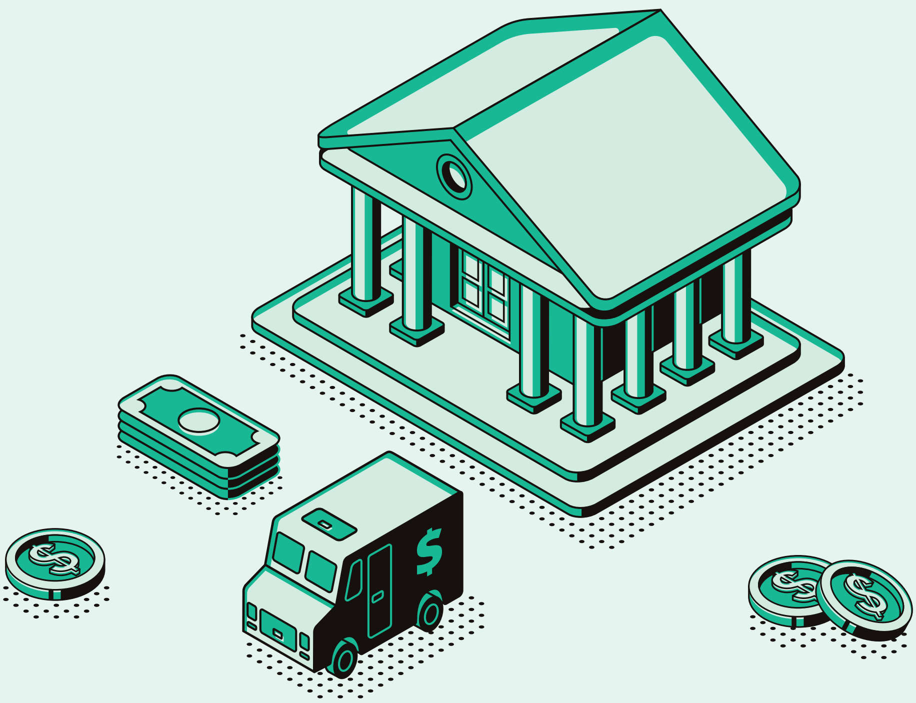
SME Finance Options Compared:

# The Best Finance Options for Small Businesses

Compare your options to find the best finance solution to suit your business.



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# Finance for small businesses is hard! We've listed and compared the options so you can make the right decision.

Most SMEs come to a point at which they need some kind of financing. This might happen in the very initial stages of business, six months down the track, or for day-to-day management of cash flow. Whatever the field you're in and the size of your business, extra funding can be required to fuel growth or navigate hurdles smoothly.

If you're approaching such a time, this is the resource for you. We're comparing the seven most popular kinds of SME financing options. Have a read below for the pros and cons of each and to discover which are best suited for your business.

# Table of content

## The age and stage of your business factors in when it comes to making these decisions.

However, what it generally comes down to is what you need the funds for. There are two main needs and two categories of finance.

1. Cash Flow Finance: solving the need for ongoing and more flexible funding to finance the day-to-day operations and cover gaps in cash flow.
2. Term Lending: a lump sum to capitalise the business. This could be when starting a business, or when growing your business to the next level.

> Generally a combination of both Term Lending and Cash Flow Finance is the best and most efficient solution for small businesses to meet their different funding needs

## 1. Cash flow finance for the day-to-day operations and growth

The number one reason business fold is due to a lack of cash flow – **84% of businesses** that failed cited cash flow as the main reason. Cash flow really is king and critical to the health and growth of your business, not to mention your stress levels and sanity! You need to ensure to have the cash on hand to run your day-to-day operations in an easy and stable way.

An overdraft will usually be employed in the first instance to help manage your smaller cash flow needs.

Credit cards can also be used but these are a high-cost option if not repaying your card continually. Ideally, they should be used as a purchasing tool. Be wary of the increasing fraud activity and ensure your company credit cards have a set transaction limit.

On-demand finance is a great option that allows you to access funds when you need to ensure you always have access the cash at a relatively low cost. This facility does not require you to commit to a long-term loan that you will need to pay fees on, even when you don't actually need the finance.

Pairing a term loan to capitalise your business with on-demand finance to cover cash flow ups and downs is a cost-efficient way to ensure you have the cash on hand when needed.

## 2. Term lending to capitalise your business

If you need start-up capital, for example, and you are willing to put up property as collateral, a secured term loan is the best, lowest cost option and will provide a lump sum. Unsecured loans are another option for securing money, but the cost will be higher and the amount you can borrow is usually less.

Equipment finance is similar, but more targeted in that it allows your business to buy and start using the equipment to grow your revenue now and pay back the money owing on the equipment from the extra income earned.

The ability to buy and pay off much-needed equipment can help you to take your business to the next level.

# Cash Flow Finance Options

| | Overdraft<br>Allows you to spend money, up to your agreed limit, when your bank balance is overdrawn. | On-Demand Finance<br>You get paid now for invoices you are waiting for your customer to pay. | Invoice Finance<br>You can draw down money against your total Accounts Receivable. | Credit Cards<br>You borrow money as you purchase expenses using your credit card. |
|---|---|---|---|---|
| When to use → | Useful to manage the ups and downs of day-to-day cash flow. | On Demand finance to ensure small businesses have the cash when they need it | Suits medium and large businesses to unlock capital tied up in their accounts receivable | Useful for small online purchases to be repaid quickly |
| Providers → | Major Banks, ANZ, Westpac, etc. | FundTap | Scot Pac, Lock, Waddle, etc. | Banks & Neo Banks (Wise, Revolut, etc.) |
| Lending Amounts → | $50,000 - $2m | $1,000 - $100,000 | $50,000 - $2m | $100 - $20,000 |
| Fee → | 10 - 22% p.a. | 4 - 6% of invoice value | 9 - 20% p.a. | 10 - 23% p.a. |
| No Establish-ment Fee → | 1% of credit limit | | 1-2% of credit limit | Only if bad credit |
| No Monthly Fee → | 0.1 - 0.2% of limit | | 0 - 2.5% of turnover | $0 - $150 annual fee |
| No Other Fees → | Varies | | Varies | Varies |
| Not Locked in → | | | | |
| No Property Security → | | | | |
| Application → | HARD<br>Up to 4 weeks if no exisiting lending facilities. Often requires a Cash Flow Forecast. | EASY<br>5 - 10 min. Online and links to your accounting system. | MEDIUM<br>2 days - 2 weeks. Requires your debtors to pay to a different bank account. Some providers are online, others manual paperbased process. | MEDIUM<br>1 hour - 2 weeks |
| Ease and Speed of use → | EASY<br>You can easily track through bank statements. | EASY<br>Automatically pulls invoices from Accounting software to you to select and fund when needed. | MODERATE-HARD<br>Online systems allow a easy process. More difficult if you do not have a regular cash flow need. | EASY<br>Easy. You can easily track through bank statements. Requires proacticve repayment to avoid high fees. |

# Cash Flow Finance Options

| | **Term loan** (secured)<br>You get money advanced in a lump sum and then pay this back over the term of the loan. | **Term loan** (unsecured)<br>A term loan, but not secured against your property and higher fees | **Equipment Finance** |
|---|---|---|---|
| When to use → | Typically the main form of finance, capitalising a business to operate | On Demand finance to ensure small businesses have the cash when they need it | Equipment finance is used to fund the purchase of a significant piece of equipment |
| Providers → | Major Banks, ANZ, Westpac, etc. | Zip, Prosper, etc. | Major Banks & Specialists e.g. |
| Lending Amounts → | $100,000 - $2m | $5,000 - $150,000 | $50,000 - $2m |
| Fee → | 6 - 12% p.a. | 9 - 36% p.a. | 6-20% |
| No Establish-ment Fee → | ✗<br>Up to 1.5% of loan value | ✗<br>Up to 5% of loan value | ✗ |
| No Monthly Fee → | ✗<br>$0 - $25 | ✗<br>$0-$50 | –<br>Varies |
| No Other Fees → | ✗<br>Early Repayment Fees | ✗<br>Closing fee (up to 5%). Early Repayment Fees. | –<br>Varies |
| Not Locked in → | ✗ | ✗ | ✗ |
| No Property Security → | ✗ | ✓ | ✓ |
| Application → | HARD<br>2 to 6 weeks. Manual paperbased process. Requires providing multiple reports and verified ID documents. | MEDIUM<br>2 days - 2 weeks. Some online requiring access to your bank accounts and statements. Others manual paperbased process. | MEDIUM<br>1-4 weeks. Usually paper based process. |
| Ease and Speed of use → | EASY<br>Once loan is in place the funds sit with you. | EASY<br>Once loan is in place the funds sit with you. | EASY<br>Once approved the funds are released. |

# Cash Flow Finance – For Your Day To Day Needs

# Overdraft



## What is an Overdraft?:

An overdraft is simply an extension of your bank balance. It allows you to spend beyond what's in your account, up to a limit agreed with your bank.

## Application Process:

You can apply for an overdraft with your current bank. The application process can be quick if you already have a term loan with the bank and your overdraft is within the limits of this. Otherwise, it can take a few weeks (or a couple of months) depending on the speed of your bank.

You might be required to provide a cash flow forecast prepared by your accountant **adding up to $1,500** to the cost.

## Amount you can borrow:

Typically, for small businesses, overdrafts range **from $5,000 to $50,000.**

The amount will vary depending on the size of your business and the security you have with the bank.

## When best to use:

An overdraft is the most common and often the lowest cost way to manage your daily cash flow needs. Many businesses will need more than an overdraft will provide to manage their cash flow well, especially when taking advantage of growth opportunities.

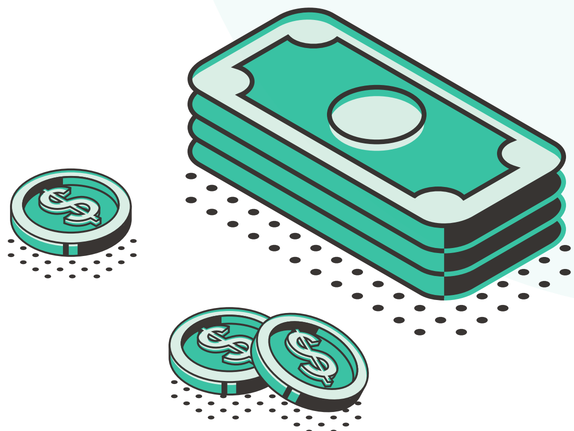
## Costs and Fees:

Nothing in life is free (unfortunately) and business finance is no exception. With an overdraft you will be charged an interest fee, usually between **10 – 22% p.a.** for the money you borrow, and often an establishment fee and monthly fee.

Do be careful to avoid unarranged overdraft fees as these can be significant!

## Providers:

Overdrafts are offered by **all of the major banks.**



# Overdraft



## PROS

### Easy to use

An overdraft, once established, is easy to access and simple to keep track of via your bank statements and administered by the bank.

### Works well with other bank finance options

An overdraft is commonly combined with a bank term loan providing more flexibility for your business.

### Low cost

An overdraft is relatively inexpensive compared to some other options. However, you will pay monthly for access to it.

## CONS

### Lengthy application

It pays to apply well in advance of needing funds and the application sometimes be a lengthy and involved process. You will likely have to provide extensive information that can cost in both your time and in accountant fees.

### Unarranged Overdraft Fees

Most banks will allow your account to go into overdraft without an agreed limit in place. This does help ensure you don't get caught out with bills, but the unarranged overdraft fees are significant.

### Property Security

Banks are conservative lenders, and it may be difficult to get a large overdraft limit if you do not have property to secure it. Keep in mind, if you have a loan with the bank, in practice the property securing your loan will also be securing your overdraft.

# On-Demand Finance



## What is on-demand finance?

On-demand finance is a form of invoice financing (see below), but designed specifically for small business. Rather than waiting for an invoice to be paid by your customer, you can access your own money in advance. "On demand" means that you can get funds when you need them but pay no fees when you don't.

## Application Process

The application process is online and is completed in five minutes and funding is typically provided that same day. The platform will link to your accounting software to remove administration time and costs.

## Amount you can borrow

Flexible cash flow finance can be used for amounts ranging from $1,000 to $100,000 and so works well for small businesses.  For larger businesses Invoice Financing might be a better option.

## When best to use

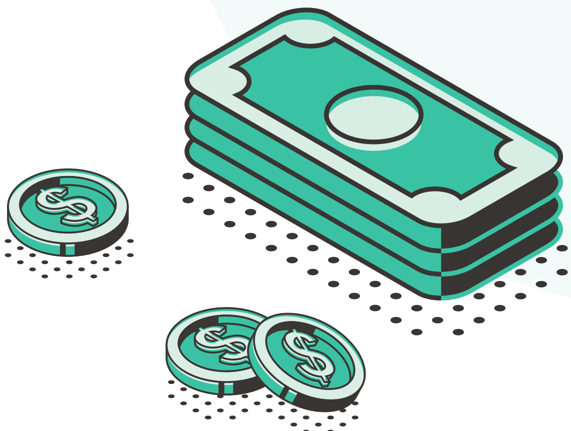
This type of financing is ideal for SMEs who need flexible finance to ensure they are ontop of thier cash flow.

## Costs and Fees

The cost is a single fee of 4-6% of the invoice value. There are no establishment fees, monthly fees or early repayment fees.

## Providers

**FundTap** have pioneered on-demand finance in Australasia



# On-Demand Finance



## PROS

### What you need, when you need it

On-demand invoice financing is unique in that it allows you to access finance as and when necessary. You only pay for the financing that you use, with no ongoing or initial payment and no obligation.

### Quick and easy

Access to your money is immediate - you can receive it within minutes of submitting an invoice for funding.

### Streamlined online platform

Because there is a connection with your accounting software, there is no paperwork involved and the process is stress-free and simple. It's a low-risk, easy solution to cash flow issues.

## CONS

### Higher costs for large-scale financing

If you are using on-demand finance as your main source of finance to capitalise your business, the overall cost may be higher than other options. It is best to use On-Demand finance for the day to day cash flow management.

### Not suitable for capital

This option is also reliant entirely on invoicing. It works by advancing money you are already owed—so is not suitable for helping you raise capital when starting out.

# Invoice Finance (Factoring)



## What is Invoice finance (factoring)?

Invoice Financing is a form of factoring which offers advance access to the payments due to you from your customers. Rather than waiting for your customer to pay their invoice, you can be paid these funds immediately. Your customers pay the invoice finance company directly, repaying the amount owed by you.

## Application Process

The application process can range from a week through to a few months. The administration required by your business is often not simple, although this has become easier with newer online-first providers.

## Amount you can borrow

You can borrow against invoices owing, so this depends on your business and the total amount of accounts receivable (invoices) you have at the time. This does however mean you credit limit will likely grow as your business grows. Typically invoice finance will start at $100,000 and can go up to several million for large busiensses.

## When best to use

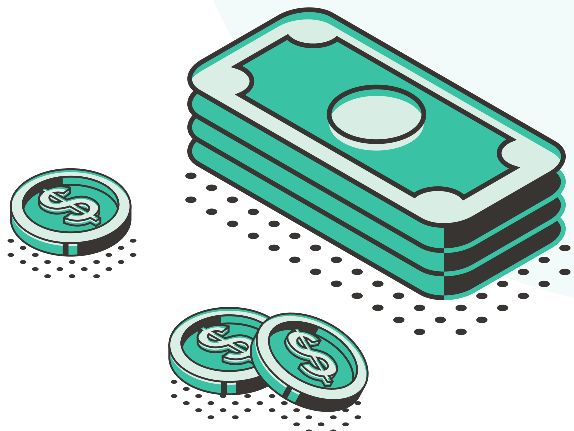
Typically invoice finance is only for medium or large businesses. This option allows these businesses to unlock the funds that are tied up in their accounts receivable (their invoices waiting for payment) and smooth out cashflow.

## Costs and Fees

Generally, costs include an establishment fee of 1-2% of the credit limit, a monthly fee, and a lending fee of 9-20% p.a. of the amount advanced.

## Providers

Providers of this service include **ScotPac, Lock Finance, Waddle, and others.**



# Invoice Finance (Factoring)

## PROS

### Wide availability

Invoice financing does not require property to secure it, as you are drawing on funds that are owed to you. This means that it is accessible to most businesses that invoice their customers.

### Debt collection taken care of

Some factoring companies will essentially "buy" the invoice debt and then become responsible for its collection. That may be a positive for time-pressed businesses or those having problems with customers or clients paying up. There is a loss of control with this, but it can work well for some businesses.

### Streamlined providers

This is not the case for all invoice factoring services, but there are some online providers which have made the process much easier to administer traditional offerings by linking to your accounting software.

## CONS

### Loss of control

The downside of one advantage mentioned above (factoring companies taking responsibility for debt collection) is that you lose some control of relationships with clients and customers.

### Customer do not pay you

Your customers will pay the invoice finance company directly, rather than to your bank account. This requires you to go to each customer and change the account they pay to (and then to do this again, should you no longer need invoice finance).

### Complex fee structures

Invoice factoring often involves multiple different fees which do add up quickly. When comparing providers, ensure you understand all fees as it can be difficult to understand what the true cost can be with each.

### Commitment

To decide whether using the service will—on the whole—be beneficial to you will require a good knowledge of your cashflow needs over the next 18 months or so. Watch out for contracts that lock you into a time or funding commitment as these can be hard for you to predict.

# Credit Cards



## What is a credit card?

A credit card allows you to spend up to a set limit. You borrow as you spend! They operate similarly to debit or EFTPOS cards at point of sale.

## Application Process

This can take anywhere from an hour to two weeks.

## Amount you can borrow

Credit cards usually have limits of $2,000 to $20,000 for small businesses.

## When best to use

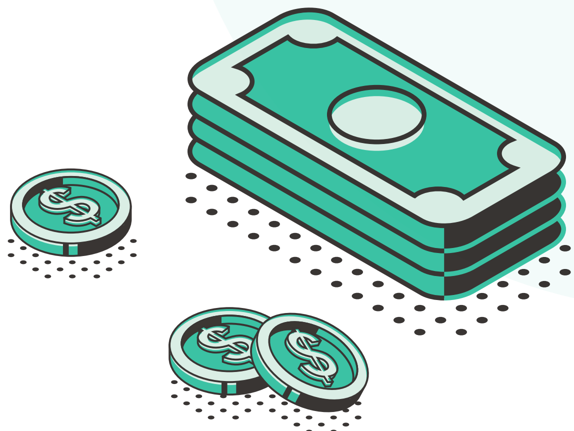
Most businesses will only use a credit card for online purchases (such as subscription or a service), although it is better to use a debit card for this. They are not typically used to finance a business due to the small amounts available and higher fees.

## Costs and Fees

Credit cards involve monthly repayments. Any amount that you do not pay will start to incur interest (10-23% per annum. Establishment fees are generally only required for bad credit; but there are often monthly or annual fees.

## Providers

Credit cards are provided by both traditional banks along with neo banks such as **Wise and Revolut.**



# Credit Cards

## PROS

### Easy to get and to use

A credit card is available to most businesses and easy to keep track of through statements from the bank or neo bank. It is simple to use, ideal for online purchases.

### Rewards

Some credit card companies offer rewards to their users, but not usually at a level that compensates for higher fees.

## CONS

### Compound interest

Debts incurred on a credit card can quickly become expensive if not paid off quickly. Card holders must be proactive in making payments to keep their costs down.

### Limited funds available

Credit cards have smaller limits (usually $20,000 or less for small businesses. This is usually not sufficient for start-up capital or any other ongoing funding needs.

### Security concerns

Extra care is required to avoid any fraud or theft with increasing credit card fraud being reported.

# Term Lending – To Capitalise Your Business

# Term Loan (Secured)

## What is a term loan(secured)?

A term loan offers a lump sum of money which is paid back slowly over a period agreed between you and the bank. The "secured" aspect of this type of loan means that it is tied to a property as collateral.

## Application Process:

The application process can be lengthy with stringent criteria. The bank or lender will require extensive information to help them ensure that you can repay the loan.

## Amount you can borrow:

Term loans are usually for amounts ranging from **$100,000** to **several million dollars.**

## When best to use:

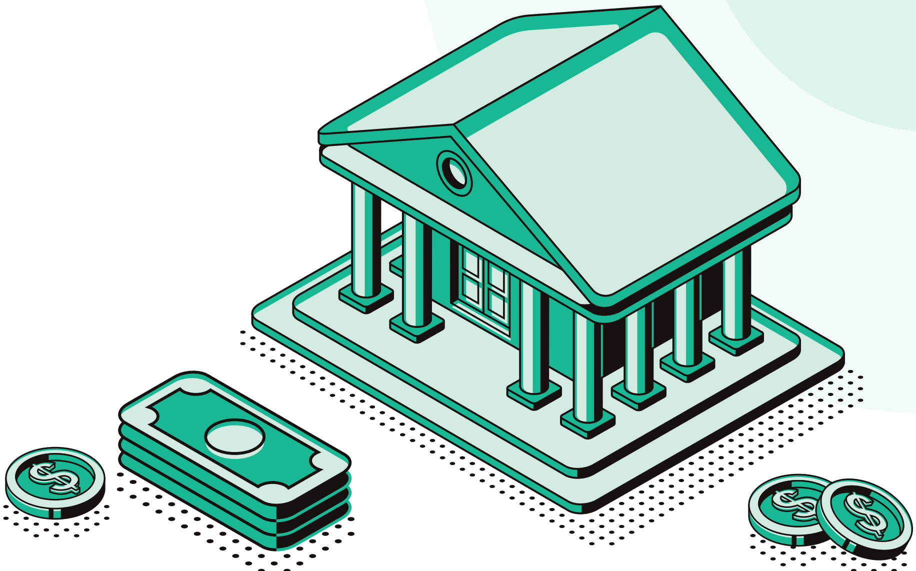
Term loans are ideal for situations in which a lump sum is needed to capitalise a business. This might be during the startup phase or in a time of growth.

## Costs and Fees:

Typically, the cost is somewhere between **6-12%** per annum, depending on the official cash rate at the time. Establishment fees and other administrative fees often apply, but always ask as they will sometimes waive these. Repayments and interest are usually repaid fortnightly.

## Providers:

They are provided by all the **major banks and financial institutions.**



# Term Loan (Secured)



## PROS

### Lowest cost
A secured term loan from one of the major banks is the lowest cost finance option.

### A common choice for SMEs
Most businesses will use a secured term loan at some point in their journey, and it's ideal for funding a project that will lead to growth in your revenue.

### Easy to manage
Once obtained, funds are available for you to use. Fortnightly interest payments are automatically debited from your account.

## CONS

### Rigorous criteria
Banks are conservative and governed by increasing regulation. Depending on your business, you may not be able to get a secured loan or get the level of funding you need to manage your business.

### Property security
Secured loans require your property as security. For small businesses this often means the family home is at risk should your business not do as well as you had hoped.  If you do not have some form of property you will not be able to obtain a secured loan.

### Lengthy application
The application process for a secured term loan can be lengthy. It requires extensive information and may take as long as six weeks to complete. Ensure you apply well in advance of critically needing finance.

### Fortnightly payments
These can be tricky for business owners as they may not sync well with a monthly invoicing schedule and can increase cash flow problems.

# Term Loan (Unsecured)



## What is a term loan(unsecured)?

This type of financing is like a secured term loan - but as the name suggests, it is not secured against property. This makes the loan riskier for the lender and so more costly to the small business.

## Application Process:

This can take several weeks, although small amounts from newer digital first lenders can take less than a week.

## Amount you can borrow:

Unsecured small business loans are usually between $5,000 and $50,000 for small businesses.

## When best to use:

An unsecured term loan can be used as a source of capital for business owners without property to use as collateral.

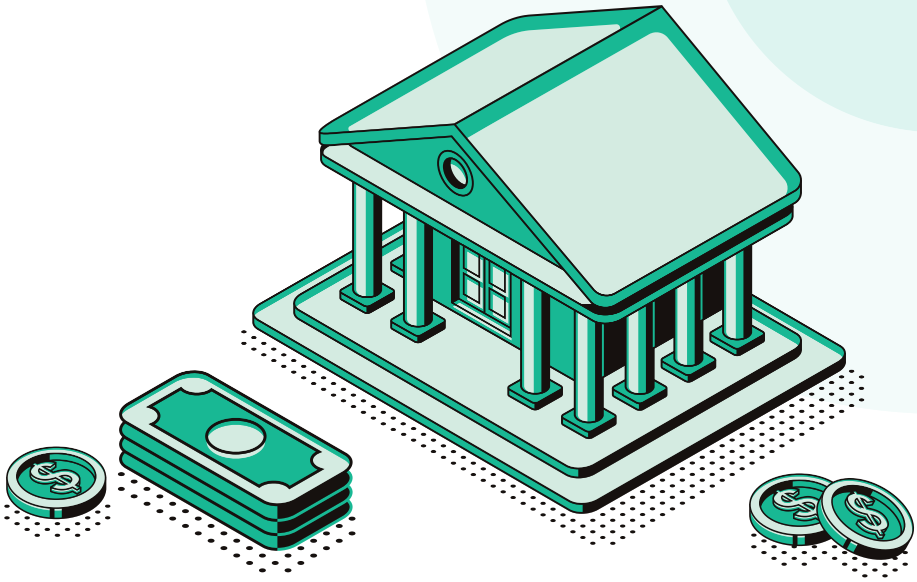
## Costs and Fees:

Typically, fees for an unsecured home loan include an interest rate of 9-36% per annum and an establishment fee of up to 5% of the loan value. There is usually a full schedule of fees; it pays to understand these to know the full cost of this finance option.

## Providers:

**Some of the major banks** will offer unsecured loans, but these will not be truly unsecured if you have any other banking facilities with them as they can utilise your other facilities and property through cross-gurantees.

Other Providers include **OnDeck, Heartland and Prosper**, but there are many to chose from and so make sure to compare these to find the best deal for you. **Lend.com.au** can assist here.



# Term Loan (Unsecured)

## PROS

### Lump sum

A term loan gives you unfettered access to a lump sum, which is useful for funding the launch of a business or a growth project.

### Quicker application

Often, financial institutions offering unsecured term loans have a shorter application process than the major banks, but still can take a few weeks to apply and be approved.

### No property required to secure

A major advantage of this type of loan is that the bar to access is lower. It is available to business owners without property to secure a traditional bank loan.

## CONS

### Higher costs

An unsecured loan has high fees when compared to a secured term loan and some other financing options. As it is paid back with interest in installments, it is an ongoing cost.

### Fortnightly payments

Unsecured term loans also typically have a fortnightly repayment schedule which can be trickier cashflow-wise for businesses that invoice monthly.

# Equipment Finance



## What is equipment finance?

Businesses can obtain loans specifically to invest in or upgrade their equipment and assets. The piece of equipment or asset is used as security for the loan.

## Application Process

The speed and simplicity of the application process will depend on the provider and the equipment you are financing.

## Amount you can borrow

Because the equipment secures the loan, the size of the loan is dependant on the value of the equip-ment.  However for speciallised or hard to sell equipment you will not be able to borrow the entire amount.  Depending on this factor, you can typically borrow from 30-100% of the equipment value.

## When best to use

You can use this type of financing to purchase just about anything you could need to run your business: office furniture, medical equipment, farm machin-ery, tools, large kitchen appliances, and more.

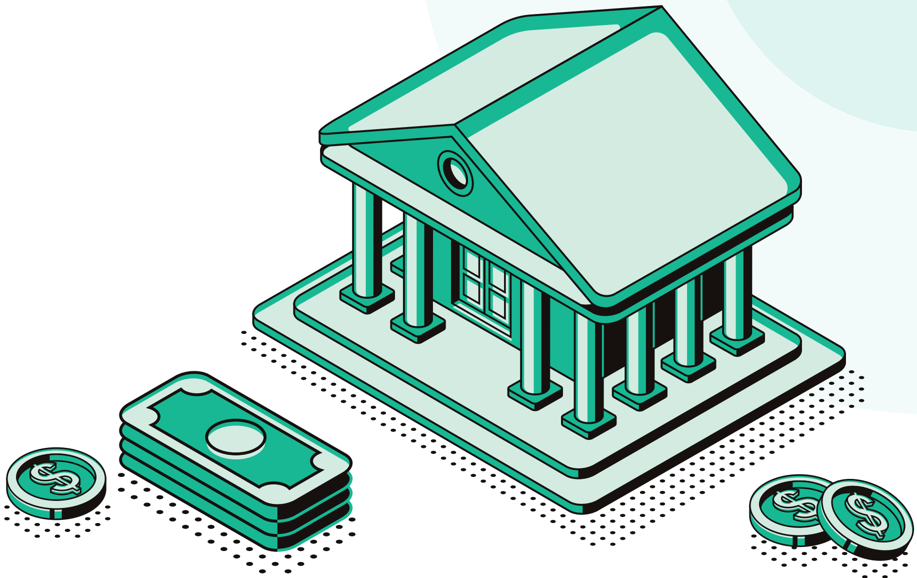
## Costs and Fees

These are set by the provider. Interest rates are often set at 5-15%. There may be additional estab-lishment fees and ongoing fees.

## Providers

The major banks will usually offer Equipment finance along with many specialists this area such as **UDC.**

**Lend.com.au** can help when determining what is right for you.



# Equipment Finance



## PROS

### Built-in collateral

Using the asset being purchased as collateral means that you aren't reducing your lending power elsewhere

### Low rates

Usually, equipment financing is a lower cost option due to the lower risk for lenders.

### Business growth

You get the equipment you need to grow your business without paying for it outright and damaging your cash flow.

## CONS

### Depreciation

The equipment will reduce in value while you are still paying it off. Ensure this equipment is a money-making asset that increases your revenue.

### Amount you can borrow

With more specialised equipment or equipment that rapidly depreciates, the amount you can borrow against it will reduce. This is because the resale value in the event of a default is much less.

### Limited scope

Equipment financing is only available for the purchase amount of specific assets.

## Are you interested in our Finance solution? Great! Let's discuss how we can help you.

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# Happy financing!

Want to learn more? Click here to get more in depth information and links to the various finance providers.

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