SNOW START UP

ISSUE #1: FOCUS ON **FINANCIALS**

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You have to spend money to make money; but there are several miscues and/or decisions small business owners can make that can compromise the profitability – and even the viability – of their companies. This issue of StartUp focuses on key areas to consider: financing, credit, purchasing and business structure.

BE PRUDENT WHEN FINANCING

Regardless of how profitable your business is on paper, without cash your business will starve if you can't meet payroll and vendor obligations. Most businesses fail because they are undercapitalized. Financing provides access to cash to manage long- or short-term business objectives. While you don't want to over-leverage your company, financing can be beneficial in the growth of your company.

Establish good relationships with a banker who understands the seasonality and intricacies of running a snow business. Have frequent conversations about your business and your needs so if you need to secure financing the door will already have been opened.

Buying with cash is a conservative way to make sure you don't spend more than you have, but it may not always be practical. Prudent use of credit can help a business manage the ebb and flow of cash throughout certain business cycles. Borrowing on credit to pay overhead expenses, though, is no different than personally living beyond your means.

TIP: DON'T GET TOO PERSONAL

Personal lines of credit, credit cards and loans: Be very careful of putting your personal financial security at stake. Using personal credit puts you on the hook for your business's liability.

FINANCING OPTIONS

Short-term financing: Business credit cards and vendor accounts may offer shorter terms that allow you to buy today while saving your cash, and paying when the term is up.

Traditional bank loans: When borrowing, a bank will evaluate your request for funding differently depending on what you are requesting and what your financials look like. Asset-based loans to buy equipment or property are typically considered long-term loans; but cash-based loans for working capital, payroll and other direct expenses are usually short-term loans.

Lines of credit: You can use lines of credit similar to a credit card, only paying when you borrow money. They may be secured or unsecured. Understand the difference and the pros and cons of each.

Small business loans: It may not be easy to get a business off the ground without startup financing; explore possibilities through the small business lending market.

Leasing options: Especially with equipment, it may be more beneficial to avoid associated ownership costs. You don't want to pay on a loan if the equipment is sitting idle when it's not snowing. Leasing or renting may be more financially prudent. *(See Page A4)*

BUSINESS STRUCTURES

There are different types of business structures that new owners should understand, particularly as a company grows. The most common for smaller businesses are sole proprietorships and limited liability corporations. There are pros and cons to each. Whatever your structure, make sure to comply with applicable sales and use tax laws.

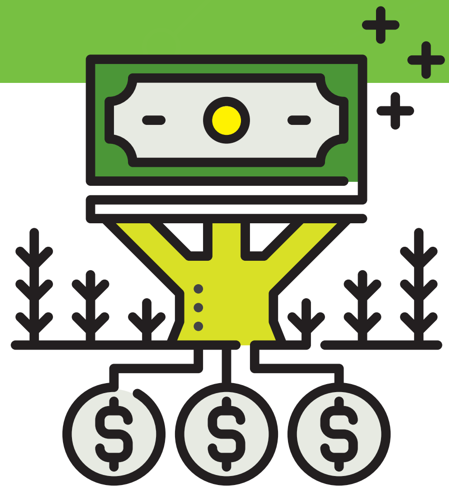
STRUCTURE		ADVANTAGES	DISADVANTAGES
SOLE PROPRIETORSHIP	The most basic business type is a sole proprietorship, which is a person doing business as him or herself either under their own name or registered under an assumed name (also known as a d/b/a).	Little or no setup or maintenance work required.	Owner is personally responsible for the business's debts. Cannot be easily sold or transferred. Banks may be more reluctant to lend. Must report all business income or losses on your personal income tax return and pay self-employment tax contributions toward Medicare and Social Security.
LLC	An entity that exists separately from its owners. It will have its own assets, debts, bank accounts, finances and contracts.	Owners will generally not be personally liable for company debts. Ease of transferring ownership. Profits/losses can get passed through to personal income without corporate taxes.	More setup expenses and efforts required. Members of an LLC are considered self-employed and must pay self-employment tax contributions toward Medicare and Social Security.

** This is a general overview. To determine the best structure for you, speak with an attorney and accountant.*

TIP: ENGAGE AN ACCOUNTANT

Accountants play a vital role in planning for any fiscal event (e.g., purchasing equipment, real estate, securing credit, company valuation, guiding your company through tax preparation, business strategy and audits, etc.). As a startup, if hiring an accountant is cost prohibitive initially (it's a necessary expense as you grow), it's important that you learn about payroll, taxes, compensation and bookkeeping to ensure you are in legal compliance with all government requirements, filings and regulations.

PERSONAL PROTECTION: KEEP YOUR ACCOUNTS SEPARATE



It isn't unusual for owners to use their personal finances when starting a business. But for legal and financial reasons, it is essential that you establish a plan to separate your business and personal accounts as soon as possible.

FINANCIAL BENEFITS

- Easier to identify taxable expenses for the business.
- Easier to monitor how the business is doing. Blending of information can hide success – or weaknesses – of the business.
- It will be easier to obtain loans from a bank or any type of credit.
- It will be easier to prepare your tax returns.
- Should you consider selling the business, it will be easier to support its revenues and expenses.

LEGAL BENEFITS

- Protect your personal assets from debts or liability incurred by the business.
- Combining personal and business assets (commingling funds) can make you lose limited liability protection afforded by your company.
- Commingling funds can lead to legal actions to "pierce the corporate veil," which essentially asks a court to invalidate the business entity because the business is a fraud. Should a court pierce the corporate veil, owners are subject to collection against their personal assets.

MULTIPLE SERVICE LINES? KEEP THOSE SEPARATE, TOO

In addition to keeping your business and commercial accounts separate, if you perform other services besides snow, you should keep those profit center financials separate, too. Why?

- It allows you to understand the profitability of specific services. When information is blended, the actual profitability may be hidden. One service may be unintentionally supporting another service.
- You may not recognize all of the costs related to one service.
- It allows for comparisons between different periods (monthly, quarterly, annually).

As you grow, you may find that trying to be everything to everyone isn't in your company's best interest. If you keep your service lines separate, you'll be able to analyze the true value of those services to your overall success. A healthy profit center has balance between the customers and good margins that allow for a consistent profit return, and a sustainable customer base that continues to do business with you year after year.

Scrutinize your profit centers:

- Analyze your profit and loss (P&L) statement. What does each return to you in dollars and percentage of business?
- Review your customer base for number of customers, average revenue per customer and retention rate. This could help you identify your risk and the value of each profit center.
- Measure your returns on investment (ROI) and time (ROT) for each service offering. You have to know how much time and resources you and your key people are devoting to winning and servicing the work in each of your profit centers. If you don't know these numbers, start tracking your job costs and direct overhead costs associated with performing the work.

BUILDING YOUR FLEET FOR MAXIMUM ROI

As you expand your business, you will need to add equipment to ensure you have the capacity to effectively service your clients. Whether that be renting, leasing or owning, the deciding factor usually comes down to whether you can put the equipment to use all season long or only need it part-time.

RENT: If you only need equipment for part-time use, renting might be the solution. The flexibility of renting a skid steer or wheel loader can be convenient when just starting out or midseason if you need to haul snow off-site. You can easily expand or shrink your winter service fleet based on annual contracts that require special equipment you don't already own. Plus, you can eliminate costs of ownership like unscheduled maintenance and offseason storage.

LEASE: This is a great way to test the equipment before making an ownership commitment. At the end of the leasing term, you can decide if it makes sense to proceed with the long-term investment or continue to rent or lease as needed. Warranties are usually in play for the life of the lease, minimizing out-of-pocket maintenance and repair costs.

OWN: Sophisticated business operators understand that equipment is a tool to make money. But buying equipment just because you can afford it doesn't mean you should. Take a scientific approach to get the greatest return on their investment. If you plan to use a piece of equipment year-round, it may make sense to purchase it. The total cost of ownership is lower if used regularly; and many pieces of equipment hold their value, allowing you to sell and upgrade your fleet in the future. This business investment allows you to plan long term and expand in ways you wouldn't be able to otherwise.

KEEP YOUR CREDIT IN CHECK

Although most start-up businesses rely on personal credit for initial financing and use personal assets like homes for collateral, owners should establish a business credit profile as quickly as possible to limit personal exposure. You should also take care of your credit since bad credit scores can kill a business. A few best practices:

1. Lenders often evaluate applicants based on three factors: time in business, revenues and credit (personal and/or business scores).
2. Business credit scores range from 0 to 100. Most small business lending companies require a minimum business credit score of 75. Payment history on accounts that report to the credit bureaus is the most important factor in calculating business credit scores.
3. Business credit payment history may include accounts paid even a day late. Paying early can result in a higher score.
4. Review your credit scores at least quarterly.

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