The Importance of Funding

Funding allows us to reach our goals or turn a business/enterprise idea into a reality. Your business might need a funding injection in order to start off, expand or diversify. This is often a loan or money from investors. Each funding type has its pros and cons.

The type of funding you go for depends on:

- the stage your business is at
- what you need the money for
- how long you need it for.

It's hard for new businesses to take out loans. Lenders usually want to secure the loan with assets, which you might not have yet. Some types of investors like to come on board early, but most new businesses start with their own money. As businesses grow, they usually have a mix of loans and equity investment. Loans typically cover operating expenses, and investors usually fund growth.

You could also consider a Partnership where you go into business with someone else who has the experience and/or assets to secure further funding in exchange for a share of the profits. Seeking legal advice regarding any potential partnerships in order to understand the associated risks, responsibilities, and advantages is critical.

Be strategic about who you borrow from, or who invests in your business.

HOW TO APPEAL TO FUNDERS/INVESTORS

Lenders and investors want reassurance you've thought about how your business is going to work, and what kinds of things might trip you up. Potential lenders and investors will look for three things:

Desirability — is there demand for your product or service?

Viability — can your business be successful?

Feasibility — are you capable of making it work?

You can show your business is desirable, viable and feasible in a business plan.

Risks to consider

You'll be expected to talk about your revenue, gross profit and net profit off the top of your head. Not knowing these basics is a warning sign you don't understand the financial side of your business.

Be honest about your long-term plans. Relationships sour when it turns out everyone has a different idea about where the business is going — especially if it puts the investor's or lender's money at risk.

Get Advice

It's worth getting professional advice from the beginning, and it's even more vital as your business grows. Start with your bank's business advisors.

Using your bank's services helps build a relationship, they'll get to know your business from the start.

The Regional Business Partner Network has a local office in each region of Aotearoa New Zealand. Their advisors can connect you with business networks and other advisors to help in different areas of your business.

Test the options

Before pitching for a loan or investment, work out how your business will fare in good and bad times. What will happen to your financial figures if interest rates change, or your sales don't go as well as expected? Will you be able to afford loan repayments, or meet the demands of investors?

Financial modelling is a way to explore how your finances might fare in good times and bad. It's also useful to compare funding types e.g. interest rates from different lenders.

The resources at **www.business.govt.nz** might be of use too.