



RISK AND ASSET
MANAGEMENT

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Small Business Financial Focus

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Options For Small Business Financing

Small business may require financing at many different points during its life. Some needs are simple and easy, while others are complex. There are different solutions for each type of small business financing need. Some points during a business life when financing may be required are detailed below.

Start-Up Business Financing – A new start-up business always has initial expenses, no matter how small. There may be a need to obtain a computer and internet services to get a website business launched. A land-based business may need storage space and an office. Simple business equipment, office supplies, and paid employees are normal expenses for a small start-up business.



Growth Business Expenses that Require Financing – Once a business is successfully launched, a normal event will be growth of that business to a higher level and more profitability. To achieve this goal, the small business financing needs might include cash for new equipment, advertising, additional personnel, vehicles, or more space.

Mature Business Financing – As a business progresses through its lifecycle to maturity, major expenses may occur that require outside financing. Acquisitions of other companies, geographic expansion, changing the business structure to a corporation, seasonal or working capital needs may fluctuate, and travel or communication systems may require outside cash.

What Small Business Financing Options Are Available?

There are several options available for a small business that needs outside financing. Some can be provided by private sources, others by banks and financial institutions, and some by government programs for small businesses. Here are the most frequently used resources for small business financing:

Lines of Credit – These are credit accounts set up by a bank or other financial institutions to provide cash for short-term working capital or to use during seasonal financial need fluctuations. The borrower has a set limit, and they can use the line of credit up to that limit, but only pay interest on the amounts that are used. As the borrowed cash is repaid, the limit remains the same, and the borrower can reuse the available cash balance as needed, repeatedly. Lines of credit can also be used to back up other accounts with overdraft protection, as long as there is some credit still available.

Term Loans – This is a loan set up for a certain amount to be borrowed and repaid over a set period of time, in increments. These are designed for long term financial needs, such as the purchase of equipment, vehicles, machinery or other large ticket items. Term loans are available from banks and other traditional financial institutions.

Credit Cards – Using credit cards for smaller expenses can be helpful, and there are some advantages in the form of rebates, perks, and easy record keeping when credit cards are used for small business expenses. They are simple to use for travel and entertainment purposes. If credit cards are to be used for business purposes, it is best to have an account that is a designated business account, and use it only for the business expenses. This will establish a business credit history, and separate the business expenses from personal ones or personal liability. Personal credit cards are often used for small business start-up expenses and for some established business expenses. It is, however, best to keep personal expenses separate from business expenses. A business account may also have a better interest rate.

Government Loans and Grants – Small business financing options include government-sponsored programs for loans and grants. Provincial and Federal Governments work with local banks to provide government guaranteed loans for small businesses. These can have an advantageous interest rate and terms, and are worth looking at.

Venture Capital and Angel Investors – There exists a large network for small business financing through the use of investment cash put up by venture capitalists and angel investors. Cash is available for all stages of business development, from start-up to expansion of mature companies. One benefit here is that the expert investors may take an active role in running or overseeing the business to help ensure that their investments are repaid.

Personal Resources – Friends, family, credit cards, pawn shops, cash advances – These financial resources are commonly used for small business start-ups. There may or may not be interest charges involved, and there may be some personal risk if repayments become a problem. You could lose friendships, or collateral.

Leasing – Expensive equipment and some other financial roadblocks can be managed through leasing agreements rather than making large capital outlays. Much technical expense can also be avoided by using cloud computing resources for customer relationship management, and to obtain state-of-the-art expertise, software and equipment use.

No matter what type of small business financing options are used, it is important to have several documents at hand when making applications. A good business plan is essential to obtain financing, and for the general expectations of successful business operations. Create cash flow projections for the business, and have copies of your last three years' tax returns ready to show to investors or lenders. Small business financing options can be the difference between small business success and failure; look at all forms to decide which will best benefit your company.

Regards, *Steve*

Remember our motto:

Complimentary Advice. Any Time. Just Ask.