E-Center News

End of Summer '06

...News Release....

Economic Impact Study shows benefits of the Entrepreneurial System

The Center for Economic Development and Business Research at Jacksonville State University recently completed an economic impact study on the Northeast Alabama Entrepreneurial System for the year 2005.

The study analyzed the benefits resulting from the expenditures of the companies at the Entrepreneurial Center, graduates from the Center, the Center itself, and employees of each company. **Based upon the model used, the expenditure impact on the regional economy was $50.9 million. This expenditure impact then resulted in the generation of $2.04 million in sales taxes and $1.5 million in income taxes. This activity stimulated the creation of 763 jobs in the East Alabama region.**

The model employed in calculating the benefits was developed by the Office of Social Science, Socio-Economic Studies Division, in Denver, Colorado.

"The model utilized to perform this study falls well within the accepted parameters for economic research. If anything, the model performs on the conservative side for demonstrating economic multipliers," said Dr. William Fielding, Dean of the College of Commerce and Business Administration at Jacksonville State University.

"This benefit is significant in the fact that the study represents only one year of operations", stated Executive Director Giles McDaniel, "We are now into our eighth year of operations. You analyze these numbers for a period of years and they really demonstrate the significant impact that the Entrepreneurial System and the small businesses they assist play in the local economy."

Business incubation catalyzes the process of starting and growing companies. A proven model, it provides entrepreneurs with the expertise, networks and tools they need to make their ventures successful. Incubation programs serve to diversify economies, commercialize technologies, create jobs and build wealth.

RECENT EVENTS

No pictures!

Thanks to everyone who attended our annual summer BBQ this past July! The food was fantastic but even better were the laughs and good company.

Misty Cobb (far right) a teacher from the Cleburne County Career Technical School spent a day job shadowing with Director Giles McDaniel (far left). Mitchell Christopher (center) shows off his company's machined products.

OUR LATEST GRADUATE:

This Summer marks commencement for a couple of our tenant companies. Modern Engineering, Inc has moved to their new offices on Quintard Avenue in Anniston. A success story, Modern began operations at the Entrepreneurial Center in the 4^{th} quarter of 2003 with 2 employees and expanded their number to 8 which occupied approximately 1100 square feet of office space. Two satellite locations have also been added in Georgia and Tennessee.

Modern Engineering is a tier-one supplier to the automotive industry specializing in technical staffing. Their candidates are generally engineers, technicians, mid-upper level accountants, and HR people. At any given time they have over 200 technical requirements both contract and direct placement.

We wish Modern Engineering much continued success!

Modern Engineering, Inc. pictured from top left to right: Paula Watkins, Shelly Cofield, Katie Damke, Hope Alonso, Doni Boozer, Torniesha Ragland, Brenda Spradlin, and Jason Schoolmeester

Coming soon!

Mountain Longleaf Business Assistance Network

This network of existing service providers is being put together to make it easier for entrepreneurs, whether just starting or already in business, to find assistance. Included in the network are:

- Calhoun County Chamber of Commerce
- East Alabama Planning Commission (EARPDC)
- JSU Small Business Development Center (SBDC)
- NE Alabama Entrepreneurial System (NEAES)
- Service Corp of Retired Executives (SCORE)
- Spirit of Anniston

A website listing each of the above providers, with descriptions, links, and an events calander will serve as a starting point for entrepreneurs seeking assistance.

How to Borrow Money from Family and Friends for Your Business

If your face appeared on the 11 o'clock news, how many people would say, "I know that person!" The list is probably longer than you think—and more than you'd imagine could be prospective investors in your business.

Making a List

Your first step in finding investors among people you know is simply to draw up a huge list of names, including your family, friends and beyond. You're in search of people with whom you already have a trusting relationship, or with whom you can establish one.

Start with your inner circle—parents, grandparents, siblings, aunts, uncles, cousins, in-laws, close friends and neighbors. Your middle circle includes people whom you currently and regularly have contact with—business associates, fellow volunteers, members of your church or temple, current or past co-workers, supervisors or employers.

Also think about any potential business mentors or entrepreneurs, people who may have good information about the kind of business you're in and whom you either already know or could get to know.

Finally, your outermost circle reaches to past contacts, friends or acquaintances you rarely see, and people you know only through someone else. These people should either know your name or recognize and think highly of a mutual acquaintance. Think back to teachers, college friends, mentors, professors, coaches and others who might have an interest in seeing you succeed. If you know any angel investors—affluent individuals with experience and an interest in helping new businesses get started—add their names, too. Skim through your address book, e-mail database, holiday greeting card list, old school yearbooks, alumni directories, employee rosters from old jobs and even party invitation lists.

Don't reject anyone at this point. If your list feels short, ask a trusted friend or colleague to help out. Next, evaluate each person on your list in terms of the following four characteristics:

• Trust in you

• Ability to afford the investment

• Business experience. Entrepreneurs are actually the most likely to invest in other businesses.

• Lack of emotional baggage. Cross off anyone you feel nervous about entering into a financial relationship with.

Draw up a list of your best bets—people with at least two of these characteristics. Include columns for each person's name, a brief description of why the person appears to be a good prospect, and the best way to contact the prospect.

Evaluating Each Prospect

Once you understand what makes each prospect tick, you'll be better able to craft an appropriate proposal. The two cards prospects bring to the table are their experience with business investing and comfort with the idea of mixing money and relationships.

If your prospect has ever made other private loans or investments, started a business, worked in a senior position or invested in the stock market, consider him or her savvy. If the prospect has not done any of these things, consider him or her inexperienced. You'll have to explain your request more clearly to inexperienced prospects and educate them thoroughly about the potential risks and rewards of the investment.

Would your prospect think of an investment as a business transaction or consider it part of your personal relationship? If your prospect doesn't appear worried about mixing money and relationships, consider him or her analytical. If he or she fears that providing money for your venture could damage your relationship, consider the prospect worried.

You can divide prospects into four types: savvy and worried, savvy and analytical, inexperienced and worried, or inexperienced and analytical. Each type of prospect needs to be handled differently. With savvy and worried prospects, you need to alleviate their sense of emotional risk. Carefully explain your plan for repaying the investment, including your month-by-month obligations and how you would handle any missed or late payments. With savvy and analytical prospects, present your request with the utmost professionalism. Include a detailed explanation of how the investment will play out and what kind of return you're offering. Make the investment process as easy as possible.

With an inexperienced and worried prospect, carefully consider whether it's even possible to alleviate the risks from this prospect's perspective. If you decide it's worth approaching the person, explain that the best way to protect your personal relationship is to make the agreement almost as if you were strangers—to set it up and manage it in a businesslike fashion, with signed, legal documents and a repayment schedule. (You probably won't encounter many inexperienced and analytical prospects—they are rare.) You may have heard of the "elevator pitch"—a scripted sales pitch entrepreneurs use when they have a potential investor cornered and only a couple of minutes to make a lasting impression.

Your friends, family and others probably don't want to hear you give a slick sales pitch, but they do want to hear a straightforward account of your plans. In contrast to the anonymous, aggressive elevator pitch, your approach should be warm and informal. You'll do best by planning the actual investment request in advance. Here's what works:

1. Decide whether it’s better to bring your request up in casual conversation or at an informal meeting. If your prospect is someone you see regularly, bringing up your request in casual conversation is probably the right choice. Let it come up when the conversation turns to you and your work. Instead of directly asking the listener for money, phrase it more generally, saying you need to raise some money for your business and you're trying to figure out how to do it. If you're asking for money from someone you don't see every day, or for whom a more businesslike setting seems appropriate, you're better off scheduling an actual meeting. Tell the person you would like to get his or her input on your business idea, and then set up a meeting. Don't deceive your prospect about the meeting's purpose, but also don't make the meeting sound like a sales pitch before it even starts. Show genuine excitement at sharing your business idea and hearing the other person's thoughts.

2. Pick a setting suited to your relationship. The closer your relationship with your prospect, the more informal the setting should be; the more distant the relationship, the more formal the setting—for example, at the person's office, a restaurant or an upscale coffeehouse.

3. Bring a few illustrative materials. Your casual conversation is not the time to bring along notebooks full of business plans and promissory notes. Still, you should show prospects something tangible to explain your business, such as a brochure, sample product, website or newspaper article. Photos of your product or planned site are particularly good, since visuals attract attention. If you plan to open a bakery, bring sample cookies; even something as simple as a printout of a color logo can give others a more tangible sense of your business.

Making the Pitch

These basic principles will give you your best shot at pitching potential investors:

1. Start with your business idea. After some small talk, describe the product or service and why you think it will sell, using any materials you've brought along. List several specific business goals you have for the upcoming months, such as trade shows you'll attend, sales goals you plan to achieve and new product versions you'll design. Explain why you think it's the right place and the right time to launch your business—and why you're the right person to do it. Ask your prospective lender some genuine questions for ideas on making your plan work. The more you leave room for give-and-take, the greater the chances your prospect will be willing to participate.

2. Ease into the loan request. Many fund raising advisors suggest you be direct in making your request for a loan. With family and friends, it's actually more effective to be comparatively indirect. You may be eager to just blurt out your question, but hold off until the question seems to arise naturally. In some cases, you may need only to start talking about what you want to do before your prospect starts volunteering to help make it happen. If you need to make your request more explicitly, do so with a "soft ask." After talking about your business, you might say, "I need to raise about X dollars to get started, and I thought you might be interested in participating." If the person looks at all uncertain, acknowledge any tensions with a comment like "No pressure, of course." Next, explain: "I thought it might appeal to you, since I know you started your own web design business a few years ago," or "I thought of you because I know you have a background in business." Don't be apologetic—your manner should continue to show your confidence that you've offered your prospect a reasonable investment opportunity.

3. Keep any agreement verbal. Think of your kitchen table pitch as merely the opening to a longer conversation. Your goal for the moment is for your prospective lender to say yes to the idea of a loan—not to sign on the dotted line. It's best to leave this initial conversation open-ended. If you get a yes, explain that you'll send a letter detailing the loan terms and next steps. If your lender is so gung-ho that he or she can't resist asking a few more questions, reply in general terms. If, for example, your prospect wants to talk about exactly how much you need to borrow, offer a range, such as "between $10,000 and $30,000." If he or she asks about repayment, simply describe how and when you'll pay the money back. Once your prospect has heard enough to agree to the idea of an investment, wrap up your pitch conversation. Explain the next steps—you'll send your business plan and loan request letter, and then you two can hammer out the details.

I specifically advise against giving the lender a copy of your loan request letter or business plan during this initial conversation. Preserve the informality of the meeting by sticking with purely verbal discussions and agreements. Suppose the conversation hasn't gone well, and your prospect is uncomfortable or unwilling to agree to a loan. If possible, don't let him or her actually say the word no. Say something like, "I can tell you're not comfortable with this yet—can I contact you again in six months to show you my progress?"

Very few people make their financial decisions quickly, and entrepreneurs often receive a lukewarm reception long before they get an eventual "yes." What if, even after you address your prospective lender's concerns, or the person reviews your customized loan request, he or she turns you down? Listen carefully to the person's reasons. If he or she expresses concerns that ring true, or if you hear a similar message from several people, you'll learn important lessons for the future.

There are two circumstances in which you need to take "no" as the lender's final answer. The first is if your lender has given you a clear and firm refusal, and you accept that his or her concerns or objections are valid. The second is if your lender has given you a muddled refusal that seems to be masking some concern he or she is unwilling to communicate. Do you really want to get into a business transaction with someone who won't say what's on his or her mind?

Keep track of prospects you sensed had a favorable opinion of your business idea but weren't fully convinced. Some logical times to return to those people are:

• When the agreed-upon amount of time has passed since your initial meeting.

• When you've got a more convincing presentation.

• When your business has gained a major new customer or supporter.

• When your potential lender's financial or life circumstances have changed.

Even after you obtain the financing you need, keep the records of your search. Don't discard any draft lists of prospective investors. As you grow your business, you'll likely need additional financing. Who knows? The contact you wrote off during the first round could lead you to your next source of capital.

Handling Objections

Here are some ways to respond to common concerns prospective investors might raise:

• "I don't have the money to give you." Suggest a smaller amount. Also, ask whether the person can think of someone else you might contact.

• "I have other plans for that money." Politely ask about the plans. Maybe you can make the term of your loan short enough to repay your lender in time for their other needs. You may want to offer collateral, to offset any risk to the money.

• "My money is tied up in an investment/retirement plan/annuity." Encourage your lender to contact his or her financial advisor or accountant to find out whether the money can be moved—without penalty—to an account that allows private investing.

• "I don't believe your business will succeed." Offer a loan secured by collateral, so that even if your business does go belly up, the lender can sell the collateral to cover your debt.

• "What if we disagree over the terms of the deal?" Emphasize the flexibility inherent in a private loan or investment—there are a multitude of ways to structure the deal, so you're bound to find one that meets both your and your lender's needs.

• "I'm afraid our relationship will suffer if there's a problem paying back the loan." Point out that the promissory note will include actions to be taken in case of late payments, missed payments and default. Suggest using a third party to administer the loan.

• "I have a friend who lent someone money and never got a dime back." Explain what consequences you would face, under the written agreement you plan to sign, if you made a late payment, missed a payment or defaulted.

<u>The above information came from</u>:
Wayne State University
$mallBiz Newsletter #46 - How to Borrow Money
-Ed King, CPA, Director of Small Business Services,
(313) 577-4474