KNOW YOUR OPTIONS IN A CRISIS

YOU'RE FACING A FINANCIAL HURDLE - WHAT NEXT?

If you are facing a financial crisis, the first thing to do is not panic.
Next, you need to make a rational assessment of the various options available to you. Borrowing can help a business during difficult times and can help a business grow during good times. But it is critical to review financing options:

Compare the cost of each:

- Bank overdrafts or loans. The cost of borrowing money from a bank isn't prohibitive. Banks today will certainly lend against a good strong order book. Figure out what it will cost to borrow from your bank.

- Sales financing and factoring provide methods of getting cash into the business. These options enable you to buy a product, pay for it within 30 days. The bank will then pay you 80-85% of your debtor book. This means you can sell the product and pay 80% of that sale in the next day, rather than having to wait for the customer to pay. The bank then takes the burden of collecting the money from the customer. This is called factoring. If you shoulder the burden of collecting the money yourself, the bank becomes a sales financing vehicle. Ask your bank what sales financing will cost you or factoring will cost you

- Early invoice discounting. This involves having arrangements with your customers to incentivise them to pay you earlier than usual. They receive an incremental discount while you generate cash. In this day and age, especially on commodity products, incentivising by 2 or 3% is very attractive to companies that don't have financial worries. Figure out what discounting early payers will cost you over a given period

- Extended credit terms. Paying interest or a premium in order to extend credit terms is a viable method of leaving more cash in the business over a given period. Figure out what the necessary interest or premium will cost you over time.

Match the cost of each financing option to each other. Which option is the most cost-effective?

REVIEW

- The cost of borrowing from the bank
- The leverage and level of debt: ie ? how much you've taken on as debt and your ability to repay.

An entrepreneur's borrowing ability is based around their ability to repay the interest against that loan. That's what's critical. If profits generated more than cover the interest payments (by at least two to three times) a medium term debt funding option will be preferable than taking extended credit or giving larger discounts.

Weigh up the costs of each financing option to see which is the most viable for your business and cash flow situation.