

Minimising Interest On Loan Repayments



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Most businesses operate to some extent on borrowed money, but borrowing too much means you're paying more in interest than you need to. Borrowing too little means you're under financed and won't have enough capital to accomplish what you want to do.

That's why you have to work out, as near as possible, just how much money you will really need, and when you'll need it, before you talk to anyone about borrowing funds for your business. And of course you'll also have to work out how to repay what you're borrowing. Here's a process for estimating your borrowing requirements.

Check your business plan

Start by taking a good look at your business plan. It should be an overall guide to both the amount you need to borrow and to the times when funds will be needed. And if you don't have a business plan that tells you this kind of information, create one before going any further.

Consider your vision for the business

Where do you see the business three years from now? If growth is part of your vision it has to be funded somehow. Usually that means making an investment before you begin to get a return, and timing becomes a critical factor in ensuring your cash flow remains sufficient for business needs.

Decide the strategies you want to pursue

Each business goal identified on the business plan should be accompanied by a strategy to achieve it. Each strategy in turn should have a budget that will enable you to carry it out, and a timeframe for its completion. Relate these back to the projected income and expenses of the business overall and you'll be able to calculate the borrowing necessary to support implementing the strategy.

Assess the resources you are going to need

Consider what resources your business will need to achieve its goals. People and equipment are always necessary, but don't forget to plan ahead for other resources such as additional warehouse space or outside expertise (legal fees, marketing advice etc.) that might also be needed.

Get your team's ideas

You don't necessarily have to do all this work on your own; ask the members of your team for their input. Give them an outline of your business plan and the vision you have for the business, and then ask them what they think will enable it to reach its goals. Their insights can be helpful in identifying operational requirements that could necessitate more investment, like which machines need upgrading.

Model the projected financial position of the business

You need to prepare a financial model of the business that will indicate the effects of borrowing the funds you need. This model should demonstrate that the extra funding injected will improve profitability sufficiently to cover the repayments you will have to make. It should also show clearly that the business will have adequate cash flow at all times until the loan is repaid.

Now you're ready to go to a lending authority and make an application to borrow the money you need. By doing your homework, you'll know that you won't be borrowing too much or too little, and you can be confident that the business will be able to repay the loan from the income it generates. You'll also be much more likely to impress the lender and get the loan.



Want to find out more? Need some advice managing your company finances?

Call today on 01743 249992, or
Email: outsourcing@cb-solutions.co.uk

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