

Labor Pains for the Entrepreneur

by Bruce A. Love

The blessed event is only weeks away and there's still so much to do. Preliminary indications suggest that your unborn baby is healthy and viable. So, why are you so nervous? Next to giving birth to your own children, bringing a new business into the world can be one of the most physically and financially draining things a person can do!

Let's assume you have done all of your homework and created a business plan, which now indicates your business idea is sound. Further assume that the plan suggests that you will need additional funds to launch. There are several sources of external funds. This article examines one common source of debt financing, which has occasionally been linked to inducing "labor pains" for prospective "parents."

Traditionally speaking, it is common to have a significant other when deciding to become a parent. In business, this significant other is often a banker. Banks need to be convinced that they should become involved with you. They make their decision to assist you based upon criteria known as the Five C's of Credit. The first of the Five C's is your business plan. Business Plan does not start with the letter "C," but it is easier to remember 5Cs, than 4Cs and a B. The business plan demonstrates the *Capacity* of your business to succeed on paper.

Character, the second "C" of credit, will build a case for you being the right person to run your business. The bank's assessment of your character will include both an evaluation of your experience in related industries, and a thorough examination of your credit history (both professional and personal). You can think of it as a kind of blood test to discover anything that can possibly endanger the health of the "baby business." The banking community is very

skilled in performing these examinations! If significant flaws in your past are found, the relationship between you and the bank may be called off.

The environment in which our business operates influences its potential to succeed. Economic environmental conditions in your industry, both locally and globally, will impact the profitability of your business. *Conditions*, the third "C" of credit, also include the terms of loan agreements you make.

The final two "C's of credit," *Capital* and *Collateral*, can become obstacles for new businesses in search of funds. Banks have historically required new business loans to be fully collateralized or "secured." They like to see that the borrower is willing to place *their* assets on the line. This means that you should have enough assets to fully repay your lender in the event that your business fails. Banks accept co-signers if your collateral is not adequate. A formal agreement, called a *personal guarantee*, is usually required, which provides that the business owner (or third party) will repay the loan, and pledges the owner's personal commitment to keep the business operating. *Capital* refers to the equity (funds, equipment, etc.) the business owner brings into the business. Some banks and other lending institutions are showing a little more flexibility with capital and collateral requirements.

Having a baby business is very rewarding, and a labor of love. As you enter this phase, you may experience a lot of irritability, anxiety, frustration, and lack of sleep. Hang in there and you will experience the joys of parenting your own small business.

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