

Finding Funds For A Small Business

Many discussions have been published recently regarding the sources of funds to invest in businesses in this area. CPA firms who have a broad knowledge of potential investors and lenders and what they want do much of the legwork. CPA firms also know the best way to put the information together, where to look for the best funding sources, and how to make repayment calculations for the business.

The first step is the development of a business plan. A plan for the funds must be developed and may have several elements. One is the description of the business, such as, what type of business it is. Other descriptive information would include: What are the products and how are they produced, what is the size of the work force, how is the business organized, and what factors effect the business? The plan also would need the history of the business, such as, when was the business started, who are the owners, has the business grown, and how long is the past financial history? Another question to be raised would be what are the markets in the competition, how are the products sold, and what is the nature of the competition in the market? Finally, an area that must be considered is the future plans of the business. These plans would include goals, limitations, strengths, how will the funds be applied, and how would the funds enhance the profitability of the business.

Lenders or investors will be interested in the historical financial statements and the projections of future financial results reflecting the application of the anticipated funding, but they will be interested in more than numbers. A business plan incorporating pertinent elements of information, such as, those mentioned above will aid the prospective lender or investor in making a decision.

With the funding proposal package in hand, the financing sources then would be determined. Several categories would be defined as sources of funds. If a business is starting up, they may look for equity money from partnership formation, stock issue, convertible debentures, or debt with warrants. The business may also look for long term debt from banks in the form of either secured or unsecured loans, from commercial finance companies, which would include equipment loans, equipment leasing, or real estate loans, loans from life insurance companies, which would be policy loans or real estate loans, and funds from leasing companies, which would include equipment leasing.

Funds may be necessary for working capital. This usually entails long-term debt from banks, commercial finance companies, consumer finance companies, the SBA, or economic development organizations. Other sources for other needs would be seasonal peak money, which is often times short-term debts from some lending institution. Funds also are needed for equipment of facilities acquisition; once again, this would be in the form of long term debts from banks, life insurance companies, SBA, or economic development organizations.

Most often businesses are looking for funds for sharp sustained growth. In the equity area, companies would find a non-professional investor receiving money frank partnership formation or stock issue, the venture capitalist or SBIC, which provides money through a stock issue, convertible debentures or in debts with warrants.

Long-term debt would be generated from SIBC, banks, commercial finance companies, life insurance companies, consumer finance companies, leasing companies, or the SBA. These are all in the form of secured, unsecured or term loans.

A third source for sustained growth could be a line of credit. Suppliers often times provide lines of credit through their trade credit. Banks or savings institutions provide lines of credit, secured or unsecured, accounts receivable financing, inventory financing, floor planning, or indirect collection financing. Commercial finance companies do the same type of lending, in addition, they would do factoring, or a factor could be found for a line of credit.

The above information represents, in brief, what a CPA firm could do to put together a package for financing and sane of the sources that are available for financing. Any attempts by a business to gain funds for their operations requires a comprehensive package of information prior to any lender or investor letting them in the door. Therefore, it is important that the proposal be well thought out and comprehensive.