

The Monthly Resource Guide For Startup Businesses

# NEW BUSINESS

# MINNESOTA

April 2011



## Your First Office

Setting Up Your First Office Is a Critical Move. These Experts Offer Valuable Insights in How to Do It Right: **Jim Hickle** of Velocity Telephone Inc., on Telecommunications; **Carey Sanders** of CORT on Office Furniture Strategies; **John Leschak** of Minnwest Bank on SBA Lending; and **Scott Miller** of KW Commercial on Commercial Space Options.

# Your First Office

Your Office Is Your Workspace. Making Sure It Is Functional, Flexible and Efficient Will Have An Impact on Your Success.



**From the Publisher:**

Most new businesses start off with a simple home office. The next step, whether to a virtual office or to a commercial space, is closer than you think, especially if you need a place to meet clients other than a coffee shop. There are more options than ever before.

To examine this topic for our readers, *New Business Minnesota* approached this team of experts to write about the latest trends and strategies: **Jim Hickle** of Velocity Telephone Inc., on Telecommunications; **Carey Sanders** of CORT Furniture Rental on Office Furniture Strategies; **John Leschak** of Minnwest Bank on SBA Lending; and **Scott Miller** of KW Commercial on Commercial Space Options.

They will share more information in a free interactive workshop from 3 to 5 p.m. on May 19 at the CORT Furniture Rental showroom in Bloomington. *New Business Minnesota* will hold its monthly Startup Meetup networking event immediately following the workshop.

For more information and to register and RSVP go to [www.newstartupmeetup.com](http://www.newstartupmeetup.com).



# Furnishing Your Office to Fit Your Bottom Line

Office Furniture Should Meet Your Financial Needs as Well as Style Needs

By Carey Sanders

*Special to New Business Minnesota*

When you start planning for your new office, make sure you get furniture that fits. By that I mean furniture that fits your body, fits the space, fits your vision, and fits your bottom line.

Just as you use a tape measure to map out the room, taking note of where outlets are and the room's dimensions, it is important to consider your business objectives as well.

Don't underestimate the significance of your space. Great space can promote productivity, enhance innovation and align with your values. Know your options and how they can benefit you.

## Renting

Wise use of financial resources is a requirement for success for any startup. For many small companies, their first instinct is to consider the ongoing expense of acquiring office furniture as a cost of doing business. What they are missing are alternatives that maximize flexibility and benefit the balance sheet.

For example, if you've negotiated a lease with flexible terms because your business objectives require operational adaptability for growth or if you would like to preserve your credit lines and minimize initial out of pocket expenses, a furniture rental program may be a better choice.

Additionally, renting furniture frees up capital needed for marketing, product development, technology or a new hire. The rental option gives companies flexible terms allowing them to use only the furniture they need when they need it. This lowers asset costs and improves cash flow.

Renting office furniture is not a long term strategy, but it is a great way to get from point A to point B on a business plan.

A typical small business will sign a 12-month rental agreement to receive the best rates. During that time, furniture can be added or removed- no problem. At the end of the rental term, the business owner has several options to consider: continue to rent, purchase any or all of the items at a discounted rate, or have the furniture picked up.



Rental bottom line: minimal cash outlay, flexibility and the ownership option.

A good example of the value in flexibility is a client of mine in the biotech industry. Like many startups in this industry, every penny counts and the research timeline is often unclear. During the research and development phase they opted to rent office furniture.

Then everything changed in a big way. Once they received FDA approval – immediate expansion. After several months the company determined their growth would be sustainable and they signed a 60-month lease and decided to purchase new furnishings.

## Buying

Purchasing new furniture allows the business owner a smorgasbord of choices. If your space or activity requires specialty items, if changing needs are not in the forecast, or if you are set on a particular textile or finish, purchasing new furniture may be your best option. Enlist a designer to make sure you are spending your capital wisely and plan on lead times of 4 to 12 weeks.

As our economy recovers, you can find some fantastic deals on used office furniture. Be cautious, however. While buying used can save you money, it can be difficult to purchase additional items that match. Prevent creating a hodgepodge presentation

with multiple lines of office furniture.

Do your homework to make sure you know who the manufacturer is, what the finish is, and whether the lines are available for future needs. The price may be right, but the selection and adaptability are limited.

## General Tips

A word to the budget conscious: beware of the \$99 dollar executive chair. An ergonomic office chair is worth every penny and you should have one for each full-time employee.

Go ahead and skimp in the conference room as you only sit on those chairs an hour or two at a time. A well designed and properly adjusted chair is built to prevent repetitive strain injuries.

An ergonomic chair will have an adjustable back, seat and armrests as well as a swivel feature. Commercial grade office chairs are tested to support individuals up to 250 pounds.

Moving and installing office furniture is best left to the professionals. Movers are insured and have the proper equipment to avoid damaging the property (both yours and the landlord's) and avoid personal injury. It's typically a good investment, especially during the winter months.

To complete your space, remember to add art, graphics or displays to enhance your space and brand. Remember to include a modest budget to create that instant impression and convey your culture.

*Carey Sanders has worked with CORT as a Senior Account Executive for 10 years. CORT, a Berkshire Hathaway Company, is the only national furniture rental provider. She helps businesses of all sizes with rental furniture requirements, including systems furniture, seating, reception solutions, executive offices, conference rooms and training rooms. CORT was the national provider for the 2010 U.S. Census. She can be reached at (952) 884-5622 or Carey.Sanders@cort.com. www.cort.com*

# Your First Office Should Have a Flexible Phone System

## Hosted Phone Service Can Give You Options, Costs Savings and More

By Jim Hickle

*Special to New Business Minnesota*

One of the most important decisions you'll make when planning your first office will be what phone system to go with. If you haven't shopped for telecommunications solutions in a while, be prepared. Everything you knew is probably outdated.

There are more options than ever before. There is a wider range of telecommunication service providers in the market. It's no longer limited to the major companies you always hear about. And the number of hardware and software features has exploded. What used to be an expensive add-on service is now a standard option.

In last 10 years, just about everything has changed. Back then, the most common internet connection was via dial-up and most telephone systems were physically separate standalone systems. Then businesses moved to DSL and cable modem. Initially the No. 1 selling DSL then was a 256k connection. Today it's 12Mb and beyond.

More change and technical demands are coming. With cloud computing, VOIP and web TV taking off, the old copper and coax cable system won't be physically able to keep up. That's why we're now building fiber optics into communities that will have unlimited bandwidth potential. We're doing that with our Eagan Community Fiber Optic Project.

### The Cloud Is Calling

As bandwidth expanded, our company, Velocity Telephone, recognized that the days of businesses having a closet full of phone equipment were going to fade.

What we did was create the Velocity Virtual Office. It's a hosted phone system, meaning that all the PBX equipment and servers are at a secure remote site. You access the system through an internet connection, making it a cloud-based system.

As a hosted phone system, we are able to provide all the features and functionalities that any size business will need now and in the future. Basically it's an application much like Word or Google on a data network.

It's a system that is constantly being updated and improved upon. And it's customizable. If a user wants to add a new feature, we'll do the programming and it will be available to the whole system.

Users have an IP (Internet Protocol)



phone set that plugs into internet connection. All you need is a single data cable to each desk. Your computer plugs directly into the back of the phone and you're all set for internet access and phone service.

Expanding this system is easy. One of our clients started out with our Virtual Office service with one phone and an internet connection. He wanted an auto attendant to answer his phone, internet, inbound fax and call transfer. "I want to look bigger than I am," he told me.

It's been three years and now he has 32 employees with 32 phones and multiple locations. Adding a phone was as easy as shipping a handset and plugging it into the data connection. And when he moved to another location and added a second location, all he had to do was wire the space for data and plug in the phones. All the programming and phone settings were on our servers. That saved him a lot of time and money.

### Advantages of Hosted Systems

**Lower cost and increased productivity.** Our system uses low-cost standard phones. There's no other equipment to purchase. But you're getting an efficient high-end, enterprise-class system because it's hosted.

**Minimize support cost.** With old systems, a phone guy would come out to fix, move or change things. The hosted solution means the end user can configure the phone the way they want it because we give them the tools they need. They can change speed dials, call forwarding, ring tone and more. Our goal is to have every employee be "the phone expert."

**Disaster planning and business conti-**

**nuity.** Because the system is hosted off site, if your building was leveled by a fire or natural disaster, you could have all your employees working at home by switching to disaster recovery mode – forward calls to designated numbers. You can work off regular home phone, cell phone or have an IP phone at home. Plug in your computer and you're all set. We use it when there is a massive fundraising walk outside our building that makes it nearly impossible to get to our office. On those days, we just close the office and work from home.

**Flexible and scalable.** The systems can ramp up from one to 1,000 or more as you grow. Adding a branch office is as easy as adding a connection and a phone. We have a customer with one office in Eagan and the other in Naples, Fla. No one can tell they're at different locations. Anything you can do in your office you can do any where there is an Internet connection.

**Features, features and more features.** It has features like speaker phone, call transferring, three-way, conference calling, voice mail to email, fax to email, automated attendant that greets callers and gives call tree applications and more. With customized call handling you have complete control for routing calls. It can track you down at multiple locations if you want.

**Future proof.** Because we automatically update the service, all users have access to the latest features as they are added seamlessly. The software is independent of your handset so there is nothing substantial to become antiquated.

### Conclusion

Like I said at the beginning, the telecom world has undergone so much change that you really need to explore what options will best meet your needs and budget. A hosted, cloud-based system can give you enhanced features and functionality, save you money and sometimes the smaller local company has the best solution for your business.

*Jim Hickle is president of Velocity Telephone, Inc. of Golden Valley, which provides a full suite of voice and data services – including the Velocity Virtual Office – for all sizes of business and residential customers. He can be reached at (763) 222-1000 or sales@velocitytelephone.com. www.velocitytelephone.com.*



# SBA Can Help Finance Your Space, Equipment and Build-out

## Learn the SBA Ropes to Improve Your Odds for Loan Approval.

By John Laschak

*Special to New Business Minnesota*

Completing your SBA Homework could lead to a positive credit decision for your new business and its location.

Your first office – more precisely, your first business facility – will play a key role in your success. Whether you're buying a building or going into a rented space, you'll probably need to make building and or leasehold improvements.

Depending on the nature of your business, you might need specialized equipment, like a manufacturer or printer would. Many will need what is called FF &E – Fixtures, Furniture and Equipment. And they may also need to make leasehold improvements as part of a build out of the space they may be leasing.

Finding your space is one thing. Getting it equipped and performing is different challenge. Add this to the list of mission critical reasons business owners turn to SBA loans, such as a source for operating/working capital so you have adequate cash flow to support the business as it grows and becomes profitable. There are also eligible SBA proceeds for business acquisitions, to buy a franchise, buy a commercial building or to consolidate other loans.

If you determine that you're going to need an SBA loan as part of your First Office plan, what follows is some of my advice as a SBA Preferred Lender.

Many potential SBA borrowers' I meet have solid experience and a passionate vision for their business. In their mind, they can see how it grows and flourishes and succeeds. What they forget is that no one can read their minds.

As the potential borrower shares this vision with me, I always ask them to describe the steps they've taken to ensure the concept is viable and can sustain profitability for years to come. What invariably follows are a deep sigh and a quizzical look on their face and a tone of uncertainty in their voice.

What they are lacking is evidence of a concrete, well-thought-out business plan, exactly the things you need if you want an SBA loan in this more constrained credit market.

Contrary to what you may have heard, SBA loans are being made these days – with the appropriate due diligence both on the borrower's and bank's part.

Recently, we approved a \$350,000 new equipment loan for a family operated circuit board business. And we approved a working capital/equipment/lease hold improvement loan for a new office space location for a medical services business for roughly the same amount.



The common theme between these brand new borrowers was the comprehensive evidence they provided on the long-term viability of their business models.

In order to compile that evidence, it's imperative to complete your SBA homework prior to approaching your lender. Obviously, SBA.gov is a good starting place to initiate your due diligence. There are pages and pages on product types, eligibility, general requirements, term/conditions, and contacts for the Twin Cities SBA market.

You can also turn to SCORE, which is a volunteer organization of retired business people who help small businesses, both new and established. They provide overall business consulting from their vast business experience.

The Business Center on Washington Ave in St. Paul is another good resource. There you can use Business Plan software, have your plans reviewed by volunteers like myself who know the SBA world.

There are also alternative resources such as NAGGL (National Association of Guaranteed Government Lender's) and a host of periodicals, associations and web sites that cater to the small business community at a multiple of levels.

### Think Like a Lender

To help you along in this process, I strongly advise that you put yourself in the lender's shoes. What is their "road map" for evaluating a borrower's request? What are they looking for? The answer is simple: the 5 C's of Credit.

**Character** – This may be the most important of the 5 C's. Even though you may have depth and strength in most of the other areas, without a lender's passing grade here, it would be unlikely that you would get a loan. Character is measured in a variety of ways, such as

honorability. Have you met past obligations and are you accountable for your actions? Does your peer groups and references support your character claims?

**Capacity** – Cash flows reigns the highest in this category. Most financial institutions usually require minimum debt service coverage of 1.2 times, which means for every dollar you borrow you have the ability to pay \$1.20 of free cash flow for each dollar of indebtedness. Historical and projected debt service (where applicable) are scrutinized by the lender for authenticity and viability. As with all of the 5 C's this needs to be deeply incorporated into your business plan.

**Capital** – What type of personal financial resources do you have to support the financial needs of your business? Is your credit score in lock step with the banks expectations? Is your payment history solid and if you have a business is it well capitalized? What alternative financial support do you have access to?

**Conditions** – How will you manage your business and what financial reporting tools or resources do you have? (These tools most likely will be required to be shared with the bank on an ongoing basis.) Is your business model elastic enough to weather downturns and upturns through evolving economic times? What are your industry trends? Are there any barriers to new markets? Are there any "Red Herring's" within your industry or negative legislation surrounding it?

**Collateral** – These are assets that are pledged to support the loan amount either through the business or you personally. This is generally a secondary source of repayment since cash flow constitutes the primary source of repayment. Many first-time borrowers are light in this area, especially in the SBA arena. The SBA allows less than full coverage here, but the lender needs to pursue all available collateral and support the business's viability as a whole if there is a short fall.

At the end of the day doing your homework and putting yourself in the banks position when devising your road map will bring validity to your plan, heighten your Character and Credibility. The SBA lender and financial institution will then look to be a viable partner in pursuing a lifelong dream – A profitable business you can be proud of.

*John M. Leschak is Vice President/Commercial Lending Manager-SBA at Minnwest Bank, where he works with many new and small businesses to secure SBA financing. He is especially interested in promoting the SBA's Patriot Express Loan Program aimed at helping veterans. He can be reached at (651) 259-0704 or johnl@minnwestbankgroup.com. www.minnwestbank.com.*

# Use a Guide and Interpreter to Find Your First Space

## Tenant Representatives Level the Playing Field With Landlord Negotiations

By Scott Miller and George Miller

*Special to New Business Minnesota*

When it comes to office space, it's a jungle out there. Unless you're familiar with the commercial real estate world and the many ways the unsuspecting can get burned, you need a guide, an interpreter and an advocate to help you find your first, second or third lease space.

Maybe you have experience renting an apartment in the past. Well, this is a whole different animal and the stakes can be sky high. With the stroke of a pen, you may commit to the second largest financially binding expense in your life: an office lease. Is it the right choice for you?

Most new and small businesses owners should consider turning to a tenant representative to help them navigate the office market. We've been representing the interests of tenants for years and we've heard the horror stories and seen the disastrous results of business owners trying to represent themselves in negotiating for office and retail space.

The most common mistake? Not realizing that building owners and their representatives are looking out for themselves and their interests, not yours.

You need someone in your corner for there to be a fair fight. Tenant reps are independent brokers who provide advisory services to tenants. What we do is help explain how it all works, show you the options, from month-to-month spaces to long-term Class A space and make sure the terms of the lease work for you.

The first step to finding your first lease space isn't to tour the Twin Cities. Unfortunately in today's business environment, you have to pre-qualify to establish your viability as a tenant. We help you figure out what you can afford to pay and make sure you are ready to deal with landlords. They will all want to see your financials before they'll even draw up a lease.

They'll also want a personal guarantee and a look at your personal line of credit until your business numbers start showing up. We've done leases for 10,000 square feet for established businesses and the landlord still wanted a personal guarantee.

Just because you think you need space,



doesn't mean you're ready. We met a young photographer looking for studio space. There was no point in showing him around because he didn't have a business plan. As his advocate, we encouraged him to work with a local SCORE office to get help in creating one. After that we could figure out what terms he could afford and what space met his business objectives.

We work with a lot of small business people including new businesses and they are clearly at a disadvantage if they are on their own. They don't understand the nomenclature: triple-net lease, CAM and OPPS, SAC/WAC charges and more.

You need to get answers up front: What services are you getting? Are they plowing, and when? Do you get tenant improvement dollars?

Is it the correct occupancy use? If you do retail in some areas of the Twin Cities, you need a conditional use permit. You could get shut down if you don't get one. It's not the landlord's job to deal with your permitting issues; it's yours...and your tenant reps. It's an unknown you need to know.

We're not attorneys but we understand the basics of a lease and can explain it. If you don't know those things, you won't know the cost.

There are probably 10 different ways to structure rates in a lease. If you don't read and understand the lease, you could get

stuck paying a portion of the property tax for vacant space as well. No one would sign a lease like that...unless they didn't understand it.

### Horror Stories

- A landscape company from Wisconsin was moving into the St. Paul area around the time of the Republican National Convention. The lease was signed by the time Homeland Security got wind of massive fertilizer shipments. In the furor that followed, we were able to go to people we know well at the city and quickly explain the situation, averting what otherwise could have been a devastating delay in opening the business.

- A beauty shop in northern suburbs found a location they liked and quickly signed the lease. Since they didn't fully read and comprehend the lease terms, they didn't know that the deposit was much more than they expected. And they didn't realize that the SAC/WAC (Sewer and Water Access) charges to the city were going to be more than \$20,000. Next they found out that the build-out allowance from the building owner wasn't adequate.

All told, they had \$50,000 in charges then hadn't anticipated and were forced to get an equity line of credit that tapped out their home equity.

By the time they sought our help – any help – it was too late. The ink was dry. The commitment and personal guarantees made.



The self-inflicted damage was done. That company didn't survive and the owner's personal finances have been tarnished.

### Finding the Best Deals

After a client pre-qualifies, we help determine the type of space, the size and location that fits your budget. Are clients coming to you or do you go to clients? Do you need a lobby, like an accountant? Do you need a busy main street with parking out front? Do you need a loading dock?

Tenant reps don't just help you avoid problems. We can help find the best deals because we're plugged into the market. There are landlords desperate to make deals. There are 5,000 square foot tenants with 3,000 square feet of shadow space, which is space that is leased but not used.

If you can be flexible, you can get great rates, especially if you're willing to take space "as is" so the landlord doesn't have to do a build-out. Some landlords give lower rates if they can move you to another part of the building to accommodate and expanding tenant.

The rates in the past year have been extremely favorable to tenants, but now we're starting to see the rates increasing and vacancy rates are going down. There are plenty of good deals if you know where to look and how to negotiate.

*Scott L. Miller has been in the real estate and construction industry for over 35 years and now specializes in commercial real estate as a Senior Director at KW Commercial, the commercial division of Keller Williams Realty International. George Z. Miller has been involved in the Real Estate industry for more than seven years, working his way up the ladder from an office assistant to now a fulltime commercial associate at KW Commercial with the Miller Group. You can reach Scott at (651) 283-6803 or mrreferral@kw.com, George can be reached at (651) 235-7272 or george@3crg.com.*

## Your First Office - Workshop

What Every Small Business Should Know About  
Finding, Planning, Furnishing and Buying Your First Office



# May 19

## 3 to 5 p.m.

CORT Furniture Rental, Bloomington

### Featuring

**Jim Hickle**

Velocity Telephone Inc.

**Carey Sander**

CORT Furniture Rental

**John Leschak**

Minnwest Bank

**Scott Miller**

**George Miller**

KW Commercial

To register and RSVP, go to

[www.newstartupmeetup.com](http://www.newstartupmeetup.com)

Most new businesses start off with a simple home office. The next step, whether to a virtual office or to a commercial space, is closer than you think, especially if you need a place to meet clients other than a coffee shop. There are more options than ever before.

Startup Meetup Networking Follows from 5 to 7 p.m.