Title:
7 Critical Business Financing Mistakes

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968

Summary:
Business financing mistakes can be hazardous to not only your business growth but your very business survival. Learn all about the 7 critical business financing mistakes you should avoid if you're serious about growing a profitable business.

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Article Body:
Avoiding the top 7 business financing mistakes is a key component in business survival.

If you start committing these business financing mistakes too often, you will greatly reduce any chance you have for longer term business success.

The key is to understand the causes and significance of each so that you're in a position to make better decisions.

>>> Business Financing Mistakes (1) - No Monthly Bookkeeping.

Regardless of the size of your business, inaccurate record keeping creates all sorts of issues relating to cash flow, planning, and business decision making.

While everything has a cost, bookkeeping services are dirt cheap compared to most other costs a business will incur.

And once a bookkeeping process gets established, the cost usually goes down or becomes more cost effective as there is no wasted effort in recording all the business activity.

By itself, this one mistake tends to lead to all the others in one way or another and should be avoided at all costs.

>>> Business Financing Mistakes (2) - No Projected Cash Flow.

No meaningful bookkeeping creates a lack of knowing where you've been. No projected cash flow creates a lack of knowing where you're going.

Without keeping score, businesses tend to stray further and further away from their targets and wait for a crisis that forces a change in monthly spending habits.

Even if you have a projected cash flow, it needs to be realistic.

A certain level of conservatism needs to be present, or it will become meaningless in very short order.

>>> Business Financing Mistakes (3) - Inadequate Working Capital

No amount of record keeping will help you if you don't have enough working capital to properly operate the business.

That's why its important to accurately create a cash flow forecast before you even start up, acquire, or expand a business.

Too often the working capital component is completely ignored with the primary focus going towards capital asset investments.

When this happens, the cash flow crunch is usually felt quickly as there is insufficient funds to properly manage through the normal sales cycle.

>>> Business Financing Mistakes (4) - Poor Payment Management.

Unless you have meaningful working capital, forecasting, and bookkeeping in place, you're likely going to have cash management problems.

The result is the need to stretch out and defer payments that have come due.

This can be the very edge of the slippery slope.

I mean, if you don't find out what's causing the cash flow problem in the first place, stretching out payments may only help you dig a deeper hole.

The primary targets are government remittances, trade payables, and credit card payments.

>>> Business Financing Mistakes (5) - Poor Credit Management

There can be severe credit consequences to deferring payments for both short periods of time and indefinite periods of time.

First, late payments of credit cards are probably the most common ways in which both businesses and individuals destroy their credit.

Second, NSF checks are also recorded through business credit reports and are another form of black mark.

Third, if you put off a payment too long, a creditor could file a judgement against you further damaging your credit.

Fourth, when you apply for future credit, being behind with government payments can result in an automatic turndown by many lenders.

It gets worse.

Each time you apply for credit, credit inquiries are listed on your credit report.

This can cause two additional problems.

First, multiple inquiries can reduce you overall credit rating or score.

Second, lenders tend to be less willing to grant credit to a business that has a multitude of inquiries on its credit report.

If you do get into situations where you're short cash for a finite period of time, make sure you proactively discuss the situation with your creditors and negotiate repayment arrangements that you can both live with and that won't jeopardize your credit.

>>> Business Financing Mistakes (6) - No Recorded Profitability

For startups, the most important thing you can do from a financing point of view is get profitable as fast as possible.

Most lenders must see at least one year of profitable financial statements before they will consider lending funds based on the strength of the business.

Before short term profitability is demonstrated, business financing is based primary on personal credit and net worth.

For existing businesses, historical results need to show profitability to acquire additional capital.

The measurement of this ability to repay is based on the net income recorded for the business by a third party accredited accountant.

In many cases, businesses work with their accountants to reduce business tax as much as possible but also destroy or restrict their ability to borrow in the process when the business net income is insufficient to service any additional debt.

>>> Business Financing Mistakes (7) - No Financing Strategy

A proper financing strategy creates 1) the financing required to support the present and future cash flows of the business, 2) the debt repayment schedule that the cash flow can service, and 3) the contingency funding necessary to address unplanned or unique business needs.

This sounds good in principle, but does not tend to be well practiced.

Why?

Because financing is largely an unplanned and after the fact event.

It seems once everything else is figured out, then a business will try to locate financing.

There are many reasons for this including: entrepreneurs are more marketing oriented, people believe financing is easy to secure when they need it, the short term impact of putting off financial issues are not as immediate as other things, and so on.

Regardless of the reason, the lack of a workable financing strategy is indeed a mistake.

However, a meaningful financing strategy is not likely to exist if one or more of the other 6 mistakes are present.

This reinforces the point that all mistakes listed are intertwined and when more than one is made, the effect of the negative result can become compounded.