

It's a commitment and the bottom line is trust

There is more to good advice than just finding the best deal, reports **Stuart Mackenzie**.

There's more to finding the best financing deal for your business than the lowest interest rate, and it may not mean the convenience of a factoring and discounting service.

As the wrong decision can saddle you with a much longer, and more expensive, commitment than you realised, it pays to get professional advice before taking the plunge.

There are finance advisors that specialise in small and medium-sized enterprises (SMEs), but usually business owners will initially ask someone they know.

David McCleery, a director of business adviser MCP Group, says in practice, business owners turn to someone they trust for initial advice.

This may be a friend, an accountant or a lawyer, but trust is often the most important consideration. Any gaps in that person's knowledge are then filled in by referrals to other sources of advice.

There is more to giving clients good advice than just finding the best lending deal, he says.

"It's not just an issue of can you get the finance, but is it the right thing for this person to take on this commitment?"

"Where we often have problems is with people who don't quite have the necessary business experience and don't fully understand the responsibility they are taking on."

"From a financing perspective, the bank may not be comfortable with the experience or capability of the person concerned."

Whether the borrower has sufficient personal asset backing can sometimes be an issue and, even if there is no formal charge over the assets, lenders look for some comfort about the buyer's financial resources, he says.

Advisers like McCleery have a good understanding of financiers' lending criteria and it wouldn't do his business any good if he took

doubtful propositions to banks with whom he works regularly.

"We try and provide clients with realistic expectations about what the financier's attitude will be," he says.

A common mistake by small business owners is using the wrong type of finance and a key consideration is matching the term of the finance with the assets, McCleery says.

"You don't want to be financing a coffee shop that has a five-year lease with 30-year finance."

"I've often seen clients use short-term debtor finance to fund long-term growth objectives," he adds.

Getting good advice is not something on which you should be trying to save money, says Sue Prestney, SME spokeswoman for the Institute of Chartered Accountants in Australia.

"Do it right and pay to get the right advice up front," she says.

A good business plan is critical when seeking finance and a review by an accountant can tell you whether your plan is likely to satisfy lenders' requirements.

"You need a business plan where

'If you get knocked back too many times the word gets around.'

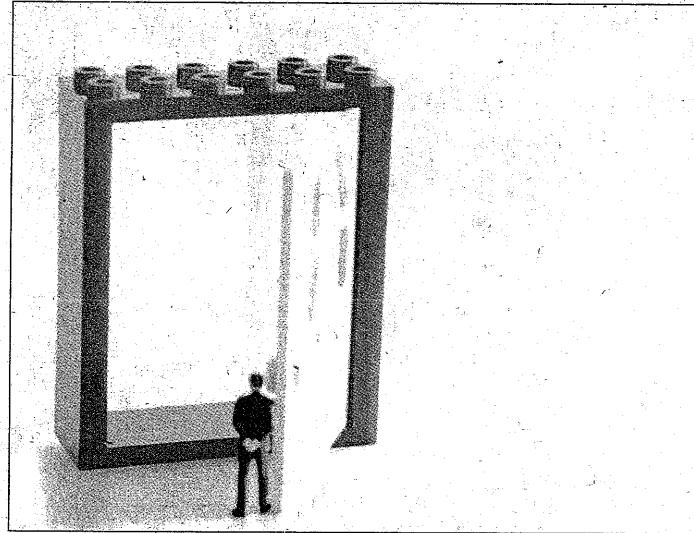
the words and the numbers actually work together," says Prestney.

"A financier will get nervous if a business plan is either overly optimistic or is so conservative that it indicates you don't really need any more money."

Once you've given the plan to a financier it's too late to change it and if you get knocked back too many times the word gets around, she adds.

Prestney agrees that many small business owners don't think much about getting the most appropriate type of finance.

"They'll just try and get as



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much out of the bank as they can.

"A lot of small businesses owners still use overdrafts; often when I look at an overdraft, there's a core of borrowing that should be financed by a cheaper form of debt."

Tax can be a consideration when borrowing, says McCleery and firms like his typically work closely with a client's accountant on tax issues.

"Sometimes tax can conflict with other considerations. For example, interest-only loans may be attractive from a tax perspective, but they don't allow the borrower to build up equity in the business as quickly."

Lenders these days are providing more information to advisers, brokers and other intermediaries about their appetite for credit and the industry sectors in which they are interested.

McCleery says increasingly they are releasing financing packages for different types of business. "For example, if you want to buy an accounting practice or an insurance broker or a financial planning practice, there's a specific package for this."

Banks are often more

comfortable lending for franchisees, especially for successful franchise systems, says Prestney.

"They can be comfortable about the trading that can be done because they have a track record of what other [franchisees] have done."

McCleery says getting the right mix of debt and equity is another challenge for many small businesses.

"When a business has reached its borrowing capacity, it may require an injection of equity to fund further growth."

"We will often advise clients that an equity contribution is needed. It's then a big decision for many business owners about whether they relinquish any control to access new equity funding."

"If the owner doesn't want to relinquish control, we might suggest that they realise some personal assets and inject the proceeds into the business."

Vendor terms are another funding option that can be overlooked when buying a business, says McCleery.

This may be appropriate when there is a staged exit from the business by the existing owner.

Wise decisions

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- Professional advisers have a good understanding of financiers' lending criteria.
- A good business plan is critical when seeking finance.