Failing to Plan Your Business Financing Can Be a Death Sentence for Your Business

Most businesses start out thinking the first thing they need is a great business plan. The popular myth is that potential lenders will place great stock in your business plan as a major consideration for approving the financing you need.

While a well written business plan will assist you when you are seeking financing, it is far down on the lenders list behind things such as your business management teams experience, your past business successes and your lending character. Having a plan for accessing the business capital you need to execute your business plan is what is required to bring your business success. Not having a viable business financing plan is the direct cause of why 90% of all new businesses fail.

Your lending character means the lender sees you having the ability and stability to repay the loan. They also ask how far they believe you can take the business to maximize the potential earnings and therefore their chances of getting repaid.

The first thing a lender is going to look at is how did you structure the business and were you responsible and knowledgeable in that. Are you Incorporated or an LLC? If not you are declined for a business loan and everything becomes based solely on you as an individual. Did you do your EIN, State, business licenses and bank filings correctly? If not, you are declined because a lender requires attention to detail.

A simple business credit report check by a lender will quickly show whether or not you are even in the ballpark for getting approved for financing. If the lender finds that you have not bothered to insure that your business has active reports with all three major business credit reporting agencies, then of course you are immediately declined.

Next, the lender will look at the character of your business credit reports. What do they say about your business? What kind of payment histories have you had with debts that are easy to get such as vendor trade lines, small business credit cards, equipment leases, etc? If your business has no credit history or very minimal history then no lender will even consider your business for a larger loan when you have no track record of paying smaller debts.

If you pass these simple tests, now a lender will get to the heart of you business loan application and it is only at this point that you even get the opportunity to present your funding request. Unfortunately as high as 90 percent of all business loan applications never get to this point, because most business owners never take the time to complete the initial steps.

So you have made it this far, The next question you need to ask is what is a lender going to want to see? Debt service! Here is where the lender finally looks at your business plan, or at least the financial pat of it, to determine if your business can debt service the loan. To make this determination a lender will test the reality of your numbers. Basically this means do your numbers add up and do they make sense.

If you do not know anything about accounting you had better get help. When a lender looks at your projected financial statement and finds simple accounting errors, then in most cases you will again be declined. They do not want to lend money to someone who cannot produce a simple proof and loss statement; or someone that cannot balance a balance sheet. There is a lot of help out there, get some.

Next, a lender will look at the market niche section of your business plan. While most business owners think that this is the place that sets them apart from the competition, it actually is the part where lenders will compare you to your competition. Here is where lenders must see that you have done you market research. Can the revenue claims that you are making in your financial projections be backed up by the actual market demographics for your specific business industry, location, customer base, etc.? It essentially comes down to the need for your product or service.

All of this can seem overwhelming and in truth it can be. It is the reason that 97 percent of all business loan applications get declined. The overriding reason is that business owners are not taught this in school and typically only gain this knowledge through years of brutal experience that normally includes having one or two failed businesses under their belts.

This will give you plenty of information to get you started on putting together a business funding request.

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