Running a business without capital to grow is like running on ice.

The difficulty some seasonal businesses, like snow removal professionals, face in getting financing from banks, leasing companies and other lenders.

By Itamar Chalif
Atlantic Capital Solutions, Inc.

As a snow removal professional, your typical day in the summer differs quite a bit from the typical day in the middle of winter—especially if snow removal is a supplemental part of your business. Besides paying a little less attention to the weather, you're probably in the marketing and preparation mode. That is if you've even begun thinking about the upcoming winter. Yet it's that preparation in the "off" season that can make or break your winter. The same is true for acquiring financing. Unfortunately a lot of snow removal companies and other seasonal businesses are not aware of the steps needed to acquire financing and that can lead to rejection when you're looking to get a loan or line of credit.

Most snow removal companies begin to slow down in late February or March. Yet you probably don't really begin thinking about the improvements you would like to make or the equipment you would like to buy for the coming year until the summer. Yet waiting that long to plan and then approaching the bank or leasing company in November or even December about a line of credit, working capital loan or equipment leasing is pretty much a surefire way to fail. The optimal time to approach your bank is at the tail end of your busy season.

As a rule, lenders like to lend money to people with money. Assuming you're having a good year, February or March would be the best time to approach the lender. At that time, you've probably got cash in reserve and, hopefully, all your bills have been paid. That's the time to obtain the line of credit that will help you survive the winter lull because you are very liquid and you look great on paper. That makes it much easier to obtain an equipment lease and have a $100 month payment for the first 90 days, which will insure that: (a) you get the needed financing; (b) you have a very low payment for the first three months; and (c) you will have the equipment before the season starts. This enables you to start marketing and bidding on jobs while your competition is out on the beach because you know you will have the equipment.

Besides timing, the key to getting financing or a line of credit remains your personal and business credit scores. There are many factors that affect your credit score in either direction. Some of the most important ones include:

- Paying your bills on time – being late one time on a bill can have a negative effect on your credit score. If your overall credit situation is marginal than one bill being 31 days past due may break the deal.
- Limit your revolving lines of credit; lenders like to see you have the discipline not to extend your credit lines, that you "do not need the money" so to speak. Remember lenders like to lend money to people who know how to use it, but do not need it.
- Bring the balance on your credit cards to 50 percent of the credit line or less. Having one credit card with a $10,000 limit and $9,000 balance will impact your credit score far more than three credit cards with a total credit limit of $30,000 and a balance of $5,000 on each.
- Keep lines of credit separate from your partner or spouse - whether it's financing a car, obtaining a credit card or conducting any transaction that involves borrowing money; if possible do not sign jointly on the account.
- Owning a home – to lenders, home ownership represents stability from a character standpoint and from a practical standpoint. People who rent a home do not have an anchor to hold them in one place if things go wrong. People with a home typically will fight harder to make things right and it is much harder to pick up and leave when you have to sell a home. From a character standpoint, it shows you are invested, figuratively and literally, in the place where you live.

By following these simple guidelines, you will have a much better chance of obtaining the capital needed to grow your business.

While planning and credit scores play a major role in obtaining lines of credit, so does the key component of any transaction: the lender. Many small business owners get locked into the mindset that their bank is the only place they can turn to for a line of credit. If their bank turns them down, which if they've failed to plan and not followed the steps above is quite possible, they stop trying.

Your bank, however, is but one lender and there are many out there. Doing the research to find other lenders requires a lot of legwork and, in the case of many small business owners, is outside your area of expertise. That's why working with a financing consultant can be your best bet.

Financing consultants work with multiple lenders. They know the ins and outs of borrowing money and establishing credit. For example, they know which lenders will want to put a lien on your home or your investments or savings to establish a line of credit, and those that will not (something you should try to avoid as much as possible). Or which is a better option, leasing used equipment or buying it outright.

A financing consultant worth their salt should also be able to provide you guidance on how to spend your newfound financing as well. As a general rule of thumb, you want to spend on items or processes that help you grow the business. Or, in other words, try to spend your financing dollars in areas that will make additional money for your business.

For example, let's say you get a line of credit from your bank and the first thing you do is go out and buy a new truck using 90 percent of your financing. If that truck is replacing an old truck, it's not helping you make additional monies. At best, the new truck will save you fuel and maintenance costs, as well as down time, but it will not make you money. If the truck is an addition to your fleet, it will help you provide better and faster service to existing clients and enable you to take on more customers, yet the truck does not directly help you make money.

Now, instead of that course of action, let's say you lease an additional truck for your fleet, using 10 percent of your much-needed line of credit. Then you spend 20 percent on a marketing campaign and another 40 percent to hire a dedicated salesman to go get new business. Those two additions will help you grow your business and you'd still have 30 percent of your financing to use on any number of things or just keep it in reserve. By using your financing dollars towards growing your business as opposed to simply making improvements, you get more for your money.

With the help of a financing consultant, whether you're a snow removal professional, arborist, landscaper or in any other seasonal business, getting financing doesn't have to be a painstaking, arduous process. If you take the proper steps to put yourself in the best position credit-wise and approach lenders when your finances are solid during your peak season, you can not only make it through the long hot summer months, but position your business to grow and enjoy an even better busy season next year.

Itamar Chalif is the founder of Atlantic Capital Solutions, www.atlanticcapitalsolutions.com, and a member of the Tree Care Industry Association.

Sidebar or text box:

Three Financing Mistakes to Avoid

1. **Insufficient financing –** A great number of start-ups and small business owners are, quite understandably, afraid of debt. As a result, they don't borrow enough money up front. Consequently, while growing their business over the first few years, they run out of working capital.
2. **Borrowing against your home or retirement savings –** There is a perception that "paying yourself back with interest" by borrowing against a 401(k) is the way to fund a business. Taking a home equity line of credit to launch a business is another common method people use to get started in business. These options are fine in certain situations, but too frequently people use these options too early in the process and are left without alternatives for the future.
3. **Unaware of the fine print and its effects –** Most financing programs have fine print. This may include: "such as but not limited to"; early termination clauses; end-of-lease buyouts; future borrowing restrictions; and more. If you do not fully understand these details, it could affect future growth decisions.