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a newsletter on practical strategic planning and action  
issue #3: financing your strategy

## editor's message

Money is the principal metric of business success. It is also the lifeblood of business—nothing else matters if you do not have the money to achieve your company's goals. With that said, the importance we give money sometimes overpowers us as business people, and we forget that money is a resource over which we do have a great deal of control. We can and should make choices about where we source money, how we invest in our businesses, and how we reap the profits of our success. Collectively, these choices form the financial base of our companies.

This month, we look at the connection between strategic planning, finance, and financing. We also focus on how to communicate successfully with your financing partners. Our Industry Snapshot looks at the common business drivers of the finance industry, and our Reading List discusses an important book on one of the major factors that all lenders and investors look at first: the power of the CEO and senior management team.

As always, we welcome your comments and questions. And, if you know a borrower, lender or investor who might be interested in this topic, feel free to forward this newsletter to them by using the appropriate link to the left.

## strategic planning

### *The Link Between Strategy, Finance and Financing*

It probably won't surprise you that we at Trek believe in thinking about strategy before money and finance. But, not to worry, there really is a good economic reason for this!

Strategic planning is the ultimate efficiency play. It helps you spend less and make more. Why is this? Three main reasons—focus, resources, and results. If you think and prepare strategically for the future of your business, you will know exactly where you want to go, what resources you will need to get there, as well as what results you can expect and how to measure them. Everything else falls into place after that. By thinking before taking action, you invest wisely in the future of your business—avoiding costly mistakes and yielding a better bottom line.

When you have a clear strategy, accounting and finance become tools that allow you to put dollar amounts to your operational plans. This approach will force you to evaluate your strategic action plans, making sure you can afford the resources you need and get the profits you expect. This is a great reality check on your vision.

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It also will help you understand whether you have sufficient internal cash to fund your plans. If not, you may have to seek outside financing of some kind.

If you are considering outside financing, there are several factors that you should weigh in your decision:

**Speed** – This is the ultimate advantage of outside financing: it enables you to make investments in your business that might otherwise take years to fund internally. Make sure you understand whether this speed will truly give you the advantage you want, because it comes at a cost.

**Cost** – Using outside financing will make your plans more costly. Make sure you have the margins to cover this cost.

**Control** – You give up a degree of flexibility when you bring in a financing partner. The money you receive puts you into a new “vendor” relationship. That is, the financing partner will have a direct or indirect control over a lot of what you do. Make sure you think through how this will affect your ability to manage your company and fulfill your plans.

**Risk** – The increased cost and the loss of some degree of control that comes with outside financing “ups the ante” of your strategy. This risk will force you to work faster and smarter. This pressure can be a good thing, but it also decreases your margin of error. Make sure you have the margin to spare.

If you weigh all these factors and decide to move forward with external financing, you want to be sure that you pursue the right type of lender or investor. A very clear explanation of the different alternatives available is in *Where's the Money?* by Art Beroff and Dwayne Moyers. Their detailed table of contents will give you a feel for the nineteen major categories of equity and debt financing reviewed in this book.

-Mary Adams ([adams@trekconsulting.com](mailto:adams@trekconsulting.com))

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## strategic action

### *Getting the Financing You Need*

For a variety of reasons, lenders and investors don't always coach you through their approval process. The biggest reason for this is that lenders are especially afraid of lender liability, or of being accused of influencing (unsuccessfully) their borrowers' business decisions. Thus, they shy away from imparting their ideas to customers and prospects to avoid any appearance of influencing their operations.

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But the truth is, how you navigate this process and communicate with a financing source is a critical determinant of your success. Clear and complete communication will expedite the financing process, whether it's with a banker, equipment leasing company, angel, or venture group. Effective communication can help accomplish many of the following:

- Share your vision for the direction of your business
- Establish a strong relationship with your financing partner
- Speed the approval process
- Reduce the perceived risk of your company and your plans
- Lower your financing costs

What do outside financing sources want to see in your financing request? Basically, all financiers look to answer three questions:

**Use of Proceeds** – How will the company use the money? Examples of this may include working capital, growth financing for expansion, acquisitions, or seasonal needs.

**Source of Repayment** – How will the company repay the money? Your repayment sources could come from the conversion of inventory or sale of assets. Investors will often look to an IPO or M&A.

**Fallback** – If the primary repayment source doesn't work out, how will you repay it? A banker may look for personal guarantees, or other collateral such as company real estate or fixed assets. Equity holders look for acceleration and other preferential rights.

You should be ready to say how much you will need (make sure it's enough the first time) and by what date. Bankers and investors hate surprises, so be open with your knowledge and have plans to address any shortcomings. As you answer these questions, you will paint the picture of your business. The more complete this picture is at the time you submit your financing request, the fewer times you'll hear your lender say that the bank needs more information before an answer can be given.

What should you provide to your lender? A complete explanation of your company, its business model, industry, competition and financials. This is often referred to as a business plan. Like any compelling document, a good business plan tells a story. It sets the stage with a good explanation of past successes (and failures) and creates excitement about the company's future prospects. The better your plan, the easier your approval process should be.

To learn more about what goes into a successful business plan, read the detailed outline on the web: <http://www.trekconsulting.com/Publications/Newsletter/Issue3/SampleBusinessPlanOutline.pdf>.



- Michael Oleksak ([oleksak@trekconsulting.com](mailto:oleksak@trekconsulting.com))

## industry snapshot

### Finance

It seems appropriate to talk about the finance industry this month. There is a huge range of potential financing partners, such as banks, leasing companies, finance companies and venture capitalists. Each focuses on different markets and has many unique characteristics.

However, there are some basic drivers of the financing business that affect all lenders and/or investors.

- Financiers use other people's money, which means that they are subject to limitations on the purpose, structure and amount of any financing.
- Every financing institution uses a specific set of lending/investment criteria—this is often referred to as being “in the box”. No matter what your relationship is with this entity, if you aren't in the box, they more than likely will not be able to help you.
- As stated above, three basic questions drive financier's decisions about a company—use, payback, and fallback.
- Pricing is set primarily by comparing one business' credit to similar credit information in that market and based on the relative risk and reward represented by the company's type of business.
- Their focus on risk and reward is an extremely critical component of their decision making process—financing is a low-margin business.
- The more quality information they have to assess a company, a market and the resulting risk/reward ratio, the better the chances of getting positive results.

You can read a more detailed explanation of how this market works in an article called “Financing Growth” in Executive Excellence magazine ([www.trekconsulting.com/Publications/Articles/ExecExcellence-Financing.pdf](http://www.trekconsulting.com/Publications/Articles/ExecExcellence-Financing.pdf)).

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## reading list

### *CEO Capital* by Leslie Gaines-Ross

This book focuses on the role of CEOs. While much of the focus is on large, public companies, the wisdom and knowledge shared is relevant to CEO's of all companies. The CEO's influence in today's corporation is broad; it extends to customers, employees, management, the media, suppliers, shareholders, other investors, lenders, and other stakeholders. Ms. Gaines-Ross addresses how to cultivate that influence to increase the success of the company.



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This book is very applicable to this month's discussion of financing. Every financing partner will look hard at a company's management before deciding to make funds available. A lender, for example, will look at the experience of the CEO, in this industry or related fields. The bank, or venture capital fund, or angel, will also look at depth of management, to prepare for growth, but also as an indication of the CEO's management style. A deep team that shares responsibilities and duties relieves the CEO from day-to-day operating decisions and frees him or her up to work on strategy and build relationships outside the company. The lessons outlined in this book will help you put that all in perspective.

You can find out more about this book at [www.ceogo.com/CEOCAPITAL/ABOUT-THEBOOK](http://www.ceogo.com/CEOCAPITAL/ABOUT-THEBOOK).

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## announcements

Michael Oleksak has had a submission accepted by the Handbook of Business Strategy 2005 entitled "Strategic Conversations with Your Customer." The Handbook will be published later this year.

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## about trek consulting

Since 1999, Trek Consulting has helped CEO's of early stage and middle market companies to face challenges of growth, change and succession. Our hallmarks are fresh information, disciplined analysis and practicality. We help you create specific action plans with metrics tied to revenues, costs or corporate value. Then we follow up to help you keep on track and/or adjust your plans as circumstances change.

Our clients report improved market focus, increased revenues, better margins and lowered costs. To learn more about Trek Consulting and how we can help you improve your company's results, visit us on the web at [www.trekconsulting.com](http://www.trekconsulting.com) or call us at 781-729-1008.