Effective ways to meet your small business financing needs you can use today

Description

Financing needs are some of the most sighted reasons why entrepreneurs donâ??t start their business. With increased support for small businesses from both the private and public sectors, one wonders why entrepreneurs still struggle with funding. One answer could lie in the chicken and egg problem small businesses face.

Simply put, most organizations that offer small business financing require some sort of proof of concept. They need an operation to be partly running as a profitable concept to make sure their funds are not squandered.

On the other hand, most concepts need an entrepreneur to have access to some sort of funding to get off the ground. So which will come first, the funding or your concept?

Unfortunately for you, you are highly unlikely to get your funder to make an exception to you. So the proof of concept will most likely have to come first. Fortunately, we have always been huge fans of the lean start-up, a model that allows you to get started with minimal funds.

We combined this with Business Techâ??s most identified needs for funding to make the lean startup practical. While a lot of these needs cannot be met without funding, these tips will minimize initial outlay.

Combine this with grandmaâ??s sizable investment, then you might have a working concept to present to funders.

Starting a Business

> If you canâ??t do it without funding, then maybe you canâ??t do it at all

I canâ??t remember where I first read this, but itâ??s resonated strongly with me since. Bootstrapping is definitely a viable, and for us, the most viable way to get your business off the ground. Itâ??s generally a set of policies, models and ideas that get your business off the ground with limited initial capital.

All of this adds up to result in you requiring a lot less in funding. While it might not be practical for all businesses, itâ??s definitely worth considering before seeking financing. Starting your business with little to no funding means reducing your needs to bare necessities.

Youâ??ll need to run your business as frugally as possible, and return to this mode once in a while. If you are a perfectionist this wonâ??t work for you, pick a minimal viable product and run with it.

Minimize hardware, software and investment in fixtures. You can do this by holding off on investing in an office and leaning heavily on free resources.

Salaries make up some of the biggest overheads for a business, so make sure to hire only as necessary. Good talent is even dearer, so make sure to build a good working environment that rewards in other ways.

The most important part of the bootstrapped business is going to be providing real value for clients. If your brand can demonstrate its ability to make a real difference, your market can fund you.

Many businesses follow the customer funded model, where clients pay in advance for services. These funds can be used to start and grow the business. With crowdfunding, you can even ask for funding with just a concept, provided you can tell a good story.

Buying Equipment

As we have already mentioned, the lean startup is low on equipment acquisition. It would be impractical though to start your business with no equipment at all, so smart equipment purchases are necessary.

First, youâ??ll need to make sure you have a good understanding of the equipment thatâ??s absolutely needed. This means not only understanding what youâ??ll need but what capacity it should provide.

While Iâ??d like to be writing this on the latest ASUS ROG, Iâ??m not, because my run off the mill ASUS fits the billing. It might not game as fluidly as my dream laptop, but it types this post just fine.

And just fine will do in a bootstrapped environment. Also, consider some preloved options. On newegg.com, you can find good quality refurbished equipment. Or you can go on industry exchanges, facebook groups, and local classifieds to find what you need.

Should you need to buy, a good rent to own agreement will work in your favour. It allows you to pay a rental fee for your equipment, but own it if you make it to the end of the contract.

This has the advantage of spreading the cost of the equipment over the revenue it generates. With this in place, you may not need to finance it externally.

Expanding your Business & Achieving Growth

While these two where listed differently, due to their similarities, it makes sense to discuss them together. Firstly, letâ??s consider why entrepreneurs can view expanding your business and achieving growth different undertakings.

1. Expanding your business could mean increasing your businessâ??s capacity to deliver services to clients. It could additionally refer to increasing your service and product catalog. Basically, itâ??s increasing what you can offer, and how much of it at any given time.
2. Achieving growth could refer increasing the size of your business based on the traditional measures of business size. This could mean growing your business in terms of
    1. Revenue & Profits generated
    2. Number of employees
    3. Market share and active clients
    4. Assets , locations and physical space occupied

Expanding your business can most easily be achieved by leveraging existing clients. If you provide real value, clients will be more than willing to try new offerings. Take advantage of word of mouth to turn happy clients into brand advocates.

Donâ??t be shy to ask for recommendations and shout outs. This signal boost will help you reach more people and get your expansion out there. Itâ??s increasing your market reach, with marketing youâ??ve already paid for. This should allow you to meet your expansion financing needs without looking externally.

Moreover, this increase in revenue without an increase in marketing costs should allow you to expand your capacity. Re-invest these extra profits and make sure you have the capacity to cater to this bounty of clients.

Achieving your growth can follow the same theme. Retaining profits should be your biggest source of growth financing. Even everyoneâ??s favourite wealth smith, Warren Buffett has build an empire reinvesting his wealth.

You can invest in improving your processes, hiring more, outsourcing less important tasks, or improving your team and yourself. Whatever you choose, armed with a good strategy, re-investment will give you growth.

Working Capital & Cash Flow Assistance

Though these were listed differently, we are combining them because they refer to more or less the same need. Because working capital is the lifeblood of your business, proper cash-flow management should be a top priority.

Contrary to popular belief, most businesses donâ??t fail due to lack of profitability, poor cash-flow is more often the culprit. Failing to finance your daily activities means your business will come to grinding halt, no matter how much of a profit itâ??s turning.

60% of profitable businesses will fail because of poor cash-flow. For a small business, itâ??s often better to avoid poor cash-flow than seek funding to manage it. This is because meeting cash-flow financing needs can be very expensive, with limited options.

Itâ??s perhaps because of the problems cash-flow constraints cause that most funders shy away from businesses already facing challenges. To keep cash-flows healthy and make sure you meet your financing needs internally, you need to;

Plan Ahead

Good cash-flow management starts with proper forecasting and planning. Knowing your cash-flow needs ahead of time will help you structure in a manner that manages deficits.

Also, approaching your options ahead of time will show you have control of your need, making you less of a risk. Seeking cash-flow funding ahead of time will, therefore, make it a much cheaper exercise.

Invoice Clients Fast & Manage Payment Periods

We all want to avoid seeming overeager, but invoicing your client should be the first step after a deal is secured. Make sure the invoice is received and acknowledged by the client, as well as the payment period.

A good rule of thumb, ask for at least 50% of the deal price ahead of commencing. This will ensure the project can fund itself, as opposed to seeking funding for it. Where a project will have a considerable delivery period, consider having payments at set milestones.

Even as a small business, do not give in to the temptation of extra long payment periods just to secure a deal. At the very most, require payment on delivery. This will go a long way in reducing your bad debts.

Remember, the longer your invoice goes unpaid, the greater the chance you client will run into challenges paying it, Additionally, short payment periods mean future projects donâ??t have to support completed ones.

Lengthen Your Payment Periods

While you are doing everything to get your clients to pay at the earliest, make sure you are doing as much to make sure you pay latest. Donâ??t do this by ignoring your obligations, but leverage any negotiation power you have.

Just as your clients negotiate payment terms with you, remember you are a client as well, negotiate for yourself. The longer you have to pay for inputs on projects you have already been paid for, the healthier your cash-flow will be. Just remember not to get too excited with the positive cash balances and spend out of control, those bills will still come due.

Alternatively, just make some sort of reserve for the payments, one that can be accessed for projects that will earn in the short-run.

Factor Hopeless Invoices

Despite how well you manage your debtor book, a percentage of your invoices will end up as bad debts. Bad debts can severely hurt the bottom line but are a greater menace to cash-flows.

They throw a spanner into your perfectly laid plans, leaving a gap in anticipated inflows, and unmatched outflows. Not all stale invoices need become bad debts though.

You can recover some value from outstanding invoices by giving them up to a 3rd party, in return for a fraction of what they are worth. By acting fast on suspicious invoices, you can at least get something back before they are completely worthless.

With consistent application of these policies, you should find yourself better managing your cash-flows. The healthier your cash-flows remain, the less youâ??ll have to lean on external financing.

Franchise Funding

Franchising is a business model that could either accelerate your entrepreneurship journey or make it a lot harder than it should have been. It all boils down to how good your franchise agreement is. Your ability to meet your financing needs is hinged on the agreement being set to give you an affordable start.

A good franchisor will be invested in your success, so will be less inclined in making money on the front end but from your growth. This means their packages will have affordable setup costs. Additionally, their monthly fees and royalties will be fair and justifiable.

This will help you manage cash-flows, and support in other areas will reduce additional cost. For example, a good franchise will assist you with staff training, which is a significant cost for new business. Additionally, a good franchise leverages its advantages to drive down costs for you.

This could be through economies of scale, cheaper marketing, or fast brand recognition but your costs should be lower. Finally, a good franchise is built on a good business model. This will allow you to;

1. Start generating revenues early
2. Earn good margins at competitive prices
3. Scale your business relatively quickly

All these factors combine to result in a franchise that has low startup and running costs. This means you can meet your financing needs personally, or need little extra from funders.

The best part though is that a good franchise offers funding assistance for its franchisees. This could be access to credit lines to meet your recurring funding needs or loans for startup costs. Moreover, this funding assistance is usually a lot more affordable, with better terms and less strict qualification criteria.

The long and the short of it, meeting your funding needs under a franchise business starts with a good franchise agreement.

Product/ Process Development

When it comes to product and process development, it might be a good idea to lean on your tribe. Harness the power of good storytelling and get your target market involved in funding your product development.

This is a strategy that works very well in the gaming world, with many indie developers finding good success. Success is however not limited to the gaming world. Many tv shows, ecommerce stores, gadgets, clothes are around because we wanted them enough to finance their existence.

This works for B2B suppliers as well. You can approach your potential clients with a product or process that could improve their offering. If your idea is compelling enough, you can find these potential clients funding your go to market.

Just remember to have a lot of what you need to launch in-house. You donâ??t necessarily have to be a programer to have a successful app, but it would help. Consistently outsourcing a service at the center of your business model can rack up the costs, fast.

If you lack some important skills, consider taking on a partner. Armed with the expertise and technology, like 3D printing and CAD, developing your product shouldnâ??t be as expensive. The more you manage to keep your costs down, the less youâ??ll need to lean on external funders for financing.

Contract Funding

Frankly, I was a bit surprised that this ranked so low in small business financing needs. The government makes the primary client for many small businesses and their payment terms cause complications.

More often than not, theyâ??ll refuse deposit payments and will take a lot more than their proposed thirty days to pay service providers. And thirty days is already a huge ask for small businesses in itself.

The private sector fares only slightly better itself. Some large businesses are not above taking advantage of their small counterparts and proposing less than fair terms. So realistically, contract funding is a constant headache for businesses.

Itâ??s important not to fall into the traps of contract sharks whoâ??ll take a huge chunk of your contract for what it is essentially a riskless investment. Instead, consider genuine public and private sector small business funders with packages suited for just this need.

With a commitment from a reputable business to your services, it increases the pool of potential financing options. Also important to remember, some financiers may be willing to give a Letter of Intent upon successful bid.

This may be important when bidding for contracts that need you to prove capacity.

Buying a Business

A good way to finance a business purchase is to ask the owner to let you use future earnings. Seller financing can have nuanced differences, but the gist is the funds come from the person selling the business. Particularly if you are an employee, this option is very viable. An implied clause when buying a business is that itâ??ll be profitable, so the owner shouldnâ??t be worried about this method.

This works particularly well where the sell isnâ??t a result of an immediate need for cash, e.g. retirement from old age. All you have to do is pay a reasonable deposit, then withdraw future earnings to amortize the balance.

Because the business is already in existence, financing a business purchase with stocks is a lot more lucrative. A major challenge in issuing equity for a new business is you have to give up a lot more for a lot less. Investors are justifiably worried about earning a return so theyâ??ll ask for a lionâ??s share for a little investment.

In an established business this is not the case, particularly if you have skills running this type of business. All you have to do is make detailed projections and a business plan of how these skills will be used to keep the business profitable or grow its profitability. This would mean your investors are investing in a â??sure thingâ?•, and cost of capital should be significantly less.

The result is you would get a lot more funding by giving up little ownership in the business. A lot more funders would be willing to come on board too.

Building Acquisition & Property Development

Despite the surge in alternative business setups like co-working spaces and distributed offices, you may still need a physical building for your enterprise. You canâ??t exactly build the next self-driving car from your momâ??s garage.

In addition to purchasing a building, you may need to modify it to meet your needs. This is another instance where seller financing can be used. As a matter of fact, seller financing is most common in real estate.

Conclusion

75% of venture-backed businesses will fail according to a Harvard Business School study. The way we see it, you might not only fail with funding but sometimes because of it.

So you need to make sure you minimize injecting funds into the business, ensure a working concept is there first. There are a few ways you can get around spending heavy in the early stages.

Share with us how you meet your small business financing needs without breaking the bank.

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