

# The Path to Growth for Small Business

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# Process

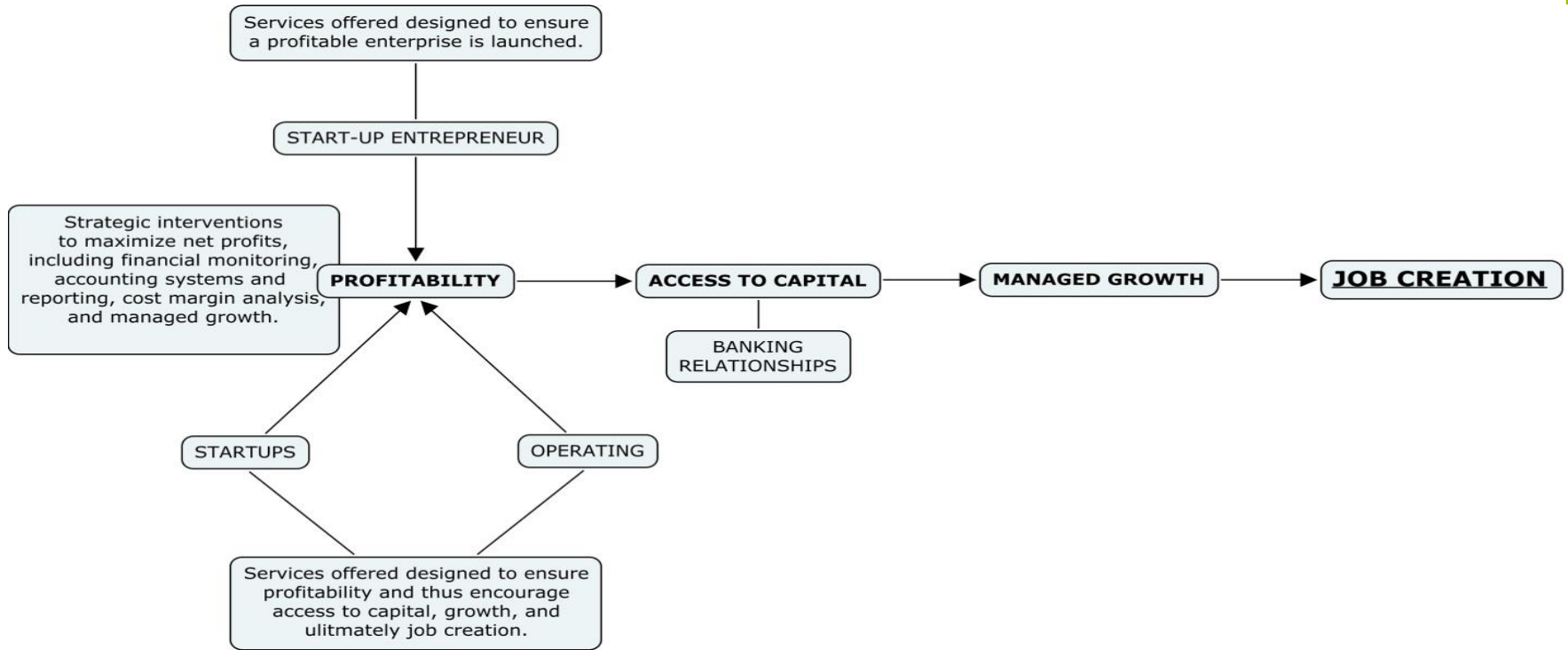
**1) Entrepreneur → 2) Microenterprise → 3) Profitability →**

**4) Access to Capital → 5) Growth → 6) Jobs**

# Business Life Cycle

1. Start up
2. Survival (0-2 years) Company adapts, adjusts to the market
3. Profitability (year 2-3)
4. Access to Capital → Growth → Job Creation

# Process



# Process

## 1) Entrepreneur →

1. Basic info
2. Licenses & Permits
3. Business plan assistance
4. Realistic Project cost
5. Workshops

## 2) Microenterprise →

1. “Survival Stage” – able to operate but may not be making money
2. Adapt business model to achieve profitability

## 3) Profitability →

1. Learn to Measure and manage business finances

## 4) Access to Capital →

1. Well-Managed Business with a fixed model is now ready to grow

## 5) Growth →

1. No business will ever achieve substantial growth without the previous step

## 6) Jobs

1. Ultimate goal of the program is to create jobs

# Cost-Structure Analysis Brewery

Blue = Controllable Expenses  
Red = Uncontrollable Expenses

	2018	%		Goal
Sales Income	\$4,435,000			
<u>COGS</u>				
Purchases	1,020,050	23%		20-25%
Direct Labor	665,250	15%		13-18%
Supplies	88,700	2%		2.00%
Diff Inventory		-		
Total COGS	1,774,000	40%		40%
Gross Profit	2,661,000	40%		40%
<u>Oper Exp</u>				
Insurance	61,000			
Salaries/payroll taxes	817,000	18.42%		
Rent	350,000	7.89%		5.00%
Freight/Delivery	66,000	1.5%		
Interest	61,000			
Utilities	60,000			
Advertising	80,000			
Other Exp	356,000	3.57%		
Total Oper Exp	1,851,000	41.73%		40-42%
Oper Profit	810,000	18.26%		18-20%
Available CF				
Required CF				
DSC				

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## 3) Profitability →

1. Learn to track and manage business finances

## 4) Access to Capital →

1. Well-Managed Business with a consistent model that can replicated is now ready to grow

## 5) Growth →

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# Access To Capital

- Traditional disconnect between small business owners and lenders
- Three parties involved in the process are Business Owners, Tax Preparers and bankers
- Important to understand the interaction between these parties and how it contributes to widen the gap



# Reasons for the "Gap"

- Business owners reluctant to borrow because of link between loan and debt
- Tax preparers focused on reducing tax liability and not growth
- Lenders not trained to promote their product and unwilling to mentor the prospective borrower

# Access To Capital

- You cannot grow your business without it
- Can be very profitable
- Anybody who understands the rules can enjoy the benefits

How to qualify?

1. The "Want" to Pay
2. The "Ability" to Pay

# Access To Capital

## “Want”

- Personal Credit of anyone who is 20% owner will be involved in the loan
- Any issues must be overcome beforehand

# Access To Capital

## “Ability”

- Determined by calculating “magic ratio” know as DSC
- DSC is the ratio between available cash flow divided by committed cash flow
- Ratio needs to be at least \$1.25:\$1.00, in other words need \$1.25 available for every \$1.00 that is committed
- **Ratio is obtained from last filed business tax return**

# Access to Capital

	<u>2015</u>	%	<u>2016</u>	%	<u>2017</u>	%		
Sales Income	801,890		1,578,401		4,360,305			
COGS								
Purchases	496,522	61.92%	1,655,209	104.87%	3,690,297	84.63%		
Direct Labor		0.00%		0.00%				
Other Costs		0.00%		0.00%	222,865	5.11%		
Diff Inventory			-623,411		-133765			
Total COGS	496,522	61.92%	1,031,798	65.37%	3,779,397	86.68%		
Gross Profit	305,368	38.08%	554,502	35.13%	862,806	19.79%		
Oper Exp								
Depreciation					3,500			
Salaries	42,260	5.27%	2,815	0.18%	68,759	1.58%		
Rent	52,075	6.49%	121,530	7.70%	244,408	5.61%		
Interest					1,195			
Officer Comp			52,650		3,500			
Amort	82		82		82			
Other Exp	77,842	9.71%	164,929		329,778			
Total Oper Exp	172,259	21.48%	342,006	21.67%	651,222	14.94%		
Oper Profit	133,109		212,496		211,584			
Available CF	133,191		265,228		219,861			
Required CF	79,920		79,920		79,920			
DSC	1.67		3.32		2.751013514			

# Access to Capital

## Where to go?

- Choosing the correct lender is extremely important
- Smaller banks are better for smaller loans
- Importance of securing an SBA guaranty
- SBA guarantees between 75-85% of loan to lender
- Must be able to personally discuss your loan request with the lender. This is only possible with smaller banks

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## 4) Access to Capital →

1. Well-Managed Business with a fixed model is now ready to grow
2. What are lenders appetite?  
What is their niche in the market?

## 5) Growth →

1. Difficult to achieve substantial growth without the previous step

## 6) Jobs

1. Ultimate goal of the program is to create jobs

# Success Story

## Herbal Cup Tea

- Started Company in 2011 after selling a successful tea company
- Sales from \$185,000 in 2013 to \$1 Million in 2018
- From 2011-2013 had to bag tea at a competitors plant
- Was able to purchase a bagging machine in 2013 with an SBA loan and sales jumped from \$185,000 to \$315,000 that year
- By 2017 had also gotten a \$100,000 revolving line of credit and sales were up to \$685,000
- Approved for a loan for 2<sup>nd</sup> bagging machine on September 4<sup>th</sup>
- Will reach over \$1 Million in sales by the end of the year and the 2<sup>nd</sup> machine will offer the capacity to reach \$2.5 million in sales





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# Thank you

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