



Can You Detect A Profitable Startup?

by [Steve Brown](#)  [small business](#) [startup](#)

Summary: There has been a 25% increase in the number of startups last year compared to 2019. With increasing confidence as the economy picks up, these new businesses will need more capital. Even though lending levels are still low, now is the time to consider the criteria for lending to entrepreneurs when they come knocking. Here are six criteria to look for in these startups to translate into serious lending business.

According to Statista, the lowest land area not covered by water is the Dead Sea shoreline at about 413 meters below sea level. Pretty impressive, considering that the lowest point in the US is Death Valley at 86 meters below sea level. With one million visitors annually, Death Valley demonstrates that being at the lowest point is not always where you want to go.

Unfortunately, bankers are still seeing lending activity at a record low level. Yet, it can't stay this way forever. Startups have been forming at high rates and will need capital to stay in business. The Census Bureau reports that in [2020, 4.4MM US startups were formed](#). This is a 24.3% increase over 2019, even though we were in the thick of a raging pandemic. As the economy gives new business owners confidence to expand, they will come knocking on your door again.

To get you prepared, we thought it was a good time to highlight the six areas that your entrepreneurial customer should have checked off their list before they come knocking on your door for a loan.

1. **A vision for the business.** Whether they are a restaurateur or selling skis, successful businesses have a specific vision. What are you making? What need does it fill? Who will want to buy it? The owner should be able to explain why the business will succeed and have an idea of how to get there. Without this overarching vision, the business is setting itself up for failure.
2. **An attorney.** Before an entrepreneur registers a business or accepts money from a bank or from investors, they should get legal advice. Doing so can help avoid misunderstandings upfront. An attorney is also helpful in reviewing contracts, increasing the chances that the business will engage in successful vendor and customer relationships, which translates into revenue.
3. **A menu of offerings.** Whether or not the new business sells food, it should have a list of products and services that it offers its customers. These days, many businesses will have these accessible through QR codes for convenience and cleanliness. The entrepreneur should also ensure that the business has the appropriate business licenses and permits to sell from that particular location, ranging from a liquor license to a taxi medallion.
4. **Systems and processes.** No matter how creative a business is, it needs replicable results to achieve success. The chocolate cake the customers loved last week needs to be the same chocolate cake they can enjoy today. To reliably get the same results time after time, a business needs documented systems and processes. Will it need special equipment? Are there particular food-handling processes that also need to be reviewed and approved before the business can open? Make sure those things are in place so that you know the owner is organized and ready. Without them, the business will have to start paying rent before it's able to generate income, and that can translate into the owner not being able to keep up with loan payments.

5. **A business plan.** An entrepreneur might want to make and sell beachwear. But, do they have a plan with the details? A business plan specifies exactly how the business owner expects to make that into a reality. It should include a strategic focus on core values and mission, the people who will form the staff, trackable operations, targeted marketing, appropriately priced products, and a forecast showing that the business can turn a profit by following the outlined path.
6. **A succession plan.** Since nothing is forever, a succession plan will be needed. If this new business enjoys success over the long term, it will eventually need different leadership. Who will take over when today's owner is no longer able or enthusiastic about running the company? Many startups may not think of this, but it is crucial to have some type of plan in place, so that your institution knows that its loan will be paid off, if anything happens to the owner.

Some of these activities will likely evolve over time. Yet, having the initial versions in place at the beginning, suggests that the entrepreneur is thoughtful and intentional. This level of preparation also indicates a commitment to succeed, which makes these startups more profitable to your institution and beneficial for the community.

ASSESS CUSTOMER PROFITABILITY IN THIS MARKET

Profitability FIT is a customer [profitability solution](#) that measures performance not only at the account level, but also at the entire customer level. Win more deals.

ECONOMY & RATES

Rates As Of: 10/26/2021 05:33AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.06	0.02	-0.03
6M	0.06	0.01	-0.03
1Y	0.14	0.05	0.03
2Y	0.47	0.19	0.35
5Y	1.19	0.23	0.83
10Y	1.63	0.14	0.71
30Y	2.07	0.03	0.43
FF Market	FF Disc	IOER (Interest on Excess Reserves)	
0.08	0.25	0.15	
SOFR	Prime	OBFR (Overnight Bank Funding Rate)	
0.04	3.25	0.07	

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.