Choosing the right finance for your business

Small to medium-sized enterprises (SMEs) can leverage working capital loans to capitalise on time-sensitive business opportunities. Provided they can access the debt needed and afford the repayments, debt is usually a better financing option than diluting company ownership. Loan facilities can help manage seasonal fluctuations and bridge gaps in cash flow, whereas equity financing can aid in long-term growth and development.

Daniel Goldberg, co-founder of Bridgement

Equity financing, raising capital by selling company shares to investors, is most appropriate for high-risk high-growth technology and innovation startups, where the right investors can provide the company with industry experience, wisdom and business connections.

“Additional investors and shareholders also introduce other complexities in running a business,” says Daniel Goldberg, co-founder of Bridgement, a fintech company offering invoice financing and revolving credit facilities to small businesses.

Well-managed debt is well suited to short-term cash concerns and demands; “Working capital is a daily necessity for SMEs, they require a regular amount of cash to make routine payments, cover unexpected costs, and purchase basic materials used in the production of goods,” says Goldberg.

Companies are never totally certain what their earnings will amount to in the future. As a result, those in very stable industries with a consistent cash flow, are more likely to make use of debt than equity financing.

“Debt financing can be forecast and planned for. The interest of the loan can be deducted on the company’s tax return, reducing taxable income,” says Goldberg.

Goldberg outlines some of the debt financing options available to business owners:

- **Revolving credit facilities** – a flexible line of credit suitable for businesses with ongoing or recurring working capital or cash flow needs.
- **Invoice finance** – short term loans that use your invoices as collateral. It’s most often used to resolve cash flow problems arising from unpaid invoices.
- **Term loans** – these can be either short or long term loans used to fund a specific once-off need.
- **Merchant cash advance** – finance based on future card sales for restaurants and retail businesses.
- **Asset finance** – longer term finance for expensive equipment, machinery, vehicles and property.
- **Overdrafts** – a common finance option attached to your business cheque account. It can be difficult to get a high limit.
- **Credit cards** – business credit cards are useful for short term credit needs for small ongoing monthly purchases.