

Need a bank loan?



Here are some time-tested strategies to convince your local banker that your green industry company deserves a chance to grow even more.

by ROBERT A. WOODS

Your company is growing, entering new markets, developing new services.

You need money. Cash is tight. Where do you go to find money to grow?

While there are numerous financing choices for small and medium-size, owner-managed businesses, most company owners go to see a local bank first.

There are specific steps you can take to increase your chances in dealing with banks

and other lenders. But you have to get your banker excited about your company. Only then can the banker sell it to the loan committee.

Speak banker's language

Bankers are always on the lookout for solid companies to loan money to. That's their job.

But, most loan proposals that come across a bankers' desks appear to shout to the banker:

- ▶ "Reject me for lack of documented financial information."
- ▶ "Reject me for lack of a specific plan to pay you back."
- ▶ "Reject me for not demonstrating how the bank's money

can actually help my business earn additional profit."

Numbers talk

When you put your financial information together what kind of story did it tell? You or your accountant probably rounded up the company's past few years annual financial statements along with possibly an interim statement and submitted these to the bank. Unless you are in an exceptionally strong financial position (and if you are, you would not be applying for a loan) the information you gave the bank is probably not enough to tip the scales in your favor.

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You are judged solely on your financial performance as you have given it to the bank.

You can legitimately make the story you tell the bank substantially stronger by doing two things with the financials:

- ▶ "Recast" your previous years' earnings.
- ▶ Include *pro formas* in your loan submittal package.

Recast earnings are simply redoing your financial statements to show what your business could have earned, its maximum earning power, in any given year. As a private business you try to minimize taxes. Taxes are based on income so it's only natural that you tried to keep your income reasonably low. But low income is not what your banker wants to see.

Show true profits

Adjust your income statement to show what your profit could have been if the company hadn't paid for your car and insurance. Adjust for everything that was not an absolutely necessary business expense. Look for expenses that could be eliminated, even though you might not choose to eliminate them, and still allow you to successfully run your company.

Look carefully at your salary and the salary of any relatives on your payroll. As the owner you can take as much cash as you want out of the company. But if what you are taking in salary and bonuses exceeds normal standards for your industry your company is showing less profit than it is actually making.

Profits=smart

The first thing bankers look at is the annual profit shown on

your financial statements. This is the benchmark of your success in their mind. Nice profits equals smart business person. Low profits equals dumb business person. Get your profit as high as you can before you meet with the bank.

For example, you are taking home a salary of \$125,000 when \$75,000 is more in line with what other owners of similar size companies in your industry are making. More power to you, but if you add this \$50,000 of "excess" compensation back into your profits your bottom line is going to look a whole lot better.

If all this sounds suspiciously like keeping two sets of books or like a lot of work, relax. It's perfectly legal since all your income is being reported. You are just showing what happens if you move income and expenses around on paper. As for the work involved, all that is usually required is a few adjustments on the expense side of the ledger.

After you have recast your earnings to put your historical financials in the best possible light it's time to look to the future. What are you giving your banker that shows him or her what is going to happen to the company's finances over the next three to five years? What are you giving the bank to show how you are going to use their money other than vague references to "needing working capital"?

Bankers want to know specifically what you are going to do with additional funds. You have to show the bank exactly how you are going to use its money to make more.

Pro forma a look ahead

A *pro forma* projects your financial statements out over the next three to five years, depending on the term of the loan you are requesting. Lenders want to see a documented, believable future that puts their money to good use and shows them how they are going to be paid back. Show the banker how you are going to use the money to increase profits by opening up new markets or by offering expanded products or service.

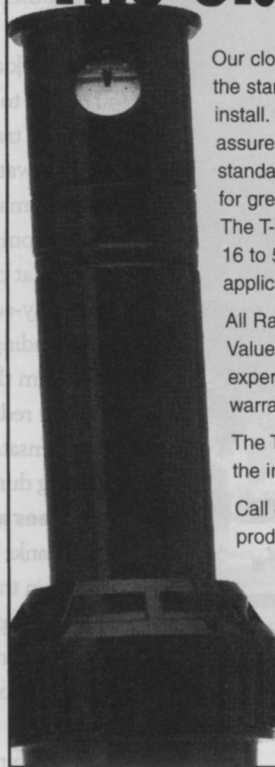
Watch out for projections that are wildly optimistic or differ markedly from industry averages. Bankers have a copy of *Annual Statement Studies* published by Robert Morris Associates on their desks. It de-

tails the operating ratios of companies in every industry you can imagine. If other companies average 35 points gross margin you won't impress the bank by telling it you plan to achieve 60 points.

Pro formas use income, balance and cash flow statements to demonstrate your future financial performance. Tie all these numbers together to build a future that shows the bank that you are in command of your business.

—Robert A. Woods, chairman of the Woods Capital Corporation, Park City, Utah, helps owners of small and medium-size businesses obtain financing for their companies. He can be reached at (800) 892-7707.

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