

*The Small Business Webinar Series:  
Engineering Growth in the Wake of COVID*



*“Luck is what happens when preparation meets opportunity.”*

*-Seneca Roman philosopher (5 BC-65 AD)*

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Vice President/Regional Director - Great Falls SBDC

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## Education

- 1997 -- University of Montana -- BA Journalism/Pol. Sci.
- 2002 -- Hawaii Pacific University -- MA Communications

## Certifications

- 2017 -- Certified Export Counselor
- 2017 -- Certified Profit Mastery Facilitator
- 2015 -- Economic Development Finance Prof. (EDFP)
- 2015 -- Accredited Small Business Consultant (ASBC)
- 2015 -- Certified Business Advisor (GrowthWheel)

## Entrepreneurship

- 2000-2002 -- JNitschke Photography; Denver, CO
- 2011-2012 -- Carondelet Estate Services, LLC; St. Louis, MO

## Bureaucracy

- 2013-2014 -- Analyst, State of Illinois



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# Goals for Today

Deconstruct Your Business

Create a Framework for Analysis

Conduct Internal and External Research

## Why?

*There are no magic bullets*

*All businesses are different*

*All industries are different*

*But each business and each industry has similarities*

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# Agenda

- Two Ways to Grow a Business
- Acquisition Types
- Position for Growth
- Final Thoughts

*And remember, every decision a business owner makes has a financial impact.*

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# For Context

- **What is the #1 Concern of Any Business?**

- *At Least One Paying Customer*

- Are you planning to grow to solve customer problems?

- Define Growth: Is your strategy to attract new customers or retain existing customers?

- **When and How?**

- Is there short-term opportunity?

- Or growth planning part of a longer-term strategy?

- **Are you aware of Macro and Micro Economic Factors affecting your industry?**

- Macro (aka: market conditions):

- <https://www.wsj.com/articles/hundreds-of-companies-that-got-stimulus-aid-have-failed-11605609180>

- Micro (aka: your business and competitors):

- How are consumer behaviors changing?

# Macro Economic Factors Based on COVID's impact?

Verizon 8:51 AM 97%

WSJ NEWS EXCLUSIVE

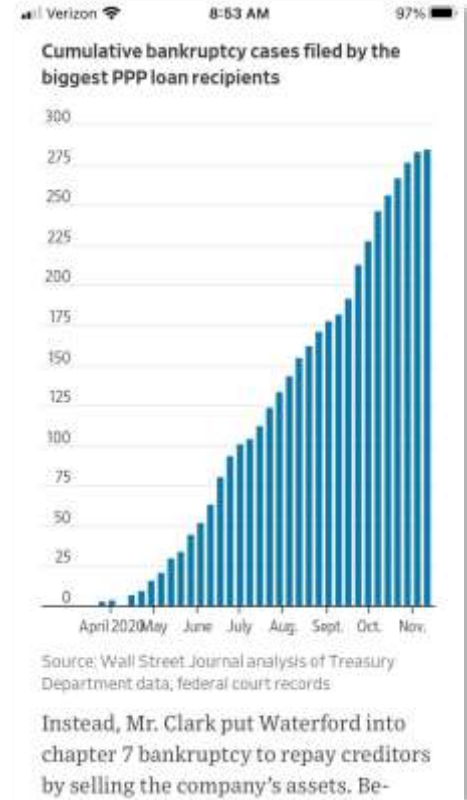
## Hundreds of Companies That Got Stimulus Aid Have Failed

Recipients of PPP loans have filed for bankruptcy after the money ran out



Keith Clark ran Waterford Receptions, a popular wedding and events venue operator with two locations in Northern Virginia, for 20 years. He is closing for good because of the pandemic.

- *“The Journal only analyzed the big borrowers...only about 13.5% of total participants... in the PPP program.*
- *“About 300 companies that received ...pandemic-related government loans have filed for bankruptcy, according to a Wall Street Journal analysis of government data and court filings.”*
- *Roughly 140<sup>m</sup> ...have filed for bankruptcy since August...”*
- *“...a total of 23,400 workers...”*



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# Two Ways to Grow Financially



- **Grow the income statement**
  - How?
    - Customers, Revenue, Profit
    - Let's refer to human capital by where wages show up on the financials
- **Grow the balance sheet**
  - How?
    - Assets, Liabilities, Net worth



# Grow the Income Statement

## Four Ways

Grow the Top Line (Revenues)

Grow the Bottom Line (Profits – Gross and/or Net)

Grow Variable Costs (Direct Expenses or COGS)

Grow Fixed Costs (Indirect Expenses or SGA)

*This is where sales and marketing overlap with managerial ability.*

ABC Ltd.  
Income Statement  
For the Year Ended December 31, 2018

	2018
<b>Revenues</b>	\$
Cash sales	88,750
Credit sales	50,820
<b>Total Revenue</b>	<b>139,570</b>
Cost of goods sold	65,500
<b>Gross profit</b>	<b>74,070</b>
<b>Operating expenses</b>	
Salaries	25,300
Advertising	8,250
Office rent	8,520
Utilities	4,600
Office Supplies	800
Depreciation	2,200
Other expenses	3,600
<b>Total operating expenses</b>	<b>53,270</b>
<b>Operating profit</b>	<b>20,800</b>
<b>Operating income</b>	
Interest Income	800
Interest expenses	2,400
<b>Net income before Tax</b>	<b>19,200</b>
Income tax expenses	3,840
<b>Net income after Tax</b>	<b>15,360</b>



# Grow the Balance Sheet

## Three Ways

Assets (Current and/or Fixed)

Liabilities (Current or Long-term)

Net Worth (Stock, RE's, Owner Comp)

- *Cash is King – now is not a time to become cash poor.*
- *Inventory/assets enable a business to deliver products/services*
  - *Diversify access to capital*



### Example Company Balance Sheet December 31, 2017

#### ASSETS

Current assets	
Cash	\$ 2,100
Petty cash	100
Temporary investments	10,000
Accounts receivable - net	40,500
Inventory	31,000
Supplies	3,800
Prepaid insurance	1,500
Total current assets	<u>89,000</u>

Investments 36,000

Property, plant & equipment	
Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accum depreciation	<u>(56,000)</u>
Prop. plant & equip - net	<u>337,000</u>

#### Intangible assets

Goodwill	105,000
Trade names	<u>200,000</u>
Total intangible assets	<u>305,000</u>

Other assets 3,000

Total assets \$ 770,000

#### LIABILITIES

Current liabilities	
Notes payable	\$ 5,000
Accounts payable	35,900
Wages payable	8,500
Interest payable	2,900
Taxes payable	6,100
Warranty liability	1,100
Unearned revenues	1,500
Total current liabilities	<u>61,000</u>

#### Long-term liabilities

Notes payable	20,000
Bonds payable	<u>400,000</u>
Total long-term liabilities	<u>420,000</u>

Total liabilities 481,000

#### STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	<u>(50,000)</u>
Total stockholders' equity	<u>289,000</u>

Total liabilities & stockholders' equity \$ 770,000

# Acquisition Types

- **Market acquisition**
  - Closure/Distress of competition – Acquire market share; advertising space; industry pivots
    - *Customers = Revenue = Income Statement*
- **Talent acquisition**
  - Closure/Distress of competition – Acquire laid off, discharged, under-compensated, or under-employed staff
    - *Salaries = Expense = Income Statement*
- **Asset acquisition**
  - Purchase of Distressed/liquidated assets – auctions; foreclosed bank assets; at risk or watch listed borrowers

*Assets are stuff = stuff must be paid for (liabilities, equity, or other assets) = Balance Sheet*



# Market Acquisition – Example:

## Great Falls Gymnastics Academy

- Distress of competition & market conditions
- Asset Analysis:
  - Space = Social Distancing
- Customer Analysis: *Attraction & Retention*
  - Existing: Children
  - Potential: Child Care
- Industry pivot:
  - Added licensed day care center
  - Added remote learning offering
- Acquisition Results:
  - Add. customers, more \$ from existing cust.
  - Earned media

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# Talent Acquisition

- **Closure/Distress of competition**
  - Acquire laid off, discharged, under-compensated, or under-employed staff
  - How?
    - Contact the owner
    - Department of Labor – Job Service
- **Purchase of an existing, operational business**
  - Owners of retirement age are looking to move on
  - How?
    - Online sources
    - Commercial real estate brokers

# Asset Acquisition

- Purchase of Distressed Assets
  - Auctions
  - Foreclosed bank assets
  - At risk or watch listed borrowers

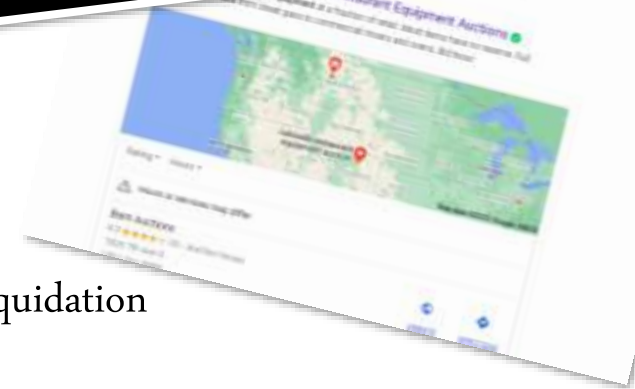
## How?

- Talk with your banker
  - Ask about distressed assets, bankruptcies, asset liquidation
- Online sources

- <https://www.pateauction.com/>; <https://barnauctions.com/>; <https://www.maascompanies.com/>;



*"...most of these will start hitting the fan around December ..."  
- According to one auctioneer in September 2020*





# Talent & Asset Acquisition – Example:

## Flawless Auto Body

- In-market competitor looking to sell
- Competitive Analysis:
  - 3 acres; buildings; strong reputation (intangible asset); strong historic performance; different location
- Talent Acquisition:
  - 8 employees
- Market Acquisition:
  - Existing customer base with the current business
- Acquisition Results:
  - Purchased the competitor in the spring
  - Transitioned employees over seamlessly
  - Staff remained employed during pandemic at existing pay rates
  - Acquired market share; acreage; buildings; equipment; and talent



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# Position for Growth

- **Position for Growth**
  - Access to Capital
    - Equity and Debt
  - Monitor Cash Position
    - If you think you have enough, look at your pipeline and trends in consumer behavior to determine how long that will last
  - Keep Eye on Competition
  - Know Sources of Information
  - Mitigate Risk by Making Well-Informed Decisions



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# Final Thoughts

- **Focus on Opportunities**
  - Innovation Equation: Problem + Solution=Opportunity
- **Review your strengths, weaknesses, threats, and fixed & human assets**
  - Have a strategic plan

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# Contact Trusted Advisors

Banker

Accountant

Insurance

Lawyers

Business Advisors

<https://sbdc.mt.gov/>



# Please Share Ideas With Us

Email me at [JNitschke@GrowGreatFalls.org](mailto:JNitschke@GrowGreatFalls.org)

*#2020SilverLinings*



[GrowGreatFallsMontana.org](http://GrowGreatFallsMontana.org)