

Tips on obtaining business finance

BY ANDREW SUTHERLAND*

COMMERCIAL finance can be a daunting task for many business owners however it need not be if some key points are considered at the start. Here are a few suggestions to help you along the journey.

Preserve Your Working Capital - For almost every business, the most important component is access to sufficient working capital. Some of the most profitable businesses have been brought undone by having limitations on their working capital

While it can be tempting to purchase capital equipment from surplus funds or your overdraft facilities, this is usually not the best long-term option and it may be better to use those funds to pay creditors, secure discounts or to fund the expansion of the business.

Choose The Optimal Finance Structures - When purchasing equipment there you should consider:

* **Cash Flow** - Choose the option that will best match equipment finance cost with the income from the asset. This is especially important if income is seasonal.

* **Useful Life** - Some assets will become obsolete quicker than others, for example computer hardware will most likely achieve technical obsolescence far quicker than a printing press. The decision as to what term to choose to finance equipment needs to take into account each individual asset type.

* **Tax Effective** - Different assets are deemed to have different depreciation rates and poor selection of finance structures can reduce the tax effectiveness of your capital equipment purchases.

Minimise Security Offered - In the early

stages of your business's life you may have to offer real estate security to obtain bank facilities, however you should look to have the surplus security released once your business achieves a greater financial position.

"Use anyone except your bank to finance capital equipment". This rule of thumb continues to remain true. It is vital you only use available funds for working capital and not to purchase equipment.

Also don't over expose yourself to any one financier which would limit the funds available to you. And beware the "fixed and floating charge". Most businesses in Australia are required to provide fixed and floating charges (debentures) to their bank to secure ongoing banking lines, however many business owners don't truly understand what control this gives the bank over their business.

Choose The Optimal Financier - It is important you have more than one option available. Don't restrict yourself to just one bank or equipment finance provider you will be better served with access to multiple financiers'.

When importing equipment, ensure the financier can pay deposits and progress payments to the overseas supplier without the requirement for security or the need to use your overdraft.

In summary choose your clients, suppliers and business partners wisely and resist the urge to put all your eggs in one basket.

* *Andrew Sutherland is a director of Interlease Co. The company has recently produced a "Guide to Finance". For further information or to request a copy email asutherland@interlease.com.au or call 03 9429 4299.*