ExpertAnswers:

Tips for Financing Your Business

with David Solís — National Sales Executive
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David Solís is the National Sales Executive for the Client Development Group with Bank of America's Small Business Division, where he is responsible for overseeing the bank's relationships with thousands of small business clients across the nation.

This month, Solís shares his expert insights with SCORE clients into the lending process, including tips on identifying your best financing strategy, managing business credit, and positioning your company for loan eligibility.

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What's the general "state of the market" for small business financing—have conditions stabilized, or are lenders still extremely cautious?

David: While the economy remains fragile, both in the U.S. and abroad, it does appear to be stabilizing. Traditional forms of business financing are available to small business owners. Banks are competing with one another aggressively for all good loans. Caution is inevitable given the past few years, but that simply means making reasonable requests of clients, such as open dialogue about their business, the operating history, current and future plans, and up-to-date financial statements.

Lenders have always looked for a sound business plan from aspiring small business owners. But are they scrutinizing some elements more than others these days?

David: A company's historical performance is critical. A strong repayment history, proper use of credit facilities and a relatively stable financial position all bode well for a business owner seeking capital for new strategies. Lenders want to talk with clients about their plans so they can identify the best instrument, structure, and overall set of solutions to help the business achieve its goals.

In addition to the fundamental business plan information (cash flow projects, marketing plan, etc.), are there any elements or "intangible" aspects that will help a small business proposal make a positive impression?

David: Any lender or investor will always look for as many tangible aspects as possible to ensure a good loan or investment. Intangibles may include a business owner's background, the strength of their board or management team and, of course, the story. What is the plan, and how convincing is it?

When should an entrepreneur begin identifying prospective lenders for his or her new business, and what attributes should be used to evaluate them?

David: Start-ups usually need to self-finance, leverage family and friends, or consider angel investors—affluent individuals who have capital. Those businesses must consider how much they can give up when it comes to the high rates of return and possibly equity/ownership that angel investors often require.

Does that mean a start-up shouldn't seek financing from a traditional lender such as a bank?

David: Traditional lenders often aren't a viable option for start-ups, but if a start-up decides to use a credit card for some operational needs, they should carefully consider all of the terms, including interest rates and annual fees. There are lending organizations, some within the banks, that do provide start-up financing for certain professional services businesses.

For microbusinesses and one-person enterprises, what are some tips for keeping one's business and personal credit separate?

David: Clearly identify assets and operations associated with the incorporated business versus those under an individual's name. Establishing a clear payment history under an incorporated name also helps.

Similarly, what are some critical things to know about small business credit?

David: The more time a business owner can take to learn about how to properly leverage credit, the better. Too much or too little credit isn't optimal, and using the wrong instruments to do certain things isn't advisable. For example, you would not want to use something that has to be paid off in a very short period—a credit card or traditional line of credit—to purchase a big-ticket item with a long shelf life like a delivery van.

What 2-3 financial issues should small business owners consider as they make plans to take that next "big step"?

- **Outside factors.** Be cognizant of the economy but focus most on what you can control.
- **Financial scenarios.** How would different sales and expense situations affect cash flow impacted? How would you finance growth? How would you balance access and use of outside capital, depending on if you are under- or over-performing against those different scenarios?
- **Demand.** Ask yourself about your client base. Do they have purchasing power? Is it increasing? Who are your clients? Are you sure they want or need what you have? Can they access it from you easily and competitively, with a great experience? What is your competition doing?
- **Perspectives.** This may be most important of all: How many trusted advisors have weighed in on your plan and thinking?

For owners of growing businesses, what factors will give them a leg up if they're looking for additional capital this year?

David: Positive financial trends, and properly prepared financial statements and organizational information about the company will reduce questions from your lender and speed up the loan process. Small business lenders are looking at assets, liabilities, business and personal net worth, and cash flow coverage ratios.

Are bank loans always the best option for small business financing?

David: All business owners must consider the cost of capital and terms surrounding that capital. For businesses with fewer than two or three years of positive operating history, banks are most likely not the best lender, although a small business credit card may be an option. But owners with a solid track record, prepared financials, and a compelling story definitely should speak with their bank.

Are there financing options that are better suited for specific types of small businesses? And do they differ for start-ups and existing small businesses?

David: The bigger the borrower, the more sophisticated the financing solution. Established small businesses usually work with a bank but can consider all means of funding. It is really a cost-benefit analysis of the various sources, and the costs and terms each source would provide.

Why is it important for an entrepreneur to have an ongoing relationship with a lending institution, rather than contacting them only when financing is needed?

David: The more a business owner talks to his or her lender about available services, the more leverage that owner has when financing is needed or when it comes to relationship pricing. It is often in small business owners' interest to consolidate their relationship to gain operating efficiencies and optimal pricing, thereby reducing expenses and improve cash flow.

You've advised many small businesses during career, and likely received some yourself. What advice has stood the test of time?

- Find your passion.
- Establish clear goals, both short- and long-term.
- Establish great mentors and partnerships.
- Act on good advice.
- Work tirelessly.