



Choosing a financial lender

Part of starting out is finding the money required to turn your idea into a business. Sources of finance can range from banks, financial institutions and crowd funding, to family and friends. In deciding how you will finance your business, regardless of source, there are some key aspects to consider.

You are likely to need a financial lender when:

- starting, growing or buying a business
- purchasing inventory, plant or equipment
- covering a lack of initial cash flow to pay your bills

Top tips

- Seek advice from your accountant or business adviser to help you make sound business decisions before sourcing finance.
- Carefully consider the type of finance you require as it could affect your tax obligations and cash flow.
- Be clear about the amount of money you need. Work out the costs you need to cover before you even begin selling your product or service. Completing the calculation overleaf will highlight how much you may need to borrow to get started.
- Understand the terms of your loan contract and what happens if you default.
- Document any gifts or loans from family and friends, and plan to pay them back.
- Be prepared to actively 'sell' the feasibility of your proposed business to prospective lenders. There are three key documents you need to show why it is a sound decision to invest in your enterprise.

1. Business plan

This should be a comprehensive document outlining the products or services your business will offer, an overview of your operation, and how you differ from your competition. Use a template provided by the lender - it will tell you what they

want to know. If they don't have one, visit smallbusiness.wa.gov.au and search for 'business plan template'. Also, attend our 'How to Write a Business Plan' workshop.

2. Marketing strategy

This is how you'll convert your identified target market into customers. To understand how marketing could work for your business and how to write a marketing plan, attend one of our marketing workshops. Visit our website to find out more.

3. Financial plan

Consider the timeframe you'll need to repay the loan and if your business will generate sufficient funds to repay loans and interest. Our 'Understanding Business Financials' workshop can assist you to make informed financial decisions about your business. Visit our website to find out more.

- Shop around and compare different loan options and interest rates. Many banks and financial institutions have specialised services for small businesses. Financial comparison websites can help you compare financial products based on your business requirements, such as Canstar canstar.com.au
- Invest borrowed money in parts of the business that will generate profit and positive cash flow, to help reduce the need to borrow in the future.
- Make sure the financial lender you choose is registered with the Australian Securities and Investments Commission asic.gov.au
- Once you have secured a financial lender, review your relationship with them annually to ensure you are getting the best terms.

How much do I need to borrow?

When applying for business finance it's important to apply for sufficient funds to cover your business for the first six to 12 months of trading.

Complete the following steps to work out how much money you need to start or buy a business. If the money you need doesn't match the money you have, you will need to finance the difference.

Step 1:

How much money do I have to invest in this business?

Owner's savings	\$
Loans from family/friends	\$
Other	\$
Total start-up funds	\$

Step 2:

How much money do I need to start or buy this business?

Business purchase price (if applicable)	\$
Professional advisory costs (eg. lawyer, accountant)	\$
Expenses related to leased premises (eg. bond deposit)	\$
Licences, permits and registrations (eg. business name and domain name registration)	\$
Fit-out costs and signage	\$
Initial stock	\$
Advertising and promotion (eg. business cards, flyers)	\$
Computer equipment	\$
Website development	\$
Graphic design fees	\$
Plant equipment and tools	\$
Working capital (two months)	\$
Staff costs	
Subtotal	
Contingency (add 20% to subtotal)	\$
Total start-up costs	\$

Step 3:

Total amount required (Step 2 minus Step 1)

\$

Questions to ask

Is the money a loan or a gift?

If you are borrowing money from friends or family be clear from the start if they expect the loan to be repaid, possibly with interest, if it is a gift, or if they expect a share of the business. Put your agreement in writing and have it witnessed by an independent third party.

Will the financial lender visit business premises?

If you're not able to visit your lender during the working day, check to see if they are happy to meet at your premises.

Do they have small business financial advisers with specialised knowledge of your industry?

If your lender has experience and knowledge of your industry they'll be better placed to recommend products and services of most benefit to you. They will understand and advise you of any issues you are likely to encounter.

Which services have to be paid for and how?

If you require merchant facilities, like an EFTPOS machine, how much will you be charged for this?

Do they assign case managers?

Establishing a relationship with a manager who appreciates the needs of your business is important. It will be harder to receive an effective service if you have to explain your situation to a different person every time you have a query.

Is it possible to mix and match different financial products and services?

Some financial institutions or banks have packages that include merchant facilities and advisory services in addition to their loans. They should be able to tailor their offering to suit your needs.

Can your accountant contact them with questions?

If you engage an accountant and they need to speak with your financial lender, are they able to discuss and provide information as needed?

For more information visit smallbusiness.wa.gov.au

Note: This information is not a substitute for legal advice.