Financing an Existing Business

Bank financing is often sought by existing businesses, of course, and the process is much the same as we have described here. However, lenders will want to review an existing business's actual sales and profits and take note of whether they are increasing or not. A key question for a lender when considering a loan to an existing business is whether or not loan payments can be made when there is a period when sales fall flat.

If an existing business seeks financing from a bank it has used in the past, that bank may require less documentation or proof of sales and profits than other banks might.

In general, it is not a good idea to use a loan to cover on-going business expenses when profits or revenues have been declining. Lenders generally will not consider such an application.

When your business gets launched and is holding its own, you and/or your managers may start to focus on boosting sales and growing the company. Going after growth can improve your bottom line—or it can result in bankruptcy!

Consider this: If you grow, you'll need more money to support increased sales—more inventory, higher accounts receivable, and more employee salaries. If sales growth exceeds resources, cash flow can be threatened.

Before considering new debt or looking for investors, it might be useful to determine how much growth the company can sustain given its current resource base.

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