



## **Federal Reserve Bank of Kansas City Annual Conference**

*Entrepreneurship and Small Businesses – Rural Track*

**Linking Business Support and Capital for Business Growth**

**Presented by: Ines Polonius, Executive Director**

**alt.Consulting**

# The Backdrop:

## Challenges Faced by Rural Businesses since 2008

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- Shrinking markets locally and nationally
- No financial cushion to make mistakes: Need stronger management skills to succeed
- No source of working capital even for businesses with growth opportunities
  - Asset based loans are no longer available / affordable
  - Most lenders no longer make small loans
- Most collateral no longer valuable to lenders:
  - Real estate values have dropped
  - With so many business closures, equipment liquidation values minimal
- Economic crisis causes further erosion of personal credit

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# Introducing **alt.**Consulting



- **Why?:** To provide on-site managerial assistance and business solutions to meet the unique needs of each rural business
- **What?:** 501(c)(3) nonprofit established in 1998
- **Where?:** Arkansas and Mississippi Delta
  - 60 rural counties of Eastern and Southern Arkansas, West Tennessee and Northern Mississippi
  - Offices in Pine Bluff, AR; Jonesboro, AR; Memphis, TN
- **Who?:** Rural-based businesses, predominantly minority-owned
- **How?** Staff of 8 full-time professionals
  - MBAs with entrepreneurial experience

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# Managerial Assistance



- Initial assessment to meet business owners where they are
- Scope of services clearly outlines engagement
- Engagement: 40 to 100 hours per client
  - 40 products and services customized for small businesses
  - Financial management training
  - Strategic planning
  - Problem solving
- Positioning business for capital

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# Types of Engagement

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- Planning and positioning for growth
- Turnarounds
- Due diligence for purchase of business
- Succession planning and financing
- Testing feasibility of start-up concepts
- **Until 2008**: Securing financing



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# How Traditional Lending Fails Rural Businesses



- **Challenge:** Excess capital but no access to capital for rural businesses
- **Collateral:** Inadequately collateralized deals
  - Commercial property has no value in community of empty buildings
  - Personal property is hard to liquidate in rural areas
  - Collateral is a back-end strategy for securing loan
- **Personal credit:** Lenders have raised credit requirements while scores are dropping
  - Business owners used credit cards to start businesses
  - Loss of spouse' job/income put pressure on credit

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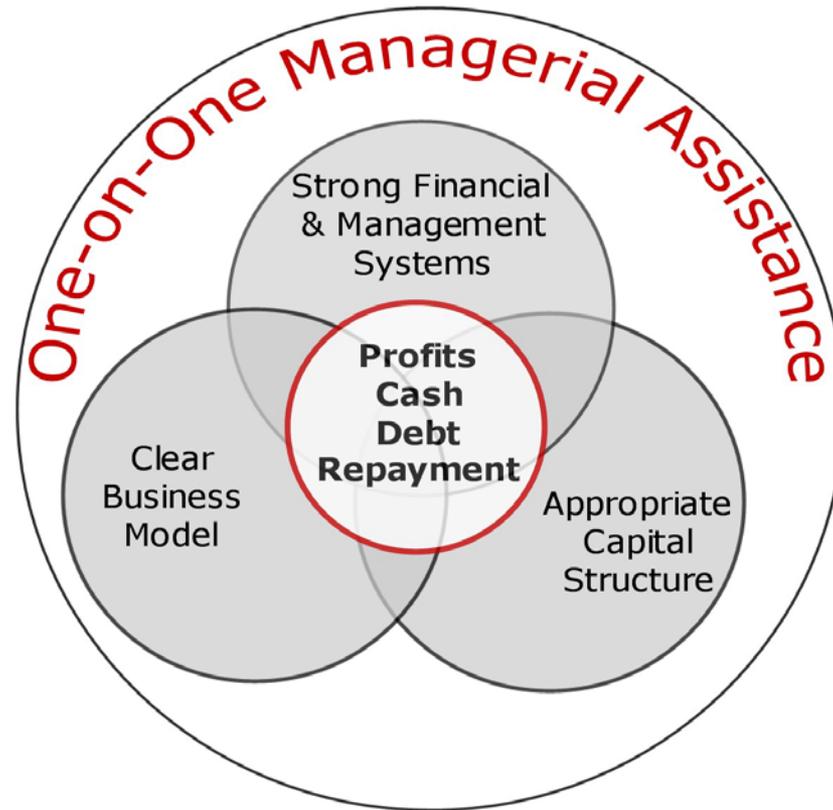
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# White Paper:

## Linking Business Support and Capital for Business Success



- [http://www.altconsulting.org/pdf/White\\_Paper\\_Linking\\_Business\\_Support\\_and\\_Capital.pdf](http://www.altconsulting.org/pdf/White_Paper_Linking_Business_Support_and_Capital.pdf)



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# Introducing alt.Capital

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- **What?:** Non-traditional loans by managing risk through managerial assistance
- **Why?:** No access to capital for clients
- **How?:** alt.Capital provides loans up to \$75,000 since 2009
  - SBA Microloan Program
  - USDA IRP Relending Program
  - Leveraging dormant community loan funds
- **Who?:** alt.Consultants function as loan officers to identify and prepare deals

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# alt.Capital: Role of Managerial Assistance

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- Managerial Assistance to Manage Risk
  - First engage in managerial assistance
  - Builds relationship: Understanding of management capacity
  - Determines how loan will turn into profits to make payments
  - Determine correct amount and structure of capital
- Types of Managerial Assistance
  - Internal financial management systems
  - Financial modeling to understand profitability
  - Improved cash flow management
  - Growth plans with clear goals
  - Monthly monitoring and problem solving

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# alt. Capital: Use of Traditional Parameters

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- Collateral: Secures loan but not lending decision
- Credit Report not Credit Score
  - Work through credit report to better understand owner's decisions
  - Federal and/or tax liens kill any deal
  - Relationship and trustworthiness > credit score
- Leverage model with private sector banks through participations
- Leveraging dormant loan funds

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# alt. Capital: Examples of Loans

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- Meamar Financial
  - Start-up failed but still servicing debt
  - Strong relationship, restructuring of terms
- Marianna Recycling
  - TA: Internal financial management
  - Collateral: Digital scales, paving, roof
  - New jobs: 2
  - Green business: Cans and cars
- Skateland
  - TA: Marketing Plan
  - Collateral: Old skating rink
  - New jobs: 1 FTE, 6 PTE

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# Impact: The Stats

- .....
- Intense managerial assistance to over 2200 businesses since 1998
- Serve over 200 businesses per year
- Created and sustained over 4500 rural jobs since 1998
- Up to 2008, added an average of \$13 million in new economic activity to region per year.

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