

Crunch Time: Raising Business Finance During the Credit Squeeze

We all know that the credit crunch has made it much more difficult and expensive (in terms of deposits and interest rates) to obtain mortgages and other personal loans.

But there's been precious little coverage, in the mainstream media at least, of the effect on raising finance to start a business, buy a business or buy a franchise.

So are aspiring entrepreneurs finding it as hard as home buyers to raise finance?

Sarah Busby, a finance broker, meaning she seeks out and negotiates deals for business finance on behalf of her clients, believes so.

"Brokers are working two or three times harder to get deals through. I've recently had two or three lenders who've put out offers and then tried to backtrack."

So what can entrepreneurs do to give themselves the best chance of raising the finance they need for their business in the current austere climate?

Pick the right sector

Depending on factors such as the competition, the barriers to market entry and how well the industry fares in a recession, some businesses are harder to raise finance for than others.

With credit hard to come by you might make things easier for yourself by picking an industry that's seen as 'safer'.

A market that "is still fairly healthy," says Busby, who works for Birchwood Business Finance, "is the residential investment market, because first-time buyers can't get into the property market so they're turning to rented properties instead.

"But the loans-to-value" – the percentage of the business price the bank finance's – "has even reduced on residential investment. People are having to put down greater deposits – but if they're still able to do that they're still investing soundly as far as I'm concerned."

She also says that "buying a franchise will stand you in good stead." The banks will often have long established relationship with franchises and a history of lending and, crucially, receiving their money back from franchisees.

As for industries that put banks off, pubs were struggling even before the credit crunch, and, given because on-trade alcohol is highly discretionary, they really feel the strain in recessions.

"People aren't going out for drinks as much and it's always been an unfavoured sector," says Busby. "They're feeling it quite hard."

Kevin Shaduwa, who brokers business finance for Face2Face, has noticed "providers shying away from pubs," as well as "petrol stations, anything polluting the environment, new-build flats..."

The restaurant trade is, unsurprisingly, another sector banks are nervous of, says Busby, because "people, rather than eating out, are getting takeaways because it's cheaper."

Buy a business

"Buying a business is a shrewd way into business ownership," according to Henry Edjelbaum, a broker for ASC Finance for Business.

Now petrified of risk, banks like nothing better than a borrower with a track record. Buy a business with a respectable history of profit and they'll probably happier to lend you money than if you start a business from scratch.

Plan carefully and get your figures right

Always important, the accuracy and detail of your business plan is more crucial than ever.

"You must have a quality business plan," says Edjelbaum. "Anybody buying or starting a business in today's market conditions requires much more planning.

"Failing to plan is planning to fail."

Speak to a finance broker

A finance broker can help you present a convincing case.

"It is a tough market at the moment," says Busby, "which in a way is why brokers themselves are quite busy," Now it is more essential than ever that people at least speak to brokers and get their advice to make sure they're not doing all this in vain."

Even if you've had a mutually beneficial, long lasting relationship with your bank, "you can't assume that relationship will remain unaffected by the credit crunch," insists Edjelbaum, so you should still consider approaching a finance broker to help you get the best deal.

Develop your relationship with your existing bank

However, it is worth cultivating your relationship with your bank as long-standing customers with a reliable borrowing record are a known quantity – and banks cherish known quantities in the current climate.

Try the Small Loans Guarantee Scheme

It's much harder to raise business finance through regular bank loans and entrepreneurs, many of whom have seen equity ebb away on their homes over the last year, are having to stump up larger deposits.

You might therefore instead consider the Small Firms Loans Guarantee Scheme. The scheme, set up and guaranteed by the government, offers entrepreneurs affordable loans without the need for security.

The government recently widened access to the scheme so that most companies are eligible to apply instead of companies fewer than five years old.

About the Author

Adam Bannister writes for Dynamis, publishers of BusinessesForSale.com, FranchiseSales.com & BusinessWings.co.uk among others.

BusinessWings.co.uk provides the inspiration to help get your business off the ground with advice on [raising finance for a business](#)

Source: www.isnare.com

Source: <http://articles.exospy.com>