



BACK ME UP

Running a business without the necessary backing is no mean feat, but there are ways you can get investors to show you the money

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EVER HEARD THE PHRASE: 'Money no longer talks, it just goes without saying.'? Well it's true. Whether you're looking to grow or start up a business, chances are you're going to need an injection of capital at some point. But let's face it, getting your hands on extra moolah has never been easy, and it's even harder these days with higher interest rates and even tighter lending criteria.

So what to do, and where to turn? "A lot of where you go for funding depends on where you are in your business cycle," says Sue Prestney, SME spokesperson at the Institute of Chartered Accountants in Australia.

The bad news for start-ups is that funding from outside sources isn't likely at the early stages. "Generally when you start up,

financiers aren't keen to lend on the balance sheet of the business because there's no track record," says Prestney. "They can't see any evidence that the business is going to be able to repay them." The best bet of funding at the start-up phase is either from personal savings, or mortgaging the family home.

But chin up; once you're a bit more established, the banks are an option, and they offer a nifty thing called invoice financing. With invoice financing, you can convert your outstanding invoices to cash, so you don't have to wait for debtors to pay you. "Invoice financing can really help by speeding up the operating cycle and freeing up working capital faster," says Jeremy Dean of Westpac. Flexible funding comes in particularly handy when you're growing, however, most banks still require about a three-year history before they'll do invoice financing for you.

Equipment finance and business overdrafts can also be useful, says Dean. "A key benefit of equipment finance is that it allows businesses to acquire the latest technology or additional equipment without tying up capital through large up-front payments."

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“It's also useful for businesses looking for flexible repayment options and in order to ease pressure on your cash flow.”

Business overdrafts, on the other hand, are more suitable for the short-term, says Dean. “Business overdrafts provide easy and convenient access to additional finance in order to cover business expenses such as paying GST, buying stock or meeting payroll.”

But remember that, when choosing a financing solution for your business, it's first essential to understand your cashflow. “Taking out a long-term finance to fund the purchase of new vehicles or plant and equipment may not be the best solution for you,” says Dean.

However if the banks are turning you down, there are other options, including private capital providers; even if they do come with a hitch. “What you have to understand is that it's an expensive form of funding,” says Prestney. “Private capital providers won't necessarily be investing in your business as shareholders, rather as lenders, and they will want a very high return.”

And again, it all comes back to what phase of the business cycle you're in. Start-ups are high-risk, so investors expect a higher return. While the expected return from a more established business is lower, it's still much higher than what a bank expects from a secured lend. “You go to private capital providers normally when you either can't get that funding at the start, or you've exhausted the limit of what the bank will lend you,” says Prestney.

Alternatively, if you're a reasonably sized and established business, looking for an option in between bank and private finance, then mezzanine finance might be what you're after. Mezzanine finance is an unsecured loan with a high interest rate that's offered by some investment banks. “It's a loan rather than an investment in equity in the business,” explains Prestney.

TOUCHED BY AN ANGEL

If you want more than just a loan, or an investor, a business angel may suit. While they don't come with a halo, they do come loaded with advice and experience.

“A lot of the businesses that come for finance are often growing too quickly and they can't manage the growth, so the investor will help them restructure things,” says Christine Kaine, principal of Business Angels. “The business angel is a great source of expertise; they often have excellent networks, which are a tremendous advantage for small and growing businesses. A lot of them are established on the idea of the business owner, but that doesn't mean they're skilled at business management—especially managing a fast-growing company.”

But be warned, says Kaine, there is a downside to using a business angel: “Most people who look for one have a silent partner in mind, but most investors who look to invest have a far from silent partnership in mind,” she explains. “It's interesting, because I say to people; if you invested several hundred thousand dollars in a stranger's business, would you be happy to just sit quietly in the background?”

Personality clashes can also be a problem when working in such close proximity. “It's a very big issue that needs careful planning,



INVESTOR READY?

So you're all set to apply for capital, but some extra help wouldn't go astray. The following investor ready programs may be what you're after:

- AusIndustry's Innovation Investment Fund is a venture capital program that invests in private sector funds to help small businesses while they're in the early stages of development, to commercialise the outcomes of research and development capability. www.ausindustry.gov.au
- Business Victoria's Regional Business Investment Ready Program assists businesses that need financial backing for growth, by improving their business skills and access to networks. The program's objective is facilitating investment in regional Victoria. www.business.vic.gov.au
- Innovation Gateway Western Australia was established to support emerging, innovative enterprises. Its Investment Ready Program provides skills development and national and global development, so businesses are in a fitting position for private equity investment. Preferences are given to companies in the information and communications technologies, biotechnology, marine and defence and renewable energy industries. www.innovation.wa.gov.au
- VentureAcess' Investor Ready Program is a six-stage approach to raising capital. It includes a client workshop, applying the investment strategy, preparing an information memorandum, meeting with an advisory panel, submission of the investment proposal to selected venture capital affiliates and post investment support. VentureAcess also offers assistance with applications for commercial ready grants. www.ventureaccess.com

because sometimes the one with the money thinks they have more power than perhaps they should," says Kaine. "Partnerships should be formed on the basis of a strong agreement, outlining each party's role," she adds. "Include a clause in the shareholders' agreement about what to do when disputes arise, and how to resolve them."

THE RULES OF ATTRACTION

The key to attracting an investor is being prepared, no matter the type of investment you're after. "You really need to know your own market, and never say there are no competitors, because there always are" says Kaine.

"The other thing you need to do is show the business angel what sort of returns they're going to make on their money," Kaine adds. When it comes to business angels, you can also factor in the return the business angel will be producing. "It's not about the investor sitting back and expecting the business to produce returns for them. It's about how the business owner, together with the investor, can produce returns."

Homework is vital when approaching more traditional investors as well. Without a business plan and budgets in hand, investors aren't likely to take you seriously. "If business owners want to remain credible, they shouldn't be too optimistic in what they plan to achieve," adds Prestney. "Businesses usually do that to make the bank or financier have more confidence in them; ultimately what it means is after 12 months of trading they haven't reached their targets, and that really makes them lose face in front of their lenders," she explains. "They're better to set realistic goals, than to have their investors lose faith in their abilities."

Other advice? Talk to an accountant, says Prestney. "Business owners need to have professional help, especially in regards to the budget and business plan, because these things need to have as much integrity and rigour applied to them as possible," she says. "If they get this wrong, that could be the end of their business."

Though, in some instances, you can avoid the hassle of seeking additional capital altogether by using a few cash management techniques. Simple practices like staying on top of debtors and turning your stock over frequently can make all the difference. "All those basic working capital management things become more important as the cost of funding gets higher," says Prestney. "So if you manage those things well, then your requirement to go outside for capital actually reduces." **DB**