

Five Critical Steps to Securing Small Business Capital

Cash flow constitutes the life blood of all small businesses, allowing ventures to make payroll, pay suppliers, and keep its doors open.

The way entrepreneurs secure capital has changed dramatically over the last 10 years, however. The use of crowdfunding, instant online loans, peer-to-peer financing as well as the emergence of lender-agnostic marketplaces has changed the way small firms seek and secure money. While some say that traditional bank financing is a thing of the past, commercial bank lending remains a strong and viable option for most start-up and growing businesses.

Top five steps to securing small business capital:

1. **Borrowers must become credit worthy.** Borrowers should deal with negative financial issues, including poor or inaccurate credit reports, and must resolve all business and personal tax issues. A negative credit report and/or credit score can be a "deal buster" for many lenders. Back taxes, liens, garnishments, multiple bounced checks all show increased risk for a lender. Borrowers should deal with recent bankruptcies by providing an explanation of why it occurred. Address all of these issues prior to applying for the business loan.

2. **Build a better business plan.** Lenders stress that a business plan must be well thought out, and realistic. The business plan should outline the money, management, and marketing of a business. One lender stated "I need to understand that you understand what you are getting into." Borrowers must explain how the money will be used, and how it will be repaid. Repayment ability is the critical factor. Without repayment ability, no traditional lender will make the business loan and few will provide 100 percent financing.

3. **Plan for the worst case scenario.** Most lenders require borrowers to provide a minimum of 12 months of financial projections. These projections should be broken down into a month to month format. The business owner must understand how these assumptions were developed, and establish their validity. Lenders agree that the projections must be presented with a best case, mid-case, and worst case scenario. How will the business survive if revenues drop by 10 percent, 20 percent, or 30 percent over the next six to 12 months? This hands-on forecasting will help the borrower become more strategic in their thinking, and help the lender feel more comfortable with repayment ability.

4. **Two years of business history is desired.** Loans to established, financially strong, and quality businesses are easy to approve. Loans to start-up businesses can be more difficult to approve without the ability to show long-term repayment ability. Lenders may require an additional cash equity injection by the owner, or even a seller carry back, to reduce the size of the loan. A proven franchise concept may help mitigate any risk.

5. **Become a hands-on owner.** Prudent business practices include:

- Collect accounts receivable in a timely manner – don't allow your customers to drag out the payment terms. If necessary, get in your car and visit the customers that have not paid timely and have large amounts of outstanding money owed to you.

- Don't keep all your cash liquidity tied up in inventory. Review your business operations to see what work can be handled in-house and not contracted out.
- Review each business expense item and eliminate discretionary items that could help generate additional cash flow.
- Eliminating unprofitable account relationships can also help the bottom line. Increase your efforts to market your business.
- Cutting new marketing expenditures may be a mistake. Many business owners make the mistake of cutting marketing expenses when business slows down. That may be the wrong decision to make when new customers are critical.

Access to capital is critical to the survival of most small firms across South Dakota. Knowing what a lender requires is key to finding success when applying for a business loan. The SBA has taken a leadership role in advocating for the small business community during good times and bad times. The agency remains committed to helping small business owners secure capital, contracts and counseling when needed. For more information on SBA's many programs and services, please visit us at www.sba.gov.