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The Monthly Resource Guide For Startup Businesses

NEW BUSINESS

m i n n e s o t a

June 2008



Who's on Your Startup Team?

Bernie Schwab, Spruce Valley Payroll and Services.
Pam Ricker, Hodroff Ricker Ltd., CPAs.
Dion Muchow, Venture Bank.
Patrick Swanson, KLC Financial Inc.
Experts in banking, finance, accounting and payroll processing share essential insights every startup company should know. Page 4

ROUNDTABLE DISCUSSION

New Business Experts You Should know

Pam Ricker is the owner of Hodroff Ricker, Ltd., Certified Public Accountants in Plymouth. She has worked in accounting since 1980 and obtained her CPA license and certification in 1992. She has always worked in public accounting firms specializing in small business accounting and income taxes. She has also been a controller in a small business, an invaluable experience that helps her better understand her small business clients. pamricker@jhodroff.com (763) 553-9800



Pam Ricker

Dion Muchow is Senior Vice President of Venture Bank in Eagan. He is a graduate of Hamline University, St. Paul. He has more than 16 years of banking experience in the Twin Cities area, working primarily with small to medium sized businesses, assisting them with lending, deposit, and cash management needs. Venture Bank also has offices in Bloomington. dmuchow@venturebankonline.com (651) 289-2230



Bernie Schwab

This panel of experts in banking, finance, accounting and payroll processing has seen it all. They discuss the do's and don'ts of launching your business and who should be on your startup team.



Dion Muchow

Bernie Schwab is an owner and President of Spruce Valley Payroll & Services. He is a graduate of the University of Minnesota with a degree in Business Administration. Bernie has been helping clients through the maze of service and outsourced solutions for over 20 years. Spruce Valley Payroll specializes in affordable full-featured payroll services for new and small businesses; service with an emphasis on the personal touch. Bernie@SVPayroll.com (952) 894-6282



Patrick Swanson

Patrick Swanson is an associate with KLC Financial, Inc. and a graduate of the University of St. Thomas. He works with startup, developing and mature companies to help structure financing for capital equipment. His finance experience encompasses a broad range of both industry and equipment types. KLC specializes in helping other entrepreneurs achieve their business goals. pat@klcfinancial.com (952) 224-4305

[Publisher's Note: This panel of startup experts sat down with New Business Minnesota for a wide ranging discussion of issues of interest to new businesses. This article is made up of the highlights. The panel will reconvene for a Startup Finance Forum on July 16 at the Marriott Hotel in St. Louis Park.]

NBM: What kind of organization or states of preparedness do you look for in startups?

Dion: It's the business plan that's well thought out. Hopefully, they've got some experience in that industry. You know the business plan is probably the most important thing... how much thought they've put into it.

Pat: I'm thinking along the same lines. What does the business plan look like? Is it realistic, is it stuff thrown into a folder or is it put together nicely? That makes a difference. It really does. And what other professionals are the customers working with? Our business is a referral business. We are tapped into the commercial finance market and the professionals in that market— CPAs, payroll professionals, bankers, attorneys and other commercial finance people. If the people that we know, that we have done

business with, are working with the customer, we know they are in good hands. We have other clients that have been successful with them. That makes a big difference as well.

Bernie: What I'm really looking for is who's their banker, who's their lawyer, who's their CPA and do they have those resources aligned. When I'm working with startups and they don't have those different resources in place, I end up referring to my contacts and say, "You need to get this in place before we can start working together." It's not an ultimatum; it's very much "Let's get this set. Now we're ready to go ahead with payroll."

Pam: The sooner they can talk to a CPA the better. We can give them help setting up the business plan, doing the projections, organizing their thought process, pulling in resources for help with marketing, payroll, banking and get them pointed in the right direction. We get them onto software, otherwise they end up with everything in a checkbook or in a shoebox and they don't have anything organized. And then when they go to the bank and say, "Ok, now I'm ready to go for further. Here's my shoebox. Help me figure it out. Lend me some money based on

this." You need to be organized from the start.

Pat: Developing companies are not going to a bank or a finance company because they just want a pile of cash to sit on. They have a business opportunity and typically time is really of the essence. They must be organized from the beginning so they can capitalize on those opportunities when they come up. If organized from the start, entrepreneurs can focus their efforts and resources on developing those opportunities.

Dion: The companies that I've seen that haven't worked with a CPA or an accounting firm to get their books set up properly, end up having to totally redo everything. The cost of that can be thousands of dollars because they not only have to clean up the mess, but re-establish what's there. Do it right the first time is really the message.

NBM: What's the worst case of "clueless startup" you've seen?

Pam: We have a company that started out two and a half years before they came into us. They had three sets of Excel spreadsheets. They did use a payroll processor, but never inte-

grated that into their spreadsheets. All of a sudden they're saying, "My tax return doesn't FEEL right. I don't think this is right." They came in and had no financial statements and they were a multi-million dollar company by this time. So we had to create their books from scratch. Their tax return was wrong by close to \$200,000 of net income.

Bernie: One was a manufacturing company that had taken their payroll in-house after about 1 1/2 years. And then they just missed their tax filings. By the time that we reached them they were on the edge of going out of business because payroll tax payments and filings weren't handled properly.

Pat: A scenario I often see with startups is maybe a year down the road after they get some initial SBA financing and maybe set up a small line of credit, they use that or what they think is excess working capital to acquire equipment. Now they need to grow again and they've used short-term cash for a long-term capital asset. That cash, that short-term asset that is so valuable for the company, is sunk into a depreciating asset. It's gone forever. If they finance it up front when that asset is new, they can retain that cash, which even if it sits there in an account at the bank, it's worth more as just cash equity – it's growing – than sitting in an asset that's depreciating and not building any equity for the company. They also don't look as good on paper when it comes time to renew or increase their bank lines.

Dion: I've seen all kinds of scenarios. No business plans, no clue on what they want to do or how they are going to get there. And no background, no CPA, no attorney setup. Those are red flags. Turning them down for a loan is easy to do.

NBM: Is it easier to use a payroll company than to do it yourself?

Bernie: Yes. It's less expensive for us to do it and it keeps a new business out of harms way regarding payroll tax issues. In my experience, one of the things that even CPA firms are looking for is a partner that will actually handle the payroll, give them good information back on a timely basis so they can work with the client and effectively help the client manage through the process of running their business. Frequently, new businesses look at payroll as something they can handle themselves and do it to save money. In the end, it ends up costing them more money and sometimes it costs them their business.

Pam: For most CPA firms, payroll is not a money-making division. It's a service that we offer to our clients because they need it. You don't want to get in trouble with the IRS or the State of Minnesota on payroll tax issues. The penalties are stiff. You want to work with somebody who does payroll, that knows what they're doing, has all the laws covered, but can do it on a more focused basis. It's more efficient for payroll companies to focus on it.

NBM: What are some other payroll issues?

Bernie: If you get into a situation where, because of missed filings or missed payments, there

are penalties involved, it absolutely stops a small business. Growth is no longer the main focus of the business. Dealing with the tax issues is.

Pam: And you can't get rid of a payroll tax lien. If you've got a lien from the IRS and you file bankruptcy because your business has gone away, you do not get rid of that payroll tax lien. That stays with you.

Bernie: That'll leave a mark. Another point that is important is the issue of impounding. We don't impound monies from our clients... their funds never goes into our account. The client continues to manage their money until their taxes are due and we then pay the taxes directly to the government for the client.

Dion: So ADP and those guys, they take it, they sit on it and they hold it?

Bernie: Exactly. It could be for an entire quarter. Literally, it can be 45 to 90 days before the tax monies are actually due. The nice thing, also, from the banking perspective, is it keeps a client's balances higher, you're happy with the deposits and the client looks better to the bank.

NBM: When a startup goes for a loan, does it help their case if they have a CPA assisting in the process?

Dion: I think so. When a customer comes to us from a referral source I think that gives them a little bit more credibility. Pam probably knows that person and has been working with them for a while. And it makes our decision a little bit easier. We might be more comfortable with it. In general, they come with their financials prepared and they probably have a business plan and have most of the things done. It makes it easier for the bank to lend money when they have a professional team.

NBM: What are some other issues you consider when lending or leasing?

Dion: You want to match the structure of the loan for the use of the proceeds. If they want to finance receivable inventory, that's a short-term, working capital, line of credit type of structure. If they want to buy equipment, that's a term loan type of structure or a leasing structure. So, you want to match the useful life of the asset that they are using with the structure of the loan.

Pat: No company acquires capital equipment to just sit there and look pretty. They acquire it to generate revenue to achieve the goal of any company, which is to make a profit and hopefully build equity. Leasing is pretty simple in that your primary source of repayment is the actual revenue generating equipment that customers are acquiring. So you try and match the revenue and expense to maximize profitability. The character of the individuals behind the company and the people that they work are important issues to our company as well.

NBM: What size loans or leases will you do or what does it cost to use your service?

Pat: We're asset generalists in that we'll fund all types of business commercial equipment from hardware, software manufacturing equipment, medical equipment, construction equipment. We will do anything from \$2,000 to \$5

million. The small ones I will absolutely consider if it will help develop a relationship with a local customer, or for a relationship with the lender or the CPA who referred the transaction to me.

Dion: At Venture, nothing's too small from our standpoint, too, because little companies grow up to be big companies. And our goal is to build a long-term relationship with that customer and hopefully they're our customer 25 years from now.

Bernie: For most new startup businesses, the cost of payroll is between \$50.00 to \$100.00/month. That price includes our running the payroll and handling the tax payments.

Pam: From an accounting standpoint, if you're doing all your own input and sending it to us, we can take a look at your books and for \$100 a month and than give you some feedback on your financials.

NBM: What's your preference in contact frequency with clients?

Pam: If we can look at the QuickBooks at least quarterly we can help them be more proactive instead of reactive. Monthly is even more so.

Dion: For us, it generally depends upon the size of the loan relationship. The larger it is, the more often we're going to get financials. I'm probably talking to at least 90% of my customers at least quarterly.

Pat: Typically, our customers are making a monthly payment so there's a contact there all the time. It might not necessarily be a phone call but there's a payment withdrawal or a payment made on the transaction that we've done. But as far as digging in and looking at books, I'd like to do that quarterly or whenever the customer has a new opportunity they would like to pursue.

NBM: What about the referral, support and networking aspect of the business relationships.

Dion: The more communication the better. We know that customer. We can provide that service, and we can refer them to the leasing company, the payroll company or the CPA or whoever it is. Some people don't need or want that communication with the bank and that's fine, but obviously, the more communication there is, the better service we can provide.

Bernie: I feel like half my job is referring people. I feel like I'm more of a small business consultant than I am a payroll company. It really is an issue where we start talking about what's going on with your business, where are your needs, where is your pain? And after about a 45-minute conversation, we actually start talking about the payroll side.

Dion: We're all advisors here.

Pam: Whether it's to an attorney or an insurance agent, payroll source, a bank, we've got the contacts: a financial planner for the retirement accounts, health insurance professionals, employee benefits.

Dion: If I were starting a business, I'd want to deal with people who are very experienced in working with small businesses. We've all worked with thousands of companies and we've prob-

ably seen thousands of scenarios and we can relate to what that small business person is going through and guide them through that issue, whatever it is, and then make the referrals to the appropriate people.

NBM: A lot of startups still have a consumer's understanding of cash, rather than a business understanding. What do they need to know about handling and managing cash?

Dion: Cash is king.

Pam: Know where it is. Don't leave it in the shoebox or in the checkbook. Know where your cash is going.

Dion: I think a lot of companies get in trouble with receivables. Maybe they don't bill as fast; they make a sale, but they're too busy and they'll get an invoice in the customer two weeks from now. That slows down the collection of cash. And then maybe they're 30, 45 days out with their customer and nobody's following up with them, nobody's making the phone call asking about the invoice or ask for payment. You got to stay up on top of those things, don't let them get out of control.

Pat: I'd say finance what you can. Finance everything you can. If you have cash, keep it. Hold onto it. You can't finance payroll, your CPA or your marketing. You can finance equipment, real estate and your receivables. So even if there's cash there to be able to do that on your own, keep that cash, hold onto it, hold onto as much of it as you can.

Dion: I was just going to say as a bank, we love deposits. Deposits, deposits, deposits, all about deposits. And if we would rather see a company hold onto their cash and finance their receivables and sleep at night knowing that you've got \$50,000 in the bank or whatever it is so you can feel comfortable.

NBM: What are some things you'd like to share about business plans?

Pam: One thing I do when I talk to people about developing the business plan is you want to know what your priorities are, what your goals are, what your company vision is. I'll have them work backwards. What do you want to be remembered for at the end of your life? Write your obituary. Don't have a different set of priorities and goals for yourself than you do for your business, because you're not going to embrace that business plan. And then where do you see yourself in three, in five years? Don't just hand the business plan to the banker to get the financing and put it on the shelf.

Dion: The business plan is not for me it's for the business owner and they need to use it as a guideline and a tool for making their business successful. Certainly, I'd like to see it and read it and understand the business plan, but it's not

for me.

Pat: I'd say don't write one just to start the business and then not revisit it. Inevitably things are going to change. They're going to change in month one of your business. There are going to be opportunities that you didn't expect.

NBM: How should startups plan for year two?

Pat: My best customers call me six months before they're looking at a capital equipment acquisition and they'll sit down with me. Here's what I'm thinking about doing, here's the po-



Dion Muchow, Patrick Swanson, Bernie Schwab and Pam Ricker (just off camera), share favorite stories about startups — the good, the bad and the funny — during the New Business Minnesota roundtable discussion.

tential opportunity. It's not there yet, but that's good to hear as opposed to "I just got back from my CPA's office. I need to book some capital assets before the end of the year."

Dion: It gets back to communication and keeping your circle of influence informed about what you're doing and where your business is going.

Bernie: The whole concept of having advisors around you, setting up a board, is a very good idea. People that you know and trust who bring a specific expertise to the table that you don't have and that you know will tell you the truth. They should be your advisors.

Pam: It doesn't have to be a formal board. Get involved in networking groups where you'll find people who have walked in your shoes or are going to be walking in your shoes. You don't find that by staying in the office or just focusing on your own business. You have to get out into the community and network with other people and not try and go it alone.

NBM: In what way do you work differently with startups?

Bernie: We're geared toward personal relationships and service. We want to know what's going on in the business, who your people are, and what drives them so that we can bring best resources to the table. What we find with a lot of the production houses in the payroll arena is

that they don't really care about relationships or the clients business. It's a production game for them. That's not how we operate.

Pat: Not a lot of lease finance companies work with startups. We do. We do not turn down transactions that make sense and support solid opportunities. It's important for startups to have access to companies like KLC because leasing as a financing tool is well suited for startups that are A) Trying to preserve as much cash as possible. B) A lot of times they're in fast growth mode, which often suits a lease finance structure well.

Dion: If I were a startup company I'd be looking for a bank that works with small business and specifically lenders who have experience doing that. At Venture, we kind of came from Riverside Bank, at least most of us did, and a lot of people still remember that name as a local community bank that specialized in working with small businesses. And Mike Zenk, our president, has got 30 years of lending experience. Most of our vice presidents have 15 to 20 years of working with small businesses.

Pam: What we offer is education. We don't just take your numbers and create a tax return. We try and educate you. We try and help you learn your software and how to use it. We try and explain to you what you're seeing on

your balance sheet, what you're seeing on your income statement, what your tax returns mean, what's out there for retirement plans or loans or other payroll needs that you need to know

NBM: What's the most fun you've had working with a startup?

Dion: I think just seeing their success, helping an entrepreneur who has a dream. And it doesn't really have anything to do with me. I provided the money and gave them a checking account, but just watching them grow and be successful. Eventually they sell their company and go to Hawaii or whatever they do. I don't know. Just being part of that success and seeing that.

Pat: The sale is fun. When they sell their company, like Dion said, they're out, they did it, they made it, they cashed in. And if they properly managed the business' assets along the way, it's a much nicer payday than if they stumbled there and they're getting what they can.

Pam: I'd say the same thing. A lot of times we can see the client from startup through sale and we may not be able to retain the relationship with the new owner. If we can, that's a plus for us, then we've got a new resource, a new person to work with.

NBM

NEW BUSINESS
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Presents

Startup Finance Forum: How to make your seed money work for you.

Experts in banking, finance, accounting and payroll processing share insights that every startup company should hear.

Bernie Schwab
*Spruce Valley Payroll
and Services*

Dion Muchow
Venture Bank

Pam Ricker
Hodroff Ricker Ltd, CPAs

Patrick Swanson
KLC Financial Inc.



When: **July 16, 2008**
Where: **The Marriott West, St. Louis Park**
Time: **1:00 p.m.**
Cost: **\$25⁰⁰**

The expert panel will share their knowledge, experience and wisdom as they discuss what every startup should know about tracking, spending, growing and managing their business.

RSVP at www.newstartupmeetup.com

A free Startup Meetup networking event will be held immediately afterwards at 5:00 p.m.

Moderator, attorney **Jeffrey O'Brien**, who heads up the INCubation Center for new businesses at the Minneapolis, law firm of Mansfield Tanick & Cohen, P.A.



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