

When is the best time to borrow money for your small business?

Small businesses face many challenges: Access to working capital is one of them. There is the perception out there that borrowing money is a last resort, but lending can actually be a very strategic move that can build your business in the long run.



Dov Girnun, CEO of Merchant Capital

In fact, the last thing you should be doing is waiting too long to lend. When you turn to funding because your business is in crisis, funding is used to plug holes. According to Dov Girnun, CEO of Merchant Capital, “the best time to borrow is when you can use that working capital to enhance your chances of future success and make sure you can pay it back with ease.”

Here are some of the key ways to think about borrowing money for your small business as you head into 2021:

Plan your financial future

If there is anything that Covid-19 has taught us, it's that we can never plan for everything. But as a business owner, there are many things you can foresee.

For example; that equipment upgrade which is looming, the staff training that is required or that renovation you've been hoping for. While you may have some funds available, it may be better to achieve these goals with borrowed capital.

"Once you understand what needs to be done in your business, then you can take the necessary steps to understand what kind of loan is best for your business," says Girnun. "Taking a long-term view of the situation will allow you to think clearly and investigate all options."

Build up a track record

Gaining access to loans is complex. Lenders are cautious and they often require a credit history to decide on whether or not they can lend to your business. Because your current financial situation determines long term lendability, it is important to get in the game while you are able to manage that debt and pay it off quickly.

What are some good reasons to get a loan?

- **Setting up shop:** If you're starting a new business you will need to create an infrastructure before the business is generating any revenue. This is already a good time to access start-up funding to get a head start on your young business and not purge it before it's had a chance to get off the ground.
- **New location:** If your existing business is doing well, you may consider expanding to a new location. A loan is a good idea here so that the existing branch doesn't have to carry all the risk.
- **Upgrades and inventory:** If your business requires new systems or equipment, a loan could be the answer. Similarly, if you have a supplier that will give you better rates on a bulk order, a loan to purchase this could secure you an upfront discount which will pay you back as you sell this stock for a higher profit.

What are bad reasons to get a loan?

- **Shiny things:** Just because something seems like a sure thing, doesn't mean that it is. So do your homework before investing someone else's money into risky projects. And make sure that whatever you take on, yields long-term growth.
- **Avoid stacking:** If you are already battling with one line of credit, taking out another loan to service that gap is going to cause many knock-on problems. Girnun cautions here saying, "A responsible lender will help you understand if more debt will help or hinder your business."
- **Understand your credit pressure:** If you are swimming in debt and all the subsequent loans haven't helped you, it may be time to ask yourself some hard questions about why things aren't working. Then take the necessary steps to make smarter decisions for your business.

The bottom line

Smart debt can really relieve pressure on your business. Understanding your business' needs, assessing this long term, and building a healthy credit history can be a very strategic move in building partnerships with responsible lenders. Once in place you will have quick access to working capital when your business needs it the most.

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