

Looking to Build or Expand? 10 Questions to Consider Before Choosing a Lender

by Scott Birkner, Dogwood State Small Business Lending

As a craft brewer, you know beer. You know the exact amount of hops it takes to produce your crowd pleasing IPA. You know which Saison will be most popular in June and which stout will sell in September. You know the amount of barley needed for your next brew. You are a success because you know these things. This knowledge allows you to provide your customers with their desired product.

At some point in your craft brewing journey, you have or will run into an issue involving financing. For most – if not all – craft brewers, finding the financing for startup, expansion or equipment is an unfortunate hurdle for your exciting new business. However, thanks to the country's appetite for craft beverages, that financing is there. The industry has high growth potential.

But because craft brewers are experts on their brew, that financing can sometimes become an insurmountable hurdle. That's where an experienced lender comes in. Experienced lenders can be that quarterback you need when it comes to financing. SBA loans are a particularly great area of opportunity for craft brewing businesses, and those loans often require extra assistance with the amount of paperwork and information needed. Thankfully, due to the explosion of craft brewing in the past several years, there are now lenders who can speak your language and be a partner through the process.

Before you select a lender, and apply for your loan, there are some very crucial questions you need to consider. When you are managing an entire brewing business, sometimes the most basic details will be challenging. Thinking through these details at the beginning can help you identify which lender is right for you because having the right financial partner is key. Use these questions as a guide when you think you may be ready to seek outside funding.

1. **How much money are you going to need?** Be realistic and precise with this amount. Don't take on a larger loan than necessary; don't take so little that you end up quickly needing a second loan.
2. **What is the money going to be used for?** Lenders will need specific details about how you plan to use your funds. Look for a bank that offers the type of financing you need, whether it is for startup, expansion, equipment purchase, acquisitions, partner buyouts, commercial real estate, refinancing, working capital and other potential business initiatives. Not all lenders will cover each of these, so identifying your need is a necessary first step.

10 Questions to Consider

(Page 2)

3. **How will the loan affect your financial position?** Be realistic about this as well – don't pursue financing if it will be too great of a risk for you or your family.
4. **How will you secure the loan?** This may be self-explanatory – but be prepared to address this.
5. **When will the money be needed and when will it be repaid?** Do you have a hard deadline to get equipment or expand your space? Make sure that is outlined at the beginning of your financing journey. Have a plan for repayment, with a feasible schedule that will not be a hardship on your operations.
6. **Are your projections reasonable and supported by documented historical information?** Accurate and comprehensive documentation is crucial to getting your loan approved in a timely and efficient manner. Lenders can help navigate you through the process, but it all goes much quicker if you have your information ready at the outset.
7. **How will alternative possible outcomes affect your repayment ability?** No one wants to think of those worst-case scenarios, but like a rain plan, it is best to be prepared. Repayment can't solely depend on a "perfect" business situation.
8. **What risk management measures have been or are to be implemented?** There are risks in every business and that is why smart business owners temper their optimism with the reality of managing risk. Proper Insurance, temporary location in the event of a loss, employee turnover, safety, cyber security are just a few. A comprehensive risk analysis should be performed to determine your own level of exposure.
9. **What have been the trends in the industry's key financial position and performance indicators?** With a strong presence across the 50 states and the District of Columbia, craft breweries are a vibrant and flourishing economic force at the local, state and national level. As consumers continue to demand a wide range of high-quality, full-flavored beers, small and independent craft brewers are meeting this growing demand with innovative offerings, creating high levels of economic value in the process. The Craft Beverage Industry has a benchmark of Key Performance Indicators that can be used to set realistic goals and targets.

10 Questions to Consider

(Page 3)

10. How will you repay the loan? Make sure you have a concrete plan to pay off the loan; don't take on this debt without a clear plan to get back in the black.

Once you've worked through these questions, and are ready to meet with potential lenders, make sure to prepare a well-thought-out business plan with reasonable projections and assumptions. That is the **number one** item a lender will want to evaluate once you've met. Be prepared to share your owner management experience or related business experience to operate this specific business. Your lender needs to trust your background. Location plans also tend to be extremely important to the potential lender, so be prepared to discuss those plans and all potential pros and cons.

On the money side, the most crucial elements the lender will look at are:

- Capacity to repay the loan
- Detailed explanation of the total project costs
- Capital to work with and its sources

An experienced lender will need the above information when evaluating if they can help you with your business goals, and determining what loan is best for you. If you come to the table having thought through these questions, you can find the right lender sooner. That individual can get to work identifying the right loan and guiding you through the application process and you can get back to focusing on what you know best – the brew.

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