

Easy-to-Follow Forms of Finance Guide for Micro and Small Businesses

SPECIALIST SERVICES FOR THE SELF-EMPLOYED

Did you know? There are more than 2 million self-employed people in Australia.

When you are in business for yourself you need all the help you can find. At Independent Contractors of Australia we specialize in issues for the self-employed/micro-business person.

To assist we have produced a series of easy to use templates and practical advice covering:

- Business Plans
- Marketing Plans/Audits
- Marketing Research
- Finance
- Promotional Hints
- Contracts

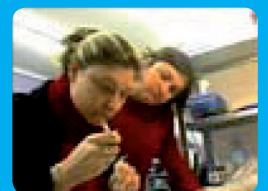
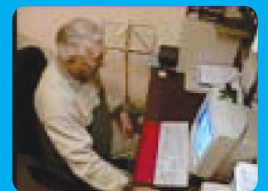
We have also produced a series of short video clips. We've interviewed self-employed people about what they say are the most important things to do in operating your own business. They talk about:

- Cash flow and debt management
- Work-life interface and balance
- Facing difficult times
- And more

You can find all these practical tools and information at:

www.contractworld.com.au

We also keep you up to date on issues for the self-employed.



Easy-to-Follow Forms of Finance Guide for Micro and Small Businesses

Detailed below is a guide to help steer you through the various forms of finance that may be available for independent contractors.

ICA gratefully acknowledges the assistance of the Commonwealth Bank of Australia in the preparation of this Guide.

Forms of Finance

What general forms of finance may be available at what approximate costs and what types of finance might fit different circumstances

1. Business Lending


(a) Bank Guarantee

Guarantees your payment to your suppliers without using your cash for the payment

- Where the bank promises to pay a predetermined sum of money to one of your suppliers in the event that the party that purchase the guarantee fails to provide the specified payment.


(b) Business Credit Card

The quick and convenient solution for everyday business and travel expenses, a business credit card helps you control costs by channelling purchases through a single account.

-  **Handy Hint:** A Business Credit Card is a great way to segregate your personal expenses from your business expenses whilst providing cash flow for business purchases. Websites such as [Infochoice](#) are free and can assist in comparing the features of different business products.

(c) Asset Finance

Finance solutions to help you access vehicles and equipment now, without starving your business of working capital.

- Usually a term loan (see above) used to purchase a particular asset, where that asset is used as the underlying security to the loan.
- Financial institutions will usually lend up to 100% of the value of the asset. However, this could result in you being charged at a higher rate of interest.
-  **Handy Hint:** Always talk to your financial institution and examine a range of different options to reduce your borrowing costs. Financial institutions may have calculators to assist you in this process.

(d) Commercial Finance

Provides a flexible at-call loan facility for business purchases for amounts up to and over \$100k for your business

- Line of credit

A flexible loan with no specific end date, usually linked to a transaction account, where a borrower can go into a deficit (up to a pre-approved credit limit) to assist with cash flow, such as business operational expenses
- Term loans

A loan that is applied for as a fixed amount that will be debited and a fixed repayment period, usually with regular periodic repayments. A term loan is usually used for the purchase of a particular asset such as commercial premises

2. Cash Management

(a) Transaction Accounts


Transactional accounts in your business name which makes paying and reconciling business expenses faster and easier

Products that you are usually offered on a transaction account are as follows:

- Direct debit (electronically transferring funds from your account via a phone or the internet) or cheque payments
- Direct credit (electronically transferring funds to your account) or in person at a branch or registered institution, such as a post office
- BPAY
- Cheque book
- Internet banking including payroll processing arrangements
- Overdraft or lines of credit (see Commercial Lending above) which can be applied onto your transaction account to give you greater cash flow flexibility

(b) Business Online Savings Accounts

An easy-to-manage at-call savings account, where a high interest rate is usually paid for balances over a specified amount


-  **Handy Hint:** An online savings account is ideal for parking surplus cash as it gives you the flexibility to manage your money while earning high interest.

3. Merchant Solutions

A merchant facility

Maximise your potential sales with market-leading merchant solutions that make it easier for your customers to spend money with you — in person, over the phone, or online.

A merchant facility allows you to accept and make payments made by either a credit card or a debit card. Some institutions may offer an online merchant facility, to enable you to accept payments for goods and services online. Using the most effective merchant facility to service your needs can speed up the time that you receive payments from your customers and reduce your administration costs


-  **Handy Hint:** Is a traditional solution the best solution for you?

Find the merchant solution that best suits your business needs.

- An EFTPOS terminal – you would probably have a retail store where your customers walk into your store and swipe their credit or debit cards to purchase goods
- Manual acceptance customer orders via phone / fax / mail – can you invoice customers directly via BPAY? You may not need an EFTPOS facility per se. However, you may need to factor in additional flexibility in your cash flow (such as an overdraft or line of credit) as there may be a delay associated with the manual nature of processing manual payments for your goods / services
- Accept payments from customers online – Search for institutions that can offer you a complete online payment solution with a low upfront cost. Additionally, ensure that the website or payment facility is secure (PCI DDS compliant) to guarantee your customers payment details are kept confidential. Building this capability yourself can prove expensive to develop (as an upfront cost) and maintain (ongoing costs).

Account fees and charges

Compare fees charged by financial institutions before choosing who to give your business to, as depending on what types of services you need, fees can be an expensive operating cost.

-  **Handy Hint:** Check the fees that you are being charged off against the most recent fee schedule published by the financial institution. If you are paying considerable fees for a particular service, ask if there is a product offered to minimise these fees or try to negotiate a discount.