

Raising Capital For Your Business (Part I)

Business Plan development has two main objectives. They can either work independently or in conjunction with one another.

First, a business plan is the method used to obtain money through a business loan. With very few exceptions, all major lenders require one. If you have a prior business banking arrangement you may not need one for a small influx of capital through a Line of Credit. If you seek funding from friends, family, or other acquaintances you may not need one. And, if you are a technology driven company and seek money from a venture capitalist, you will not need a business plan. All other commercial requests for a business loan require a business plan.

Second, a business plan is used to provide focus on your business development. What Key Business Indicators did you set for the business? Who is your target market? How many items or services are you planning to sell? These are just some of the questions you will answer when you develop your business plan. It is essentially your strategy statement and how you are going to achieve it.

So whether you need a business loan or just want to provide focus for the development of your business, writing a business plan is the direction you will want to take. Watch for my free download on the essential elements of a business plan coming later this month.

This article will address the first reason to write a business plan – to achieve start-up or growth capital for your business. Whenever you approach a lender for money, they will review your plan. In addition, they look for the **5 C's of Credit**.

The 5 C's of Credit consist of the following elements:

Capacity: This measures your capacity to repay the loan. Many lenders consider this the most critical element of the 5 C's. If you borrow money, how do you plan to pay it back? There is no grace period. You have to start loan repayment the month following the loan date! There is no time for you to build the business first. Both your personal credit history and income as well as the business history are critical elements in evaluating your capacity.

Capital: This is money you personally have invested in the business. Loan Officers want to know what "skin in the game" you have. Do you have money or equipment invested in the business? Do you keep any profits in the business? If so, these can also be an indication of how much you have at risk with the business.

Collateral: Just as with a personal loan, collateral is what you are putting up as a second source of repayment. What can the lender use to recover their investment should you default on the loan payments? Bankers are pretty strict on what they can accept as collateral. Non-traditional lenders have more flexibility, but still want some assurance on how they can recover their money. Remember, it doesn't matter what type of loan you receive, you still need some form of collateral.

Conditions: Why do you need the loan? Conditions focus on the “purpose” of the loan. The more information you have in your business plan that relates to start-up costs or a new business, the better. It demonstrates to the lender that you’ve done your homework and know how much of a capital influx you need. Research is the key. My free download will discuss the critical research elements you should include in your business plan.

Character: Last, but certainly not least, is character. This is all about the impression you make on the potential lender. When it comes down to it – it’s all about you – whether you are seeking start-up assistance or growth capital.

I hope the 5 C’s of credit give you some insight on what a financial institute looks for when making a small business loan. Yes, you need a business plan, but the loan process is about so much more.

At Resolution Enterprises our goal is to help you achieve the business success you desire. Please don’t hesitate to contact us with your business planning needs.

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