

How Do I Get Money?

Funding Your Agricultural Business: Step 3

Funding Your Agricultural Business is a series of three factsheets designed to help you understand the type of funding you need, where the funding is available and the steps needed to secure the money for your new agriculture or rural-based business.

Now that you have determined how much money you need for your business and which funding source is most appropriate, it is time to talk about best practices when approaching a lender or investor. This is the third step in the process to secure the money you need to realize your business dream.

How do you get the money? You ask for it. Although the manner in which you ask depends on many factors, this factsheet will help you do the following:

1. tailor your approach to the source of funding
2. tell your story in a compelling way
3. prepare the information most funders will be looking for
4. understand how financial ratios can make or break your deal

Tailor your approach

Agricultural financing has changed over the last few decades. Today's agricultural entrepreneurs have a lot more options for funding, as shown in the previous factsheet *Step 2: Where Can I Get The Money?*, Agdex 832-4

The challenge now becomes targeting your message to each funder for the best chance at success. That means researching your funder's requirements and preparing your documents so that you address their needs.

For example, potential funders participating in donation-based crowdfunding will not need to see a formal business plan, but will want a personal look inside your business. This view may be best provided by a video presentation and by interacting and promoting your story efficiently to your social network. A chartered bank or financial institution is more apt to practise "scorecard lending" based on your business plan and up-to-date financials rather than their relationship with you.

In addition to tailoring your business pitch to a potential funding source, a meeting with any funder will be enhanced by powerful storytelling.

Tell your story in a compelling way

It is time to ask for the money. It is important that you provide a business case, but also a persuasive rationale. Talk about your skills and your idea's path to success.

Here are some possible discussion points when approaching a funder:

- What is the business idea and how is it unique and different from others?
- Do you know your industry and competition?
- Can you demonstrate you know the risks involved?

Use "best practices" when approaching a lender or investor

- Can you identify and address potential weaknesses and challenges?
- Can you convey the passion you have for your idea?
- How will your business idea benefit your funder?
- How do you know that consumers will desire what you are offering?
- How will your business idea achieve profitability and how soon?
- Do you have past successes that illustrate your skills as a profit-maker?
- How will the money you are asking for move the new enterprise forward?
- How much of your own collateral or personal savings are you willing to put into the business, to reflect your confidence in your idea?

Prepare your business documents

Storytelling is important, but a business idea cannot be all fluff and no meat. Show funders you have done a thorough job researching the financial aspects of your business idea and prove that you can pay back the money or deliver a worthwhile return on their investment.

When approaching a lender or investor, you need these recommended documents:

- credit report
- business plan
- income statement
- balance sheet
- cash flow projections

Credit report

Although funders often secure a credit report on your behalf, you should know your personal credit rating. Financiers regularly send information to Canada's major credit reporting agencies about their transactions with you, but your credit report may not be up-to-date or may have errors. If you find errors, you can dispute them with the credit reporting agency.

Business plan

Creating a business plan will help you consider all aspects of the business before a visit with your funder. You may not need a long, detailed plan but should have a written document that shows you have considered the key components of a plan. Two documents on the Agriculture and Forestry (AF) website called *Elements of a Business Plan* and the factsheet *Launch Your Business: Time for Action (Step Seven)*, Agdex 811-5, can help you build a business plan. Go to www.agriculture.alberta.ca and search for the document titles.

Income statement

An income statement indicates profit or loss by summarizing a business's revenue (receipts or income) and expenses (costs) for a set period of time, usually a year. AF's Agriculture Business Alternatives series factsheet *Analyze Your Profitability: Managing Your Growth (Step Six)*, Agdex 811-6, can help you put together an income statement and balance sheet.

Balance sheet

The balance sheet shows a company's financial position at the end of a period. It is sometimes referred to as a "business snapshot" because it is a concise way to show what a company owns (assets) and owes (liabilities) at any given time.

Cash flow projections

The cash flow projection provides a look at the business requirements in terms of cash revenues, expenses and debt repayments as well as future financial obligations that may affect the business. AF's factsheet *Review Your Finances: Making the Money Work (Step Five)*, Agdex 811-3 provides information about creating a cash flow projection for your farm enterprise.

Make your case with financial ratios

There are many ways to measure the health of your operation or your business idea. Many funders will look at your financials with certain financial ratios in mind. Ratios can provide potential lenders or investors with information in five key areas.

1. **Liquidity.** Is your farm business able to meet its financial obligations as they come due? Can you generate enough cash to pay your family living expenses and taxes, plus make your debt payments on time?
2. **Solvency.** This aspect reflects the financial risk and borrowing capacity of the business. Can the farm business repay all its debts if it were to be sold tomorrow?
3. **Profitability.** Does the value of goods produced minus the cost of the resources used in their production result in a profit?
4. **Repayment capacity.** Can you repay term debts on time? This aspect will also take into account non-farm income and not just the business enterprise alone.
5. **Financial efficiency.** How effectively does your business use its assets to generate income? Past business performance can be considered an indicator of future results.

For detailed information on key financial ratios and how to calculate them, visit the Farm Financial Standards Council website at www.ffsc.org

Conclusion

Remember, asking for funding is not unlike a job interview. To ensure your success, practice answering questions you think a funder may ask. Be prepared to address holes or weaknesses in your plan to show you also recognize obstacles but can overcome them. All these things will help build the funder's confidence in you and your idea.

Being prepared is vital to any effective bid for business funding. If you have the right information ready, it is more likely you will get the funding you need.

Do you need more help or information? Contact an AF New Venture coach or visit the online information *Biz Info – Starting and Growing a Business*. Go to the AF website at www.agriculture.alberta.ca and search the Biz Info title.

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Prepared by
Alberta Agriculture and Forestry

More information, contact:
Alberta Ag-Info Centre
Call toll free: 310-FARM (3276)
Website: agriculture.alberta.ca