



FINANCING YOUR BUSINESS

So you need money to start or expand your business. But the prospect of seeking financing can be daunting. Where do you start?

First, figure out how much you need to finance by preparing a thorough business plan. Most lenders will ask for one, along with the key projected financial statements and tools that go with it including an Income Statement, a Balance Sheet, a Cash Flow Statement and Break-even Analysis. You can put these together with the assistance of an accountant or bookkeeper, or prepared them yourself.

What you will need to finance at the time of start-up can be determined by a simple calculation:

Your Contribution (sometimes referred to as Equity)
Less: Total Estimate of costs (for start-up or expansion)
Equals: Amount you will need to finance

Note: Don't forget to back up your estimates. Lenders will look at them to see if they are realistic.

Consult an accountant or other people in business to learn as much as you can about the types and sources of financing that work best for your situation. Then, shop around. It's not always easy to get financing for a business, so be diligent. You may not be successful right off the bat with your own bank, but if you have a solid idea and business plan, and some collateral, you will have a good chance of success.

There are many good sources from which you can borrow money for your business (debt financing) or get investors (equity financing). Both options will require:

- A solid business plan with substantiated cash flow projections
- Relevant experience and knowledge
- Personal investment
- A good credit rating
- Evidence you can repay the loan on schedule
- Collateral to secure the loan (savings or investments, real estate, business assets, etc.)

WHAT TYPES OF FINANCING ARE AVAILABLE?

Overdraft Protection

Covers shortfalls in your business account up to an approved limit (usually \$5000 maximum). Interest is charged only on the amount you borrow and interest rates are usually lower than credit cards, but higher than a line of credit. You usually have to pay a monthly administration fee.

Credit Cards

Personal and small-business credit cards are a handy way to get short-term loans for smaller purchases. They are usually easily approved with little security, but interest rates are generally higher than with traditional loans. If you pay off the balance every month you pay no interest, but there may be an annual fee. Careful though: if you can only make the minimum payments and are unable to repay the outstanding balance, interest costs can accumulate quickly.

Operating Lines of Credit

A loan with a set limit, usually secured by your house or other assets. You draw on it as needed, so pay interest only on the outstanding balance. Interest rates are lower than most credit cards. There are no fixed payments except for monthly interest and a monthly fee – you can pay down the loan as you can afford it. A word of caution: your line of credit can sometimes become locked (no more room) if you are unable to make a regular payment on the principle and you may end up only able to make monthly interest payments. The lender has the right to convert it to a term loan, resulting in a monthly payment your company may not be able to afford.

Term Loans

Longer term loans usually cover expensive items such as capital equipment, real estate or renovations, and have an established monthly payment which makes it easier to plan. Sometimes the loan finances something that will generate enough cash in the business (ie. piece of equipment) to cover the payments. It's sometimes difficult to qualify for a term loan when you are a start-up business. The lender will ask for security, and may or may not be able to use the asset being financed. Shop around: interest rates are competitive and sometimes negotiable. Depending on the length of the repayment schedule, payments on a business loan can be quite high. Short-term demand loans are also available - one to six months - to cover gaps in cash flow. Remember, if you default (miss a payment), the lender has a right to demand full repayment.

Equity Investors

Outside investors provide financing in exchange for a share of ownership - or equity- in your business, or repayment of their investment with or without interest. Can be private or public investors, although public equity investors generally only consider very large investments with large returns. Often equity investors are family or close personal contacts, who do not expect repayment immediately, and may offer you nominal interest charges. Sometimes borrowing money can put a strain on the relationship though, especially if the business does not achieve the anticipated results. Be open with family and friends, with regular updates of progress.

Angel Investors

Private investors looking for investments that are considered higher risk, with good growth potential. They are generally attracted to technology-related companies and often the only source of large funds in the early stages when the risk is highest, if traditional lenders and large venture capitalists aren't interested. They are often seeking very large returns on their investment. Angel investors can be hard to qualify for and difficult to find, and generally require an invite from a contact of the group.

Venture Capital

Investors pool their resources to invest in companies (generally technology-related) that are considered higher risk with good growth potential, and ask for an ownership stake and often an active role in the business. They generally seek a very high rate of return and can be hard

to attract or qualify for, particularly in the early stages of a business. Generally few proposals reviewed are accepted. They will however, consider investing in start-ups if potential is good.

Leasing

Basically, rental of equipment with an option to buy it out, or return it after a certain length of time. It's a convenient way to get equipment, machinery and vehicles, with little or no down payment. The lessor retains title on the property and maintenance is usually included. Payments can be spread out for shorter or longer terms, depending on your needs. There may be a tax advantage – your accountant can tell you - but the overall cost of the equipment may be higher than if you bought it. There may also be fees at the end of the lease upon return, or penalties for extra mileage on vehicles. If you get into trouble with your business, it is hard to get out of a lease.

Grants

Funds usually provided through government sources, with no repayment required. Grants are not as readily available as they once were, and are usually available in small amounts. Criteria is very specific and the grant application procedure can be long and time-consuming. But grants are certainly worth researching, especially for specialized and high-tech industries.

SOURCES OF FINANCING

Financial Institutions

Chartered Banks, Credit Unions, Trust Companies

Considerations

- well established systems in place
- they are able to offer you a variety of financing options including: credit cards, lines of credit, letters of credit, term loans, overdrafts etc. as well as other banking services under one source
- tend to have a very quick turn around on loans
- can give commercial mortgages
- you can shop around for interest rates
- establishing a relationship can help you later on when you expand your business
- criteria can be difficult to meet for some start-ups
- banks are sometimes unable to be as flexible as private or public sources

Main Chartered Banks

- Bank of Montreal
- CIBC
- HSBC Bank Canada
- Royal Bank of Canada
- Scotia Bank
- TD Bank

Credit Unions

List of BC Credit Unions: <http://www.credit-union.com>

Trust and Loan Companies

List of trust and loan companies in BC:
www.fic.gov.bc.ca/listing/TrustandLoanCompanies.htm

Government Sponsored Loans Programs

Industry sector loans, economic development loans, loans for women, youth, disabled

Considerations

- the criteria for loan qualification is less rigid/different than a traditional lending institution
- offer ongoing support to clients, including business counselling
- many offer complimentary training programs on financing and how to run your business
- provide detailed information to you about your application
- usually only offer demand loans
- generally business plan-based so a detailed plan or proposal is required
- the review process can take longer

PROGRAM EXAMPLES

Women's Enterprise Centre: www.womensenterprise.ca

Western Economic Diversification Canada: www.wd.gc.ca/finance/xnetwork_e.asp

Knowledge and Growth loan program

Agriculture Value-Added Processing

Growth Capital Program

Conservation Finance Program

VanCity Self-Reliance Loan Program

First Nations Bank Micro Loan Program

Rising Tide Micro Loan Program

Advice & Business Loans for Entrepreneurs with Disabilities (ABLED)

Canada Foundation for Innovation Support Program

Ministry of Small Business and Economic Development: www.equitycapital.gov.bc.ca

Community Futures Network: www.wd.gc.ca/pos/cfdc/xindex_e.asp

Small Business BC Financing Links: www.smallbusinessbc.ca/financing

Business Development Bank of Canada: www.bdc.ca

Opportunities Fund for Persons with Disabilities: www.hrsdc.gc.ca

Canada Small Business Financing: (CSBF)

<http://strategis.ic.gc.ca/epic/internet/incsbfp-pfpec.nsf/en/Home>

Aboriginal Business Canada

strategis.ic.gc.ca/epic/internet/inabc-eac.nsf/en/home (note: not www)

Canadian Youth and Business Foundation www.cybf.ca

HRDC Self Employment Program

www.hrsdc.gc.ca/en/epb/sid/cia/grants/self-emp/desc_self-emp.shtml

Strategis <http://strategis.ic.gc.ca/epic/internet/insof-sdf.nsf/en/Home> (note: no www)

PRIVATE EQUITY CAPITAL SOURCES

PROGRAM EXAMPLES

Angel Forum – www.angelforum.org

Vancouver Enterprise Forum – www.vef.org

Vantec Angel Network – vef.org/vantec.html

Okanagan Angel Network – www.ostec.ca/angels

Yaletown Venture Partners – www.yaletown.com

Renewal Partners – www.renewalpartners.com

Ventures West – www.ventureswest.com

Smart Seed Inc. – www.smartseed.net

Springboard Enterprises - www.springboardenterprises.org/

GRANTS AND TAX CREDITS

PROGRAM EXAMPLES

Telus: (partial grants) www.telus.com/telusfund/index.html

Province of BC Grants: (search for 'grants') www.gov.bc.ca/bvprd/bc/home.do

Canada Business Service Centres: (search for "grants")
www.cbsc.org/english/gpsr_fed.cfm

Programs and Funds for the Canadian Multi-Media industry:
www.womensenterprise.ca/library/financing/CanadianMultimediaIndustry.pdf

HRDC Grants and Programs:
http://www.hrsdc.gc.ca/en/gateways/nav/top_nav/program/gc.shtml

BC Advanced Systems Institute: www.asi.bc.ca

For more resources to Start or Grow Small Business, visit our website at www.womensenterprise.ca or call 1.800.643.7014.