Business Funding Guide

Ready Prep Go!

Getting your clients finance fit and finding the right funding option

Australian Government

Australian Small Business and Family Enterprise Ombudsman

ScotPac Business Finance

The best 5 minutes you'll ever spend for your clients

Ready... or not?

The 6 key indicators that a business may need funding:

- Expansion
- Turning away new business
- Current funding reaches limit
- Unable to meet commitments
- Slow paying debtors
- Dipping into personal funds

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Help your clients get finance fit

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Capital, Capacity, Collateral Character, Conditions

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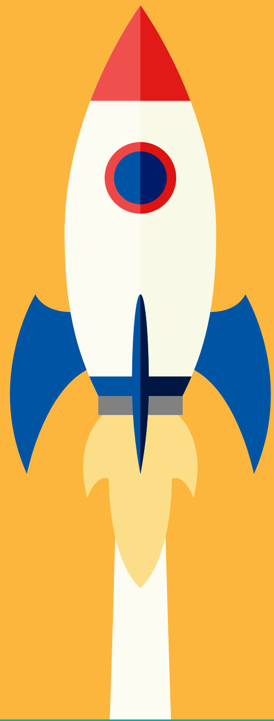

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Foreword

When we originally released this guide for trusted advisers of small business in 2019, it was all about helping small businesses grow. A year later, the focus for most small businesses is not growth, but survival. There has never been a tougher time to be a small business owner.

It is also a time when Australians realise the huge contribution that small business makes, not merely as a major employer and economic contributor, but as provider of the goods and services that we rely on and enjoy in our families and communities. Small business is our coffee on the way to work, our meal out enjoyed with friends, our local bands rocking it out at an open mic night.

While restrictions are in place, and during the recovery period afterwards, businesses should continue to be eligible for government support, including grants, wage subsidies, loan deferrals, and rent waivers and deferrals. But this additional and temporary support does not and cannot take the place of the range of debt and equity options outlined in this guide, which will continue to be the main ways that businesses can fund their survival, reinvention, and growth.

The current economic environment has two important implications for small business. Firstly, it's critical to get financially fit. That means keeping good financial records and building strong business plans, including cash flow projections. Secondly, it's more important than ever to be aware of the full range of finance options available.

There are a lot of new players and products in the business finance market, and this number is only growing. The interest in lending to small businesses is a welcome relief to many in the industry, but it has never been more important that small business owners know exactly what they are getting into when entering a contract for finance. Some products that look very reasonable initially have significant Annual Percentage Rates (APRs), and others may have terms and conditions attached that lead to unexpected ongoing costs. It is critical to ensure business owners understand the APR comparisons, the total cost of the loan including any fees and charges, and any early exit conditions before entering into a finance contract.

An addition to this guide is a section on supply chain finance. Supply chain finance is not a traditional debt or equity funding option, but much like the option of 'factoring' invoices, these programs are increasingly being rolled out by major purchasing companies, providing their small business suppliers access to working capital.

> "This guide provides an insight into how to best prepare small businesses for accessing capital and looks at the most appropriate funding solutions for business needs."

However, supply chain finance should only be offered in addition to appropriate payment times (30 days or less).

We know that small businesses have also been asking a lot of you, their trusted advisers. I want to thank you again for everything you are doing to help small businesses survive. I hope this guide assists you in that work by helping you identify the most appropriate finance options for your small business client.

Lastly, if you have any comments on this guide, we would love to hear from you at advocacy@asbfeo.gov.au.

Kate Carnell AO
Australian Small Business and
Family Enterprise Ombudsman

This guide has been created for you to help your business clients when they are looking for a working capital injection to get them through an urgent short-term need or to address ongoing business requirements.

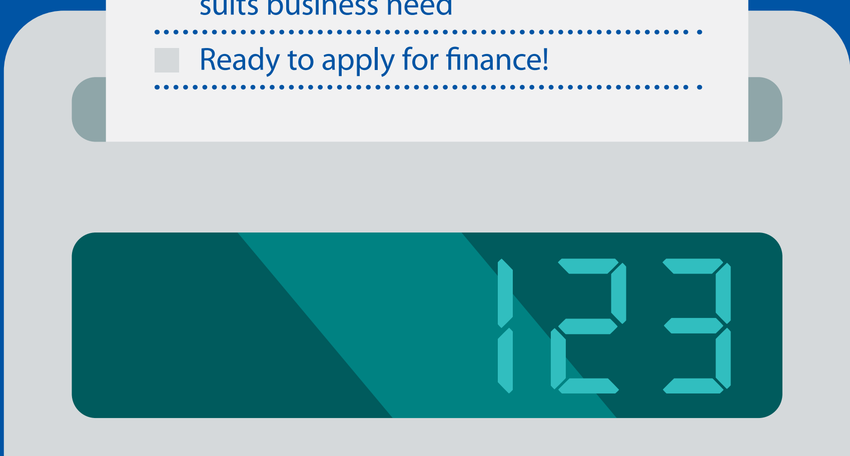
The guide outlines the main funding options, includes a handy Funding Decision Flowchart (page 25) and Funding Matrix (page 26), and uses scenarios* to show what funding options might suit different business needs.

It covers **important steps** to help your clients get finance fit before they seek funding, so they are in good shape for success.

It also summarises the key points in a useful companion guide, *FitsME: Essential Guide to Business Funding*, for you to share with your clients.

Finance Fit Checklist

- Get business accounts in order
- Create or update business plan
- Review balance sheet and P&L
- Create monthly cash flow forecasting
- Ensure clean credit file
- Check Personal Property Securities Register (PPSR)
- Sort out ATO affairs
- Lodge PAYG & BAS on time
- Understand business needs
- Work out if funding required
- Decide which funding option suits business need
- Ready to apply for finance!



**Note: The brief scenarios in this guide give examples of some suitable funding options but do not cover EVERY option. To find a broader range of funding options for your clients, refer to the Funding Decision Flowchart, Funding Matrix and product overview.*

Ready... or not?

As an adviser, you play a vital role in making clients aware of all their funding options and outlining which ones best suit their business need.

Having a conversation to identify the underlying cause of their business need will help clarify their best source of funds.

Some key triggers for a business to seek funding:

- **Expansion:** growth creates the need for new equipment, inventory and staff, which can put pressure on cash flow
- **Turning away new business:** scaling up to meet the demands of a large customer or new opportunity can use up surplus cash
- **Current funding reaches limit:** they may not be aware of other sources of funds
- **Unable to meet commitments:** falling behind with the ATO or building up arrears with payroll and superannuation obligations
- **Slow paying debtors:** if you don't have a process to make sure customers pay on time, they won't
- **If they are having to dip into personal funds**

In many cases business owners might try to get funding, fail, then come to their accountant or broker concerned about cash flow.

SCENARIO 1*

Investing in new equipment

Jun's Plant Hire is in demand, thanks to a boom in major infrastructure projects. Jun needs to purchase three more excavators to fulfil new contracts.

Buying outright would create a cash flow shortfall in his business, and this type of purchase is not suitable for funding via a credit card. He wants to use assets as security to reduce the costs of the loan. Jun doesn't own his own home or his business premises, which rules out using property assets as security. He is keen to use other business assets, so he is considering either outstanding invoices (receivables) or equipment to secure the funding.

Jun likes the idea of meeting a short-term business need by using **equipment finance/leasing** (see page 18). Subject to proving the business can service the monthly payments, equipment finance would use the excavators themselves as collateral for the funding. He will be repaying the debt over an agreed time period, designed to match the useful life of the equipment, so Jun will know when repayments are due and how much the finance will cost. In many circumstances, there are tax benefits when using equipment finance.

Different types of funding will be appropriate depending on their situation, stage in the business life-cycle and what is important to them at the time.

As an example, one of the main funding variables is the urgency of the need:

Short-term need: due to an unexpected situation such as:

- losing a major customer
- equipment failure
- to take advantage of an opportunity where time is of the essence such as a large, one-off order

Ongoing need: a strategic decision requiring funding for long-term growth – could include expansion, shareholder buyout, merger/acquisition.

When funding a short-term or urgent need, the business owner must weigh up the advantage of getting fast access to money against the fact this fast access may mean rates and fees are high.

Many SMEs seek short-term funding when actually they would be better off with a longer-term solution, either debt or equity. Encourage them not to try solving ongoing needs using short-term solutions.

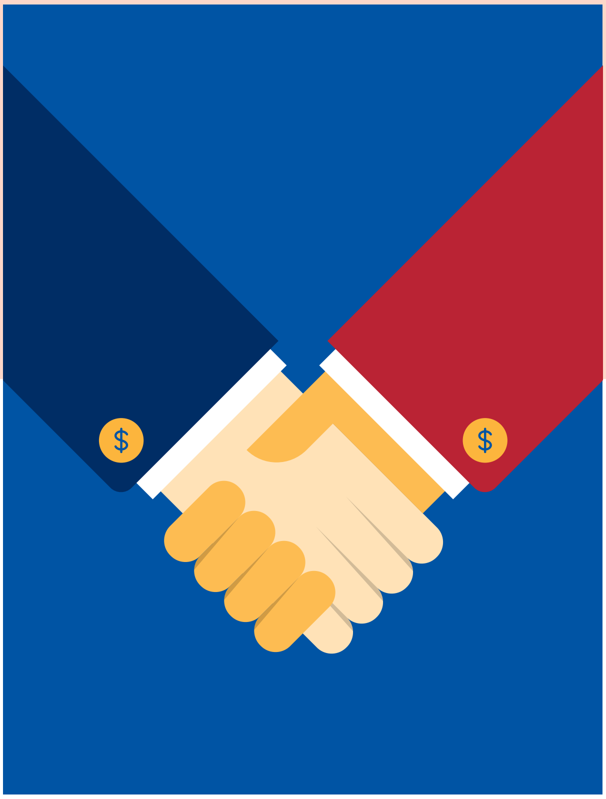
SCENARIO 2

Buying out a partner

After five years of successful trading, ToDi Transport's co-owners Tony and Dimitrios have reached a fork in the road. Tony is keen to move on. Dimitrios knows he has a solid, stable business on his hands; he also has new markets he'd like to target. So, he's agreed to pay out Tony's share of the business.

Dimitrios has assets he could use to secure the money needed to provide regular buy-out payments to Tony. He was considering putting ToDi Transport's commercial property up as security for a bank loan that would match the cash flow forecast of the business. He weighed this up against an **unsecured term loan** (see page 17) (allowing him to borrow a fixed sum of money with principal and interest paid back in monthly instalments) and another viable option: using their solid and regular customer book to set in place an **invoice (debtor) finance** facility (see page 20) secured against the business' receivables.

In the end, the deciding factor was Dimitrios' desire to move into new markets and take on ideas to inject an established business with a new lease of life. His growing business with a proven track record, up to date financials and a sound business plan was a good fit for **private equity** (see page 24). Dimitrios knows he'll have to share control and decision-making but the benefits of having a new partner with fresh ideas and access to markets outweighs this.



Prep

Help your clients get finance fit

This is important, whether a business owner is looking to borrow or is seeking investors.

If they want to borrow, they must understand what a lender looks for.

Traditionally, bank lenders use the **five Cs of credit** to work out if the potential borrower can service and pay back a loan. Many non-bank lenders *don't require* all of the below criteria, depending on the *business need* or *financial position*.

- **Capital:** lenders look at borrower's financial position including assets and liabilities, net worth and liquidity.
- **Capacity:** can the borrower repay over a suitable period? Lenders may calculate various ratios to show this, such as debt-to-income or servicing ratio incorporating cash flow, revenue, expenses and other outgoings.
- **Collateral:** type of security (such as property/land/accounts receivable) the business is providing, along with age, location and attributes of the security.
- **Character:** what is the business and business owner's reputation (and credit history)? Lenders may consider factors such as loan repayment history, general savings history, job tenure and credit ratings file.
- **Conditions:** lenders look at how the borrower will use the money, trading ratios, whether they have security, plus external factors including state of the economy, to calculate loan conditions.

Step 1: Get business accounts in order

1. **Separate personal and business accounts:** encouraging your clients to get into this habit early will provide lenders and investors with a clearer picture of their financial position. Giving accurate profit and loss statements demonstrates the ability to service debt.

With newer online lenders relying on algorithms and technology to assess each application, it is vital owners know to separate personal and business accounts.

2. **Tidy up the books:** your clients should generate EBITDA, P&L, balance sheet, aged debt report and cash flow statements and isolate any one-off or extraordinary expenses. These financial reports are what a lender will use to assess if your client can repay funds borrowed.
3. **Check bank statements:** bank lenders look closely at these. Ideally, clients should have at least six months of minimal discretionary spending and be clear of negatives such as being overdrawn.
4. **Show them their tax portal:** a lender may check if the business is up-to-date with its tax obligations. A business with a clean tax portal report showing commitments are paid on time will have *much* more success getting funding than a business with a poor tax payment position. While the business may have entered a payment plan with the ATO to manage cash flow, lenders such as traditional banks may see this as the business being unable to meet its key obligations.
5. **List financial commitments:** a business owner having all their commitments in a simply outlined document can help with funding applications.

SCENARIO 3

Funding needs change as a business evolves

Georgia and Kat are *launching* an upmarket chocolate business. They need more than their own funds for shop fit-out and to cover set-up costs. Their best options starting out are equity (most likely a **loan from family and friends** and **equipment finance/leasing** (see page 18) which would save them from having to make expensive upfront outlays on essential business purchases.

One year on and business is booming, but they've learnt they need extra funding in the leadup to their four busiest periods (Christmas, Valentines Day, Easter and Mother's Day make up more than 60% of annual sales). Their logical options are a **seasonal overdraft** (providing purchasing power

to fulfil orders just during their busy times, as cash flow is manageable at other times) (see page 17) with the backup of a **business credit card** (they can access credit for a short period before they'd pay interest, to help get through each busy period) (see page 18).

Another year goes by and sales have increased to the point they are ***struggling to keep up with demand*** and need more equipment. They find their ideal equipment that will be sold for cash at a liquidator's auction in three days' time – they have to move fast. An **amortising term loan** (principal & interest, see page 17), could be the go, and they are likely to get it quicker from an online small business lender (fintech) than from a bank.

Or they may be able to borrow from **family or friends**, or use a **business credit card** (see page 18)**.**

Five years down the track Kat wants to start a new venture, so Georgia agrees to pay her out over a two-year period. An **amortising term loan** (see page 17), to match the cash flow forecast of the business is a good option.

The chocolates have attracted the attention of a multinational retailer who ***wants to order large volumes*** – but their terms are 30 days minimum. Georgia's best ways to boost borrowing power are the secured options of **invoice finance (debtor finance)**, (see page 20) – funding secured by invoices, that gives her access to funds before the retailer pays invoices) or an **overdraft** (secured by her family home, see page 17).

Step 2: Write or review business plan

1. **A good business plan** outlines goals and the actions required to reach those goals. The plan should be a living document that shows the business' progress. Include market analysis, historical financial performance against forecasts (unless it is a new business) and forward financial forecasts.
2. **Include a cash flow statement** comparing actuals with budget and forecasts. This historical statement should capture the **seven cash drivers**: revenue, operational expenses, overheads, debtors, creditors, inventory and gross margin.
3. **Step your clients through servicing a debt:** use the budget and cash flow statement to determine their "break-even point" - what it costs to keep doors open, what revenue the business must generate to turn a profit, if debtor days need to be improved and what cash is available to service debts.

SCENARIO 4

Breaking the credit card trap

Best Bloomers is a plant wholesaler trading for two years, after owner Blaz used his own funds to start the business. The business has regular customers and is trading well. Blaz has been heavily relying on his personal credit card to buy stock, but with the busy season approaching he's looking for better growth options.

Maximising his borrowing power to ensure he has ample working capital is most important to Blaz, so he understands he might need to look beyond the unsecured lending options of credit cards, some online small business loans and unsecured overdrafts. Also, he's attracted by the rates and borrowing power a secured funding option would offer.

He could seek a **secured overdraft or bank loan** (see page 17). As he only rents his commercial premises, he's aware choosing this option puts a personal asset, in this case his family home, on the line.

The other suitable asset-secured solution for Blaz is **invoice finance (debtor finance**, see page 20), which uses the business' receivables to secure funding. This option keeps his personal property separate from the business and provides a level of funding that will grow as Best Bloomers grows. He could also try for a **merchant cash advance** (see page 20), an unsecured option which uses turnover through merchant terminals to secure funding.

Step 3: Finance fitness check

1. **Get a credit report:** there are online providers who can supply credit reports for free (if applicant is willing to wait a week) or for around $100 (to receive information same day). This credit report also shows PPSR information, which might include old and expired equipment leasing data your clients can update.
2. **Create a list of assets:** many businesses feel they have nothing to use as security. However by listing every piece of equipment, tools and furniture (the ones they often forget to claim depreciation on), it all starts to add up.
3. **Carefully check PPSR:** undertake a search of the register - because every lender will - and prepare a statement showing the reason for any registrations. This will identify what parts of the business can be used as security against lending.

   Out of date or incorrect entries can impact a SME's credit application and limit the security they offer another lender. Any out of date registrations should be corrected to give an accurate picture of a business. You can seek legal assistance or see ppsr.gov.au/how-dispute-registration.
4. **Discuss online reputation:** be aware lenders may look through the business' website, its Facebook page and the owner's own social media activities as a means of assessing one of the 5Cs, character.

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A client with an impressive balance sheet, but with arrears in tax portal reports and a credit report showing they are behind on credit card payments, likely won't get a bank loan.

Lenders will access the business' credit report plus the owner's personal credit report.

Many business owners don't realise each funding application which involves the financier going to an external bureau for information, whether or not it is successful, can negatively impact their credit rating.

Useful Tip: If a business uses a commercial finance broker, funding enquiries the broker makes on behalf of the business will have significantly less negative impact on credit rating.

Step 4: Borrow, seek investors or self-fund?

If your clients can tick off the above PREP tasks, they'll be able to make an informed decision about whether they need external funding.

It's OK to need funding: the right type of funding can make all the difference to business growth as it may be hard to just rely on sales to achieve success.

Set stepping stones for what your clients may need down the track: they might want to apply for a small amount of finance as a way of building a positive credit history, increasing the likelihood of approval for larger funding amounts if and when they need it.

?

- **If your client does need additional finance, is it a temporary or permanent requirement?**
- **How mature is the business?**
- **Does it relate to a particular area of their business?**
- **Do they need help financing trading stock?**
- **Or with debt collection? Do they need to invest in an asset?**
- **Is dealing with overseas currency an issue?**
- **Do they need funding for expansion?**

SCENARIO 5

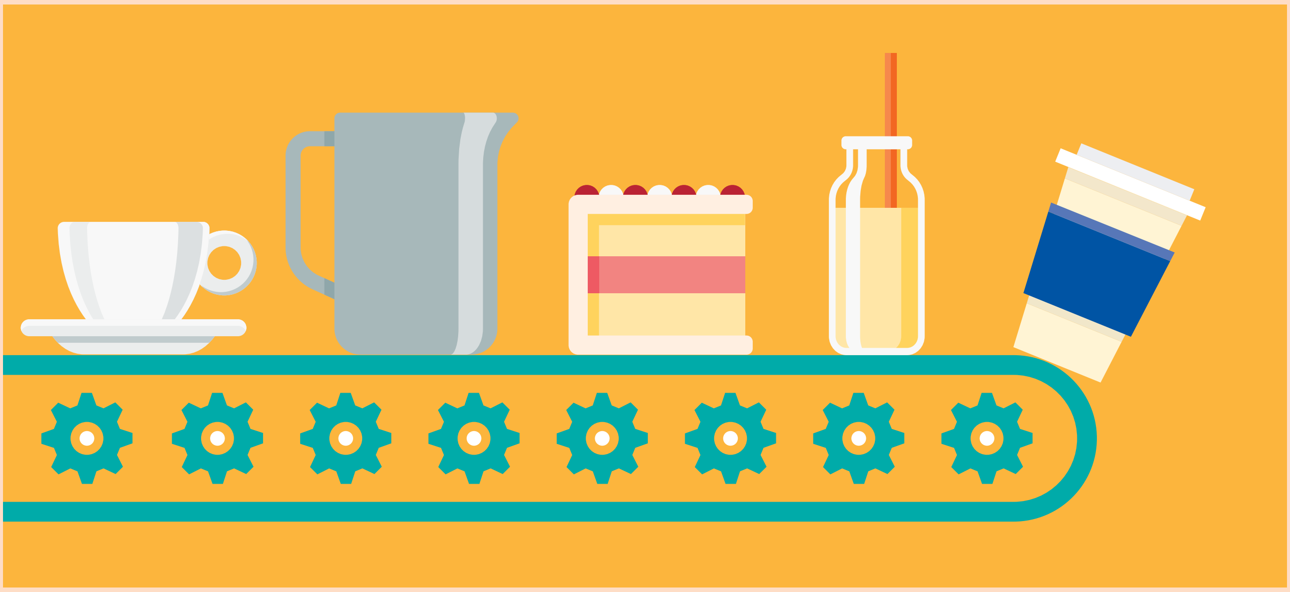
Solving the urgent "uh oh" moment

An "uh oh" moment is any sudden issue or incident that impacts business cash flow and one of the most common "uh oh" moments is equipment failure.

Thanh's Koffee Joint has built up a base of loyal customers who rely on Thanh for their daily caffeine hit and homemade pastries. Thanh arrives at 3am to start baking but his oven has died. He operates on very tight margins and can't afford to be without his baked goods income for too long.

Thanh needs help super-fast, which rules out a host of funding options. One option he can use is **equipment finance** (see page 18) – funding secured by his new piece of machinery - as it allows him to purchase an oven immediately. Payments are spread over a fixed term, so the impact on his working capital can be managed. Ideally Thanh would offset finance repayments with future revenue.

If Thanh owned his business premises or his own home, a bank loan secured by property could be another secured lending option to explore, but these can take time to get over the line. Given speed is essential, an **online small business (fintech) loan** could also provide a short-term cash injection to get Thanh back on his feet, taking him from "uh oh" to "back to business as usual".



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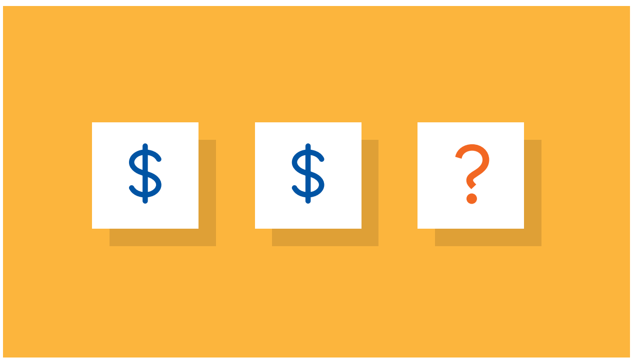
The right type of funding

It's important for business owners to understand what type of finance is best for their stage of business (early, developing, mature, sophisticated), industry, business model or their need (short-term or ongoing) and what, if any, security they have to offer.

Where they sit with these key markers will open up or close off various funding options.

This Funding Matrix (see page 26), and Funding Decision Flowchart (see page 25) outline funding solutions relevant for a range of business needs.

Some key criteria will help determine the best source of finance for your client. Use the following decision points to help them understand the need and find the appropriate solutions.



Ask your clients the *trigger questions below* to start a conversation about funding options, because often they don't know what to ask to get the information they need.

– Debt or equity?
– Secured or unsecured?
– Line of credit or fixed term loan?
– Banks or non-bank lenders?

Debt or equity?

Getting finance is often crucial for growth, not a sign of weakness for a business. One of the first decisions to make is around debt or equity. Make sure your clients understand the advantages and what to look out for with each option. Explain to your clients:

Borrowing is debt finance: money provided by an external lender, such as a bank, non-bank, SME specialist lender, building society or credit union.

Investment is equity finance: issuing shares for funds so others own a part of the business. Investors can be found through organisations or individuals such as angels, venture capitalists or colleagues, family and friends. To attract equity finance, a business must outline how any shareholder would be rewarded (dividends or distributions) and how their investment would grow and be realised.

Guarantees: a guarantee is not aligned to a specific asset, but signing a guarantee makes your client personally responsible for paying back the debt.

SCENARIO 6

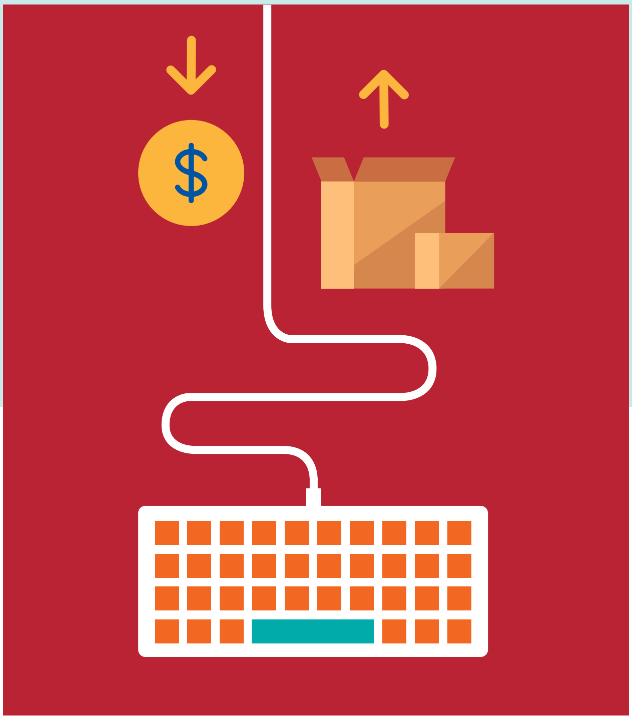
Acting on a big import opportunity

Kim bought toy import business WoodWoodWood and over four years has built it into an enterprise increasingly popular with independent stores throughout Australia, with sales of $1 million and turning a modest profit. Now she has her big break: a major contract with a national retailer. The rapidly growing demand for her product is exciting – but it's scary having to find the funds to pay suppliers when the business might wait months until customers pay her. Not to mention she'll have to employ more people and expand warehouse facilities.

Kim's already negotiated longer terms with suppliers, but she knows she can't rely on this alone to keep her cash flow healthy. She has a business overdraft, but she's close to her limit. Kim sought help from her accountant and broker, who talked about the long-term benefits to her business of increasing borrowing power and reducing costs. She wants more than a quick fix, she's looking for a solution to handle ongoing growth, so she decides to use her business' assets as security.

A solution she could put in place relatively quickly is **trade finance** (see page 21). This would fund up-front her purchases that could take 30 days to arrive from China, meaning her cash flow can be better managed between placing an order and receiving customer payments.

Kim could also look at introducing **invoice finance** (see page 20) for her outstanding invoices, which would fund her business beyond just stock purchase.



Debt Finance

Advantages

- Owner shareholding & profits not diluted
- Good for longer investment or capital injection
- Tax deductions for interest charges
- Some solutions offer access to more funding as business grows

But be aware

- May not gain new skills, experience, contacts
- Harder for new businesses to secure funding
- Not meeting repayments can affect credit rating
- May need to secure with assets

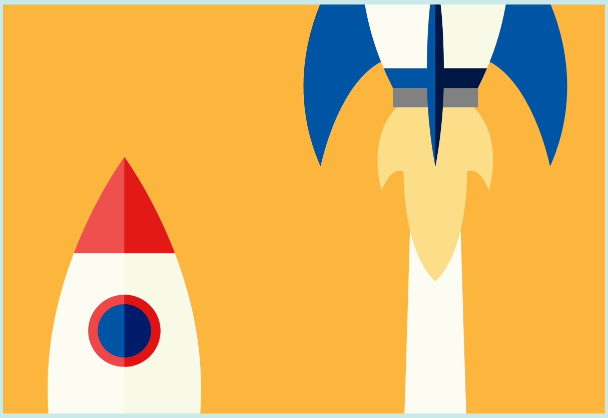
Equity Finance

Advantages

- Brings new funds
- Brings new skills & contacts
- Ready market to approach for further funds
- Not creating a debt burden

But be aware

- Can be time-consuming to find
- Owner's shareholding/influence is diluted
- Investors need to be kept informed
- Becoming investment-ready can be costly



SCENARIO 7

Ready (or not?) to launch

Aisha's been planning her gadget business launch for months and she wants to make a big splash. Which is why, ahead of launch date, she's already spent over budget and still needs $20,000 for three months to cover the costs of getting up and running.

The business has no assets, ruling out a loan secured by commercial assets. Given she has no trading history, a loan from the bank is not likely. The fact she needs money FAST also narrows her options. She's uncertain of launch date, so is not keen to use her credit card for launch expenses without knowing when money will start coming in to the business (she doesn't want those high interest rate charges to kick in).

She has a couple of equity options to weigh up. Aisha could look for an **equity partner** (see page 22) – although this could be expensive and involve some loss of control, it may be a safer option than taking on debt before the business is generating income. Her other equity options are **crowdfunding or angel investment** (see page 23), because hers is an early stage enterprise with a good business plan but with no proven track record. Angels take a higher risk than many other funders and invest at an earlier stage than venture capitalists.

Secured or unsecured?

Secured loans: an asset, belonging to the borrower and of greater value than the loan, can be provided as security for the loan. Some businesses are comfortable providing a personal asset such as property as security, but increasingly business owners are keeping their personal assets out of the risk equation and using business assets, such as their outstanding invoices (receivables) or equipment, as security. Start-ups, early stage, small and family businesses with a lack of demonstrable cash flow or profit and loss statements may feel property security is their only option to access the benefits of secured lending, without realising there are business assets they could use.

It is important to understand the risks associated with giving guarantees and using personal assets in the event of a business downturn or unintended events.

Non-property secured loans: do not require property as security but the lender may register an interest in the business' assets and seek a personal guarantee (see page 11). If your client defaults, the lender may be able to sell the company assets and if there's still a shortfall make them sell personal assets until the loan is repaid.

Unsecured loans: do not require any assets as security. Available from online lenders and traditional banks for urgent needs, but often come with high interest rates.

Secured loan

Advantages

- Less risk for lender, so competitive pricing
- Greater borrowing power
- If asset value increases so does borrowing capacity

But be aware

- Lender can take security asset if loan defaults
- Can take longer to get approved and funded
- If asset value decreases, so does borrowing capacity

Unsecured loan

Advantages

- Asset not required in order to borrow
- Approval process often very quick

But be aware

- Borrowing power is limited
- Interest rates usually much higher

Line of credit or fixed term loan?

A line of credit: gives access to money, up to the credit limit set by the lender, when the business needs it and without them having to apply for another loan.

Interest is paid only on the amount accessed, not on the entire credit limit – but there may be a monthly usage fee. Interest is usually higher than for a term loan, to account for the loan's flexibility in providing the borrower with an on-call working capital facility to smooth cash flow issues or help when unforeseen business issues occur.

This can operate as a safety net, providing fast access to funding. The term is renewable and repayment amounts will be variable, depending on the amount accessed each month. Many businesses use this style of funding for managing cash flow and seasonal fluctuations, covering unpaid invoices or buying urgent stock.

Traditional fixed term loans: usually put in place for a specific, planned purpose, such as making a worthwhile business purchase. To be approved for this loan type, a business needs good cash flow and a strong credit rating.

A fixed amount is borrowed and usually paid back monthly over a fixed term at a fixed or variable interest rate. Consistently making repayments on time and repaying the debt more quickly from surplus cash flow can improve a business' credit rating.

Line of credit

Advantages

- Flexible
- Only draw what you need & pay for what you use

But be aware

- Can be expensive if unsecured
- Takes longer to set up

Fixed term loan

Advantages

- Structured payments
- Certainty around budgeting
- Lower interest if loan is secured (usually by property)

But be aware

- Potential penalties for early repayment
- Timeline to approval doesn't suit urgent funding needs
- Usually harder to qualify for

?

Banks or non-bank lenders?

If your clients don't understand all the options, there's a risk they may not get the funding their business really needs.

Time-poor business owners don't have the resources to fully research all the funding options out there – too many just ask a bank and if the bank says no, they give up or use personal finances, not realising there's a range of alternatives available to them.

Non-bank lenders tend to be more specialised, more flexible and have a different risk appetite.

As specialist lenders, they provide a range of funding options that might be a better fit than traditional bank products.

Non-bank lenders' funding options include invoice finance, trade finance, equipment finance, merchant cash advances, insurance premium facilities and online small business (fintech) loans. Fintech lending refers to non-bank online platforms who use financial technology to improve the speed and efficiency of loans for consumers and small business.

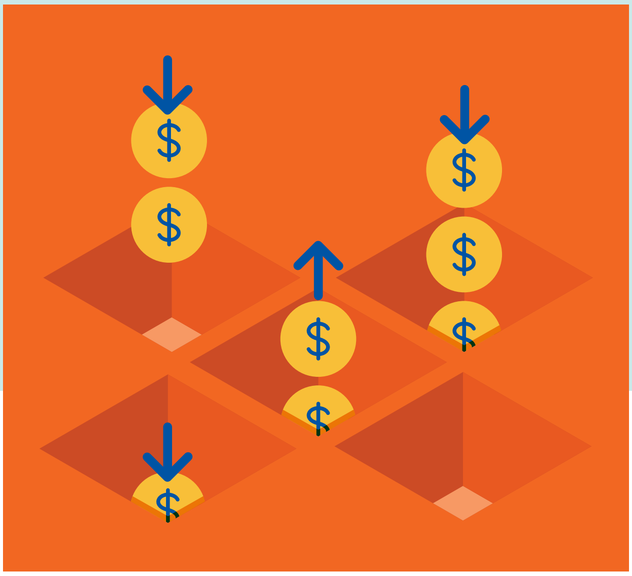
SCENARIO 8

Business under cash flow stress

As Kirsten's Kwik Labour Hire has evolved, she's moved into a tricky situation where one good client now accounts for more than 70% of her revenue. This client suddenly extends payment terms from 30 to 60 days. With fortnightly wages to pay for the 25 contractors on her books, finances have become tight and Kirsten needs a working capital injection to smooth her cash flow cycle.

As an established business, Kirsten has a broader range of funding options at her fingertips. Her most important factor is improving cash flow and increasing borrowing power, and she's happy to use assets as security to reduce the cost of finance. Two options that meet these criteria are **invoice finance** (see page 20) or **bank overdraft** (see page 17). If Kirsten chooses invoice finance, the facility would be secured by her outstanding invoices (receivables) and the funding limit would grow in line with sales (the more contractors she has working, the greater her access to funding). No property security is required – a deal-clincher if Kirsten wants to keep her home separate from her business.

If she chooses an overdraft there would be a set limit on her funds, most likely determined by her equity in her property. She could continually draw funds as required, up to her approved limit, and may qualify for a small unsecured overdraft – interest rates can be comparatively high, but interest is only paid on the daily drawn balance. Whichever option she chooses, Kirsten would be wise to diversify her client base so she's not reliant on one client.



What to do if funding is rejected

If a bank declines an application, remind your client it is not personal. You can help your client by getting them to:

- **Ask the lender three questions:**

  WHY *was I declined?* Many SMEs don't ask this question. Identifying what led to the rejection makes it easier for you to help them fix the situation. For example, were your clients unknowingly putting personal costs through the business, making it look less profitable? Are customers paying invoices on time? What percentage of debtors are overdue? It may have nothing to do with your clients, just that the funder does not wish to have any more loans in that particular industry.

  WHAT *can I do to change your mind?* Asking this may uncover the lender's lack of specialisation or industry expertise, or whether there's a credit file issue. It helps if your clients are able to speak to the actual decision-maker to explain their specific situation before their application is assessed (many non-bank lenders make it easier for business owners to speak to someone who can make or influence loan approval).

  WHERE *could you send me* that might offer an appropriate funding product for my business? Encourage your clients not to take a straight "no" from lenders without getting information that can help them in future or steer them towards a more suitable form of funding.

- **Look at other options:** a business owner's existing bank is not always the most suitable option for additional funding. Many SMEs start out using their personal bank rather than finding the best business fit.

- **What to do next:** educate your clients about how lender appetites and specialisations vary, then help them explore alternatives beyond the banks (see page 23).

- **Reassess business plan:** perhaps the business is not at the right stage of development, or current conditions are not favourable. Help your clients work out a plan and timeframe that is more likely to lead to approval in the future.

- **Listen to rejection feedback:** encourage them not to just look for easier money without fixing any substantial issues the lender has identified. Even if they've been in business for a while, it's a good opportunity to revisit the basics.
  If they positively act on rejection feedback their business will be stronger than if they jump into the wrong kind of funding that could cost them more in the long run. Encourage your clients to talk with each lender before making an application, so they can identify issues that need to be addressed.
  Reminder: make them aware of the importance of their credit rating. It is critical to limit loan applications as each application decreases your client's credit rating. Understanding why an application is rejected will help focus any further applications.

Business funding

Funding options overview

Debt options

Bank loan (Term loan)

Works in the same way as a personal loan, but for a business. A fixed sum of money is borrowed, and principal and interest are paid back over an agreed term (usually between one and five years, in monthly instalments). Can be secured or unsecured.

Advantages

- Lower interest rates
- Regular repayments
- Known term

But be aware

- Can take some time for approval
- Requires security, often personal assets
- Significant increase in charges if default

Best for

- Mature business – at least two years old
- Planned growth over the longer term

Bank overdraft

Special type of line of credit authorised by a bank and attached to the SME's transaction account. It allows the business to borrow up to a pre-set limit as they need it. Interest is charged on the amount of money used from the overdraft. May also involve fees and charges (sometimes there's a fee even if overdraft is not being used). Generally requires security of property or other business assets, or very strong financial performance. Suits businesses who are in and out of credit throughout the month. **Seasonal overdrafts** provide access to daily working capital to cover cash flow shortfalls or to finance short-term production costs at peak times for seasonal businesses.

Advantages

- Only draw down as you need working capital
- Can pay back as cash available
- Only pay interest on drawn amount

But be aware

- High fees and charges even if not used
- Takes time to approve and document

Best for

- Mature business – at least two years old
- Intermittent cash needs such as:
  - buying stock for high season
  - funding daily expenses until invoices paid

Business credit card

Allows a business to pay for large purchases and everyday expenses. Monthly principal and interest payments required. May include interest-free periods (generally up to 55 days). This can help cash flow management and improve efficiency. Transaction reporting can help a business track expenses and reconcile costs. Unless paid fully monthly, interest charges make this a more expensive funding option.

Note: if your clients are using personal credit cards to keep things moving in their business, discuss with them more appropriate funding options.

Advantages

- Fast access to credit
- Interest-free periods
- No security required

But be aware

- High interest rates
- Limit may not be high enough to purchase significant assets
- Takes time to approve and document

Best for

- New businesses – set up purchases. Establish credit rating
- Mature businesses: everyday expenses

Equipment finance/leasing

Lender provides finance to help a business acquire equipment such as plant and machinery, computers, furniture or vehicles. The equipment, which serves as primary security for the facility, can be accessed straight away, with the lender setting a repayment schedule. Can improve cash flow and inject working capital saving the SME from large upfront purchases to get vital equipment. Access to essential equipment or vehicles can facilitate new contracts and growth opportunities. Sometimes this method can be used to raise capital against equipment assets already owned by the business, where there is a viable business purpose.

Advantages

- Access equipment quickly
- Regular repayment schedule
- Use new equipment rather than personal property as security

But be aware

- Can cost more
- Restricted use of asset
- Penalties for termination of contract

Best for

- New businesses or businesses that want to avoid relying on personal property security

Debt options (cont.)

Export finance

Used to solve cash flow gaps when a business is exporting products or services cross-border. The SME receives funding against invoices raised on overseas customers, allowing them to trade on open account terms and mitigating risks around manufacturing and shipping expenses (the lender may include export credit insurance for added security). Export financiers often help businesses overcome the cultural and legal challenges of dealing with overseas customers. Often provided in conjunction with an invoice finance facility.

Advantages

- Lets you offer open account terms to overseas customers
- Uses accounts receivables as security
- Can incorporate credit insurance

But be aware

- Higher cost than domestic funding
- Not all countries are covered, so check

Best for

- Businesses who sell services, or wish to expand, overseas

Floorplan finance

Form of inventory financing where a loan advance is made against collateral to allow those selling equipment or vehicles to purchase inventory to stock their shop or showroom floor.

Advantages

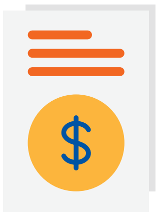
- Only use what you need
- Sales fund repayments
- Use inventory as security rather than personal property

But be aware

- Expensive if sales are slower than expected
- Inventory depreciation limits funding

Best for

- New retailers or retailers who want to avoid relying on personal property security



Invoice (debtor) finance

This funding allows a business to maximise what is usually their most significant asset – unpaid invoices. The SME assigns to the lender its receivables (whole ledger, or some providers allow selected invoices). Lender provides cash advance of 75-95% of the value of invoices outstanding, bridging the cash flow gap between when expenses (such as goods purchases or labour costs) are incurred and when customers pay. Loan approval and availability of funds is usually very quick. Facilities are designed to grow as sales increase, allowing for accelerated growth.
It's important to understand the debtor profile in order to identify any concentration risk.

Advantages

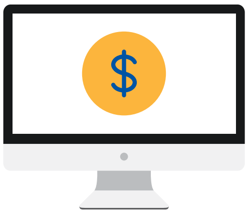
- Access to funding grows as the business grows
- Option to include receivables management
- Use accounts receivable rather than personal property as security

But be aware

- Only for B2B businesses
- Costs can be higher for new or higher risk businesses

Best for

- Businesses unwilling or unable to offer property as security, and who offer customers credit terms of more than seven days



Merchant cash advance

Most suited to online and offline retailers, this unsecured method accepts credit or debit cards as payment, with future sales supporting repayment of the advance. Lender technically purchases future transactions and advances the business a percentage of their sales. Evidence of a steady and regular flow of transactions may be more important than the owner's credit history. May help the SME take advantage of a business opportunity or a short-term spike in trading.

Advantages

- No fixed monthly payment, interest rate or payoff date
- Option if you don't qualify for bank loan
- No security required

But be aware

- High cost option
- Hard to change credit card supplier once facility is in place
- Penalties for encouraging cash payments

Best for

- Retailers, restaurants and service companies who need quick cash

Debt options (cont.)

Online small business loan

A lump sum of money is borrowed, over a set term with fixed repayments. The principal is paid back by the end of the agreed term, with interest payable on the unpaid balance.

Look for lenders who have signed on to the Online Small Business Lenders Code of Lending Practice. For more information about the Code and how to compare online lenders, see the Australian Finance Industry Association website.

Advantages

- + Fixed repayments
- + Fixed term
- + Fast funding application and decision
- + Total repayment amount provided upfront

But be aware

- − Consider whether a fixed repayments schedule works for the business
- − Interest is payable on the full unpaid balance

Best for

- ✓ Growing or expanding the business
- ✓ Marketing campaigns or promotions
- ✓ Renovating or fit-outs
- ✓ One-off purchases, such as equipment or furniture

Supply chain finance

Supply chain finance (SCF) is an option that can help small businesses have their invoices paid faster and so improve access to working capital.

An example of how SCF can work is:

- A large company engages a third-party SCF firm. The SCF firm offers the company's suppliers a discount on invoices in exchange for earlier payment (rather than waiting, say, 30-90 days or longer for payment).
- If a supplier signs up, the SCF firm pays the supplier's invoices at a discount. The large company then pays the SCF firm back under its normal payment terms.

Advantages

- + Earlier payment can be provided quickly and easily
- + The discount rate is generally lower than the rate available through bank lending and credit cards
- + No need for the small business to provide security or borrow funds

But be aware

- − Generally only available with large corporate customers.
- − Should be offered only in addition to reasonable payment terms (30 days or less)

Best for

- ✓ Businesses whose customers offer it and who are happy to accept a discount on invoices to improve cashflow.

Trade finance

Helps a business buy either overseas or local goods. **Importers** receive funding that allows them to pay a supplier before the goods are received, sold and turned into cash. Traditional lenders may require property security, however some non-bank lenders will pay for up to 100% of the goods without property security (if cash flow/P&L are adequate). For **exporters** the funding provides working capital until the overseas customer pays for the goods or services that have been delivered.

Advantages

- Easy short or long-term finance option
- Allows business to pursue growth activities
- Use purchased goods as security rather than personal property

But be aware

- Requires a good financial track record
- Expensive if payments are missed
- Need to be a certain size

Best for

- Businesses who are not offered credit terms by their overseas and/or local suppliers

Equity options

Angel investing

An experienced angel can bring finance, contacts and new skill sets to an early stage or start-up venture, in exchange for equity in the business. Angels take a higher risk than many other funders in the hope of high returns and usually invest at an earlier stage than venture capitalists. It's important the owner's and angel's views align on business growth, success and a defined "end game" or exit strategy.

Advantages

- No monthly repayments
- Increased access to experts with a vested interest
- Can access more funding than with debt options

But be aware

- Less structural support than private equity
- Can take a long time
- Less control over business decisions
- Only suitable for high growth business

Best for

- New businesses: getting off the ground
- Mature businesses: expanding into new markets

Employee share ownership plan

Allows businesses to raise funds by selling equity in the business to employees. The employees become shareholders and share an active interest in improving the performance and profitability of the business, by benefiting not just from income (salary or wage) but also equity ownership (and any capital gains) of the shares.

Advantages

- Attract, retain and motivate key employees
- Tax concession available to encourage use
- Do not normally require business or personal security

But be aware

- They are long term incentive plans
- Owner needs to release equity (ownership)

Best for

- Mature businesses looking to retain staff and expand/grow
- Bigger sized businesses

Private equity

Private equity firms raise funds from institutional and other investors to fund or buy out businesses. Investors take an active interest in improving profitability and operations and are usually looking for a profitable exit from the business, through sale or public listing. This method can be useful for medium to longer timeframe investments.

Advantages

- + No monthly repayments
- + Increased access to experts with a vested interest
- + Can access more funding than with debt options

But be aware

- − Less control over business decisions
- − Can take a long time and very few deals get done
- − Increases possibility of conflict between investors

Best for

- ✓ New businesses: getting off the ground
- ✓ Mature businesses: expanding into new markets

Venture capital

A type of private equity, venture capital investors are a potential funding option when a start-up or established business hits a growth phase. This can help bring strategic focus to a business. Raising funds this way can be a long and time-consuming process but if successful can allow a business to grow quickly.

Advantages

- + No monthly repayments
- + Increased access to experts with a vested interest
- + Can access more funding than with debt options

But be aware

- − Less control over business decisions
- − Can take a long time
- − Increases possibility of conflict between investors
- − Only suitable for high growth businesses

Best for

- ✓ New businesses: getting off the ground
- ✓ Mature businesses: expanding into new markets

Funding Decision Flowchart

Are you looking to borrow or secure investment?

Borrow (Debt)

Do you want to use assets as security to reduce costs and increase borrowing power?

No

Unsecured lending

- Credit card
- Online small business (fintech) loan
- Unsecured term loan
- Unsecured overdraft
- Merchant cash advance

Yes

Secured lending

What kind of assets will be used as security?

Business assets

Stock

- Floorplan finance
- Trade finance

Outstanding invoices (receivables)

- Invoice (debtor) finance
- Export finance

Equipment

- Equipment finance/ leasing

Commercial property

- Bank loan

Personal assets

(Secured by personal property which means your home is at risk)

- Bank loan
- Bank overdraft

Secure Investment (Equity)*

What stage is your business in?

Early stage start up with no proven track record

- Crowdfunding
- Venture capital/ private equity

Growing business with proven track record

- Angel investment
- Private equity/ venture capital
- Employee Share Ownership Plan

** Business owners will relinquish a level of control over the business with the involvement of equity partners*

Australian Government

Australian Small Business and Family Enterprise Ombudsman

ScotPac Business Finance

Funding Matrix: Select based on business needs

Business life cycle	Debt options												Equity options				
	Business credit card	Equipment finance	Export finance	Floorplan finance	Import finance	Invoice finance (debtor finance)	Merchant cash advance	Bank overdraft	Peer to peer lending	Bank loan	Trade finance	Online small business (fintech) loan	Angel investing	Employee share ownership plan	Crowd funding	Private equity	Venture capital
Start up – pre-trading								●^		●^							
Trading but not yet profitable		●	●	●		●	●	●^		●^	●	●	●		●	●	●
Growing - profitable or projected profits	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Established, stable business	●	●	●	●	●	●	●	●	●	●	●	●		●			
Established business with stressed requirements	●	●	●	●	●	●	●	●^		●^	●	●				●	
What plans, needs or opportunites do you have right now?																	
Start-up funding			●*			●*		●^		●^	●		●				●
Launch new product/ expand territory/accept new opportunity			●		●	●	●	●	●	●	●	●	●		●	●	●
Expand internationally			●		●	●		●	●	●	●			●		●	●
Buy stock			●	●		●					●	●				●	
Invest in new equipment		●				●		●	●	●	●	●				●	
Refinance existing loans/ reduce borrowing cost or consolidate		●	●			●		●	●	●		●			●	●	
Improve cash flow	●		●		●	●	●	●			●	●			●		
Pay tax/creditors						●		●				●				●	
Acquire another business						●				●						●	

** Pre approval to fund invoices once trading ^ Secured*

Australian Government | Australian Small Business and Family Enterprise Ombudsman | ScotPac Business Finance

Find support

Government Resources

ASIC's Moneysmart provides borrowing tips for loans and other types of credit such as interest-free deals and rent-to-buy, and information about credit reports and credit repair.
moneysmart.gov.au/borrowing-and-credit

Australia.gov.au provides specific advice for all states and territories.
australia.gov.au/information-and-services/business-and-industry/business-states-and-territories

Australian Small Business and Family Enterprise Ombudsman assists small businesses with disputes and advocates on their behalf.
asbfeo.gov.au/

Business.gov.au gives a range of information to help your business succeed.
business.gov.au/Finance

Department of Human Services has advice on borrowing and credit to help you manage your money.
humanservices.gov.au/individuals/subjects/manage-your-money/how-manage-loans-and-credit

Department of Industry, Innovation and Science has advice on funding and incentives for businesses industry.gov.au/topic/funding-and-incentives as well as a searchable guide for grants and assistance programs.
business.gov.au/assistance/search

Export Finance and Insurance Corporation provides finance and insurance solutions to help Australian exporters overcome financial barriers when growing their business overseas.
efic.gov.au/

Personal Property Securities Register (PPSR) has information on how to search the PPSR and make registrations.
ppsr.gov.au/

Industry Resources

Australian Banking Association and CPA Australia provide comprehensive finance guidance through the Small Business Finance website.
financingyoursmallbusiness.com.au/

Australian Finance Industry Association has information on business finance needs.
afia.asn.au/

Australian Investment Network connects entrepreneurs and investors.
australianinvestmentnetwork.com/

Australian Retail Credit Association has Creditsmart.org.au, a new website to assist in checking, understanding and improving your credit score/report.
creditsmart.org.au/

Chartered Accountants Australia and New Zealand provides membership information, technical training, guidance and resources.
charteredaccountantsanz.com/

Commercial & Asset Finance Brokers Association of Australia provides information on members, member directory and resources.
cafba.com.au

CPA Australia provides members with a complete range of finance, accounting and business information services.
cpaaustralia.com.au/

Credi provides an online solution to formalise loan arrangements between individuals, family, friends and businesses.
credi.com/about-us/

FinTech Australia is the peak body for the Australian financial services, technology and innovation (fintech) industry.
fintechaustralia.org.au/

Institute of Public Accountants provides useful information for accountants.
publicaccountants.org.au/

theBankDoctor.org is a not for profit online resource centre providing advice on funding options to 'SMEs.'

Mental health matters

It can be tough for your clients when starting and growing a business. Often the hours are long, cash can be tight and they have to constantly overcome obstacles. The stress of late payments, cash flow and debt can affect the mental wellbeing of business owners.

The state of your clients' mental health is critical to the success of the business. If they work alone it's important to care for their own mental health. If they have employees, they may be experiencing mental health challenges.

There are excellent online resources to help you and your clients maintain a mentally healthy workplace, including:

*Ahead for Business has been developed to help small business owners to take action on their own mental health and wellbeing.
aheadforbusiness.org.au/

*Black Dog Institute provides a number of workplace mental health & wellbeing programs to promote mental wellbeing, increased staff engagement and greater productivity.
blackdoginstitute.org.au/education-training/workplace-mental-health-and-wellbeing

*Everymind and Heads up have resources and information about mental health in Australian workplaces, including sections for small business owners.
everymind.org.au/

headsup.org.au/healthy-workplaces/for-small-businesses

My Business Health Portal

asbfeo.gov.au/my-business-health is a free web portal designed to provide holistic support to small business owners. It offers practical information and resources about those day-to-day issues that keep small business owners awake at night, and useful tips to help them with some of the issues that go hand-in-hand with running a small or family business.

My Business Health Portal has been developed in consultation with EveryMind, Beyond Blue and small businesses.

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