

Banks as a Capital Growth Option (*Entrepreneur Magazine* – January 21, 2002)

Is your local business bank a good place to go to fund a growing company?

The answer is both no and yes, and this depends completely on the development stage of your firm and the kind of financial help being sought.

Typically, banks are not the place to go for a start-up venture. Banks don't make investments in equity, because that's not their focus in the financial markets. They are creditors who lend money to qualified borrowers. Start-up companies have little, if any, consistent revenue and operating cash flow, so their ability to regularly pay back loans in monthly or quarterly installments is severely hindered. Also, banks like to lend with the principal secured by tangible assets that have substantive market value. If the borrower cannot pay back the loan, the bank can sell the asset to recoup the outstanding principal and accrued interest due. So in the first place, the answer to this question is no, banks are not a good place for start-ups to seek funding.

However, in other situations, some banks are an excellent place for you to seek growth funding, and they can usually help out in two basic ways. First, commercial banks can help your business increase output by providing funds to secure new equipment, machinery, vehicles, and other instruments and devices. For example, your front office needs new computers, scanners, copiers and printers. Maybe your warehouse needs new forklifts and additional packaging/conveyor-assembly equipment. Perhaps you need to increase your shipping capabilities with 10 new delivery trucks. Or your current 6,000 square feet of rented space is totally inadequate for your growing company, so you're looking at acquiring your own 20,000-square-

foot facility. If your firm has a good track record of sales and consistent positive cash flow, then in each of these situations, your commercial banker is an excellent financial partner to help your business grow. Keep in mind:

- Commercial banks can help with a no-money-down three-year loan package to get all the new high-tech office machines.
- The bank can put together an intermediate term financing package directly with the original equipment manufacturer to get your firm those new forklifts and manufacturing equipment.
- Many banks also handle professional leasing contracts, so they can put together a deal to get your employees into a fleet of new vehicles with monthly lease payments that fit easily into your normal cash-flow cycles.
- When it's time to move out of the confines of your limited rental space, commercial banks can work directly with your business realtor to develop a long-term secured mortgage loan that can get you into the facility that will really help your company grow and be successful.

The second area where the banks can help is with working capital lines of credit to help your business expand its cash-flow volume. For example, suppose you land a new national vendor account, but the large cost to meet that contract will be due 60 or 90 days before they pay you. The bank provides a line of credit that allows you to service your labor and materials costs of contract fulfillment on the front end while you wait for the account receivable to be collected on the back end of the deal. The key to securing such a credit line is the quality and volume of the new sales you're going after. If your buyers have good credit, then the quality of the receivables assures the

bank that you'll be able to pay down the credit line within a few months, after you get paid.

So whether it's collateralized lending, asset-based leasing or cash-flow timing, commercial banks can help your company grow, provided you have tangible assets and high-quality buyer invoices that allow the banks to increase the likelihood that you (the borrower) can pay them back.