Grow your business with smart borrowing

A common thought among businesses is that no debt is good debt and that, where possible, capital and cash reserves should be used instead of a loan or any other line of credit.

But this is not always the case. Financing can be a good way to fund expansion plans when you do not have the necessary capital of your own available.

While it’s true that not every reason is a good reason to put your business into debt, there are some that are worth the risk.

Bigger premises

Your business is doing well and things are getting a bit cramped at the office. Sounds like good news but just because you’re ready to expand doesn’t mean you have the funds readily available to do so. This is where some smart borrowing should be considered. By taking out a loan you can allow your business to grow while splitting payments over a set term. Before committing to a loan ensure that the potential increase in profits will be enough to cover the loan repayments.

Equipment for your business

To do business you need the right tools. From time to time you will need to update and expand the equipment you need. When considering what kind of equipment to invest in make sure you’re differentiating between what your business needs and what would be ‘nice-to-have’. Loans, financing, and leasing are all viable options when you need new or upgraded equipment.

Taking advantage of a business opportunity

Every now and then an opportunity presents itself that seems too good to pass up – e.g. a large contract requiring expansion, or an offer to buy inventory in bulk at a discounted price - but you may not always have the capital available to pursue this chance on your own. If the potential return outweighs the cost of credit, a loan could be the help you need to take your business to the next level.

These are just a taste of the many reasons why borrowing can be a better alternative to using your own funds, but once you’ve decided you’re going to apply for a loan how do you go about making sure you’re in the best position to get one?

Some steps that you can take to ensure your business is credit ready

1. Have accurate records – Turnover is an important measure of how much business you are doing so it is important to have accurate accounts when a decision to borrow arises.
2. Pay creditors / vendors on time - In addition to any credit agreements (personal and business) opening a business credit card, means you can build your business's credit by opening accounts with vendors that report payments to the business credit bureaus.
3. Use your business credit to manage your cash flow - One potential benefit of building your business's credit is you may become eligible for lower rates and better terms with vendors. Both of these can help you manage your cash flow — the lifeblood of many businesses.
4. Overdraft management - As with personal accounts, if your business has an overdraft facility, it will be reviewed to see if it is in credit. If not, this can show that finances in the firm are tight and this usually is a key indicator that the business has some financial constraints that can impact future access to credit.

Bottom line - It can take time to build your business's credit, which is why it's important to start early. Whether or not you foresee needing a loan or another form of finance, establishing your business credit now can help give you a safety net — and potential savings — in the future.

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