

## Balancing risk and reward when you take on debt

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A study done by Industry Canada a few years ago showed some interesting differences between women business owners and their male counterparts when it came to taking on debt. Women running small and medium-sized enterprises had a higher approval rate on loan applications than men.

It suggests that when business women apply for financing, they submit excellent applications.

Deciding to take on a long term debt is never an easy choice for women business owners because they sometimes put on a personal brake when considering financial commitments. Immigrant women in particular, must sometimes overcome negative traditional attitudes against borrowing as well.

That was the case for Jinous Nouri. Jinous had been a chemist in her native Iran, and after emigrating to Canada she put her experience to work developing a safe, natural hair removal product without chemicals and skin irritants. She started Stick With Us Products as a home business with the whole family helping with production and packaging.

Jinous began selling through small specialty stores and flea markets. Her herbal body care products proved to be so popular she was soon fielding orders from large stores and distributors. But to meet the demand she needed to expand and that required money.

"In Iran, having debt was not considered the way to start or grow a business," she says, but Jinous overcame that cultural barrier because she believed her product had outstanding potential and fulfilled a vital need. She took a calculated risk and applied for a loan.

Funding your business that way can be scary, but if your business is strong and has good opportunities for growth, financiers will welcome a solid business case for a loan. You can fund your business in to major ways:

**Take on long-term debt.** This is often used for asset purchases, with the asset securing the loan along with personal guarantees if needed. Lenders expect to see a comprehensive business plan with cash flow projections and they will set a fixed repayment schedule and rate based on your forecasts. Unsecured loans for operations and cash flow rather than assets, are usually tougher to secure and come with higher interest rates.

**Find an equity investor.** You may know an equity partner who will invest in your business in return for part ownership. An equity investor is usually more interested in growth and profitability to maximize the returns on an investment. For that reason they may want to have input in the way your business operates and an equity investor could be interested in ultimately buying your business.

In either case a solid application for financing is a must. To build it, you have to be sure your business growth is well-researched, defined and realistic.

How do you go about measuring the risk against the possible reward when considering assumption of a long term debt or whether to take on the financial infusion you can get from an equity investor? These are the steps you can take to make that decision:

- *Define the reward.* You have to know where you want your business to go. It's something you established early in your start-up vision along with your exit strategy, but you should revisit them. Are those still the same objectives?
- *Describe the risk.* Take a moment and make a list. Define all the risks that will take you out of your safety/comfort zone. Be sure you understand them all.
- *Set the ratio.* Does the amount of risk balance with the potential reward? What do you find the most compelling? Is it achieving your ultimate vision or your need for financial safety. Sometimes it helps to apply a percentage to both.
- *Adjust the risk.* Once you determine the balance between risk and reward, you may be able to adjust the risks. Determine if there are any actions you can take to minimize them. Perhaps you can outsource rather than produce, or contract rather than employ. Maybe you need to do more market research, do more planning or put better financials in place. Assessment may show you can concentrate on a specific type of business or customer.
- *Adjust the reward.* Return to your vision and your motivations. Decide on what you are willing to let go in order to achieve inner peace and keep revising until you find a balance between risk and reward that works for you.

Understanding the heart of your business is critical when you need to decide if the time is right to take on financial risk. But knowing the heart of your business, and your customers, always makes that choice easier.

*Women's Enterprise Centre serves women across the province from its offices in Kelowna, Vancouver and Victoria. For more information call 1-800-643-7014 or visit [womensenterprise.ca](http://womensenterprise.ca).*