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Making the big time

When small firms get their big break, they need to find capital -- and fast

The Business Journal of Milwaukee - by [Brad Hoeschen](#)

Like actors waiting for their first starring role, Charles Goines and Stephanie Hampton got their big break recently when [Time Warner](#) Cable signed their young company to a two-year contract, guaranteeing future business and expansion.

The brother-sister owners of [Precise Underground Marking Corp.](#), a 3-year-old Milwaukee company that locates underground utility wires, had bid on big contracts before, but were never able to break into prime time.

But even with the contract, there is still a problem with getting their star to rise. Goines and Hampton need a capital infusion to buy new equipment, hire employees and pay for training.

Precise Underground isn't alone. Small businesses frequently need to bid for contracts before they can secure the money to expand. But when the contract is awarded, the business owner must find money quickly.

Goines and Hampton built Precise Underground by taking smaller jobs. So when Warner Cable awarded them a two-year contract to mark underground utilities in Kenosha, they needed cash.

"For everything on our wish list, we need \$60,000," said Hampton, the company's vice president. "But we could meet all the requirements of our contract with about \$25,000."

She and Goines have kept up with the demands of the Warner Cable contract by funneling some of their own money into the business.

"It helps that we have both been able to keep our full-time jobs," Hampton said.

The two are Milwaukee firefighters, who work 24-hour shifts and then get 48 hours off. That allows Hampton time to keep up with the financial end of the business and Goines the opportunity to perform the locating.

For the company to be at full speed, however, Precise needs two or three more employees trained to operate the locating equipment.

Hampton approached the U.S. Small Business Administration for assistance, but the application ran into some snags. She hopes to secure a loan from Wisconsin Women's Business Initiative Corp., Milwaukee, within the next few months.

Traditional loans

More traditional sources of funding are available to small businesses on the verge of expanding, according to Marty Frank, president of Waukesha State Bank.

"The most important thing is to keep the banker involved all the way through the process," Frank said. "If we know a company is bidding on a major contract, we can start doing some analysis on what the profits will be and how much expenses will increase."

Before offering financial assistance to small businesses, banks prefer to be involved in shaping the terms of contracts with larger companies, Frank said.

Banks also want to know that a business would be able to make at least partial payment of the loan, even if the contract fell through. Frank equates the process to getting a pre-approved mortgage loan.

Waukesha State Bank recently made a loan to a construction company that was contracted to build office space for a government benefits agency.

"We were able to get involved before the contract was signed and make sure none of the language might keep the company from getting paid," he said.

Valuable collateral

In general, however, contracts serve as valuable collateral to a lender, said Paul Roppuld, manager of the U.S. Small Business Administration's Milwaukee office.

Banks sometimes will be more leery of government contracts than those with private companies, because government funding for such contracts often hinges on annual reviews of expenditures, Roppuld said.

If a municipality could pull the plug on a five-year contract after just one year, the bank may lose the loan, he said.

You still cannot get a much better guarantee of repayment than a contract to perform work in the future," he said. "Those companies may have to shop around for the best interest rates, but they will almost always get the money they need."

Small businesses also can encounter problems if they need money for expansion quickly.

Susan Watkins, owner of King Drive Memorials in Milwaukee, received a federal contract to provide marble headstones to veteran's cemeteries. Traditional lenders and the SBA took too long to approve funding, she said.

She turned to nontraditional sources, such as economic development loans, to obtain the money quickly. Watkins expects she will be looking for more financing soon, because her company is up for another major national contract.

"If we get this job, we are going to need updated equipment, so we will be looking for more money," she said. "When you are running a business, you are always looking for money."

Improving the odds

Companies such as Precise Underground and King Drive Memorials have a better chance of getting financing based on their contracts when they have a track record of finishing other business deals successfully, said Thomas Lilly, senior vice president at State Financial Bank in Hales Corners.

A company's regular bank, which handles its checking accounts and other business, usually is the best source of a loan, because it already is familiar with the cash flow of the company, he said.

"That bank will also have the best idea of when to bring in a guarantee agency, like the SBA," Lilly said. "The bank has something to lose if the customer cannot finish the job."

Some banks are equally interested in financing start-up businesses that land contracts.

The key often is the level of experience of the business owner, said Steve Schowalter, president of Port Washington State Bank. If the company is new, but the principal has been doing the same kind of work for 20 years, a bank may still be comfortable with a loan, he said.

Hampton and Goines are confident they will finish their contract with Time Warner Cable of Milwaukee, even if it takes longer to get the money than they expected.

"We believe in our business, and we know we will find a lender that does too," Hampton said. "The money will come from somewhere."