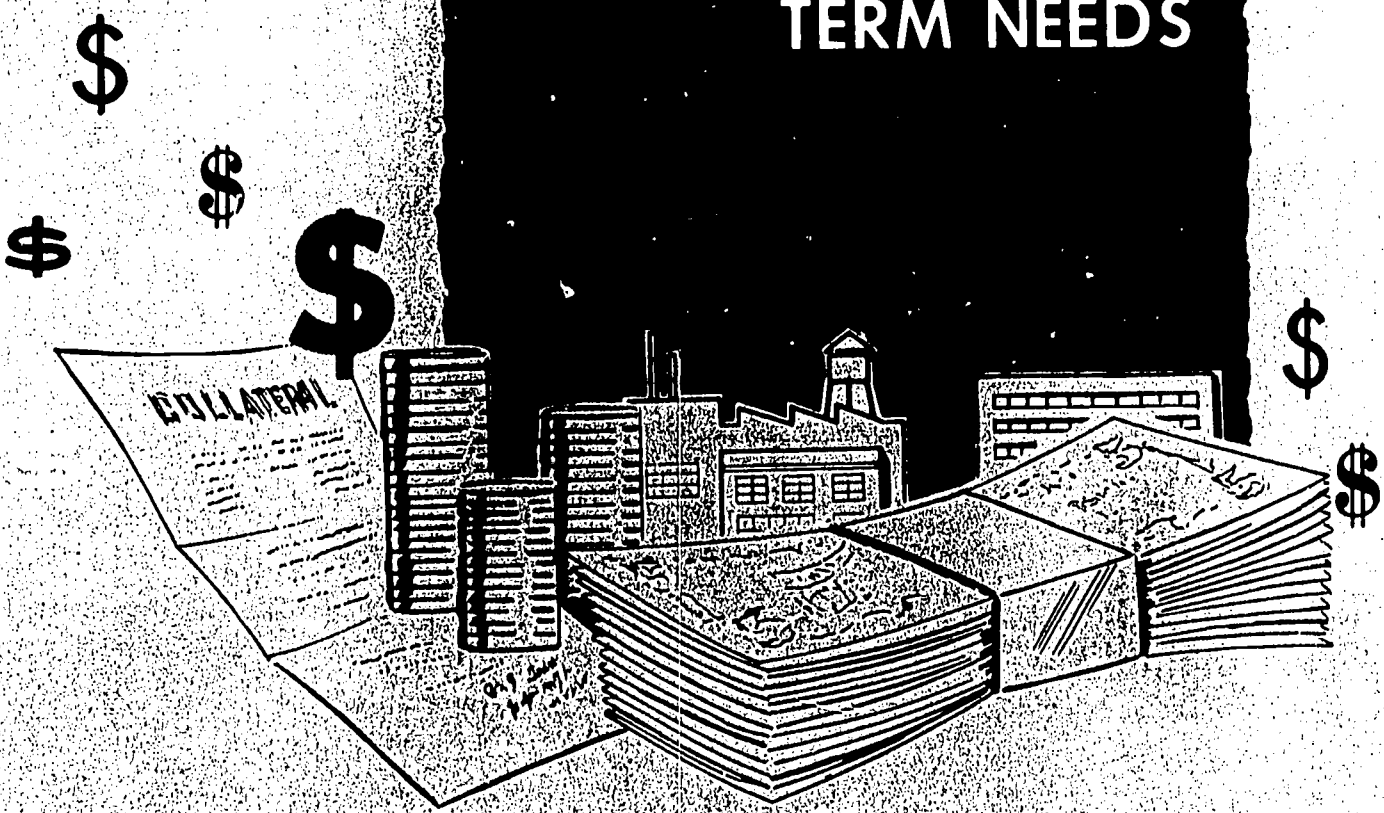
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FINANCING . . . SHORT AND LONG TERM NEEDS



ADMINISTRATIVE MANAGEMENT COURSE PROGRAM

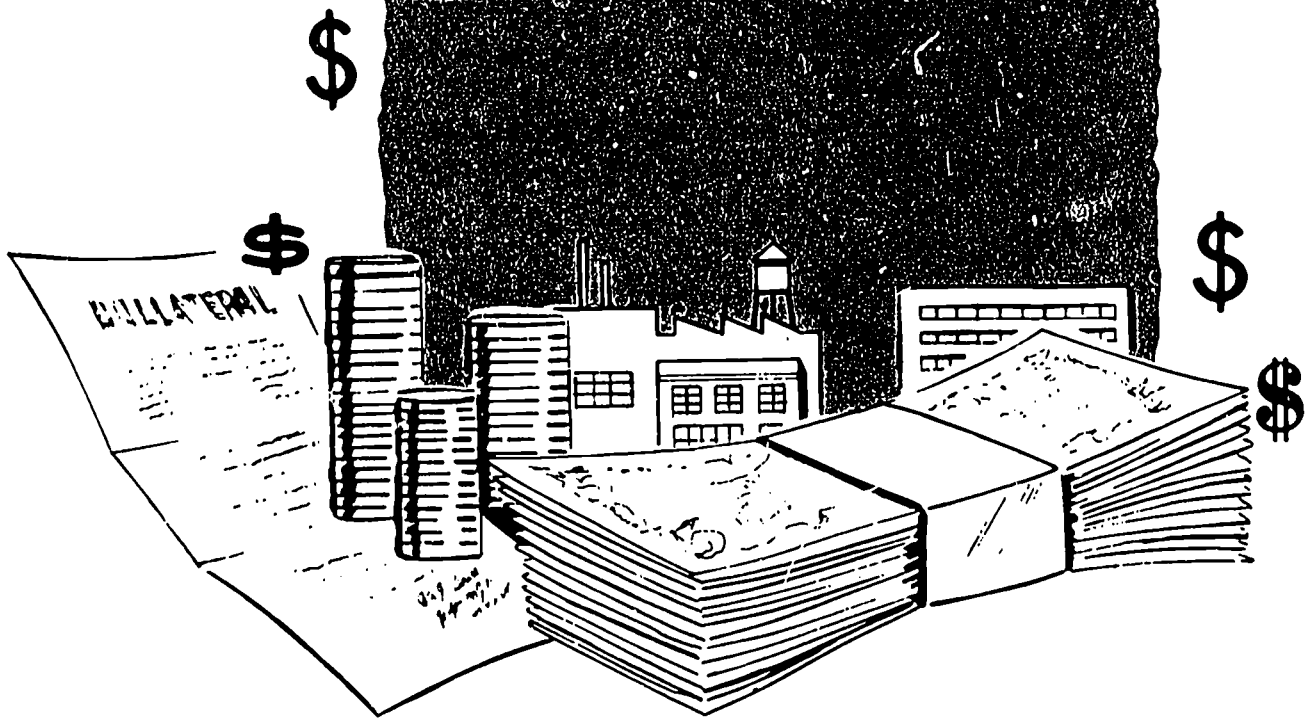
Topic 5

SMALL BUSINESS ADMINISTRATION



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**FINANCING
SHORT AND LONG
TERM NEEDS**



ADMINISTRATIVE MANAGEMENT COURSE PROGRAM

5

2

Small Business Administration

Washington, D.C. 20416

•1965



SMALL BUSINESS ADMINISTRATION

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FOREWORD

The Administrative Management Course Program was developed by the Small Business Administration in cooperation with educational institutions to bring modern management knowledge and techniques to the owners and managers of small businesses. Within 10 years nearly 900 universities, colleges, and local school systems have cosponsored almost 4,000 courses with this Agency. Over 110,000 owners and managers of small businesses have attended these courses. Distributive Education, working through the local school systems, has accounted for about one-third of these totals.

This is an outstanding demonstration of public spirit and service on the part of these hundreds of educational institutions. Yet, there remain many thousands of small-business owners and managers who have never had the opportunity to attend an administrative management course.

A committee on management education, consisting of representatives of the Small Business Administration and the Distributive Education Division of the American Vocational Association, was formed to study ways of meeting the small-business management needs of the small communities and very small businesses in poverty areas. The committee recommended that a series of subject presentations, including lesson plans, lectures, visual aids, case studies, and handout material, be developed to assist in the establishment of administrative management course programs in new locations. Further, it was felt that this material could substantially assist existing management programs, particularly by emphasizing the importance of continuing education for small-business owners and managers, and by assisting the busy instructor with his preparation.

SBA accepted the responsibility for developing a series of subject presentations in the field of administrative management for use by educators and businessmen who teach these management courses. This booklet is number five in the series of seventeen. We believe that these presentations will be particularly useful to Distributive Education in the smaller community where library research facilities are limited and equipment for the production of visual aids is not readily available. It will also assist community planning groups in implementing the educational provisions of the Economic Opportunity Act of 1964.

The booklet was developed by the Courses and Conferences Division. I wish to express appreciation to the Richmond Public Schools System for granting leave of absence to John O. Perreault, who drafted the booklet. The final version was prepared by John W. Clark under the administrative direction of George C. Willman, Jr., Acting Chief of the Division. Thomas O. Barnes was editorial assistant. Artwork and visuals were prepared by the Graphics and Design Branch, Office of Administrative Services.

Eugene P. Foley
Administrator

June 1965

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*A set of the visual aids is available from the nearest SBA regional office. These visuals are 8- by 10-inch colored transparencies for use on overhead projectors.

**Among the materials prepared as "handouts" to participants are several SBA free publications. Current information on the availability of suggested and new SBA publications may be obtained from the nearest SBA office.

A WORD ABOUT THIS SESSION

This publication, one of a series, is directed toward teaching management skills to the small-business man. When the term "management" is used, it refers to administrative management functions rather than to purely operational features of business. The complete set of subject presentations may be obtained on loan from the nearest Small Business Administration field office (listed on the inside back cover). Single booklets or complete sets may be purchased from the Superintendent of Documents, Washington, D. C., 20402.

This topic, Financing Short and Long Term Needs, was prepared to aid in teaching one session of a basic course. It contains sufficient material for a 45- to 60-minute lecture which is usually followed by a discussion period. The management case on page 67 can be used to extend the session or to form the basis for a second session on the topic.

The lecture is designed to be presented to the businessman in nontechnical language. It is one approach to teaching financial management. Instructors will probably prefer to modify or revise the lecture in order to use their personal background and experience in the subject area. They may also find it preferable to alter the topic to take account of the training or special needs of their class participants.

This topic may be handled by a banker, a financial executive, or another whose training, experience, and interest qualify him. Guide for Part-Time Instructors, Distributive Education for Adults, a publication of the U. S. Office of Education, may prove useful to local instructors.

The various sections of the publication are separated by divider sheets of different colors. On the following page, these colors are given and the contents of the sections are briefly described.

Gray -- The Lesson Plan. An outline of the material covered which may be used as a teaching guide, or as a framework for developing an individualized presentation. The lesson plan contains two columns: the left-hand column is an outline of the presentation; the right is a step-by-step indication of procedure, including chalk-board suggestions, quotations, discussion points, and a keyed guide to the visual aids supplied.

Rust -- The Presentation. A carefully prepared subject presentation which may be used as written or modified to meet local needs and conditions. It may also be used as a source of information by a person preparing his own lecture.

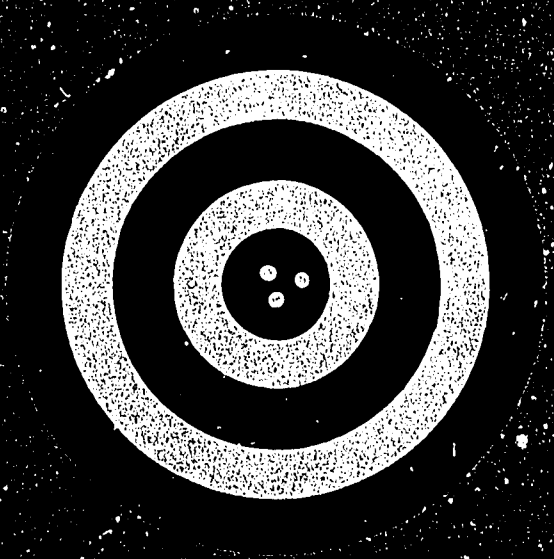
Buff -- The Visual Aids. Photographic copies of the set of visual aids which are available for this topic. These visuals are 8-by10-inch colored transparencies prepared for use on overhead projectors. The subject presentation and lesson plan are keyed to the visuals. A set of visuals for each subject in this series may be borrowed from the nearest SBA regional office.

Green -- The Supply Department. Materials which may be reproduced locally for distribution to course participants. Your nearest SBA office can furnish information on current availability of SBA free publications, including titles published subsequent to this volume.

Yellow -- Cases in Point. Short actual small-business management cases which may be used to augment the presentation and to develop discussion, or as the basis for a second session on the same topic.

Blue -- The Incubator. Ideas for stimulating further thought and discussion by the participants. This material may be reproduced locally for distribution to course participants. "Assignments" are designed to aid in retention of the subject matter of the session.

Note: See back cover for index reference to the divider sheets.



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STIMULATE GROUP BY SERVING AN INSTRUCTIONAL COCKTAIL

RECIPE

Use The Three B's (Bubbles)

- *Base* instruction on problems at learners level.
- *Blend* instruction with job experience.
- *Brighten* instructions with variety of *illustrations, investigations* and group *participation*.

FOUR BASIC STEPS OF INSTRUCTION

Instructing is like selling - -

Selling	Instructing
<p>1. Approach customer Promptness Put at ease Awaken <i>interest</i></p>	<p>1. Prepare the group Start on schedule Put group at ease Awaken interest</p>
<p>2. Present merchandise or service Select merchandise to fit need Show one item at a time Demonstrate <i>selling points</i></p>	<p>2. Present information Gauge material to needs Present one point at a time <i>Show, illustrate, question</i></p>
<p>3. Have customer take part Get merchandise into customer's hands Let customer "try on" merchandise Answer questions and meet objections</p>	<p>3. Have group participate Get group to <i>discuss</i></p> <p>Have members <i>demonstrate</i> or <i>use</i> ideas Answer questions and correct errors</p>
<p>4. Bring sale to close Help customers decide; ask: "which" "for whom" "when" Be sure merchandise fits need Summarize points of care and use Handle mechanics of sale Pave way for return visit</p>	<p>4. Bring meeting to a close Check on understanding; ask: "why" "how" "when" "what" "where" "who" Be sure group now can use information Summarize "take away" ideas</p> <p>Make a definite conclusion Pave way for next session</p>

How To Deal With "Difficult Customers"



What To Do

THE "MOUTH"—wants to do all the talking.

Take the play away from him by asking others to comment on his remarks.

Deliberately turn to others and ask for their opinions. Avoid looking at him.

Tactfully ask him to give someone else a chance, or talk to him in private.



THE "ARGUER"—constantly tries to catch you up.

Keep cool. You can never "win" an argument. Always make him back it up. Ask for evidence.

Avoid getting personal.

Refer the question to the group and then to him.



THE "MOUSE"—is in every group.

Call him by name and ask him for an opinion. Ask him an easy question he is sure to answer well, then praise him. This person is worthy of your attention.



THE "SO-WHATER"—is disinterested.

Point up something he has done as a good example of the point being stressed. Ask direct questions affecting his work.

LESSON PLAN

TOPIC: FINANCING SHORT AND LONG TERM NEEDS

OBJECTIVES: To examine the needs for capital in a small business.
To review pertinent financial terminology.
To indicate ways of improving the financial management of small business.
To study the various types of capital.
To determine the sources of capital funds.

SESSION CONTENT

- I. INTRODUCTION
- II. NEED FOR CAPITAL
 - A. Growth
 - 1. Stages of growth
 - a. Incubation
 - b. Customer acceptance
 - c. Expansion
 - d. Maturity
 - 2. Types of growth
 - a. Increased sales volume
 - b. Diversification
 - B. Planning financial requirements
- III. DEFINITION OF FINANCIAL TERMS
 - A. Capital
 - B. Working capital
 - C. Net working capital
 - D. Fixed capital
 - E. Equity capital
 - F. Debt capital

TIPS AND APPROACHES

King Midas analogy or some other appropriate introduction.

Visual No. 5-1

Visual No. 5-2

G. Capital structure

IV. TYPES OF CAPITAL

Visual No. 5-3

A. Short-term loans

1. Characteristics
 - a. Less than one year maturity
 - b. Temporary need
 - c. Self-liquidating
2. Qualifications
 - a. Financial records
 - b. Character
3. Examples
 - a. Inventory loans
 - b. Accounts receivable loans

Discuss.

Ask class for examples.

B. Intermediate-term loans

Compare with short-term loans.

1. Characteristics
 - a. One to ten year maturity
 - b. Usually amortized
2. Designed for small- and medium-sized businesses
3. Qualifications
 - a. Loan agreement
 - b. Collateral
 - c. Financial records
 - d. Character
4. Uses
 - a. Buy equipment
 - b. Establish new business
 - c. Buy real estate
 - d. Provide additional working capital

Have participants cite specific examples from their own experience.

C. Long-term loans

Compare with other types of loans.

1. Characteristics
 - a. Usual duration of more than 10 years
 - b. Usually for real estate
 - c. Rigid collateral requirements

2. Types
 - a. Bonds
 - b. Mortgages
3. Value to small-business men

D. Equity capital

1. Characteristics
 - a. Similar to term borrowing with one exception
 - b. Permanent--does not have to be repaid
 - c. Control
2. Ways of obtaining equity capital
 - a. Reinvest profit
 - b. Personal funds
 - c. Share ownership
3. Reasons for seeking equity capital
 - a. Need to permanently expand capital base
 - b. Need to balance debt capital
 - c. Unable to obtain debt capital

Contrast with borrowing.

Cite examples.

V. SOURCES OF CAPITAL

A. Internal funds

B. Trade credit

1. Accounts payable
2. Lease from supplier.
3. Installment (term) buying
4. Consignment
5. Customer credit financing
6. Supplier loans

Visual No. 5-4

List on chalkboard.

C. Equity sources

1. Additional funds of owner
2. Friends and relatives
3. Local investors
4. Investment companies

D. Banks

1. Types of bank loans
 - a. Straight commercial loans
 - b. Character loans
 - c. Term loans
 - d. Accounts receivable loans
 - e. Warehouse receipt loans
 - f. Collateral loans
2. Other bank loan services

List on chalkboard.

E. Other private sources of capital

1. Insurance companies
 - a. Real estate loans
 - b. Loans on personal life insurance policies
2. Mortgage bankers
3. Finance companies
4. Factors

F. Small Business Administration

1. SBA's functions and responsibilities
2. Financial aid
 - a. Counseling
 - b. Obtaining private funds
 - c. Participating loans
 - d. Direct loans
3. Use of SBA loan funds
 - a. Business construction
 - b. Purchase of machinery, equipment, and supplies
 - c. Working capital

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4. Amount of SBA loans
(\$1,000 - \$350,000)
5. Loan qualifications
 - a. Limits on type of business
 - b. Limits on size of business
 - (1) Manufacturers
 - (2) Wholesalers
 - (3) Retailers
6. Small Loan Program
7. Disaster Loan Program
8. Loans to State and local development companies

G. Small Business Investment Companies (SBIC's)

1. Licensed and regulated by SBA
2. Long-term and equity capital source
3. Methods of financing small business
 - a. Purchase debentures
 - b. Purchase capital stock
 - c. Purchase debt securities
 - d. Long-term loans
4. Value to small, small-business man

VI. PROBLEMS IN FINANCIAL MANAGEMENT

A. Problems of the small-business men

1. Small-business man is uninformed about finance
2. Banker is misinformed about small-business men

Handout No. 5-1

Have class cite problems.

16

B. Poor financial management

1. Inadequate sales
2. Heavy operating expenses
3. Poor collection and credit policy
4. Inventory troubles
5. Excessive fixed assets

Visual No. 5-5

VII. TIPS ON GOOD FINANCIAL MANAGEMENT

Visual No. 5-6

A. Plan your capital requirements in advance--ask yourself these questions:

Visual No. 5-7

1. Why do I need this capital?
2. How much do I need?
3. When do I need it?
4. How long will I need it?
5. Where can I obtain it?
6. How can I repay it?

B. Maintain appropriate balance between equity and debt capital

Return to Visual No. 5-6.

1. Factors influencing proper balance
 - a. Kind of business
 - b. Objectives and policies of owner
 - c. Availability of funds
2. Need for both debt and equity capital

C. Avoid excessive fixed assets

1. Relationship between fixed assets and tangible net worth
2. Reasons for keeping down fixed assets
 - a. Too much fixed capital reduces available working capital

Define tangible net worth. Describe relationship.

List on chalkboard.

17

- b. Cost of fixed assets burdensome in periods of declining sales
- c. High fixed capital increases breakeven point
- 3. Remedies for high fixed capital
 - a. Sell surplus assets
 - b. Mortgage fixed assets
 - c. Sell and lease back

List on chalkboard; give examples.

D. Watch relationship of net working capital to sales

Tell how they are related.

E. Avoid excessive inventories

- 1. Keep enough inventories
- 2. Risks of excessive inventories
- 3. Don't speculate in inventory

F. Study the capital market

- 1. Know types of capital
- 2. Know sources of capital
- 3. Know market conditions

Write on chalkboard.

G. Develop banking connections

H. Don't borrow more than you need

"Money costs money"

VIII. ESTABLISHING BANKING CONNECTIONS

A. Need for banking connections

- 1. Non-loan banking services
- 2. An informed loan source

B. Banking services

- 1. Accept deposits
- 2. Cash and certify checks

Visual No. 5-8

3. Collect notes and bills of exchange
4. Supply coins and currency
5. Furnish credit information
6. Give financial advice
7. Purchase and sell securities
8. Transfer funds
9. Supply safe deposit service
10. Maintain foreign finance services
11. Administer trusts
12. Serve as financial reference

C. Banker's need for information

1. Banker's need to know borrower
2. Six C's of credit
 - a. Character
 - b. Capital
 - c. Capacity
 - d. Collateral
 - e. Circumstances
 - f. Coverage
3. Banker as a day-to-day advisor

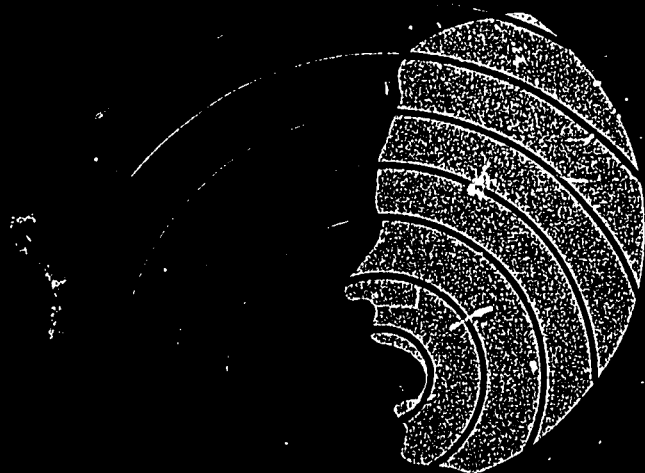
Discuss.

Visual No. 5-9

IX. CONCLUSION

The profitability of good financial management

Hand out Focal Points.



FINANCING LONG AND SHORT TERM NEEDS

Remember the old story of King Midas and his "golden touch"? Most small-business men would like to have a golden touch when it comes to obtaining capital for their business. Where capital is obtained, somebody's money goes into the enterprise with the expectation that it will be returned--and with a profit. This profit is the only golden touch that is not mythical fantasy. And it comes to the small-business man who has studied the principles of sound money management and who has cultivated a long-range relationship with his banker or other financial backer.

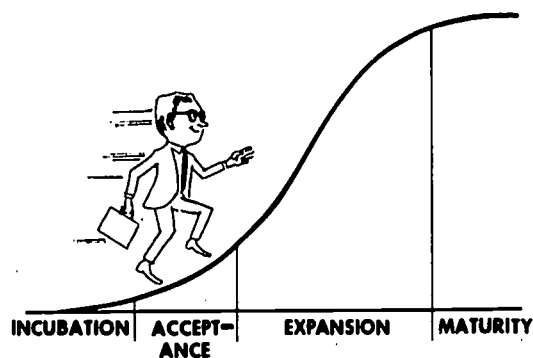
All too frequently, small-business men come to lending institutions, hat in hand, with the vague expectancy of securing some form of a loan. But they are poorly prepared to present a logical picture of the venture they are asking for an investment in, or a realistic repayment program.

In this presentation I hope that you will gain a better understanding of good financial management and how it can be attained. We will also cover types and sources of capital, and your relationships with financial backers.

STAGES OF GROWTH

A typical company experiences four distinct phases in its life. The first, or incubation, period determines whether the new idea or product will survive the rigors of being launched in a new business. Second comes customer acceptance--that elusive quality which is so difficult to predetermine and plan for (remember the hula-hoop?) This usually requires a long development period. During this period management must call on all its intestinal fortitude to continue to spend the time and money to develop its market, train its employees, build its production facilities, and obtain financial stability.

FOUR STAGES OF BUSINESS GROWTH



Visual No. 5-1

The original capital structure of the new business should include provisions for planned expenditures in the phases of incubation and customer acceptance. If, at the start, you do not carefully plan your capital needs through the customer acceptance period, you may be forced back into the money market at this critical time when it is often most difficult to obtain funds.

No business is ever a sure thing at the outset. It is the willingness of those who hatched the idea to keep driving ahead in the face of repeated obstacles that enables the business to get off the ground. At some point, however, the successful business reaches the third stage of development--expansion.

It gains customer acceptance and starts a period of rapid growth and expansion which causes the business to be faced with an entirely new set of problems. Sometimes a manager reaches this new phase without consciously realizing that it is happening. The demand for the product or service increases; sales increase above current store capacity; more inventory space, salespeople, and money are required to meet the demand; and the phase is underway.

Expansion usually occurs in one of two ways: the growing company either (1) expands sales of its present line of goods or services or (2) diversifies by offering an additional assortment of goods to its customers. When a wise manager chooses to grow by expanding his present product line, he will usually do so only if his business has gained a stable financial structure and an increased market for his product. He may choose to grow through diversification if he feels that the market for his present product or service will not expand, or if he needs a new product line to balance out the seasonality of his present product. For example, a seller of patio furniture might diversify by expanding into lines of fireplace accessories or sleds to give him a total line of goods that will offer year-round sales potential. Diversification also guards the business against the weakness of "putting all your eggs in one basket." That is, if the market for a certain product decreases, the diversified company can rely on one of its other product lines to take up the slack. Regardless of which way a businessman may choose to implement his expansion phase, he can be confident of success only if his company enjoys a firm financial position, and he is familiar with the money market and its requirements.

Need for more capital is only one of the new problems that comes with expansion. As a result of the stepped-up pace of activity, more employees are required, and new lines of communication and

assignments of responsibility are needed. Equipment may become too heavily loaded, with the result that maintenance costs and production bottlenecks increase.

It is foolish and unnecessary to add the problems of poor financial planning to the unavoidable problems involved in expansion. Many companies which have survived the first two phases of business are forced to close because of inadequate financial structure and planning in the expansion phase.

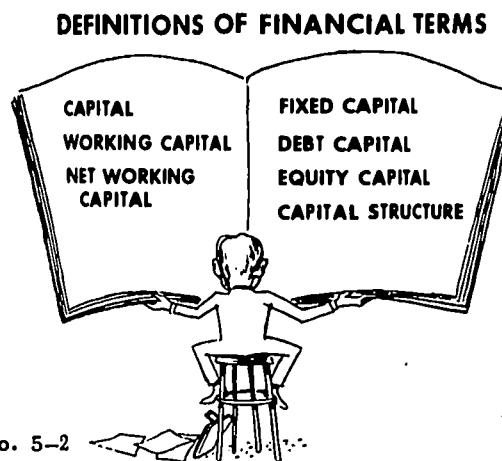
The fourth stage of the growth cycle is maturity. This is a period during which the business reaches full growth, or fails to grow further.

Some businesses never reach this stage. Others seem to reach it quite early, and maintain a stunted condition of no-growth indefinitely.

If maturity is reached, the financial stresses on the business may decrease. If the business is being managed effectively, capital needs will remain constant and no new capital will be needed. However, it takes good financial management to keep the maturing business from dying of hardening of the business arteries.

DEFINITION OF FINANCIAL TERMS

At this point it might be well to pause for a moment in order to define a few financial terms to insure a meeting of minds in the discussion that will follow.



CAPITAL - In its widest sense, capital comprises the total assets of a business. It is the total sum invested in the business. It includes all of the funds invested, both owned and borrowed, plus all accepted credit. It is important to realize that borrowed money is capital. For example, one way for a businessman to increase working capital is to persuade his suppliers or creditors to increase the amount of goods they will sell him on credit or to lengthen the required repayment period. This frees working capital that was previously employed in promptly paying these creditors for use in other ways.

WORKING CAPITAL - These are the funds that are required in the day-to-day operation of the business. They are sometimes referred to as circulating capital. They are invested in such operating needs as cash-on-hand, inventories, supplies, taxes, wages, rent, and other expenses.

NET WORKING CAPITAL - Net working capital represents your investment in the current assets. This amounts to total current assets minus current liabilities. Or, to put it another way, net working capital equals your total working capital minus the portion that your suppliers are willing to advance you in terms of credit or accounts payable.

FIXED CAPITAL - This is the part of total capital that is invested in fixed assets such as land, buildings, machinery, equipment, and fixtures.

EQUITY CAPITAL - The capital that is furnished or invested in the business by owners of that business is known as equity capital. This includes any retained earnings that are plowed back into the company, as well as the initial investment of the owner.

DEBT CAPITAL - Funds that are borrowed or owed by the business are debt capital. In fact, anything appearing under the liabilities heading of the balance sheet can be considered debt capital.

CAPITAL STRUCTURE - This term refers to the total make-up of the capital of a business. It describes the way in which debt capital is balanced against equity, as well as the relationship between working capital and fixed assets.

TYPES OF CAPITAL

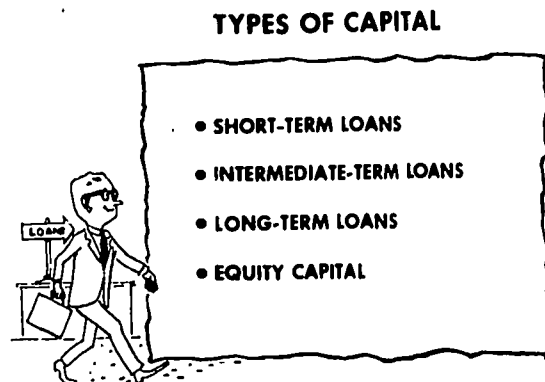
One of the first questions that a businessman must ask himself when he is considering capital expansion is "What kind of capital do I need?" Basically, there are four types of capital:

Short-term loans - under 1 year

Intermediate-term loans - up to 10 years

Long-term loans - over 10 years, and

Equity capital - funds representing ownership.



Visual No. 5-3

Each of these types of capital has different characteristics that lend themselves to different financial situations. It is up to the manager to determine which of them will be best for his particular business circumstances.

Short-term Loans

A short-term loan is commonly defined as borrowed funds to be repaid in less than one year. In a broad sense of the definition, normal trade credit, as well as short-term borrowing from the bank, is considered to be part of this type of financing. Short-term loans are useful in situations where there is only a temporary requirement for more capital, such as building up a seasonal inventory need over a period of several months. For example, a retailer who sells air conditioners must build up his inventory in the spring just prior to his major selling season. He does not have to maintain this large inventory during the whole year. His need is only temporary. A short-term loan could be used to finance this seasonal working capital need.

This example of seasonal inventory buildup demonstrates another typical characteristic of short-term loans--they are usually self-liquidating. That is, they are used to buy things that will generate funds for repayment of the loan. Short-term capital used for inventory will be paid back when the inventory is sold and paid for. If the money is borrowed to make up for working capital used to grant credit during a peak selling season, the funds will be repaid when the invoices are paid and accounts receivable are reduced to a normal value. Since such loans are self-liquidating and of short duration, they are often made on an unsecured basis. This means that you may not have to put up collateral because the bank relies on your credit reputation. If the lender does not know your credit standing, or it has not been established, he may offer a secured loan--a loan made against some of your assets. In this case, the bank is requiring security or collateral as a protection for its

depositors against the unknown risks that are involved even in business situations where the chances of success are good.

The important thing to determine when considering short-term borrowing is that the capital need is really a temporary one. For instance, many a manager has made the mistake of seeking a short-term loan to finance increased accounts receivable, when the increase was due to an established increase in sales volume rather than a peak seasonal need. When this occurs, a more permanent form of funds is needed to increase the total working capital of the firm.

Intermediate-term Loans

Intermediate-term loans, or "term loans" as they are often called, provide capital for periods of from one to ten years. A term loan is usually amortized. That is, it is paid back in installments over the life of the loan agreement. Suppose you want to borrow \$3,000 to buy a new air conditioning system. In such a case, you and the bank, or some other financial institution, agree on terms when you discuss the loan. You might agree to repay the \$3,000, plus interest, in four annual payments of \$750 each.

The term loan has been developed to fill a gap in the financial requirements of the small- and moderate-sized firm. It makes capital available for other than temporary needs without forcing the owner to surrender business control. This type of loan gives the business owner, who cannot fully pay for plant or store and equipment in cash, the opportunity to build up his equity in the business over a period of years. Take, for example, the small restaurant owner who needs some new equipment that will substantially increase his output, but who lacks the cash to pay for it. With a term loan, he will be able to acquire title to the equipment immediately. During the life of the loan, the equipment will be helping to produce income from which to meet installment payments and interest. If the undertaking is successful, it will produce extra profit for the owner, too.

Term loans are also commonly used to provide funds for the purchase of existing businesses, to help establish new ones, and to provide additional working capital for the growing firm.

In granting term credit, banks and other lenders often impose conditions on the borrower, telling him what he must do and what he cannot do over the life of the loan. They may require him to furnish them with annual financial statements or to maintain specific minimum bank balances at all times, or they may prohibit him from entering into any other loan agreements without their consent.

Most term loans are backed by collateral security such as fixed assets, but the lender must rely primarily upon the ability of the borrower to repay his indebtedness out of earnings over the life of the loan. Since fixed assets that are disposed of at forced sale seldom realize more than a small fraction of their book value, the lending institution is interested in the ability of the businessman to operate his business on a profitable basis.

In many respects, loan requirements imposed by term lenders resemble those that apply to short-term loans. The term lender is particularly concerned with the moral responsibility of the borrower, as well as his managerial ability. The effect of these factors is more likely to show up over the period of a longer term loan than with a loan of short maturity.

Long-term Loans

In general, long-term loans have a duration of more than ten years. This time classification is arbitrary, but there are other characteristics of long-term loans that set them apart from term loans. When it comes to long-term credit, the lender must have assurances that the business will be in existence over the long time period of the loan. This means the business must be large enough and stable enough to give promise of its permanence. The lender will also insist on collateral with a rather permanent value--usually real estate.

Long-term capital usually takes the form of bonds or mortgages. Small businesses seldom have the strength or size to be able to afford to sell a bond issue, so mortgages make up the bulk of long-term debt owed by small-business men. If a small-business owner needs capital of a permanent nature and cannot meet the stiff collateral requirements of the long-term capital suppliers, he often must turn to equity capital to meet his needs.

Equity Capital

Some people confuse the terms "borrowing" and "equity," or "investment," capital. One reason is that both kinds can be used for the same type of things. Yet there is a big difference--you don't have to repay equity capital. It becomes a permanent part of your capital structure.

You obtain additional equity capital by reinvesting the profits of the business, investing more of your own funds in the business, or taking people into your company who are willing to risk their money in it.

Sometimes, equity capital offers the only way in which a small-business man can increase his capital base. It may be that you are entering into a new type of business--one in which the risks are still hard to evaluate. Banks and other financial institutions cannot afford to lend their depositors' money in such uncertain situations. Or, it may be that you have already borrowed all that you can. You are not over-extended, but your collateral is already covered by other credit. And you have no other security to offer banks and other lending institutions. In such cases, you may be able to use additional equity capital.

Some business owners shy away from equity as a means of increasing their capital. They may not be able to generate the needed amount internally; and they have no more funds of their own that they can invest; but they don't care to share ownership with a new co-owner. They feel that the control they lose by sharing ownership is not worth the gain of fresh capital. Although the owner's personal feelings in this matter is his own business, I should like to point out that the loss of control through shared ownership is many times no greater than the restraints placed on an owner by the loan agreement of term lenders. And, if a businessman should have to default on a term loan, he can easily lose control of the management of his business.

In a large number of cases, the capital structure of a business is such that the only prudent move, if the business is to grow, is to increase the equity base of the business. In such cases, the businessman must decide between these two alternatives: (1) pass up growth opportunities, or (2) increase the equity capital through shared ownership. If additional permanent capital is needed in a business, equity capital should certainly be considered as a possible alternative.

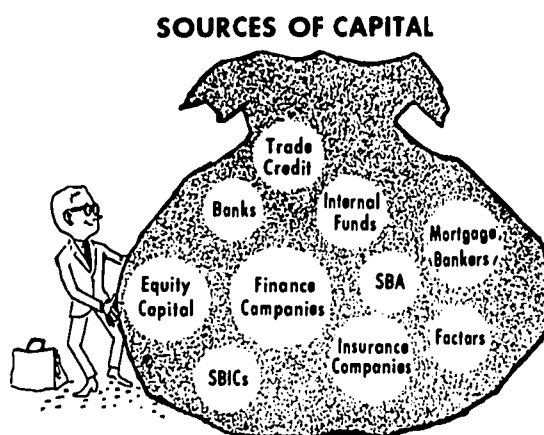
SOURCES OF CAPITAL

Choosing a source of capital may follow the decision of what type of capital to use, or on the other hand, the sources of capital available may dictate what kind of capital must be employed. In either case, a good knowledge of just what capital sources are available can help you make a better decision. There are a good many more sources of capital than most small-business men realize.

Internal Funds

One of the basic sources of capital that is ignored by too many businessmen is internal funds--money obtained from retained earnings. It's not that they don't think of using internally generated funds, it is just that they do not have enough financial data or knowledge about their business or that they don't plan in sufficient detail to permit them to fully consider this alternative. More

than one business owner has gone to his banker to borrow money, only to have his banker show him that he didn't need a loan--that he could finance his needs out of profits if he would budget carefully.



Visual No. 5-4

Trade Credit

Another somewhat neglected source of capital is normal trade credit. There are several ways in which your suppliers can, in effect, furnish you with capital. First, the normal credit terms of 30, 60, or 90 days offered by most suppliers can serve as a capital source. If you have a good credit reputation, most vendors will extend longer terms to you. Consider how this could help you. Suppose you have \$2,000 worth of accounts payable each month, and pay all your bills within thirty days. If all your suppliers would agree to extend your payments to 60 days, you could forgo paying them next month and delay until the following month. This would free \$2,000 of working capital for other purposes. This means of financing is particularly useful if your need is a seasonal short-term one. After your funds have been regenerated, you could put yourself back on the 30-day paying schedule.

When you're dealing with a supplier of capital equipment such as machinery or fixtures, you will find that some of them will lease their equipment rather than sell it, thus reducing your fixed capital requirements. Others will lease it to you with an option to buy, applying your lease payments to the purchase price. Still others will sell to you on installment terms that make the transaction more like a term loan.

When you are buying inventory from a supplier, he may be willing to sell to you on consignment. This means that you would not have to pay him for the items until they are sold. This arrangement is

more often found in trades where the selling price of the individual item is rather high. Such items as boats and appliances are often sold on consignment.

In some business fields the supplier will buy your customers' installment contracts. If you have been carrying your own paper, this step would markedly reduce your accounts receivable and free working capital for other uses. Again, this is more commonly found in retail trades where "big ticket" items are sold. Both the automobile and large appliance industries offer this service to their dealers.

Liberalized trade credit is usually granted on the basis of your credit reputation, and it requires a minimum of prearrangement between you and the person extending the credit. It offers an excellent source of short-term capital.

Equity Sources

When you have determined that what you need is permanent capital, there are several places that you can look for equity capital. First, you should look at yourself. Do you have any additional funds that you might invest in your company? Answer the question carefully. There may be some way you could alter your personal financial situation to obtain the funds. Some small-business owners in a quest for funds find that they have personal life insurance policies or other property of value that they can borrow money on for use in their businesses.

Some lucky business owners find they have friends who are willing to invest in their firms. You might at least explore this possibility.

In almost every community there are people who have idle funds that they would like to invest in some worthwhile venture. Perhaps you know who some of these people are in your community. If not, your banker or accountant may be able to tell you whom to see.

Also, there are companies whose business is buying equity in other firms. There are venture capital houses who not only buy into businesses which are looking for capital, but who often offer expert counsel and advice to the business. But very few of these firms cater to small businesses and they seldom care to invest sums of less than \$50,000.

Banks

Everyone knows that banks loan money, but many people are unaware of some of the loan services offered by banks. The principal

types of bank loans are: straight commercial loans, character loans, term loans, accounts receivable loans, warehouse receipt loans, and collateral loans.

- Straight commercial loans are usually made for a period ranging from 30 to 90 days. These loans are usually based upon the financial statements of the borrower, and they are self-liquidating. This type of paper is used particularly for seasonal financing and for building up inventories.
- Character loans are usually of the consumer credit variety, but they are sometimes used for business--particularly by the small firm.
- Term loans having a maturity of from 1 to 10 years are also offered by bankers, although the majority of bank loans are of the short-term type. They may be either secured or unsecured. Loan repayments may be made on almost any agreed basis--monthly, quarterly, semiannually, or annually. Early payments are often relatively small, with a large final payment.
- Accounts receivable loans are made by many large banks. With this type of loan you use your accounts receivable as a basis for borrowing. The bank will take over these items on a notification or a nonnotification plan. If the notification method is used, the bank will notify the debtor that the receivables have been assigned to it and that it will collect them as they fall due. The bank credits collections to the account of the borrower after deducting service and interest charges. Under the non-notification plan, the borrower collects his accounts as usual and then pays off his indebtedness at the bank. The cost of this type of borrowing is high and considerable recordkeeping is required. So a business must be big enough to have a large amount of accounts receivables to be able to take advantage of this method of raising capital.
- Warehouse receipt loans offer a means of using your inventory as security for a loan. Under this form of financing, inventory is stored in warehouses and the warehouse receipt is given to the bank as security for a loan to pay off the supplier. As the borrower is able to sell his merchandise, he buys back portions of the inventory. This type of borrowing enables the businessman to get along with a smaller investment in working capital. Loans of this type apply only to nonperishable items that are readily marketable.

- Collateral loans are made by banks on the basis of such security as real estate mortgages, life insurance policies (at the cash surrender value), chattel mortgages on personal property, and stocks and bonds.

Banks can also help you raise capital by buying from you the installment credit contracts of your customers. This can be particularly useful to retailers selling high value items such as automobiles, furniture, and large appliances, and who frequently deal in installment contracts. Bankers often stand ready to discount other commercial paper you may have, such as notes receivable. In many cases, if the banker himself is unable to meet your capital needs, he can direct you to another source of funds.

Other Private Sources of Capital

There are a few other private sources of capital that you might consider.

Insurance Companies

Insurance companies are always looking for places to invest their policyholders' money. They are usually interested in real estate loans or mortgages--and particularly in new construction. Insurance companies also may be able to help you in another way. If you hold life insurance policies, the company that issued the policy is usually willing to loan amounts up to the cash value of the policy at a relatively low interest rate.

Mortgage Bankers

Mortgage bankers may also be able to help you finance real estate or construction capital needs. A mortgage banker is really a "money finder." He functions somewhat as a broker, bringing together the money source and the person who needs mortgage funds.

Finance Companies

In addition, there are finance companies that specialize in lending money to business. These are not to be confused with the personal finance companies which loan small sums to individual consumers. Finance companies deal mostly in secured loans and the cost of loans from this source is generally higher than bank loans. However, they will often furnish capital in cases which banks would reject.

Factors

Another source of short-term capital is accounts receivable factoring. Factors are specialized financial institutions which are in business to advance funds on the basis of accounts receivable. Finance companies often have a factoring division. It was mentioned earlier that some banks offer accounts receivable financing. Factors differ from other sources in their accounts receivable financing in that they purchase the receivables "without recourse." That is, they assume the risk of bad debt loss. However, they will pick and choose among the borrowers' customers. The cost of factoring is higher than many other means of financing, and many businessmen object to having the financial institution deal directly with their customers. But, in some situations, factoring offers the only possible way of raising capital.

Small Business Administration

There is another source of intermediate-term loans which we have not discussed. This is the Small Business Administration, an agency of the Federal Government and a cosponsor of this management education program. One of the major responsibilities of the SBA is to help small-business concerns meet their capital needs.

An essential part of the assistance SBA gives small-business men is counseling by financial experts. Sometimes an SBA specialist can show a businessman that borrowing is inadvisable or unnecessary. If borrowing does appear to be the answer to a small-business owner's problem, SBA may be able to help him obtain a bank loan or other private financing. If the firm's local bank will lend some, but not all, of the needed money, SBA will consider lending the remainder by participating with the bank in a loan. If the local bank cannot lend any of the money, SBA will consider lending the entire amount as a "direct" Government loan. In loaning money to small-business men, the SBA is not in competition with private capital sources. The Small Business Administration steps in only when private financing cannot meet the needs of the small-business man.

In its regular business loan program, the SBA participates in loans, or makes direct loans, for the following purposes:

- Business construction, conversion, or expansion;
- Purchase of machinery, equipment, facilities, supplies, or materials; and
- Working capital.

While most SBA business loans are small--some are even less than \$1,000--the Agency may lend as much as \$350,000 as its share of a participation loan or as a direct loan. Most SBA business loans may be for as long as 10 years.

Most small businesses are eligible for SBA loans. However, because of SBA's unique responsibilities as a lender of taxpayers' money, it will not make loans to a few types of business or for certain purposes. For example, it will not make a loan to a business which derives income from gambling activities or to a firm whose predominant sales are of alcoholic beverages. Nor will it make loans for speculation in any kind of real or personal property.

To be considered for a loan, a small business must meet several basic credit requirements and fall within the size standards for small business set up by SBA. For manufacturers, a business that has no more than 250 employees is considered small, while one with more than 1,000 employees is considered large. Between these two breaking points, size standards have been established for specific industries. Wholesalers who have annual sales of \$5 million or less are considered to be small. Retail or service businesses whose annual sales do not exceed \$1 million fall into the small-business category. However, these standards are of a general nature and vary from business to business. For example, a retailer of groceries and fresh meats may have a maximum annual sales of \$2 million and still be considered small. If you are interested in obtaining SBA financial help, you should consult your nearest SBA field office to see if you qualify as an eligible small business.

In addition to its general loan program, SBA offers a small loan program which is designed to meet the needs of the very small retail, service, and other businesses, including new enterprises. This program features liberalized collateral requirements, and it will loan up to \$15,000 as SBA's share of participation loans or as a direct loan, and for periods of up to six years.

SBA also has disaster loan programs which furnish funds to small businesses suffering damages from storms, floods, product disaster, and displacement as a result of Federally aided construction projects. It also offers liberalized loan terms in areas of substantial unemployment.

Another SBA program loans money to State and local development companies which in turn loan money to small businesses in their areas. The key features of SBA's principal lending programs are summarized in chart form in a publication available from your local SBA office. (See Supply Department Section for a copy of this chart. It is available in quantity from SBA as handout material for course participants.)

Small Business Investment Companies

One other source of capital should be mentioned. This is the Small Business Investment Corporation, or SBIC. SBIC's are licensed and regulated by the SBA. They are intended to be profit-making corporations, and are either privately- or publicly-owned and operated. SBIC's are in business to furnish equity capital, long-term debt capital, and consulting and advisory services to small businesses.

A SBIC may finance a small business by the following methods or combinations of methods:

- (1) By purchasing debentures which are convertible into stock of the small firm.
- (2) By purchasing capital stock in the business.
- (3) By purchasing debt securities.
- (4) Through a long-term loan.

Financing provided by a SBIC must be for at least a 5-year period, and loans may be for as long as 20 years. To the very small, unincorporated business, SBIC's primarily offer a source of intermediate-term or long-term loans, rather than a feasible source of equity capital.

As you can see from the long list of possible sources, a small-business man, who has a justifiable need for additional capital and a financial structure strong enough to offer reasonable assurance of success, should be able to obtain the necessary funds.

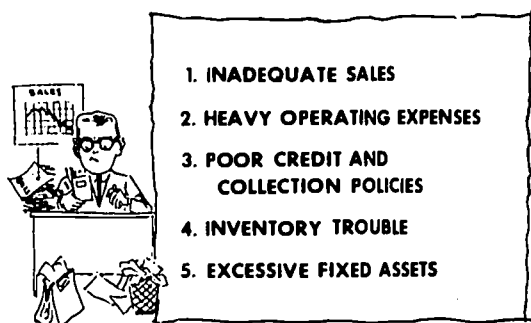
PROBLEMS IN FINANCIAL MANAGEMENT

Typically, the small-business man has found it difficult to obtain expansion capital. This is true for two reasons: (1) he is usually woefully ignorant of the need for a sound capital structure and how to obtain it, and (2) lenders are often uninformed or misinformed about the peculiar capital needs of the small business and the excellent investment opportunities that many such businesses offer. Unfortunately, the burden of rectifying both of these difficulties lies with the businessman himself. It is up to the owners of small firms both to become familiar with the field of financial management and to "educate" and inform their potential financial backers about the sound investment opportunities that their businesses may offer. And if an owner or manager knows something about financial management, it is much easier for him to convince finance executives of the excellence of his proposition.

Most small-business men would agree that one of the reasons for business failure is insufficient capital. And certainly there is a sizeable number of businesses which are doomed to failure before they open their doors simply because the owners do not start out with enough capital to successfully operate the business. But there are also many business failures that are a result of poor management of capital and an unstable capital structure rather than insufficient capital.

Dun & Bradstreet, Inc. has compiled a list of causes of business failures. Among these causes are several which are, primarily, examples of poor financial management. These are:

CAUSES OF FINANCIAL PROBLEMS



Visual No. 5-5

Inadequate sales;

Heavy operating expenses;

Poor collections and credit policy;

Inventory troubles; and

Excessive fixed assets.

Inadequate sales can be caused by inadequate planning for working capital requirements. For example, a man may go into business having underestimated his money requirements for advertising or inventory to sustain his desired sales volume. So he ends up with a shortage of working capital for these purposes, and a much smaller sales volume results.

Heavy operating expenses can also be a drain on working capital. They can absorb funds needed to buy inventory, pay creditors, or finance accounts receivable. Some managers make the mistake of spending too much for such expenses as mahogany desks, country club memberships, and lavish expense accounts when their weak financial structure cannot take this burden. This type of activity often leads to bankruptcy.

Poor credit and collection policies lead to large accounts receivable balance and high bad debt losses which also weaken a company's working capital position.

Inventory problems can cause strain on a company's capital structure, too. If a manager purchases too much inventory, or the wrong mix of inventory, or gets stuck with a lot of valueless old stock, he further taxes his working capital position.

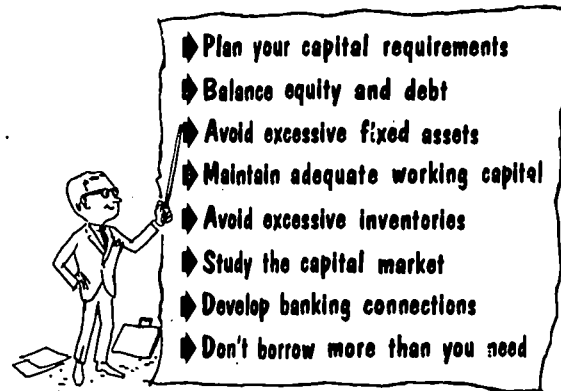
Excessive fixed assets can cause financial problems by absorbing part of a small company's limited funds that could be more profitably used for working capital.

According to Dun & Bradstreet, almost 80 percent of the businesses that failed in recent years were victims of one of these causes just mentioned. Of course, not all management problems are caused by financial weaknesses. But; if a manager has control of the financial sector of his business, he is better able to weather minor crises, and he has more time to devote to other problems that come up.

TIPS ON GOOD FINANCIAL MANAGEMENT

It is easy to recommend good financial management, but how do you attain it? What practical steps can a small-business manager take to get and keep his financial house in order? Here are some tips on how to control your financial structure.

TIPS ON GOOD FINANCIAL MANAGEMENT



Visual No. 5-6

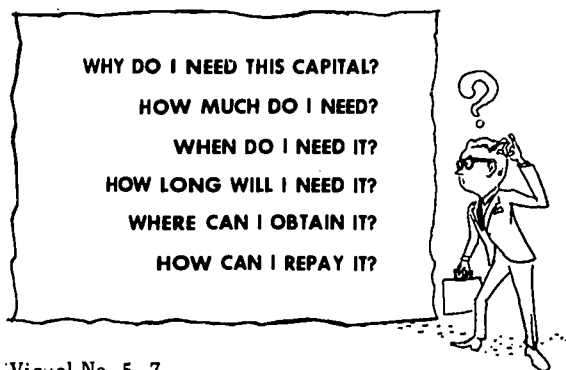
Plan Your Capital Requirements--In Advance

Before you take the irrevocable step of committing your own funds and those you may be able to borrow, make sure you will have sufficient capital to carry you through the incubation and customer ac-

ceptance stages. Be realistic and don't underestimate your requirements. Usually it will take more money than you expect. You should plan on enough reserve funds to carry you through the periods of unexpected expenses that almost always crop up.

Whether the capital expenditure is used for starting a new business, expanding a business, or just making the periodic capital outlays that are required of all active businesses, you should carefully plan and examine your needs. You should be able to answer the following questions:

**BEFORE YOU BORROW,
CAN YOU ANSWER THESE QUESTIONS?**



Visual No. 5-7

Why do I need this capital?

How much do I need?

When do I need it?

How long will I need it?

Where can I obtain it?

How can I repay it (if it is borrowed)?

I hope that by the time we have finished talking about financial management, some of these questions will be easier for you to answer.

Maintain an Appropriate Balance Between Equity and Debt Capital

You need to maintain an appropriate balance between equity and debt capital. But what is the proper balance? This depends on the kind of business involved, the objectives and policies of the owner, and the relative availability of equity and borrowed funds in the community.

In some lines of business it is common for a company to have more borrowed capital than equity. Discount stores and women's specialty shops typically fall into this category. On the other hand, some more conservative fields of endeavor traditionally have capital structures in which equity comprises a much larger share. In one recent study, hardware stores were found to have an average of less than fifty cents of borrowed funds for every dollar of owner's equity. Several commercial credit firms and many trade associations publish typical capital structure figures for various fields of business. You may want to check one of these sources to see how you compare with others in your line of business.

The owner's business philosophy and policies also affect the "proper" balance between equity and borrowed funds. Many small-business men are very proud of their independence and would rather not take a course of action that would reduce their control over their business. Therefore, when they are faced with a need for additional capital, and have no more capital of their own which they might invest in their business, they prefer to borrow the money rather than dilute their own control by bringing someone else with capital into shared ownership of the business.

On the other hand, we have the conservative small-business man whose sense of prudence and frugality cause him to hate the thought of being in debt. This type of manager will forgo expansion unless he can finance it from his own resources. Either philosophy, in the extreme, can be bad financial management. If too large a portion of the capital structure is borrowed, the business can be dangerously unstable. If the owner has a bad year, and cannot meet his interest or funded debt payments, he may lose control of his firm or be forced into bankruptcy. If the small-business owner insists on financing every capital expenditure with his own retained earnings or equity capital, he may forego a justifiable expansion, thus stunting the growth and profit potential of his business.

Conditions in the money market as well as the local financial situation also affect the appropriate balance of a firm's equity and debt. If the money supply is tight, you may have trouble getting any kind of capital. If you need funds during an "easy money" period, both debt and equity capital may be more readily available. In the particular community in which you live, equity capital may be easier to find than borrowed funds or vice-versa. You would probably lean to the type of capital which is easier to obtain, and therefore, cheaper.

Both equity and borrowed funds have their place in any balanced capital structure. If you emphasize equity capital, and you insist on furnishing it yourself, you maintain maximum control, but slow the potential growth of your firm. If you obtain additional equity capital from new owners, you dilute control of the company. Also, in small companies, the amount you would pay in additional dividends to new co-owners may exceed the amount of interest you would have to pay for borrowed funds.

If you put the emphasis on debt capital, there is no sharing of control between you and your creditors unless you are unable to meet your obligations. The cost of borrowed funds can be lower than new equity for two reasons: (1) If the business is successful, return on investment will be larger than interest charges and the additional

profit is not shared with the creditor; and (2) the interest expense for borrowed money is tax deductible, whereas taxes must be paid on profit before dividends can be paid to the owner or owners. Borrowing is also more flexible than ownership. This is particularly true with working capital needs that are short term and seasonal. For example, suppose you need \$20,000 more working capital during the last six months of the year than you do the first six months. If you furnish this \$20,000 as equity capital, it will lie idle for six months of the year. If you borrow the \$20,000 you need, borrow it for only the six months that you require it. Amounts borrowed can be adjusted to day-to-day needs, whereas equity investment is more permanent.

There are a couple of disadvantages to borrowing, however. Borrowing creates fixed obligations of interest and principal which must be met whether the business makes a profit or not. Secondly, if too much of your capital is borrowed, it is difficult to obtain further capital of any kind. Prospective partners may shy away because they don't want to invest in a company in which creditors have large claims on the assets that supersede the owner's claims. Many potential lenders will balk because they would prefer to loan money to a business in which the owner has a larger financial stake in the operation. Many bankers will not loan money to firms whose capital structure is composed of less than half equity capital.

The proper balance between equity and debt capital is not the same for all lines or types of business. But careful consideration of the factors just mentioned will help you find the proper balance for your firm.

Avoid Excessive Investments in Fixed Assets

It is usually less dangerous to underinvest in plant and equipment and other fixed assets than it is to tie up too much of the firm's capital in these items. This is particularly true for a small business.

There are several very practical reasons for keeping down your fixed asset expenditures:

- As we have mentioned before, too large an investment in fixed capital may leave too little money for working capital.
- Fixed capital resulting from an excessive investment in fixed assets may become burdensome during periods of declining sales volume or falling prices.

High fixed costs caused by overinvestment in fixed assets will tend to make your break-even point too high. This is another way of saying that the larger your fixed costs of doing business, the longer it will take you to reach a profitable level of sales.

If you find your business in the position of having excessive fixed assets, there are at least three courses of action that may be open to you:

- (1) Sell the surplus assets. If there is a market for these fixed assets, you may be better off selling them rather than letting them endanger your working capital position.
- (2) Mortgage fixed assets. This will increase your debt capital, but if your capital structure is stable enough to allow this change, it will free funds for more pressing purposes.
- (3) Consider a lease-back arrangement. It is sometimes possible to regain capital funds by selling some of your fixed assets and then leasing them back from the purchaser. This practice is usually limited to assets such as real estate and capital equipment. Care must be exercised in entering into lease agreements, especially if the prospects of the business are uncertain.

Of course, it is always easier to control your financial structure if you don't overinvest in fixed assets in the first place. Small-business men in particular should exercise restraint and purchase only those items of capital equipment that are absolutely necessary--skip the frills and you'll have a better chance to survive.

Maintain Net Working Capital in Proper Proportion To Sales

When organizing a new company, it is important to start with sufficient working capital to support the level of sales you expect to attain in the customer-acceptance stage. But it is equally important to maintain an adequate working capital ratio with respect to sales throughout the growth periods of a firm. When sales are expanding, many managers ignore their working capital requirements. They fail to provide for the larger working capital base required to support their larger volume of sales. Some managers figure that the increased profit from the larger sales volume will take care of increased capital requirements. Still others don't give any thought to the capital needs that are brought on by expanded business activity. An increase in sales will usually cause accounts receivable to rise. More inventory must be carried. And, perhaps, additional employees will have to be

hired or new equipment purchased. All of these changes will put demands on the company's working capital, and the wise manager will have done some planning to see that he has sufficient working capital to meet these needs.

Avoid Excessive Inventories

A company should have sufficient inventory to meet its current needs. Indeed, there is an old peddler's saying that "you can't do business from an empty cart." But it can be equally bad to have too much inventory. Excessive expenditures for inventories rob a manager of working capital that could be more effectively used elsewhere. Then too, when you overinvest, you run the risk that the inventory may become obsolete, stolen, damaged, or otherwise reduced in value.

Some businessmen cannot pass up a "bargain." If they see a good price, they tend to overbuy. These managers should realize that they are in the business of selling a product or service. They are not in the business of speculating on commodities and do not have the funds to do so. They should leave speculation to the Wall Street brokers who make it a business and who can afford the risks involved.

In order to buy prudently, a manager must plan his inventory needs carefully and buy accordingly.

Study the Capital Market

To be able to obtain capital when you need it, you should become familiar with the various types and sources of capital available to you and the ways in which they may be useful to you. You should determine whether you need short- or long-term capital, and whether you should obtain equity capital or borrow the funds. You should discover what sources of capital are available to you. There are many owners and managers of small businesses who are continually bemoaning the fact that they can't obtain capital. But when you pin them down, you find that they have only investigated one or two of the many possible capital sources available.

You should also keep posted on economic and financial conditions--both local and national. Knowing the state of the money supply or money market will help you determine when money is the easiest to obtain, and you can time your capital needs accordingly.

Develop Banking Connections

Cultivate a working relationship between yourself and your banker or other financial backer. Too many small-business men go to their banker only when they need to borrow money. If a manager deals with his banker in his day-to-day financial matters, the banker can get to know him and his company. Not only will the banker often give aid and advice on current financial operations, but when the manager really needs to borrow money, the banker will be familiar with his business situation and will be better able to evaluate the loan application.

Don't Borrow More Than You Need

Borrow only the amount of money that you really need. This is really common sense. But, it is surprising how many businessmen don't heed the warning. Some managers seem to have the idea, "the more money you can borrow, the better." They don't seem to realize that, when you borrow money and pay interest, you are actually renting or paying for the use of that money. So, if you don't have a productive or profit-making use for the money you borrow, you are paying for something you aren't using. Few small-business men can afford this luxury. It pays to plan your capital requirements, carefully determine your actual needs, and borrow only that amount.

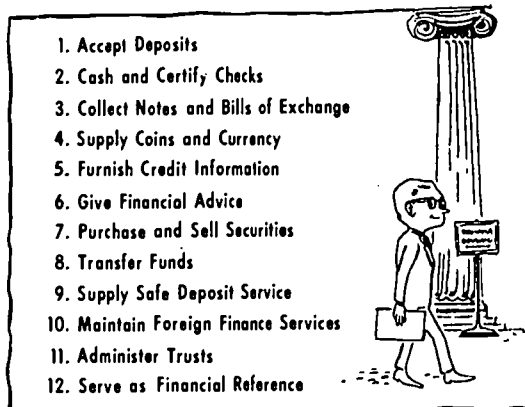
ESTABLISHING BANKING CONNECTIONS

Regardless of your current need, or lack of need, for additional capital, you should establish and maintain good banking connections. You should do this for two reasons:

- (1) In addition to loaning him money, banks offer many services which are valuable to the small-business man.
- (2) If and when you do need to borrow money, the banker will be able to give you more favorable consideration if he knows you and is familiar with your business operation.

Banking Services

BANKING SERVICES



Visual No. 5-8

Among the services commonly offered by banks are: accepting deposits; cashing and certifying checks; collecting checks, notes, and bills of exchange; supplying coins and currency; giving credit information and financial advice; purchasing and selling securities; transferring funds; supplying safe deposit service; maintaining foreign finance relations; and

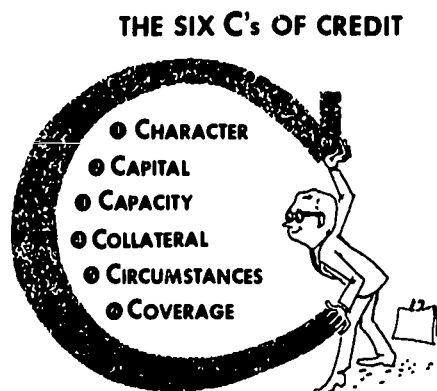
serving trust functions. Your banker can also be a valuable business reference in dealings you may have with other financial intermediaries.

Banker's Need for Information

In making any type of a business loan, your banker will show a primary interest in your company's financial statements and history of operation. All too frequently a small-business man may fail to keep his banker informed as to the progress and prospects of his business until he is faced with an immediate money problem and needs a loan. Remember that anytime you go to a bank for a loan of any type, you are asking the banker to invest somebody else's money in your business. If he knows little or nothing about your business, he may be disinclined as a matter of prudence to give you favorable consideration. At the very least, the granting of the loan will follow prolonged consideration and investigation. If, on the other hand, you have regularly informed the banker about your affairs and have periodically furnished him with copies of your financial reports, even when you are not seeking additional funds, he has a running history of your firm at his finger-tips; and he is in a better position to appraise your needs and to advise you on your financial problems. It is not enough to walk into a bank with a few figures in hand and expect immediate financing. It has been jokingly stated that banks are places that are willing to lend you money when you can prove you don't need it. But national statistics prove that more loans are made on the basis of regularly filed financial statements than on collateral. When you are seeking a loan, full information is a must.

THE SIX C's OF CREDIT

The basic principles which businessmen are urged to follow in extending credit are equally valid when applied to the credit which banks extend to businessmen themselves. The following Six C's of Credit can be regarded as a kind of two-headed coin which you may use as a guide in dealing with your bank and your customers. Bankers look for:



Visual No. 5-9

1. Character - Moral character is the most valuable asset a business owner can possess. To the banker, it means two things in particular: (1) the borrower will do everything in his power to conserve his business assets and thus assure the repayment of his loan, and (2) he is a man of his word-- if he says he will repay his loan promptly, he will make every effort to do just that.
2. Capital - The banker is interested in how much the borrower has invested in his company. The investment a man has in his own business is evidence of his faith in that business.
3. Capacity - The managerial skill demonstrated by the small-business man in utilizing his investment and enlarging it is another important business asset.
4. Collateral - The borrower should have tangible assets to substantially cover the loan. This gives the banker and his investors some assurance that the loan will be repaid even if the business should fail.
5. Circumstances - Many factors have a bearing upon the making of a bank loan and on its repayment. Some of them are mentioned under the headings of character, capacity, capital, collateral, and coverage. Other important factors are: seasonal characteristics of the business, competitive position, level of business activity, long-run business changes, and the nature of the product or service offered.

6. Coverage - The matter of proper insurance coverage is also of great importance. Adequate provision should be made to insure repayment of the loan in the event that something happens to the borrower or his business, such as: death of the owner, losses from fire or theft, or losses from public liability claims.

When you need to borrow money from your banker or other financial backer, you should approach him with all of the facts. In addition to the 6 C's of Credit, you should have a carefully thought-out plan for the use of the money and how you will repay it.

It is a good plan to discuss your every-day money problems with your banker. You should call on him for financial advice just as you call on your doctor for medical advice or your lawyer for legal advice. The banker is a man of wide business experience and his knowledge of prevailing business conditions and trends may be of considerable help to you in formulating your own business judgements. Moreover, his institution performs many banking services that may be useful to you, even when you do not intend to borrow. It is important that you deal with a banker whom you know and who knows you. Of course, business matters discussed with your banker will be held in confidence, just as legal and medical matters are considered confidential by your lawyer and doctor.

CONCLUSION

Many of the problems of the small-business man stem from financial difficulties. Therefore, if he expects to be successful, the owner-manager of a small business needs to know how to be a good financial manager. He should be able to control his company's finances rather than letting his financial operations control him. He must be aware of his company's capital structure and maintain it in a strong, stable position. He must learn to maintain adequate financial records and to interpret them.

He has to acquire the ability to plan his future capital needs. He will need to know:

When he will require more capital,

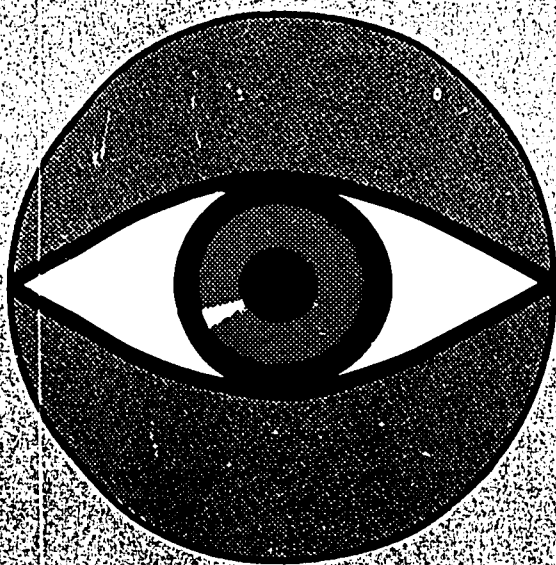
What kind of capital to borrow,

Where to borrow to get the best terms, and

How he will repay it.

He will have to maintain a working relationship with his banker and other financial intermediaries.

The small-business man usually does not have a financial background. He will have to work hard to acquire the knowledge and experience he needs to be a good financial manager. But when he does, his business will be easier to manage and a more successful and profitable enterprise to operate.



THE VISUAL AIDS

A What to Show

Section

The old Chinese proverb "One See Worth Thousand Say" is certainly borne out by experience in the fields of education and training at all levels.

The instructor who helps his participants visualize subject matter and ideas not only holds the group interest, he also stimulates thoughtful consideration and retention of the topic.

This section contains samples of visuals that are available for this subject. Each has been carefully coded and "keyed" into The Lesson Plan as outlined in this manual.

USE OF VISUAL AIDS

WHAT TO USE

WHEN AND HOW TO USE

Chalkboard



Study and plan before a meeting what to put on the board and where to put it. Use it to present sketches, diagrams, outlines, definitions, key words, directions, record of class contributions, and summaries.

Suit material to board space.

Write plainly and quickly.

Keep wording simple.

Stand at one side of board while referring to material.

Talk to the group, not to the board.

Erase material no longer needed.

Posters, Charts, and Diagrams



To arouse interest and attract attention; to show relationships and trends; to inspire group.

Use device large enough to be seen.

Post where everyone can see.

Present at right time.

Discuss information illustrated.

Hand-Out Materials



To present information uniform in character and as a guide to material covered; emphasize key points; arouse interest and discussion; review or summarize discussions; and serve as permanent reference.

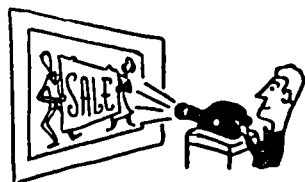
Select to serve a definite purpose.

Introduce at right time.

Distribute in manner to convey its importance.

Direct members how to use.

Films and Film Strips



Present an overall view; introduce a new subject; emphasize specific aspects of a subject; arouse interest; summarize.

Select carefully to relate to the discussion and plan presentation. Arrange room and equipment for showing. Alert the audience for the showing or what will be seen. Run the film.

Discuss the subject matter and summarize.

Samples, Forms, and Exhibits



Keep subject matter practical; show development of a process; increase understanding.

Select only enough to illustrate, not confuse.

Pass around if necessary.

Take time to present clearly.

Comment when presenting.

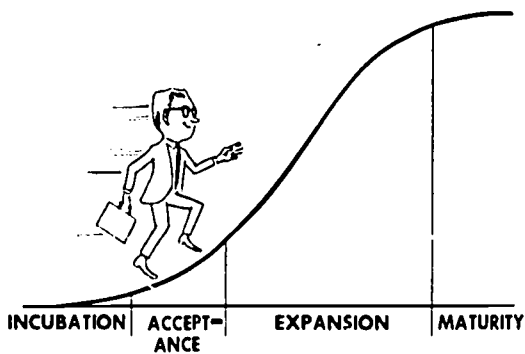
Pedestal Chart



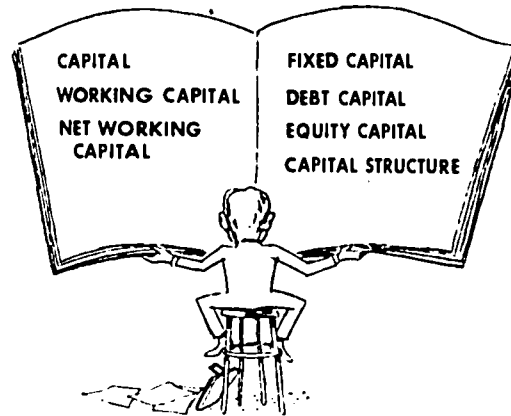
A pad of newsprint sheets or similar paper may be used for the same purposes as the chalkboard. Material recorded with chalk or crayon may be saved for future reference by the group or by the instructor.

OVERHEAD PROJECTUALS

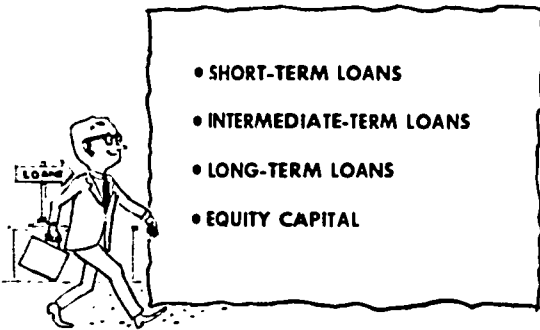
FOUR STAGES OF BUSINESS GROWTH



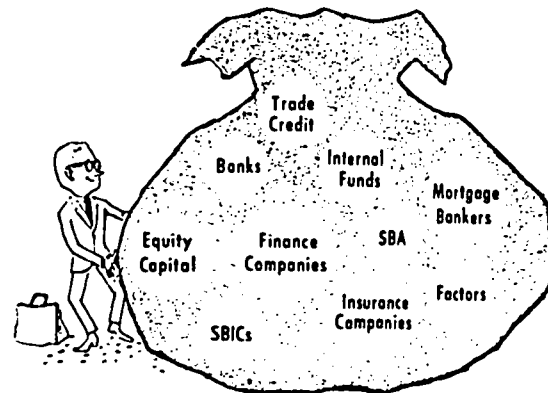
DEFINITIONS OF FINANCIAL TERMS



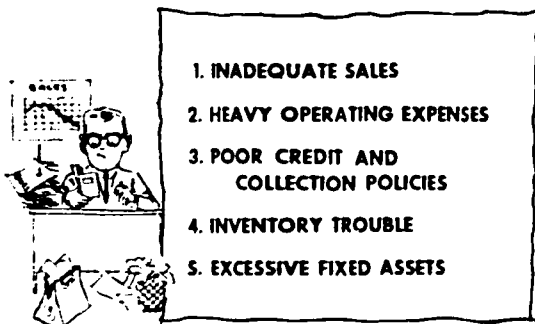
TYPES OF CAPITAL



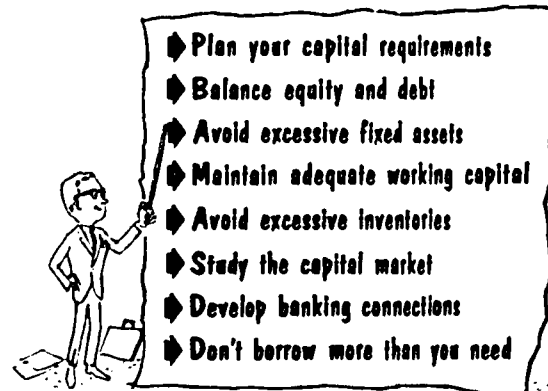
SOURCES OF CAPITAL



CAUSES OF FINANCIAL PROBLEMS



TIPS ON GOOD FINANCIAL MANAGEMENT



OVERHEAD PROJECTUALS

BEFORE YOU BORROW, CAN YOU ANSWER THESE QUESTIONS?

- WHY DO I NEED THIS CAPITAL?
- HOW MUCH DO I NEED?
- WHEN DO I NEED IT?
- HOW LONG WILL I NEED IT?
- WHERE CAN I OBTAIN IT?
- HOW CAN I REPAY IT?



7

BANKING SERVICES

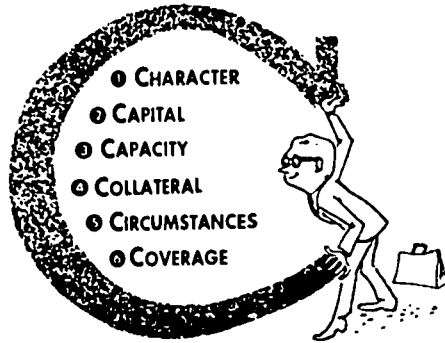
1. Accept Deposits
2. Cash and Certify Checks
3. Collect Notes and Bills of Exchange
4. Supply Coins and Currency
5. Furnish Credit Information
6. Give Financial Advice
7. Purchase and Sell Securities
8. Transfer Funds
9. Supply Safe Deposit Service
10. Maintain Foreign Finance Services
11. Administer Trusts
12. Serve as Financial Reference



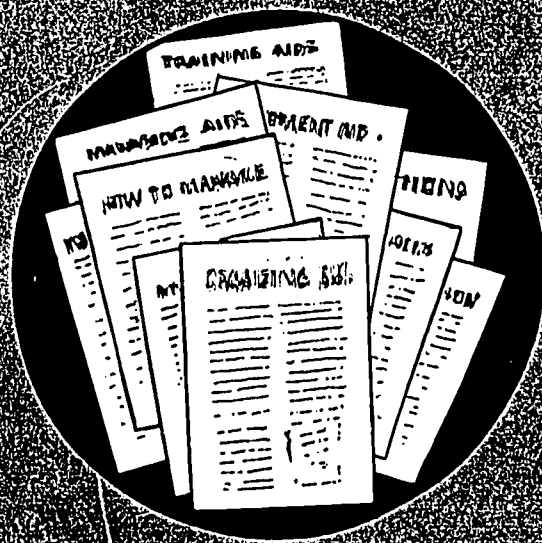
8

THE SIX C'S OF CREDIT

- 1 CHARACTER
- 2 CAPITAL
- 3 CAPACITY
- 4 COLLATERAL
- 5 CIRCUMSTANCES
- 6 COVERAGE



9



THE SUPPLY DEPARTMENT

*A Resource Materials and
Participant Handout*

Section

It is generally conceded that interest intensifies in situations where people have a chance "to participate" by such means as open discussion and buzz sessions. The materials in this section should prove useful in this kind of activity. These materials may be reproduced locally.

It is also desirable to provide participants with "take away" materials if they are pertinent and concise. Accordingly, appropriate Management AIDS, Small Business AIDS, and Management Research Summaries are included in this section. Current information on the availability of appropriate U.S. SBA publications may be obtained from the office at SBA-3116.



Key Features of SBA's Principal Lending Programs

Eugene P. Foley, Administrator
Washington, D.C. 20416

SMALL BUSINESS ADMINISTRATION

BUSINESS LOANS

	REGULAR BUSINESS	SMALL LOAN PROGRAM	SIMPLIFIED BANK PARTICIPATION PLAN	SIMPLIFIED EARLY MATURITY PLAN
WHO IS ELIGIBLE?	Most businesses that are independently owned and operated and not dominant in their fields; that cannot obtain private financing on reasonable terms and are not eligible for financing from other Government agencies, and that qualify as "small" under SBA's size standards, which generally are based on dollar volume of business or number of employees.	Any business that meets criteria stated under Regular Business Loan Plan. Small Loan Plan is specifically designed to meet the needs of very small firms unable to obtain other financing because of lack of adequate collateral.	Any business that meets criteria for Regular Business Loans, if bank will provide greater of: 25% of total loan, or an amount equal to bank loan to be re-financed.	Some as under Regular Business Loan Plan. Major distinction between this plan and Simplified Bank Participation Plan is that bank provides at least 50% of loan and is repaid before SBA.
LOAN PURPOSES	Business construction, conversion or expansion; purchase of equipment, facilities, machinery, supplies or materials; and working capital.	Some as under Regular Business Loan Plan.	Some as under Regular Business Loan Plan.	Some as under Regular Business Loan Plan.
MAXIMUM AMOUNT	\$350,000 to any one borrower. This is maximum SBA share of "participation loan" -- one made jointly by SBA and private lending institution -- and maximum SBA "direct loan" -- one made entirely by Agency.	\$15,000 to any one borrower, as SBA share of participation loan or SBA direct loan.	\$350,000 to any one borrower, as SBA share of loan.	Some as under Simplified Bank Participation Plan.
INTEREST RATE	Maximum of 5½% per annum on SBA share of "immediate participation loan" (where SBA and private lending institution each put up part of loan funds immediately) and on SBA direct loan. ½ Where SBA guarantees a portion of a loan, lending institution may set "reasonable and legal" rate on entire loan. However, if SBA later provides its share of loan, rate on SBA share then is maximum of 5½%. ½	Some as under Regular Business Loan Plan.	Some as under Regular Business Loan Plan.	Some as under Regular Business Loan Plan, but on immediate participation basis only.
MATURITY	Maximum of 10 years as a rule. However working capital loans generally are limited to 6 years, while construction loans may have maximum of 10 years plus estimated time required for construction.	Maximum of 6 years, plus time needed for construction if loan is used for building construction.	Some as under Regular Business Loan Plan.	Some as under Regular Business Loan Plan.
TYPE OF COLLATERAL	Real estate or chattel mortgage; assignment of warehouse receipts for marketable merchandise; assignment of certain types of contracts, guarantees or personal endorsements; in some instances assignment of current receivables, and inventories stored in bonded or otherwise acceptable warehouse.	Whatever worthwhile collateral is available, including any fixed assets purchased with the loan.	Some as under Regular Business Loan Plan.	Some as under Regular Business Loan Plan, except that collateral must be of a type not subject to rapid depreciation or obsolescence.

October 1964 ½ 4% interest charged in certain areas classified by Federal Government as unemployment or redevelopment areas.

STATE AND LOCAL DEVELOPMENT COMPANY LOANS

	STATE DEVELOPMENT COMPANIES	LOCAL DEVELOPMENT COMPANIES
WHO IS ELIGIBLE?	Any corporation organized under or pursuant to a special State legislative act, with authority to operate Statewide and to assist the growth and development of business concerns, including small businesses, in its area.	Any corporation which (a) is formed by public-spirited citizens with at least 75% ownership and control held by persons living or doing business in the community, (b) has been incorporated either for profit or non-profit under laws of the State in which it expects to do business, and (c) is authorized to promote and assist growth and development of small businesses in its area.
LOAN PURPOSES	To help development company provide equity capital and long-term loans to small business (SBA loans under Section 501 of Small Business Investment Act); to help company buy land and build a new factory, acquire machinery and equipment, expand or convert an existing plant, or construct shopping center space, provided project will help a specific small business (SBA loans under Section 502 of Act).	To help a development company buy land and build a new factory, acquire machinery and equipment, expand or convert an existing plant or construct shopping center space, provided the project will assist a specific small business.
MAXIMUM AMOUNT	Under Section 501, as much as development company's total outstanding borrowings from all other sources; under Section 502, \$350,000 for each identifiable small business to be assisted - - as a prerequisite to obtaining SBA financing, development corporation to provide up to 20% of the cost of the project in funds raised by sale of equity (and if necessary debt) security, or in cash equivalent (e.g., land).	\$350,000 for each identifiable small business to be assisted - - as a prerequisite to obtaining SBA financing, development corporation to provide up to 20% of the cost of the project in funds raised by sale of equity (and if necessary debt) security, or in cash equivalent (e.g., land).
INTEREST RATE	On Section 501 loans, 5% per annum ^{2/} ; on Sec. 502 loans maximum of 5½% per annum on SBA's share of immediate participation loan, on SBA's share of deferred participation loan after providing its share, and on SBA direct loan. ^{3/} Participating lending institution may set reasonable interest rate on its share of 502 loan, and on SBA's share of deferred participation loan until SBA has provided its share.	5½% per annum on SBA's share of immediate participation loan, on SBA's share of deferred participation loan after it has provided its share, and on SBA direct loan. ^{3/} Participating lending institution may set interest rate on its share of loan and on SBA's share of deferred participation loan until Agency provides its share.
MATURITY	On Section 501 loans, maximum of 20 years; on Section 502 loans, maximum of 25 years plus estimated time required to complete plant construction, conversion or expansion. SBA also may extend a Section 502 loan for as much as 10 more years if this will aid in orderly liquidation.	Maximum maturity of 25 years plus estimated time required to complete construction, conversion or expansion; however, SBA may extend a loan for as long as 10 years beyond stated maturity if this will aid in orderly liquidation.
TYPE OF COLLATERAL	For Section 501 financing, securing of SBA loan on an equal basis with funds borrowed by development company from any other sources after August 21, 1958 (SBA funds may be secured on a ratable basis with other funds); for Section 502 loans, security of such nature that repayment is reasonably assured - - for example, a first lien on project to be financed.	Collateral that will reasonably assure repayment; for example, a first lien on the project.

^{2/} 4% where development company will use funds for long-term loans in areas of substantial unemployment.

^{3/} 4% where loan will be used to help a small business in an area of substantial unemployment.

LOANS TO SMALL BUSINESS INVESTMENT COMPANIES

	CAPITAL LOANS	OPERATING LOANS
WHO IS ELIGIBLE?	Any small business investment company licensed by SBA under the Small Business Investment Act to provide equity capital and long-term loans to small business concerns. Minimum required capital to obtain license is \$300,000 of which \$150,000 must be private capital; remainder may be borrowed from SBA.	Same as under capital loans.
LOAN PURPOSES	To enable a company, otherwise qualified under the Act and SBA regulations, to meet its initial capital requirements, and to provide it with growth capital.	To provide a small business investment company with operating capital for use in financing small businesses.
MAXIMUM AMOUNT	Private capital raised by a small business investment company may be matched dollar for dollar by SBA loans up to a maximum of \$700,000.	50 percent of paid-in capital and surplus, with a maximum \$4 million of loans to any one small business investment company.
INTEREST RATE	5 percent per annum.	5 percent per annum.
MATURITY	Maximum of 20 years	Maximum of 6 years, but maturity may be extended an additional 4 years at SBA's discretion.
SECURITY	Evidence of indebtedness is a debenture of the Small Business Investment Company subordinated to other debentures, notes or obligations issued by such companies.	Securities of small business concerns held by the small business investment company and earmarked against SBA loan.

DISASTER LOANS

	PHYSICAL DISASTER	ECONOMIC INJURY		
	Storms, Floods, etc.	Natural Causes	Displaced Businesses	Diseased Products
WHO IS ELIGIBLE?	Individuals, businesses, nonprofit organizations such as churches provided (a) they have suffered tangible property loss from a disaster and (b) SBA has declared their area a disaster area.	Any small business located in area of major or natural disaster as determined by President or Secretary of Agriculture, provided business has suffered substantial economic injury from disaster.	Any small business suffering substantial economic injury as a result of displacement by a Federally-aided construction project.	Any small firm suffering substantial economic injury, as determined by SBA Administrator, from inability to process or market a product for human consumption because of disease or toxicity from natural or undetermined causes.
LOAN PURPOSES	To restore a home, business, or nonprofit institution to pre-disaster condition; loans may be used for real estate repair and replacement and for repair and replacement of furnishings, equipment, fixtures and inventory.	Working capital, replenishment of normal inventories and payment of financial obligations (except bank loans) which small business could have met had it not suffered revenue loss because of disaster conditions.	To help firm obtain comparable space. Funds for purchase of land and buildings, moving expenses, replacement of machinery and equipment, increased rent, inventory, working capital, etc.	To reestablish or continue a small firm so injured; in most cases for working capital until the firm is re-established.
MAXIMUM AMOUNT	Tangible loss suffered as a result of disaster, less insurance proceeds or funds obtained from other sources such as American Red Cross.	Determined by economic loss suffered by applicant as result of disaster.	No dollar limit. Loan is based on reasonable estimate of cost of reestablishing business consistent with economic injury suffered. Loan cannot exceed cost of reestablishment, less net funds received for moving expenses or condemnation.	No dollar limit. Amount based on extent of injury and cost of reestablishment or continuation.
INTEREST RATE	3% per annum on SBA share of loan made in participation with private lending institution or SBA direct loan. Private lender participating in loan for home repair or construction may charge maximum of 3% per annum on its share; on other disaster loans it may set "reasonable rate".	3% per annum on SBA share of immediate participation loan, an SBA share of guaranteed loan after it has provided its share, and on SBA direct loan. Private lender participating in loan may set reasonable interest rate on its share and on entire guaranteed loan until such time as SBA provides its share.	Set annually - usually less than 4% per annum on SBA share of loans made in participation with private lender and SBA direct loans. Private lending institution may set reasonable interest rate on its share of loan.	3% per annum on SBA share of participation loans and SBA direct loans. Banks may set reasonable rate on their shares.
MATURITY	Maximum of 20 years.	Maximum of 20 years.	Maximum of 20 years.	Maximum of 20 years.
TYPE OF COLLATERAL	No specific requirements; applicants must pledge whatever collateral they can provide.	No specific requirements; applicants must pledge whatever collateral they can provide.	No specific requirements; applicants must pledge whatever collateral they can provide.	No specific requirements; applicants must pledge whatever collateral they can provide.

**FINANCIAL TERMS
YOU SHOULD KNOW**

- Capital
- Fixed Capital
- Working Capital
- Net Working Capital
- Equity Capital
- Debt Capital
- Capital Structure

TYPES OF CAPITAL

- Short-term loans
- Intermediate-term loans
- Long-term loans
- Equity Capital

THE SIX C'S OF CREDIT

Character

Capacity

Capital

Collateral

Circumstances

Coverage



SMALL BUSINESS ADMINISTRATION

Topic 5

*Focal
Points
ON*

**FINANCING
LONG and SHORT TERM
NEEDS**

This page and the following illustrate a three-fold leaflet which summarizes the subject presentation. The leaflet is available in quantity from the nearest Small Business Administration office for distribution to participants in SBA-cosponsored administrative management courses.

BEFORE YOU BORROW, CAN YOU ANSWER THESE QUESTIONS?

WHY DO I NEED THIS CAPITAL?
HOW MUCH DO I NEED?
WHEN DO I NEED IT?
HOW LONG WILL I NEED IT?
WHERE CAN I OBTAIN IT?
HOW CAN I REPAY IT?

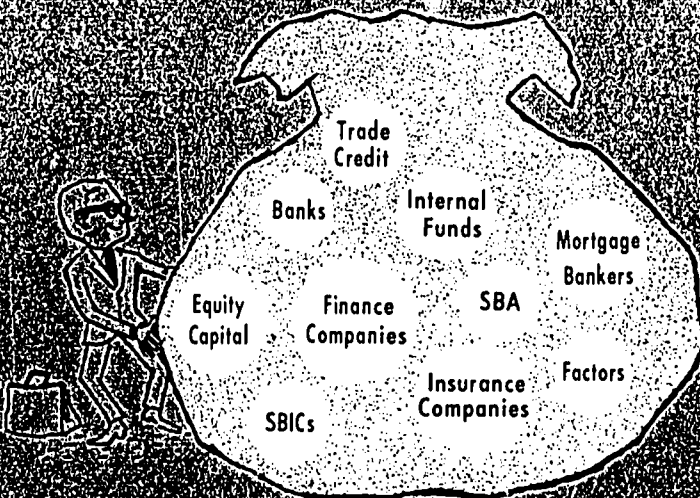


TIPS ON GOOD FINANCIAL MANAGEMENT

- ▶ Plan your capital requirements
- ▶ Balance equity and debt
- ▶ Avoid excessive fixed assets
- ▶ Maintain adequate working capital
- ▶ Avoid excessive inventories
- ▶ Study the capital market
- ▶ Develop banking connections
- ▶ Don't borrow more than you need



SOURCES OF CAPITAL



SMALL BUSINESS
ADMINISTRATION
U. S. Government Agency



Management

Research Summary

Small Business Experiences In Seeking Credit

Prepared for the State of Wisconsin Department of Resource Development
By Gene Leroy Finn, The University of Wisconsin, Madison, Wisconsin

HIGHLIGHTS

The solution to the problem of long-term financing for small firms may lie in the development of institutions that will make equity financing easier for the small firm. Findings of this study suggest that some small firms are using debt financing where equity financing is needed.

Only 3 percent of the firms needing outside financing sought equity funds. Two-thirds sought secured term loans; a little less than two-thirds, unsecured short-term loans; and one-third, unsecured long-term loans.

Eight percent were unable to borrow any funds. Another 10 percent either did not get as much as they needed or had to try more than one source.

The financial ratios of the small firms were not found to be weaker, on the average, than those of large firms; but they fluctuated more.

One of the main problems of small business in recent years has been that of obtaining enough loan funds. This is especially true of long-term credit.

The aims of the research reported in this Summary were (1) to describe the borrowing experiences of small Wisconsin businesses; (2) to learn whether firms that could not get all the funds they needed had poorer financial ratios than firms that were

more successful in obtaining loans; and (3) to compare the ratios of small Wisconsin firms with the ratios of some large corporations.

THE NEED FOR OUTSIDE FUNDS

Only a little more than half the 955 firms in the sample had tried to obtain any outside funds during the period covered by the study (January 1955 to July 1960). Most of the businesses that did not seek loans during this period said they did not need outside financing.

Many believed they either could not or should not expand. Some had no room for expansion; others thought their market did not justify expansion, or that they could not expand profitably. A few respondents gave labor-supply problems or lack of desire to expand as reasons for not needing outside financing.

TYPES AND PURPOSES OF LOANS

Two-thirds of the firms needing outside funds had sought secured term loans. A little less than two-thirds had tried to obtain unsecured short-term loans, and one-third, unsecured long-term loans. Only 3 percent wanted equity funds.

Fifty-seven percent of the companies that had sought outside funds needed them to improve or expand their plant and equipment; 58 percent needed more working

AVAILABILITY OF THE FULL REPORT

Copies of the full report, titled "The Availability of Credit to Wisconsin Small Business," may be purchased for \$1.50 from the Department of Economics, University of Wisconsin, Madison, Wisconsin. Make checks payable to the University of Wisconsin.

This report was prepared under the 1959 Small Business Management Research Grant Program of SBA. It may be reviewed at any SBA field office or at certain depository libraries whose addresses may be obtained from the SBA field offices or from the Small Business Administration, Washington 25, D.C.

capital. The percent of firms wanting outside financing for capital outlay was much higher among manufacturing firms than among trade and service companies.

SOURCES OF OUTSIDE FUNDS

Commercial banks were by far the most important source from which long-term funds were sought. More than half the companies that tried to obtain outside funds sought secured long-term loans from this source. Unsecured term loans were sought from banks by about one-fourth of those needing outside financing.

About 26 percent of the firms tried to obtain secured loans from other sources, such as finance companies, insurance companies, suppliers, shareholders, former owners, and so on. Only 12 percent sought unsecured long-term loans from these sources.

RESULTS OF LOAN REQUESTS

For the study, a firm was considered dissatisfied if it had sought but not obtained outside funds of any type from any source, or if dissatisfaction was expressed with any of the credit terms. On this basis, 28 percent of the companies that tried to get outside financing were dissatisfied with their credit experience.

Ten percent were dissatisfied only with the terms. Another 10 percent were able to obtain some outside financing, but either did not obtain as much as they wanted or had to try more than one source. Eight percent of the loan seekers were unable to borrow any funds at all. (See table 1.)

Satisfaction with credit experiences did not seem to vary much among the industry groups. In general, wholesale firms reported the least dissatisfaction and manufacturing firms the most, but this differ-

ence may be related to the types of funds sought. Wholesalers wanted mainly short-term loans, whereas relatively more manufacturers sought term loans.

The sample firms as a group had almost as much difficulty obtaining loans from sources other than commercial banks as from the banks. Twenty percent of the companies seeking secured long-term loans at banks and 23 percent of those seeking such loans from other sources were unsuccessful. Forty percent of the firms seeking unsecured long-term loans from commercial banks and 37 percent of those seeking such loans from other sources failed to obtain the funds needed.

Among industry groups, however, there were wider variations. For example, the percentage of manufacturers and wholesalers who failed to get the unsecured term loans they wanted from banks was substantially higher than the percentage who failed to get them from other sources. Service firms, on the other hand, were more successful in getting unsecured term loans from banks than from other sources.

TRADE CREDIT

Trade credit from suppliers is an important source of financing for small firms. Twenty-two percent of the firms in the sample used such credit by not taking all their time discounts.

These companies were probably paying a higher rate of interest for the trade credit than they would have to pay on bank loans. Nevertheless, one of the reasons given for using trade credit was that it cost less than other credit. Other reasons included the following: (1) Not enough credit could be obtained elsewhere. (2) Trade credit was more convenient.

CREDIT AND FINANCIAL RATIOS

Financial ratios were available only for the 380 corporations in the sample. The following ratios of these firms were obtained for the years 1954 through 1959:

- Current assets to current liabilities
- Debt to assets
- Profit to assets
- Receivables to sales

Average ratios were computed for each corporation; the firms were classified on the basis of their credit experience; and the ratios were then compared. (Table 2 shows the median ratios for each group.)

Table 1.—Results of Requests for Outside Financing Made by 955 Small Wisconsin Firms

Result of Loan Request	Type of Industry				
	Manufac- turing	Whole- sale	Retail	Service	All Firms
	Percent of Firms				
Satisfied with experience	68	76	72	71	72
Obtained part of funds requested	12	7	10	11	10
Obtained no funds	10	6	8	9	8
Dissatisfied with terms of loan only	10	11	10	9	10
Total seeking outside funds	100	100	100	100	100

Table 2.--Median Values of the Average Financial Ratios, 1954 to 1959, of Small Wisconsin Corporations, by Credit Experience

Credit Experience	Number of Firms	Current Assets to Current Liabilities	Debt to Assets	Profit to Assets	Receivables to Sales
Sought outside funds					
Yes	211	1.634	0.395	0.058	0.082
No	151	3.536	0.240	0.070	0.087
Satisfied with credit experience					
Yes	147	1.678	0.380	0.062	0.082
No	65	1.453	0.447	0.054	0.091
Obtained all loan funds sought					
Yes	168	1.681	0.385	0.059	0.085
No	38	1.332	0.504	0.075	0.089

• Loan Seekers vs. Nonseekers

In three ratios--current assets to current liabilities, debt to assets, and profit to assets--the companies that did not seek outside funds had better average ratios than the loan seekers. In the fourth ratio--receivables to sales--there was little difference between the two groups. This is about what would be expected, since most of the firms not seeking outside financing had reported that they did not need it.

• Satisfied vs. Dissatisfied Firms

The firms that were generally dissatisfied with their credit experiences were significantly weaker in the debt-to-assets ratio than the satisfied firms. At least half the dissatisfied companies were financing nearly 45 percent of their assets through debt financing. The corresponding proportion of debt financing for the satisfied firms was only 38 percent.

• Successful vs. Unsuccessful Loan Seekers

The successful loan applicants, too, had better debt-to-assets ratios than the firms that could not get all the funds they sought. At least half the companies that reported difficulties in getting loans were financing about 50 percent of their assets through debt financing. For the successful loan applicants, the corresponding percentage of debt financing was less than 39 percent.

SMALL AND LARGE CORPORATIONS

The financial ratios of these small corporations were compared with the corresponding ratios of 105 large corporations throughout the United States. It was found that the ratios of the small firms were not, on the average, weaker than those of the large firms.

The ratios of the two groups differed in some cases, but the differences were not always in the same direction. They do not provide sufficient basis for concluding that the small firms were less credit worthy than the large ones.

The financial ratios of the smaller firms were, however, less stable than those of the large firms. In every ratio, the smaller firms fluctuated more from year to year than the large corporations.

EFFECT OF BUSINESS CYCLES

If the financial ratios of small firms vary more than those of large firms, it is important to know at what periods in the business cycle these greater fluctuations take place, and in what direction. An attempt was therefore made to answer the following questions:

During the period of business expansion from 1954 to 1956, did the relative strength of the financial ratios of the small firms deteriorate?

During the mildly recessionary period from 1956 to 1959, were there significant changes in the financial ratios of firms of differing sizes?

It was found that during the business expansion of 1954-56, the financial ratios of the small firms improved in relation to those of the large firms. This finding does not support the idea that in a business expansion, the relative strength of the ratios of small firms deteriorates.

During the 1956-59 period, only a few ratios showed significant differences in relative strength between the size groups. Where differences appeared, the ratios of the smaller firms deteriorated in relation to those of the large corporations.

If, during a period of business expansion (or monetary restraint), the ratios of small firms do not deteriorate in relation to those of large firms, the small firms should not experience greater relative difficulty in obtaining loan funds. This proved to be true among the Wisconsin firms included in the survey.

Of the companies reporting some loan experience with commercial banks, 72 percent reported no change in their ability to get loans during the period of credit restraint from July 1958 to the spring of 1960. The remainder were almost equally divided between those who found credit easier and those who found it harder to obtain.

CONCLUSIONS

The findings of the study suggest that, although the unsuccessful loan seekers as a group showed some weakness in their debt-to-assets ratios, small firms in general may not be seriously lacking as far as the average level of their financial ratios is concerned. Their ratios are more likely to fluctuate, however, than the ratios of large firms.

This variability, according to the report, indicates a lack of stability that may be a major factor in the ultimate survival of small firms. It is reasonable, therefore, that in order to qualify for loans, small firms should generally be expected to have better financial ratios or sales prospects or both than larger firms.

The principal financial problem of the firms in the sample appeared to stem from a combination of three factors:

1. They were more unstable than large firms with which they competed for loan funds.

2. On the average, they financed as much of their assets with debt as the large firms did.

3. They showed almost no desire for equity funds.

These factors appearing together suggest that some small firms are attempting to use debt financing where some form of equity financing is needed. The solution to the problem of long-term financing for small firms, the report concludes, may be, not to persuade commercial bankers to lengthen the maturity of their small business loans, but to encourage the development of institutions that will make equity financing easier for the small firm. This is one of the aims of the Small Business Investment Act of 1958.

ABOUT THE STUDY

The report is based on information obtained from (1) questionnaires answered by 955 Wisconsin firms varying in size from 4 to 500 employees; and (2) published financial ratios of 380 corporations included in the sample and 105 of the 500 largest corporations in the United States. Manufacturing, wholesale, retail, and service firms took part in the study.

SMALL BUSINESS ADMINISTRATION



Management Aids for Small Manufacturers

Washington 25, D. C.

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WATCH YOUR CASH

By John Paul Jones, President, John Paul Jones Associates, Inc., San Francisco, California.

SUMMARY

Busy small-firm managers often neglect the job of financial planning. Then the business runs into difficulties. It finds itself short of cash. It can't pay its bills. Cash management is essential if a business is to operate successfully. You must have money to meet *all* your commitments -- including withdrawals and dividends. Your cash position at any given time is a significant index of your concern's ability to grow. Even though other assets may be in good condition, they are no substitutes for cash. You can't pay off obligations with accounts receivable, nor with inventory, nor with new orders, nor with any capital asset. Many small plant managers overlook the fact that in times of prosperity and expansion they have to watch their cash more carefully than ever. Many put off studying their cash needs because they think it will be difficult and costly. Effective cash management, however, is often neither difficult nor costly. This Aid offers some practical suggestions on control and planning.

Watching, planning, managing, and conserving cash can be both simple and direct. To start off, you need to understand clearly two facts about cash. One has to do with *capital* cash and the other with *working* cash.

Capital cash may be thought of as represented by the funds spent for buildings, fixtures, machinery, equipment, and tools; that is, items that became fixed assets on your balance sheet. Sources of capital cash are investment (someone's savings), earned and retained profits from operations, and reserves set aside for depreciation.

Working cash may be thought of as represented by the funds spent for materials, labor, and overhead -- all expense items incident to the operation of your business. The principal source of working cash must be income produced by the business.

RECOGNIZE THE DIFFERENCES

Many small business owner-managers fail to recognize the differences between capital cash and working cash. They don't understand the role that each kind plays in a business. As a result, they make mistakes in cash management.

For example, failure to distinguish capital cash from working cash -- and the requirements for each -- led the Crampton Company (name disguised), a small road building and paving contracting firm, into extreme difficulties. It went out after, and landed, its biggest job boosting volume for the year 60 percent above the average of the four previous years. The job was successfully completed. But because Crampton purchased all the required extra equipment, the firm ended the year with its largest profit and no cash. It had to borrow to pay income taxes.

The point is this: All, or at least a major portion, of the extra equipment should have been leased. Cash should have been conserved. A highly efficient road grader was no substitute for cold cash.

Here's another case in point: Two physical units, a bakery-coffee shop and a bar-restaurant, had been operated profitably by two brothers and a brother-in-law. Then they got into trouble because these three owners could agree on only one thing -- that real estate was a good investment. Whenever they had any cash, not needed immediately to pay current bills, they used it to buy property. When they ran out of money they couldn't pay their bills, much less take discounts. Finally they had to sell off a major portion of real estate not used in the business.

CHECK YOUR CASH FLOW

Working cash, as the term implies, is that portion of your firm's working capital that is constantly in the form of cash. During the normal course of operation, cash "flows." That is to say it changes into materials and labor and overhead, then into finished goods, then into receivables, and finally back into cash. That is the complete cash-to-cash cycle.

Each business has its own time sequence for working cash to flow from costs to sales and back to

cash. For good cash management you have to know the approximate timing and amounts of cash you need at any given time to support any given volume of business.

To work out the pattern of your own cash cycle you need only a few simple calculations. Start by classifying and averaging each of your major income and out-go items. For example, how long does it take to collect your money from credit sales? Check the number of days from the date a product was sold to the date the payment was made. Using a similar approach, the flow of cash may be timed in practical terms for other items.

In contrast to a manufacturing operation think of a restaurant. It has a rapid cash cycle. Income is cash available daily. The major out-go items are wages and food, which are on a weekly basis. Other expenses like supplies, services, utilities, and rent are paid monthly. The cash cycle is completed once each month.

One small restaurant had an annual sales volume of \$240,000. But due to the fact that it was located in a resort area and drew most of its trade from tourists, it had wide variations in volume. In fact, it did about two-thirds of its business in less than 6 months. This condition produced an uneven requirement for working cash. By establishing a weekly cash-on-hand schedule as of each Monday morning, the manager was able to increase his net profit from less than 2 percent to over 6 percent. Minimum cash requirements ran from a low of 55 percent to as high as 260 percent of weekly volume.

Take another situation. A lumber and building supply dealer has a relatively slow cash cycle. His income is 16 percent cash sales, and 84 percent credit. He'll have a combination of 40, 60, and 90 day accounts receivable with an average collection period of 48 days. The major out-go items are purchases and wages. Purchases are on an accounts payable basis, with the average payable period 61 days. Wages are semi-monthly. Here the cash cycle is completed in just under 3 months.

One growing lumber and building supply firm had annual net sales of \$420,000. Under the pressure of a bank's unwillingness to increase outstanding term loans, it established a cash requirements schedule as of the first day of each month. By conserving and managing its cash, the firm increased inventory turnover from 4.4 to 5.4 times in a single year. It also decreased receivables from an average of 48 days to 36 days. Through a combination of cash purchases and discounts on payables, it made savings calculated at twice the cost of interest on bank borrowings. With the help of the bank this company has recently acquired another yard in an adjacent area.

WHAT THE CASH CYCLE MEANS

The cash cycle of any going business is clear-cut evidence of how that business is operated. It

can and does vary, of course, even within businesses of a similar kind. But analysis -- by tracing the flow and timing of cash, in through sales and out through purchases and expenses -- will reveal the pattern of how the concern uses its cash.

Simplicity should be your objective in setting up a cash requirements schedule. Based upon the analysis of (1) actual cash use, (2) cash requirements, and (3) your firm's studied and expressed wishes, a forecast by weeks, months, or quarters can be developed. A year's projection by months showing cash needs in terms of dollars is the most common. In some few instances a longer period is used for special reasons.

Such a cash forecast provides the small business owner-manager with a practical financial tool. This tool makes much easier the job of controlling those internal operating factors that must be decided and acted upon to keep the business running soundly.

Figure 1 shows a typical forecast of operations and cash flow. In preparing it the manager of the "Wombat" (name disguised) Manufacturing Company made the following assumptions on which projections could be based:

1. Sales will develop unevenly over the year, but on a fairly predictable monthly pattern.
2. Beginning and ending inventories will be constant, but variations will occur during the year according to production needs.
3. Sales will be made on credit terms and outstanding receivables will equal sales made during the preceding 2 months.
4. Purchases will also be made on credit and paid for in the month following delivery.
5. Working cash out-flow for general and administrative expense will be confined to the month indicated by the operating budget.
6. Capital cash out-flow for adding fixed assets will be planned in advance and accounted for in the forecast.

DECISIONS AND ACTIONS

Planning, scheduling, observing, and managing cash, highlights the more important decisions and actions small business managers constantly make. Some of these decisions and actions are:

(1) **Profit Margins:** For a business to have cash, profits must be earned from operations. A key factor in profitable business is the margin between cost and price - the difference between what a product or service costs to make and sell, and what it is sold for. Watching cash protects margins. To maintain profit margin requires continuous thoughtful vigilance.

(2) **Credits:** Accounts receivable are not cash. Credit losses are direct deduction from profits. So grant credit with care, on terms that are firm and understood by the debtor. See that collections are in keeping with terms granted. Go out after the delinquents. Most consumer and business debtors

"WOMBAT" MANUFACTURING COMPANY													
Forecast for 1959													
	1st Qtr.			2nd Qtr.			3rd Qtr.			4th Qtr.			TOTALS
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Monthly Operations													
Net Sales	17500	17500	20000	20000	22500	22500	30000	40000	37500	32500	22500	17500	\$300000
Less: Material used	8750	8750	10000	10000	11250	11250	15000	20000	18750	16250	11250	8750	150000
Direct Labor	1750	1750	2000	2000	2250	2250	3000	4000	3750	3250	2250	1750	30000
Other Mfg. Exp.	2625	2625	3000	3000	3375	3375	4500	6000	5625	4875	3375	2625	45000
Cost of Goods Sold	13125	13125	15000	15000	16875	16875	22500	30000	28125	24375	16875	13125	225000
Gross Profit	4375	4375	5000	5000	5625	5625	7500	10000	9375	8125	5625	4375	75000
Less: Sales Expense	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	45000
Gen. & Ad. Exp.	1750	1750	1750	1750	1750	1750	1750	1750	1750	1750	1750	1750	21000
Operating Profit	(1125)	(1125)	(500)	(500)	125	125	2000	4500	3875	2625	125	(1125)	9000
Cash Flow													
Cash Bal. (beginning)	5000	7000	3375	1000	1750	1250	2625	1500	1625	3000	1875	2000	
Receipts from Receivables	22500	17500	17500	17500	20000	20000	22500	22500	30000	40000	37500	32500	
Total Available Cash	27500	24500	20875	18500	21750	21250	25125	24000	31625	43000	39375	34500	
Less Disbursements													
Trade Payables	10000	10000	11250	11250	15000	20000	18750	16250	11250	8750	8750	8750	
Direct Labor	2000	2250	2375	3000	4000	3750	3250	2125	1750	1750	1750	2000	
Other Mfg. Expenses	3000	3375	3250	4500	6000	5625	4875	3500	2625	2625	2625	3000	
Sales Expense	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	
Gen. & Admin. Exp.	1750	1750	1750	1750	1750	1750	1750	1750	1750	1750	1750	1750	
Fixed Asset Additions				2500	2500	2500							
Repay. of Bank Loans									7500	22500	18750	8750	
Total Disbursements	20500	21125	22375	26750	33000	37375	32375	27375	28625	41125	37375	28000	
Indicated Cash Shortage			1500	8250	11250	16125	7250	3375					
Bank Loans to be Obtained			2500	10000	12500	18750	8750	5000					
Cash Bal. (ending)	7000	3375	1000	1750	1250	2625	1500	1625	3000	1875	2000	6500	
Materials purchased	10000	11250	11250	15000	20000	18750	16250	11250	8750	8750	8750	10000	
Month-end Position													
Accounts Receivable	35000	35000	37500	40000	42500	45000	52500	70000	77500	70000	55000	40000	
Inventory	43000	46875	48750	56250	69250	80500	82500	69250	54250	43000	39250	41250	
Accounts Payable	10000	11250	11250	15000	20000	18750	16250	11250	8750	8750	8750	10000	
Bank Loans Payable			2500	12500	25000	43750	52500	57500	50000	27500	8750		

Figure 1

are proud to pay on time. Be sure to make your customers proud by seeing that they pay up promptly.

(3) **Overbuying:** Inventory is not cash. But purchases must be *paid for* in cash. Maintain a balanced inventory to avoid over or underbuying. Review the effect of each on cash. A supplier, of course, tries as hard to sell to you as you try to sell to your customers. A special-price purchase of more than you need can seriously upset your cash position. Confining special purchases to cash and the taking of normal trade discounts will, in the long run, usually result in better profits and a stronger financial structure.

(4) **Overtrading:** To seek big volume at cut prices may be enticing, but it can lead to profit disaster and a cash squeeze. It is often better to take less volume and maintain margins and cash. Remember that, at times, price competition can become so

tough that it is good business to let the other fellow have the business. Watching cash places a damper on down-trading — a business bad habit.

(5) **Expense Control:** Scheduling cash and observing cash flow can do more to hold down operating expenses than any other readily available small business index. Effective control of expense is attained by avoiding cost commitments. Furthermore, it is much easier to avoid added expense than it is to reduce expenses once added.

(6) **Working vs. Capital Cash:** To avoid confusion and the over extension of capital cash to the detriment of working cash, a simple device can be used. Use two check books: One account, one color for all *working* cash payments, another account and color for all *capital* cash payments. Watch, especially carefully, all capital cost commitments.

Large, publicly owned and professionally managed corporations have long recognized the need for and used cash cycle schedules - both for capital and operation cash. When to expand, when to defer, when to curtail are determined from timely knowledge of cash requirements in relation to volume, profit margin and the availability of funds.

FOR FURTHER INFORMATION

Businessmen who wish to explore further the subject of cash management may be interested in the references given below. Other good material, of course, could have been mentioned; however, in keeping with the editorial policy of the series this list has to be brief. No slight is intended towards authors whose works are not included.

Budgeting -- Principles and Practice, by H. C. Heiser. The Ronald Press Co., 15 E. 26th St., N. Y. 1959. \$10.00.

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by E. F. Reiter. *Management Aids for Small Manufacturers* No. 74, June 1956. Small Business Administration, Washington 25, D. C. Free.

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SMALL BUSINESS ADMINISTRATION •

U. S. Government Agency

Management Aids FOR SMALL MANUFACTURERS

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THE ABC'S OF BORROWING

By Eugene P. Foley

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SUMMARY

Some small businessmen cannot understand why a lending institution refuses to lend them money. Others have no trouble getting funds, but they are surprised to find strings attached to their loans. Such owner-managers fail to realize that banks and other lenders have to operate by certain principles just as do other types of business.

This Aid discusses the following fundamentals of borrowing: (1) credit worthiness, (2) kinds of loans, (3) amount of money needed, (4) collateral, (5) loan restrictions and limitations, (6) the loan application, and (7) standards which the lender uses to evaluate the application. The SBA form is used to illustrate suggestions for filling out a loan application.

Inexperience with borrowing procedures often creates resentment and bitterness. The stories of three small businessmen illustrate this point.

"I'll never trade here again," Bill Smith* said when his bank refused to grant him a loan. "I'd like to let you have it, Bill," the banker said, "but your firm isn't earning enough to meet your current obligations." Mr. Smith was unaware of a vital financial fact, namely, that lending institutions have to be certain that the borrower's business can repay the loan.

Tom Jones lost his temper when the bank refused him a loan because he did not know what kind or how much money he needed. "We hesitate to lend," the banker said, "to businessmen with such vague ideas of what and how much they need."

John Williams' case was somewhat different. He didn't explode until after he got the loan. When the papers were ready to sign, he

realized that the loan agreement put certain limitations on his business activities. "You can't dictate to me," he said and walked out of the bank. What he didn't realize was that the limitations were for his good as well as for the bank's protection.

Knowledge of the financial facts of business life could have saved all three men the embarrassment of losing their tempers. Even more important, such information would have helped them to borrow money at a time when their businesses needed it badly.

This Aid is designed to give the highlights of what is involved in sound business borrowing. It should be helpful to those who have little or no experience with borrowing. More experienced businessmen should find it useful in re-evaluating their borrowing operations.

IS YOUR FIRM CREDIT WORTHY?

The ability to obtain money when you need it is as necessary to the operation of your business as is a good location or the right equipment, reliable sources of supplies and materials, or an adequate labor force. Before a bank or any other lending agency will lend you money, the loaning officer must feel satisfied with the answers to the five following questions:

1. What sort of person are you, the prospective borrower? By all odds, the character of the borrower comes first. Next is his ability to manage his business.

2. What are you going to do with the money? The answer to this question will determine the type of loan--short- or long-term. Money to be used for the purchase of seasonal inventory will require quicker repayment than money used to buy fixed assets.

3. When and how do you plan to pay it back? Your banker's judgement as to your business ability and the type of loan will be a deciding factor in the answer to this question.

*All names in Aids are disguised.

4. Is the cushion in the loan large enough? In other words, does the amount requested make suitable allowance for unexpected developments? The banker decides this question on the basis of your financial statement which sets forth the condition of your business and/or on the collateral pledge.

5. What is the outlook for business in general and for your business particularly?

● Adequate Financial Data Is a "Must."

The banker wants to make loans to businesses which are solvent, profitable, and growing. The two basic financial statements he uses to determine those conditions are the balance sheet and profit-and-loss statement. The former is the major yardstick for solvency and the latter for profits. A continuous series of these two statements over a period of time is the principal device for measuring financial stability and growth potential.

In interviewing loan applicants and in studying their records, the banker is especially interested in the following facts and figures.

General Information: Are the books and records up-to-date and in good condition? What is the condition of accounts payable? Of notes payable? What are the salaries of the owner-manager and other company officers? Are all taxes being paid currently? What is the order backlog? What is the number of employees? What is the insurance coverage?

Accounts Receivable: Are there indications that some of the accounts receivable have already been pledged to another creditor? What is the accounts receivable turnover? Is the accounts receivable total weakened because many customers are far behind in their payments? Has a large enough reserve been set up to cover doubtful accounts? How much do the largest accounts owe and what percentage of your total accounts does this amount represent?

Inventories: Is merchandise in good shape or will it have to be marked down? How much raw material is on hand? How much work is in process? How much of the inventory is finished goods?

Is there any obsolete inventory? Has an excessive amount of inventory been consigned to customers? Is inventory turnover in line with the turnover for other businesses in the same industry? Or is money being tied up too long in inventory?

Fixed Assets: What is the type, age, and condition of the equipment? What are the depreciation policies? What are the details of mortgages or conditional sales contracts? What are the future acquisition plans?

WHAT KIND OF MONEY?

When you set out to borrow money for your firm, it is important to know the kind of money you need from a bank or other lending institution. There are three kinds of money: short-term money, term money, and equity capital.

Keep in mind that the purpose for which the funds are to be used is an important factor in deciding the kind of money needed. But even so, deciding what kind of money to use is not always easy. It is sometimes complicated by the fact that you may be using some of various kinds of money at the same time and for identical purposes.

Keep in mind that a very important distinction between the types of money is the source of repayment. Generally, short-term loans are repaid from the liquidation of current assets which they have financed. Long-term loans are usually repaid from earnings.

● Short-Term Bank Loans

You can use short-term bank loans for purposes such as financing accounts receivable for, say, 30 to 60 days. Or you can use them for purposes that take longer to pay off--such as for building a seasonal inventory over a period of 5 to 6 months. Usually, lenders expect short-term loans to be repaid after their purposes have been served: for example, accounts receivable loans, when the outstanding accounts have been paid by the borrower's customers, and inventory loans, when the inventory has been converted into saleable merchandise.

Banks grant such money either on your general credit reputation with an unsecured loan or on a secured loan--against collateral.

The unsecured loan is the most frequently used form of bank credit for short-term purposes. You do not have to put up collateral because the bank relies on your credit reputation.

The secured loan involves a pledge of some or all of your assets. The bank requires security as a protection for its depositors against the risks that are involved even in business situations where the chances of success are good.

● Term Borrowing

Term borrowing provides money you plan to pay back over a fairly long time. Some people break it down into two forms: (1) intermediate--loans longer than 1 year but less than 5 years, and (2) long-term--loans for more than 5 years.

However, for your purpose of matching the kind of money to the needs of your company, think of term borrowing as a kind of money

which you probably will pay back in periodic installments from earnings.

• Equity Capital

Some people confuse term borrowing and equity (or investment) capital. Yet there is a big difference. You don't have to repay equity money. It is money you get by selling a part interest in your business.

You take people into your company who are willing to risk their money in it. They are interested in potential income rather than in an immediate return on their investment.

HOW MUCH MONEY?

The amount of money you need to borrow depends on the purpose for which you need funds. Figuring the amount of money required for business construction, conversion, or expansion--term loans or equity capital--is relatively easy. Equipment manufacturers, architects, and builders will readily supply you with cost estimates. On the other hand, the amount of working capital you need depends upon the type of business you're in. While rule-of-thumb ratios may be helpful as a starting point, a detailed projection of sources and uses of funds over some future period of time--usually for 12 months--is a better approach. In this way, the characteristics of the particular situation can be taken into account. Such a projection is developed through the combination of a predicted budget and a cash forecast.

The budget is based on recent operating experience plus your best judgment of performance during the coming period. The cash forecast is your estimates of cash receipts and disbursements during the budget period. Thus, the budget and the cash forecast together represent your plan for meeting your working capital requirements.

To plan your working capital requirements, it is important to know the "cash flow" which your business will generate. This involves simply a consideration of all elements of cash receipts and disbursements at the time they occur. These elements are listed in the profit-and-loss statement which has been adapted to show cash flow in the box on this page. They should be projected for each month. Note that it shows "Bank Loans To Be Obtained" as well as "Bank Loans To Be Repaid."

WHAT KIND OF COLLATERAL?

Sometimes, your signature is the only security the bank needs when making a loan. At other times, the bank requires additional assurance that the money will be repaid. The

P&L STATEMENT ADAPTED TO SHOW CASH FLOW

The profit and loss statement elements listed below have been adapted to show cash flow. Note that it shows "Bank Loans To Be Obtained" as well as "Bank Loans To Be Repaid." The P and L statement should be projected for each month of the year.

Monthly Operations	
Net sales	\$ _____
Less: Material used	_____
Direct labor	_____
Other mfging expense	_____
Cost of goods sold	\$ _____
Gross profit	\$ _____
Less: Sales expense	_____
General and administrative expense	_____
Operating profit	\$ _____
Cash Flow	
Cash balance (beginning)	\$ _____
Receipts from receivables	_____
Total available cash	\$ _____
Less Disbursements	_____
Trade payables	_____
Direct labor	_____
Other mfging expense	_____
Sales expense	_____
General and administrative expense	_____
Fixed asset additions	_____
<u>Bank loans to be repaid</u>	_____
Total disbursements	\$ _____
Indicated cash shortage	\$ _____
<u>Bank loans to be obtained</u>	\$ _____
Cash balance (ending)	\$ _____
Materials purchased	\$ _____
Month-end position	_____
Accounts receivable	\$ _____
Inventory	\$ _____
Accounts payable	\$ _____
Bank loans payable	\$ _____

kind and amount of security depends on the bank and on the borrower's situation.

If the loan required cannot be justified by the borrower's financial statements alone, a pledge of security may bridge the gap. The types of security are: endorsers, co-makers, and guarantors; assignment of leases;



trust receipts and floor planning; chattel mortgages; real estate; accounts receivables; savings accounts; life insurance policies; and stocks and bonds. In a substantial number of States where the Uniform Commercial Code has been enacted, paperwork for recording loan transactions will be greatly simplified.

● Endorsers, Co-makers, and Guarantors

Borrowers often get other people to sign a note in order to bolster their own credit. These endorsers are contingently liable for the note they sign. If the borrower fails to pay up, the bank expects the endorser to make the note good. Sometimes, the endorser may be asked to pledge assets or securities that he owns.

A co-maker is one who creates an obligation jointly with the borrower. In such cases, the bank can collect directly from either the maker or the co-maker.

A guarantor is one who guarantees the payment of a note by signing a guaranty commitment. Sometimes, a manufacturer will act as guarantor for one of his customers.

● Assignment of Leases

The assigned lease as security is similar to the guarantee. It is used, for example, in some franchise situations.

The bank lends the money on a building and takes a mortgage. Then the lease, which the dealer and the parent franchise company work out, is assigned so that the bank automatically receives the rent payments. In this manner, the bank is guaranteed repayment of the loan.

● Warehouse Receipts

Banks also take commodities as security by lending money on a warehouse receipt. Such a receipt is usually delivered directly to the bank and shows that the merchandise used as security either has been placed in a public warehouse or has been left on your premises under the control of one of your employees who is bonded (as in field warehousing). Such loans are generally made on staple or standard merchandise which can be readily marketed. The typical warehouse receipt loan is for a percentage of the estimated value of the goods used as security.

● Trust Receipts and Floor Planning

Merchandise, such as automobiles, appliances, and boats, has to be displayed to be sold. The only way many small marketers can afford such displays is by borrowing money. Such loans are often secured by a note and a trust receipt.

This trust receipt is the legal paper for floor planning. It is used for serial-numbered merchandise. When you sign one, you (1) acknowledge receipt of the merchandise, (2) agree to keep the merchandise in trust for the bank, and (3) promise to pay the bank as you sell the goods.

● Chattel Mortgages

If you buy equipment such as a cash register or a delivery truck, you may want to get a chattel mortgage loan. You give the bank a lien on the equipment you are buying.

The bank also evaluates the present and future market value of the equipment being used to secure the loan. How rapidly will it depreciate? Does the borrower have the necessary fire, theft, property damage, and public liability insurance on the equipment? The banker has to be sure that the borrower protects the equipment.

● Real Estate

Real estate is another form of collateral for long-term loans. When taking a real estate mortgage, the bank finds out: (1) the location of the real estate, (2) its physical condition, (3) its foreclosure value, and (4) the amount of insurance carried on the property.

● Accounts Receivable

Many banks lend money on accounts receivable. In effect, you are counting on your customers to pay your note.

The bank may take accounts receivable on a notification or a nonnotification plan. Under the notification plan, the purchaser of the goods is informed by the bank that his account has been assigned to it and he is asked to pay the bank. Under the nonnotification plan, the borrower's customers continue to pay him the sums due on their accounts and he pays the bank.

● Savings Accounts

Sometimes, you might get a loan by assigning to the bank a savings account. In such cases, the bank gets an assignment from you and keeps your passbook. If you assign an account in another bank as collateral, the lending bank asks the other bank to mark its records to show that the account is held as collateral.

● Life Insurance

Another kind of collateral is life insurance. Banks will lend up to the cash value of a life insurance policy. You have to assign the policy to the bank. Some people like to use life insurance as collateral rather than borrow directly from insurance companies. One reason is that a bank loan is often more convenient to obtain and usually may be obtained at a lower interest rate.

● Stocks and Bonds

If you use stocks and bonds as collateral, they must be marketable. As a protection against market declines and possible expenses of liquidation, banks usually lend no more than 75 percent of the market value of high grade stock. On Federal Government or municipal bonds, they may be willing to lend 90 percent or more of their market value.

SITUATIONS WHICH MAKE A BUSINESS INELIGIBLE FOR A SBA LOAN

The Small Business Administration cannot lend money in the following situations:

- If the company can get money on reasonable terms:

(1) From a financial institution
(2) By selling assets which it does not need in order to grow.

(3) By the owner's using, without undue personal hardship, his personal credit or resources of his partners or principal stockholders.

(4) By selling a portion of ownership in the company through a public offering or a private placing of its securities.

(5) From other Government agencies which provide credit specifically for the applicant's type of business or for the purpose of the required financing.

(6) From other known sources of credit.

- If the direct or indirect purpose or result of granting a loan would be to:

(1) Pay off a creditor or creditors of the applicant who are inadequately secured and in a position to sustain a loss.

(2) Provide funds for distribution or payment to the owner, partners, or shareholders.

(3) Replenish working capital funds previously used to pay the owner, partners, or shareholders.

- If the applicant's purpose in applying for a loan is to effect a change in ownership of the business; however, under certain circumstances, loans may be authorized for this purpose, if the result would be to aid in the sound development of a small business or to keep it in operation.

- If the loan would provide or free funds for speculation in any kind of property, real or personal, tangible or intangible.

- If the applicant is a charitable organization, social agency, society, or other non-profit enterprise; however, a loan may be considered for a cooperative if it carries on a business activity and the purpose of the

activity is to obtain financial benefit for its members in the operation of their otherwise eligible small business concerns.

- If the purpose of the loan is to finance the construction, acquisition, conversion, or operation of recreational or amusement facilities, unless the facilities contribute to the health or general well-being of the public.

- If the applicant is a newspaper, magazine, radio broadcasting or television broadcasting company, or similar enterprise.

- If any substantial portion (50 percent or more) of the net sales of the applicant is derived from the sale of alcoholic beverages.

- If any of the gross income of the applicant (or of any of its principal owners) is derived from gambling activities.

- If the loan is to provide funds to an enterprise primarily engaged in the business of lending or investments or to provide funds to any otherwise eligible enterprise for the purpose of financing investments not related or essential to the enterprise.

- If the purpose of the loan is to finance the acquisition, construction, improvement, or operation of real property that is, or is to be, held for sale or investment; provided, however, that this prohibition shall not apply to loans for the remodeling or improvement of existing commercial and industrial structures held for rental where the applicant is performing substantial maintenance and operational services in connection with the structures; and provided further, that no loan may be made to build or acquire buildings for investments.

- If the effect of granting of the financial assistance will be to encourage monopoly or will be inconsistent with the accepted standards of the American system of free competitive enterprise.

- If the loan would be used to relocate a business for other than sound business purposes.

The bank may ask the borrower for additional security or payment whenever the market value of the stocks or bonds drops below the bank's required margin.

WHAT ARE THE LENDER'S RULES?

Lending institutions are not just interested in loan repayments. They are also interested

in borrowers with healthy profit-making businesses. Therefore, whether or not collateral is required for a loan, they set loan limitations and restrictions to protect themselves against unnecessary risk and at the same time against poor management practices by their borrowers. Often some owner-managers consider loan limitations a burden.

Yet others feel that such limitations also offer an opportunity for improving their management techniques.

Especially in making long-term loans, the borrower as well as the lender should be thinking of: (1) the net earning power of the borrowing company, (2) the capability of its management, (3) the long range prospects of the company, and (4) the long range prospects of the industry of which the company is a part. Such factors often mean that limitations increase as the duration of the loan increases.

WHAT KINDS OF LIMITATIONS?

The kinds of limitations, which an owner-manager finds set upon his company depends, to a great extent, on his company. If his company is a good risk, he should have only minimum limitations. A poor risk, of course, is different. Its limitations should be greater than those of a stronger company.

Look now for a few moments at the kinds of limitations and restrictions which the lender may set. Knowing what they are can help you see how they affect your operations.

The limitations which you will usually run into when you borrow money are:

- (1) Repayment terms.
- (2) Pledging or the use of security.
- (3) Periodic reporting.

A loan agreement, as you may already know, is a tailor-made document covering, or referring to, all the terms and conditions of the loan. With it, the lender does two things: (1) protects his position as a creditor (he wants to keep that position in as well a protected state as it was on the date the loan was made) and (2) assures himself of repayment according to the terms.

The lender reasons that the borrower's business should generate enough funds to repay the loan while taking care of other needs. He considers that cash inflow should be great enough to do this without hurting the working capital of the borrower.

● Covenants--Negative and Positive

The actual restrictions in a loan agreement come under a section known as covenants. Negative covenants are things which the borrower may not do without prior approval from the lender. Some examples are: further additions to the borrower's total debt, non-

pledge to others of the borrower's assets, and issuance of dividends in excess of the terms of the loan agreement.

On the other hand, positive covenants spell out things which the borrower must do. Some examples are: (1) maintenance of a minimum net working capital, (2) carrying of adequate insurance, (3) repaying the loan according to the terms of the agreement, and (4) supplying the lender with financial statements and reports.

Overall, however, loan agreements may be amended from time to time and exceptions made. Certain provisions may be waived from one year to the next with the consent of the lender.

● You Can Negotiate

Next time you go to borrow money, thresh out the lending terms before you sign. It is good practice no matter how badly you may need the money. Ask to see the papers in advance of the loan closing. Legitimate lenders are glad to cooperate.

Chances are that the lender may "give" some on the terms. Keep in mind also that, while you're mulling over the terms, you may want to get the advice of your associates and outside advisors. In short, try to get terms which you know your company can live with. Remember, however, that once the terms have been agreed upon and the loan is made (or authorized as in the case of SBA), you are bound by them.

THE LOAN APPLICATION

Now you have read about the various aspects of the lending process and are ready to apply for a loan. Banks and other private lending institutions, as well as the Small Business Administration, require a loan application on which you list certain information about your business.

For purposes of explaining a loan application, this Aid uses the Small Business Administration's application for a small loan (SBA Form 6B)--one for \$15,000 or less and maturities not exceeding 6 years. The SBA form is more detailed than most bank-forms. The bank has the advantage of prior knowledge of the applicant and his activities. Since SBA does not have such knowledge, its form is more detailed. Moreover, the longer maturities of SBA loans ordinarily will necessitate more knowledge about the applicant.

Before you get to the point of filling out a loan application, you should have talked with an SBA representative, or perhaps your accountant or banker, to make sure that your business is eligible for an SBA loan. Because of public policy, it cannot make certain types of loans. Nor can it make loans under certain conditions. For example, if you can get a loan on reasonable terms from a

bank, SBA cannot lend you money. The owner-manager is also not eligible for an SBA loan if he can get funds by selling assets which his company does not need in order to grow. (For other examples, see page 5.)

When the SBA representative gives you a loan application, you will notice that most of its 11 sections ("Application for Loan"--SBA Form 6B) are self-explanatory. However, some applicants have trouble with certain sections because they do not know where to go to get the necessary information.

Section 3--"Collateral Offered" is an example. A company's books should show the net worth of assets such as business real estate and business machinery and equipment. "Net" means what you paid for such assets less depreciation.

If an owner-manager's records do not contain detailed information on business collateral, such as real estate and machinery and equipment, he sometimes can get it from his Federal income tax returns. Reviewing the depreciation which he has taken for tax purposes on such collateral can be helpful in arriving at the value of these assets.

If you are a good manager, you should have your books balanced monthly. However, some businesses prepare balance sheets less regularly. In filling out Section 6--"Balance Sheet as of _____, 19, Fiscal Year Ends _____" of the SBA loan application, remember that you must show the condition of your business within 60 days of the date on your loan application. It is best to get expert advice when working up such vital information. In some cases, your accountant or banker may be able to help you.

Again, if your records do not show the details necessary for working up profit and loss statements, your Federal income tax returns (Schedule C of Form 1040, if your business is a sole proprietorship or a partnership) may be useful in getting together facts for Section 7 of the SBA loan application. This Section asks for "Condensed Comparative Statements of Sales, Profits or Loss, etc." You fill in the blocks appropriate to your form of business organization--corporation, partnership, or proprietorship--and attach detailed profit-and-loss statements.

● Insurance

SBA also needs information about the kinds of insurance a company carries. The owner-manager gives these facts by listing various insurance policies. If you place all your insurance with one agent or broker, you can get this information from him.

● Personal Finances

SBA also wants to know something about the personal financial condition of the applicant. Among the types of information are: personal cash position; source of income including

salary and personal investments; stocks, bonds, real estate, and other property owned in the applicant's own name; personal debts including installment credit payments, life insurance premiums, and so forth.

EVALUATING THE APPLICATION

Once you have supplied the necessary information, the next step in the borrowing process is the evaluation of your application. Whether the processing officer is in a bank or in SBA, he considers the same kinds of things when determining whether to grant or refuse the loan. The SBA loan processor looks for:

(1) The borrower's debt paying record to suppliers, banks, home mortgage holders, and other creditors.

(2) The ratio of the borrower's debt to his net worth.

(3) The past earnings of the company.

(4) The value and condition of the collateral which the borrower offers for security.

The SBA loan processor also looks for: (1) the borrower's management ability, (2) the borrower's character, and (3) the future prospects of the borrower's business.

FOR FURTHER INFORMATION

Readers who wish to explore further the subject of borrowing may be interested in the references indicated below. This list is necessarily brief and selective. However, no slight is intended toward authors whose works are not mentioned.

The following *Management Aids for Small Manufacturers* are available free from the Washington, D.C. and field offices of Small Business Administration:

"Financial Facts which Lenders Require"--MA 164.

"Bank Loan Limitations: Living Within Them"--MA 158.

"Financial Planning in Closely Held Businesses"--MA 156.

"What Kind of Money Do You Need?"--MA 150.

"Getting Money for Long-Term Growth"--MA 138.

"Getting Results from Your Budget"--MA 128.

"Cash Management in Small Plants"--MA 124.

The following *Small Marketers Aids* are available free from the Washington, D.C. and field offices of Small Business Administration:

"Using Security to Get a Bank Loan"--SMA 102.

"Steps in Making A Business Decision"--SMA 97.

"Keeping Score With Effective Records"--SMA 94.

"Can You Afford Installment Selling?"--SMA 76.

The following *Small Business Management Series* booklets published by SBA can be bought from the Superintendent of Documents, Washington, D.C. 20402. The year of publication and price are listed after each title.

A Handbook of Small Business Finance. SBMS NO. 15. 7th Ed. available in March 1965.

Ratio Analysis for Small Business. SBMS No. 20. 1960. 25 cents.

Guides For Profit Planning. SBMS NO. 25. 1960. 25 cents.



CASES IN POINT

Case Studies for Depth Penetration

Section

The case method has proven stimulative and effective in many administrative management courses. The following case material is suggested as a means of encouraging discussion.

It is suggested that one full session be devoted to the presentation of the topic as outlined in this manual. A case can sometimes be used to stimulate or augment the discussion period that follows the presentation. This could be one way of expanding the basic materials into an advanced course on the subject.

THE CASE METHOD OF STUDY

What is the case method? The case method is a teaching device that helps the student learn through exercising the reasoning and decision-making processes. This can be contrasted with other popular teaching techniques which place stress on learning (or memorizing) an accumulation of past knowledge on a given subject. The case method stresses thinking rather than memorizing; it is a dynamic or active method rather than a passive one.

What is a case? A case is a description of an actual or true-to-life business situation. It is a statement of facts, opinions, and judgements--in short, it is a problem.

The case method is particularly useful in teaching businessmen because it utilizes real, practical problems rather than abstract concepts. Properly used, it provides a realistic environment that causes the participant to become involved and holds his interest. It provides experience in performing essential parts of the administrative tasks without incurring the penalties of a wrong decision on the job. It develops within the individual the process of making decisions, and forces him to think analytically and constructively.

The student also learns the value of group discussion and analysis. Each member of the case discussion group contributes from his unique experience, and each gains from the others. The group knowledge and experience will exceed that of any individual participant--including the instructor.

The following checklist is suggested as an outline procedure for conducting case study and analysis:

Suggestions for Case Study

1. Read the case carefully for general content.
2. Arrange the facts of the case in order of importance.
3. Recognize and define the major problem(s) that need solution.
4. Analyze the problems and their relative importance.
5. Search for and establish alternative solutions.

6. Select the most desirable of the appropriate solutions.
7. Analyze your probable solutions -- set up the pros and cons of solutions, giving value to each.
8. State your choice, decision, or final conclusion -- be prepared to defend it.
9. Stipulate the plan or plans for implementing the decision.

HANSON BOAT COMPANY: BANK FINANCING¹

A maker of custom-built boats and accessory equipment has an unusual two-season need for working capital financing. After experimenting with different sources, commercial bank financing is adopted as the firm's policy.

Adolf Hanson and his brother Gustaff had a boathouse, drydock, boat-building and marine supplies business on the shore of Black Lake, Michigan. Although the small town of Holland at the east end of the lake provided some business, the major portion of the brothers' customers were summer visitors at the two resort areas of Macatawa and Ottawa Beach on the Lake Michigan end of Black Lake. Most of these people lived in Chicago, Milwaukee, and other cities during the winter. Many had summer homes and private boat houses on Black Lake where they spent most of their summers.

During the summer the Hanson brothers were very busy operating a boat rental service, towing and repair service, and marine supplies department. They employed from seven to twelve helpers, depending partly on how active the season happened to be and partly on the type of service in greatest demand. The brothers had worked hard to build up their \$14,000 investment in plant and equipment which was used intensively only three and a half months each year. Large stocks of marine supplies, boat parts and equipment were needed by June of each year and normally sold out by early September. Payroll funds for about 60 days were needed at the beginning of each season, to get ready for the vacation rush, and to carry charge customers' June accounts about 45 days. Thus, large working capital was needed from about May 15 to July 15 each year. From then to September current profits were ample. In general, this short term seasonal financing had been furnished by commercial banks either in Holland or the nearby larger city of Grand Rapids. Vendor credit had been tried for inventories and was still used to a limited extent, but buying for cash, shopping for prices, and purchasing in larger quantities justified bank financing.

A different type of seasonal financing need arose to provide profitable employment for the brothers during the winter. Usually they were able during the summer to secure one or more orders for custom-built boats to be ready for the following summer. These ranged in price

¹Reprint from Case Problems in Small Business Management, copyright by Dr. Pearce C. Kelley, University of Oklahoma, Norman, Oklahoma.

from \$1,000 to \$50,000 each. Some years they would have orders amounting to only a few thousand dollars which they could handle without outside financing. In other years orders amounted to close to \$200,000. This custom building was very profitable in relation to dollar volume and also was a type of work that the brothers really enjoyed. In addition to building new boats, nearly every winter there would be a moderate amount of remodeling, repair, and maintenance work. With the assistance of small down payments and the brothers' own funds they were able to finance the repair and small order work, but needed outside financing on all large orders. This called for nine to eleven months' credit that varied each year from nothing to nearly \$200,000.

The brothers had tried "lay-away" or progress pre-payment plans, whereby a one-fourth down payment was followed by additional fourths as work on the boat was completed. Customer resistance and complications arising because the customer could not conveniently inspect his developing boat, or appraise the progress even if he did see the partially finished product, caused abandonment of this plan.

At first commercial banks in the area had been afraid of such long term working capital financing of a custom-built product. Eventually, however, a purchase contract form and credit report form were developed that met with their approval and furnished ample safeguards. For example, a summer visitor who rented a furnished cottage, lived in an apartment during the winter, and was an employee rather than a business owner, would be required to furnish collateral in proportion to the size of his boat order. Another customer who ordered a \$30,000 boat, owned his summer home valued at \$25,000, city home valued at \$50,000, business enterprise with an excellent mercantile credit rating, and other assets in excess of, for example, \$50,000, would merely sign the new purchase order form and make a \$5,000 to \$8,000 down payment. After several years of operation the plan appeared to be functioning successfully.

Questions

1. Evaluate the working capital financing used for the Hanson's summer and winter needs.
2. Suggest alternative methods, especially for financing the larger boat orders, and justify each.
3. What provisions should be included in the purchase order contract for custom-built boats? Explain.



THE INCUBATOR

A How To Do It

Section

Experiences have shown that people receive maximum benefit from a conference when the participants are given the opportunity to contribute to the implementation of the new ideas, new information, or "how to do it."

This is a "do it yourself" section which will allow the participants to try out or apply the ideas and techniques gathered from this section.

This material may be reproduced for use by the participants in your course.

SUGGESTED INCUBATOR ASSIGNMENTS

1. List the sources of capital available to you in your community.
2. Classify the sources listed in Assignment 1 by the four types of capital--short-term, intermediate-term, long-term, and equity. (A source may offer more than one type of capital.)
3. If you were to experience a 25-percent increase in sales this year, how would it affect your capital requirements? How would you plan for these capital needs?
4. If you were to expand your business now, would you do it through debt capital or equity? Why?
5. Looking at your business objectively, in what ways would you improve your present financial management?

BIBLIOGRAPHY

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This selected bibliography is composed of books, articles, and scripts that are considered useful in a study of financial management in small business. Many of the cited publications may be obtained in libraries, bookstores, and from the publishers. Others, although not widely available, were considered to be of such value that they were included in the list. The free SBA leaflets listed may ordinarily be obtained from the nearest SBA office. Where book prices are known, they are noted in parentheses. An asterisk indicates acknowledgment to the authors and publishers for material that was of substantial value in preparing this volume.

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**SMALL BUSINESS ADMINISTRATION
LISTING OF FIELD OFFICES**

Agana, Guam	Los Angeles, California
Albuquerque, New Mexico	Louisville, Kentucky
Anchorage, Alaska	Lubbock, Texas
Atlanta, Georgia	Madison, Wisconsin
Augusta, Maine	Marquette, Michigan
Baltimore, Maryland	Marshall, Texas
Birmingham, Alabama	Miami, Florida
Boise, Idaho	Minneapolis, Minnesota
Boston, Massachusetts	Montpelier, Vermont
Buffalo, New York	Nashville, Tennessee
Casper, Wyoming	Newark, New Jersey
Charleston, West Virginia	New Orleans, Louisiana
Charlotte, North Carolina	New York, New York
Chicago, Illinois	Oklahoma City, Oklahoma
Clarksburg, West Virginia	Omaha, Nebraska
Cleveland, Ohio	Philadelphia, Pennsylvania
Columbia, South Carolina	Phoenix, Arizona
Columbus, Ohio	Pittsburgh, Pennsylvania
Concord, New Hampshire	Portland, Oregon
Dallas, Texas	Providence, Rhode Island
Denver, Colorado	Richmond, Virginia
Des Moines, Iowa	St. Louis, Missouri
Detroit, Michigan	St. Thomas, U. S. Virgin Islands
Fargo, North Dakota	Salt Lake City, Utah
Hartford, Connecticut	San Antonio, Texas
Helena, Montana	San Diego, California
Honolulu, Hawaii	San Francisco, California
Houston, Texas	Santurce, Puerto Rico
Indianapolis, Indiana	Seattle, Washington
Jackson, Mississippi	Sioux Falls, South Dakota
Jacksonville, Florida	Spokane, Washington
Kansas City, Missouri	Syracuse, New York
Knoxville, Tennessee	Washington, D. C.
Little Rock, Arkansas	Wichita, Kansas

The addresses and telephone numbers of these field offices are listed under United States Government in the respective city telephone directories.

◀ GRAY — The Lesson Plan

◀ RUST — The Presentation

◀ BUFF — The Visual Aids

◀ GREEN — The Supply Department

◀ YELLOW — Cases in Point

◀ BLUE — The Incubator