

Obtaining Financing or Negotiating Better Terms

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Have you been fretting about a trip to the bank recently?

Obtaining financing for a family-operated business can be an unpleasant chore in the best of times. It can turn into a hugely frustrating experience when your industry is facing challenges like our tourism industry in Canada at the moment.

Yet most lenders and investors say there's money for "deserving" companies.

If you need financing for your tourism operation this spring or hope to negotiate better terms with your banker, there are a few things you can do to improve your chances for success.

First and foremost, you need to move beyond showing off your financial statements even if they are in good shape. The banker will ask you to *demonstrate* why you deserve financing.

From the bank's perspective, your financial statements offer perspective on what has already happened but banks know loans will need to be repaid in the future. Accordingly, they not only need to understand your company's past, they also want to see well-defined plans and strategies concerning your future. Most entrepreneurs have an intuitive understanding of how their business works and where it's going. However, it is common that only part of this understanding, including thoughts about the future, get conveyed to the lender.

Your banker needs to see a structured approach that demonstrates why the financing is required and how it will be repaid. Here are some steps you can take to tell your banker what she needs to know:

1. Explain Changes in Your Financial Position

Has the company's financial situation been changing? What does this mean for the future? A thorough review of the history and present status, financial and non-financial, is essential. A summary of this review and its conclusions should be included in the information presented to potential lenders or investors. Any proposed initiatives must be consistent with the company's capabilities and with its plans and strategies for the future.

2. Present a Business Plan With Financial Projections for the Future

A well-defined plan for the SME and the owner is a prerequisite for determining the necessary financing. A quick-fix loan in the absence of such a plan could be counter-productive. Once the plan and financing needs are defined, financial projections should be prepared and presented as part of the financing application.

3. Demonstrate an Asset and Liability Mix

Assets should be matched with appropriate financing. For example, long-term debt rather than an operating line should be arranged for acquiring capital assets.

If material growth in sales is expected, you might want to consider other options such as venture capital to provide the necessary working capital for growth and the appropriate equity base to comply with debt/equity covenants imposed by the existing lenders. Generally, equity is the most expensive source of funding but if the potential is significant, venture funding may be worth the higher cost.

4. Document Your Application

The financing application should be professional and comprehensive. It should include:

- An executive summary.
- A specific definition of your financing request.
- A description of the company's plans.
- A marketing review.
- A brief history of the business.
- Information about your production costs, process and sources.
- Information about fixed assets, such as their adequacy for operations, market values, environmental status and availability as security.
- Proprietary assets/knowledge and patents.
- A listing of professional advisers.
- Financial statements, forecasts

5. Avoid Putting all Your Eggs in One Basket

It is good practice to approach more than one source of financing. As with other materials or supplies used in running a business, it is simply prudent to have access to a number of financial sources.

If there is more than one positive reply, then there is the luxury of doing some comparison shopping. There may be differing risk appetites, and perhaps only one "yes." Concurrent applications will save time.