connections

An Immigrant's Guide to **Financial Fundamentals for Small Business in Alberta**

BUSINESSLINK
Immigrant Services

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How to Use this Guidebook

Welcome to Connections: An Immigrant's Guide to Financial Fundamentals for Small Business in Alberta

Do you want to understand the basics of business financials? If you said yes, this guide is for you. It will show you how to speak the languages of business and apply for business funding in Alberta.

This guide is to help you get started. It does not give every detail of funding a business. You will still need to do more research and use all the resources available to you.

We suggest you read all the sections of this guide but take your time. It is meant to introduce you to the business financial processes. We recommend that you give yourself at least one day to work through each section and that you try the Activity Zone tasks before you move forward.

Each section should be learned in order. You may find there are topics you have experience in. We suggest you read every topic to help you understand the full business financing process. We also suggest that you download the companion guide to financial terminology[1] from Business Link as an additional resource.

This guide also has some special features:

DEFINITIONS
Can help with certain vocabulary.

CONNECTIONS
Offer links and contacts that can help with the lesson.

DID YOU KNOW
Gives helpful hints and directions to useful resources.

BUSINESS LINK
Provides information about how Business Link can help you with your startup.

ACTIVITY ZONE
Gives extra opportunity to think about issues and ask yourself questions.

SECTION 1
An Introduction to Financial Fundamentals

Money is the fuel for your business. Just as your vehicle needs a constant supply of gasoline to continue running, your business needs a constant supply of cash to operate smoothly. Without a good supply of cash your business risks being exposed to unexpected changes in the marketplace. Your company may be profitable one day but encounter difficulty the next if you do not manage your financials.

This guide will discuss how to price your products and services, manage cashflow and create a stable income for yourself.

You will learn:

- The languages of business
- How your personal finances impact your business choices
- Who should be on your team
- What the 3 basic financial statements reveal about your business
- Cash flow basics
- Product/service pricing- how to complete a break-even analysis
- How to access outside funding (lenders) for your business

SECTION 2 The Languages of Business

GAAP[2] is a set of rules, standards, and principles that public companies must follow when making financial statements. GAAP rules guide you on how business transactions should be presented, disclosed, measured, and recognized on reports. If you are a smaller company that does most of your business domestically, you can choose to follow either GAAP or another Canadian set of accounting standards called the Accounting Standards for Private Enterprise (ASPE)[3].

For the purposes of this guide, we will be using the language of Accounting to speak about the basics of tracking and understanding your company financial health. To assist you, Business Link has created a complete guide[6] to financial terminology that you can download and use a companion resource.

For you to be able to make decisions about what your business should do today, and in the future, it is helpful to understand the languages of business.

The Languages of Business:

1. **The language of Accounting** - accounting tracks historical information in your business. It is the language used to keep track of revenue, expenses, capital and other items. This rules-based system abides by GAAP and is used by companies to communicate business results to a variety of interested parties such as Revenue Canada, investors and bankers.

2. **The language of Finance** - once you understand accounting language, you can take what you know and move ahead to the language of finance. Accounting is backward-looking while finance is forward-looking. The numbers prepared by your accountant can be used to create forward looking projections to help you plan the future. This language is used to see where your company value is being created and the rates of return on investment.

3. **The language of Economics** - this is the 3rd language of business. It looks at the behaviour of the external economic forces that occur outside of your business. Think about systems of supply and demand, changes to customer preferences and the impacts of technology advancements as pieces of the economic language.

Economics impacts our everyday lives more than we think. To follow and use economic principles in your everyday life by listening to the podcast - Think Like an Economist[4]

To learn more about these 3 languages visit the Corporate Finance Institute[5]

SECTION 3 Your Personal Finances

When lenders look at your small business, they may see that the business is quite young and does not have an established credit history. Whether you are registered as a sole proprietor or incorporated business, it may take 2 or more years to establish a financial history for your company. This is one of the reasons your personal financial history is important. Lenders will look at your financial credibility as the business owner to determine if they can lend to you until your company becomes more established. Lending is discussed in more detail in Section 7. For now, it is important to know the basics of creating and reviewing your credit score.

A **CREDIT HISTORY** shows how a person paid back the money they owe. It shows how responsible a person is with their money.

A **CREDIT SCORE** is based on a person's credit history. Lenders use credit scores to determine if a person will pay back their loans on time.

Learn more about credit scores and credit reports from Equifax Canada[7].

Establish a credit history in Canada

Building a solid Canadian credit history and having a good credit score are especially important in Canada.

You may have saved some cash to start your business, but at some point, you'll need to purchase equipment or inventory from your suppliers, host a website or lease space for your business. In many cases your credit will be checked, and you will need to use a Canadian credit card. Banks will review your personal credit history when you apply for small business loans. It is important to have a good personal credit history before you start your business.

Even if you had an exceptionally good credit history in your home country, you need to have a Canadian credit history. A Canadian credit history lets financial institutions and other lenders determine if you qualify for credit. Credit history from your home country will not be taken into consideration in Canada.

How you can start building a good credit history

- Begin to build your credit history as soon as you arrive in Canada.
- Start small and build carefully.
- Apply to a bank or credit union for a credit card.
- Use the credit card to buy things that will build your credit history. It is best to pay the full monthly amount by the due date to avoid paying high interest fees and keep a good credit history.
- After getting the credit card, you can apply for overdraft protection on your bank accounts and small lines of credit. Be careful with credit. Borrowing fees and interest payments can be high.

Your Personal Budget

Another reason to examine your personal finances is so that you have a good understanding of how much money you will need to draw from your company to support your own personal lifestyle every month. If you are starting a new business, you may need to rely upon your personal cash savings to provide you with income. It can take several months or even 1-2 years before your business becomes profitable enough to support you. During this time, you will rely upon your own personal cash reserves and any additional funds you can borrow. As your business grows, you can start to draw income from the business to pay yourself.

Estimating your income and calculating your expenses is called **BUDGETING**.

Using the Government of Canada Budget Planner[8] create a basic personal budget using your current personal income and expenses.

SECTION 4 Build Your Team

Starting and growing your business is easier with good advisors to your team. Successful business owners surround themselves with people who have specialized experience. The right team will help you track the health of your business and work with you to apply for funding. Your 3 main advisors will be:

In this section, you may see some new financial terms. If you have not yet downloaded the complete guide[9] to financial terminology, this is a good time to do that! It will help you increase your business language vocabulary.

BANK ACCOUNT MANAGER

BOOKKEEPER

ACCOUNTANT

Each advisor has an important role to play.

Learn more about choosing a bank for your business at Intuit Canada[10].

The Government of Canada is responsible for creating a safe and accountable banking system. Your bank is registered with the Office of the Superintendent of Financial Institutions[11].

Bank Account Manager

Your business will have its own bank account and an account manager will be assigned to that account. Begin right away establishing a good relationship with your bank account manager. Ask about the financial products and services available to your new business and request that this person stay connected with you by email and telephone at least 2-3 times per year. Your account manager should make you aware of any banking products and services that can hep your business such as overdraft protection, business credit cards and lines of credit. This person should inform you about any seminar and services being offered by your bank. Business account managers at one bank will also have established relationships with other lenders and organizations that assist business owners. Take advantage of this FREE advisor by staying connected and asking lots of questions.

Call your banker and arrange to meet in-person or virtually via a video call. Ask about all the fees associated with your bank account and to review any products or services the bank may offer to help you reduce your banking costs and increase your access to funding.

Download the guide to choosing your accounting software here[12].

Most bookkeepers will use software designed for tracking your transactions. Accounting software is designed to provide all kinds of important financial information to you. Choosing the right software for your business may seem complicated. Business Link has created a helpful guide to assist. Download the guide[13] and speak with your bookkeeper about which software might be the best choice for you.

Your bookkeeper can also handle things such as:

- Creating invoices for customers
- Collecting payments from customers
- Issuing payments to your suppliers
- Keeping track of your purchase orders
- Calculating asset depreciation
- Monitoring your cash flow
- Preparing financial statements
- Handling year-end tax preparation
- Budgeting
- Establishing or recommending accounting procedures
- Managing accounts payables and receivables

Bookkeeper

Bookkeepers and Accountants are not the same. Even though they both work with your finances they have distinct duties. Bookkeepers manage the day-to-day numbers. They organize all your accounting data by recording the day-to-day financial transactions in your journals and posting them to your general ledger.

For example, when you receive a payment from a customer, the cash or cheque goes to your bookkeeper, who records the transaction in your journal.

When you receive monthly bank statements, the bookkeeper reconciles your company's accounting records against the bank accounts to make sure they match. It might not sound like a lot of work but think about all the individual transactions your business does on a regular basis. Doing it yourself can keep you from more important tasks in your business. Having a bookkeeper saves you time. It also helps you make sure your records are accurate.

Many bookkeepers use accounting software to help them with their tasks. Together, you and your bookkeeper can discuss software options and manual ways to track your daily financial activities.

When you first start your business, you might take on the bookkeeping yourself. It may be simple in the beginning, and it saves you money over hiring out the work. It helps you understand your finances, so you know what is happening.

But as your business grows, you may start feeling the additional work of marketing, sales and, operational needs that take up more of your time. That can mean the accounting functions sometimes get pushed to the side. In a growing business, if you let too much time pass between keeping the books, you lose track of your cash flow and can run into problems. Bookkeepers are affordable. A good bookkeeper can save you time and keep you on track.

Accountant

While your bookkeeper deals with the day-to-day transactions, your accountant handles the analysis of your finances. You should use an accountant early in your business to get the financial systems in place. The accountant also come into the process in the later stages of the accounting cycle.

Your accountant helps you make sense of all accounting data you collect. That data helps your accountant produce financial reports that allows you to make better business decisions. For example, your accountant might help you forecast your business's cash flow and identify business trends that can increase your revenue.

If you have high revenue but low profit, your accountant can look at the accounting data to figure out what is happening. They may see costs that lower your profits, which you can cut to improve your cash flow. Your accountant provides for small business tax-related advice. They can help you maximize your tax credits and deductions so you can keep more of your business income. Accountants stay up to date on the latest tax regulations and will ensure you take full advantage of any tax credits and deductions available to your business. At the end of the year, an accountant will prepare and file your tax returns.

The **ACCOUNTING CYCLE** - Think of the accounting cycle as a process that every financial transaction goes through. Every time you make a financial transaction, such as buying office supplies it gets recorded in your journal. Your journal is a list of transactions in chronological order.

Accountants are regulated and part of an organization called the Chartered Professional Accountants (CPA). You should confirm that your Accountant is a registered member. For more information visit the CPA Alberta website[14].

SECTION 5 The Big 3 Financial Statements

Download the Business Link guide to hiring an accountant[15].

Financial statements tell the story of your business. They let you, the business owner, know if you have enough cash to operate and grow. They provide a snapshot of how healthy your company is and if your profitability can be improved. Your accountant will prepare the financial statements and discuss them with you. It is important to understand what each one is used for and what questions are important to ask to better understand how to grow. Lenders review the information in your financial statements to make sure your company can pay back any loans.

Many financial terms are being used in this section to explain each type of financial statement. You will find the "Guide to Financial Terms[16]" helpful as a companion resource in this section. Open the guide while you read to cross reference the terms highlighted in bold. If you are new to the language of accounting and finance, you may need to read this section a few times.

Income Statement

The income statement is also called a profit & loss statement. If you are wondering about the profitability of your company or "the bottom line" then look no further than the bottom line of your income statement. This standard form shows sales first, then the cost of sales (or cost of goods or cost of goods sold (COGS), or direct costs, all of which are the same thing). Then it subtracts costs from sales to calculate gross margin (which is defined as sales less the cost of sales). Then it shows operating expenses, usually (but not always) subtracting operating expenses from gross margin to show EBIT (Earnings Before Interest and Taxes). Then it subtracts interest and taxes to show profit.

Sales - Cost of Sales = Gross Margin

Gross margin - Expenses = Profits

The income statement is about the flow of transactions over a designated period - such as a month, a quarter, a year, or several years.

Balance Sheet

A balance sheet is straightforward. It shows your company's assets, liabilities, and owner's equity at a specific point in time. Put simply, a balance sheet shows what a company owns (assets), what it owes (liabilities), and how much owners and shareholders have invested (equity/capital).

Think of this document as a snapshot of your company frozen in time. The details of your balance sheet will be different each time you take a new snapshot. It will always show assets on the left side or on the top, with liabilities and equity (capital) on the right side or the bottom.

Balance sheets must always obey the following formula:

Assets = Liabilities + Equity

Unless this simple equation is true, the Balance Sheet does not balance, and the numbers are not right. You can use that to help make estimated guesses and pull things together for projected cash flow.

Cash Flow Statement

The cash flow Statement is one of the three main financial statements (along with the income statement and balance sheet) that shows the financial position and health of a business.

It shows the actual cash inflows and outflows. The statement then compares cash received to cash spent to determine if a business is cash flow negative or cash flow positive. the cash flow statement also shows how much cash a business has on hand at the end of the specified period.

You will be learning more about the cash flow statement and learning how to prepare a cash flow statement in Section 6. For now, read more about cash flow and the importance of cash flow.

A cash flow positive business is receiving more cash than it is spending. Likewise, a cash flow negative business is spending more cash than it is receiving.

There are two different types of cash flow statements that a business may produce: an indirect cash flow statement and a direct cash flow statement.

INDIRECT CASH FLOW STATEMENT

The indirect method starts with net income from the profit and loss statement and then makes additions and subtractions from that number to arrive at cash flow.

The indirect cash flow statement is more popular because it can be easily created from reports produced by accounting software. That said, it can be more difficult to use for cash flow forecasting.

DIRECT CASH FLOW STATEMENT

The direct method simply totals up cash received, and cash spent, and then compares the two numbers to arrive at a cash flow number.

How Cash Flow Statements work with your Income Statement & Balance Sheets

Along with the income statement and balance sheet, the cash flow statement is one of the three main financial statements you can use to evaluate a business's performance. It is also the most important, and least intuitive, of the three. In both mathematical and financial detail, it reconciles the income statement with the balance sheet - but that detail can be hard to see & follow. What is most important is tracking the money. By cash we mean liquidity, as in the balance in chequing and related savings accounts, not strictly bills and coins. Tracking cash is the most important thing a business does. The underlying truth is:

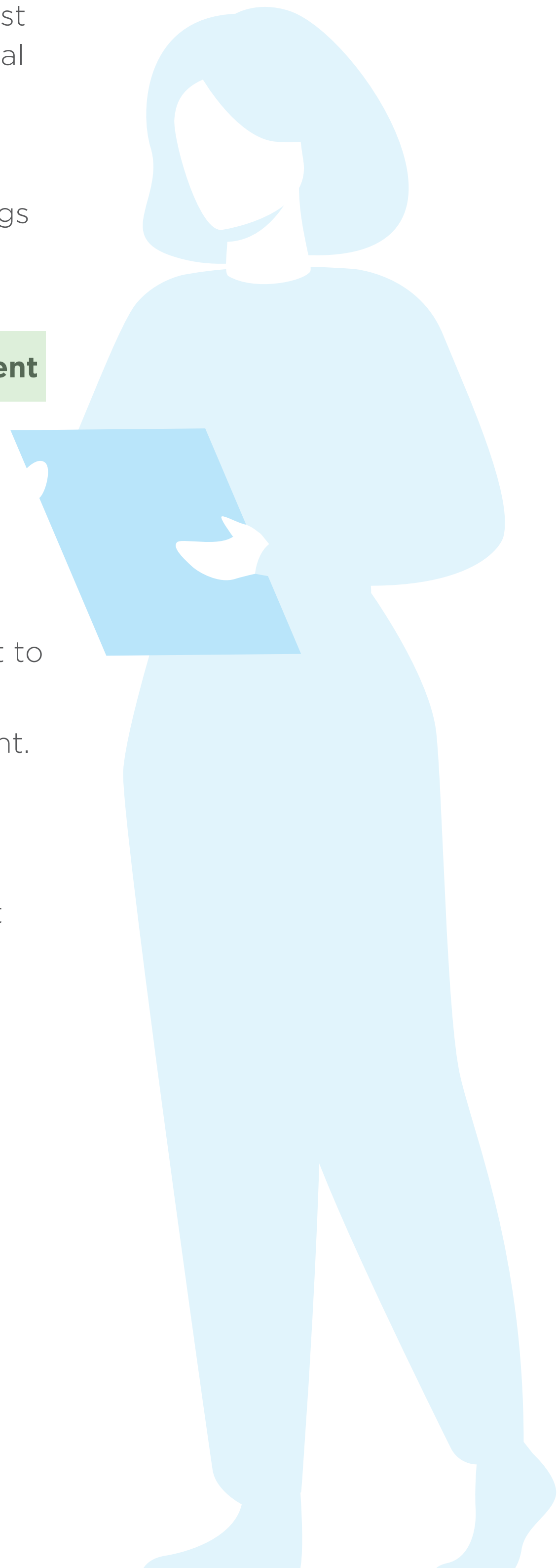
Ending Cash = Starting Cash + Money Received - Money Spent

What's particularly important in planning is that neither the income statement nor the balance sheet alone is enough to plan and manage cash.

The income statement records booked sales and expenses and calculates profits. It is important to know if a business is profitable or not, but you then turn to the cash flow statement to see how this activity impacts cash.

The income statement does not reflect cash received and spent. This is because customers often take time to pay after they receive an invoice and businesses also don't pay all their bills right away.

The balance sheet connects to the cash flow statement in that it also records the amount of cash a business has on hand. In addition to this key metric, the balance sheet also lists a business's assets and its liabilities.



SECTION 6
Cash Flow Basics

The cash flow statement shows if a business is bringing in cash or losing cash over time. With cash being the lifeblood of business, knowing if cash is moving into the business or out of the business is critical.

You can use the cash flow statement to calculate cash runway - the amount of time that a business can stay in operation if it continues to lose money at its current pace. Cash flow statements are an important part of a business plan as lenders will look for positive cash flow as part of their overall lending criteria. Lenders will want to see that you have positive cash flow.

Download the BDC guide[17] to taking control of your cash flow. This guide explains the 3 key elements of cash flow, how to improve your cash conversion cycle, how to use a cash flow planner and how to collect your outstanding bills quicker.

Enroll in the free BDC 25-minute e-learning course - Managing Cash flow[18]. Complete the exercises and activities contained in this course and you will be well on your way to managing your business cash flow.

Futurpreneur Canada has developed a cash flow template[19] business owners can use for start-up and financing purposes. The downloadable template comes with short, video tutorials.

As an added bonus, if you are a youth immigrant entrepreneur, you can use this template as part of your application for funding from the Futurpreneur Newcomer Program[20].

SECTION 7
Break Even

A company's breakeven point is the point at which its sales exactly cover its expenses. Why is this important?

"DETERMINING THE BREAK-EVEN POINT ALLOWS A COMPANY TO DETERMINE THE LEVEL OF SALES NEEDED TO COVER ALL COSTS (FIXED AND VARIABLE) AND START EARNING A PROFIT." – *CPA CANADA*

FIXED COSTS are the costs that do not increase or decrease based on the products and services sold. They are the costs your business pays whether your company is generating income from sales or not: usually rent and overhead, and sometimes salaries. Technically, fixed costs are those that the business would continue to pay even in the event it was to sell nothing.

VARIABLE COSTS are costs that fluctuate in direct proportion to the volume of units produced. The best and most obvious examples are the physical Costs of Goods Sold (COGS) and direct costs (such as materials, products/services purchased for resale and production costs).

To calculate a company's breakeven point in sales volume, you need to know the values of three variables:

FIXED COSTS

VARIABLE COSTS

THE SELLING PRICE OF THE PRODUCT/SERVICE

How to Calculate the Breakeven Point

In basic math terms, use the following formula:

Fixed Costs / (Price per Unit - Variable Costs)
= Breakeven Point in Units

In other words, the breakeven point is equal to the total fixed costs divided by the difference between the unit price and the variable costs. Note that in this formula, fixed costs are stated as a total of all overhead for the business, whereas price per unit and variable costs are stated as per unit costs - the price for each individual product or service unit sold.

An Example of Finding the Breakeven Point

Altacorp Ltd. has calculated that it has fixed costs that consist of its lease, factory equipment, manger salary, and property taxes. Those fixed costs add up to $60,000 per year. Their product is “The Widget”.

Their variable costs associated with producing “The Widget” are raw material, factory labor, and sales commissions. Variable costs have been calculated to be $0.80 per unit. “The Widget” is priced at $2.00 per unit.

Given this information, we can calculate the breakeven point for Altacorp Ltd.’s “The Widget” product, using our formula from above:

$60,000 / ($2.00 - $0.80) = 50,000

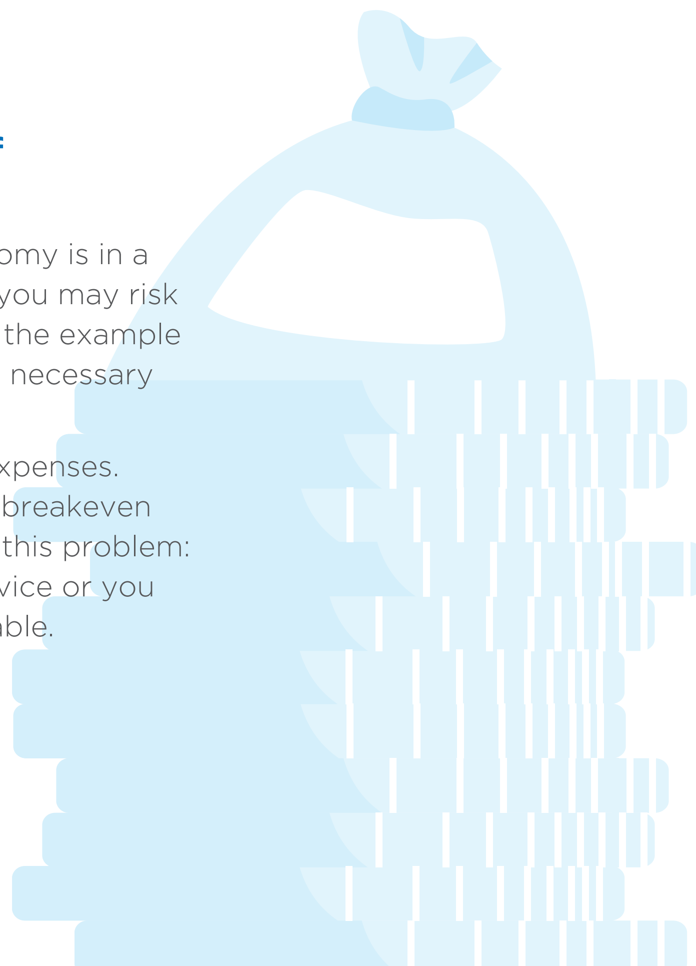
Fixed Costs / (Price per Unit - Variable Costs) = Breakeven Point in Units

What this answer means is that Altacorp Ltd. must produce and sell 50,000 “Widgets” per year in order to cover their total expenses, both fixed and variable. At this level of sales, they will make no profit but will just break even.

What Happens to the Breakeven Point if Sales Change?

What if your sales change? For example, if the economy is in a recession, your sales might drop. If sales drop, then you may risk not selling enough to meet your breakeven point. In the example of Altacorp Ltd., you might not sell the 50,000 units necessary to break even.

In that case, you would not be able to pay all your expenses. What can you do in this situation? If you look at the breakeven formula, you can see that there are two solutions to this problem: you can either raise the price of your product or service or you can find ways to cut your costs, both fixed and variable.



How Cutting Costs Affects the Breakeven Point

Imagine that you find a way to cut your fixed costs by reducing your own salary by $10,000. That makes your fixed costs drop from $60,000 to $50,000. Using the same formula and holding all other variables the same, the breakeven point would be:

$50,000 / ($2.00 - $0.80) = 41,666

Fixed Costs / (Price per Unit - Variable Costs) = Breakeven Point in Units

Predictably, cutting your fixed costs drops your breakeven point. On the other hand, if you reduce your variable costs by cutting your costs of goods sold to $0.60 per unit, holding other variables the same, then your breakeven point becomes:

$60,000 / ($2.00 - $0.60) = 42,857

Fixed Costs / (Price per Unit - Variable Costs) = Breakeven Point in Units

From this example, you can see that if you can reduce the cost variables, you can lower your breakeven point without having to raise your price.

Relationships Between Fixed Costs, Variable Costs, Price, and Volume

As the owner of a small business, you can see that any decisions you make about pricing your product or service, the costs you incur in your business, and sales volume are interrelated.

These important numbers are a useful guide for your start-up when you are considering how to price your products and services. They are also important numbers to think about whenever you are introducing new products and services into your existing business.

INTERRELATED means connected to one another. Calculating the breakeven point is just one part of cost-volume-profit analysis, but it's often an essential first step in establishing a sales price point that ensures profit. Now that you know your price point- check with your competitors to see if you are aligned. Think about your capacity to produce your products/ services – how many units are you capable of producing?

Using the calculation provided in this section. Try finding the breakeven point for your products and services.

$$\frac{\textbf{Fixed Costs}}{\textbf{Price per Unit - Variable Costs}} = \textbf{Breakeven Point in Units}$$

You are now well on your way to understanding the basics of financials. All of the material you have learned so far helps you speak to your financial team with confidence and shows you how healthy your business is.

SECTION 8 Accessing Funding for your Business

Conventional Financing

Conventional financing is what most people think of when they think about loans, such as bank loans and lines of credit. There are different types of conventional financing available, depending on many factors such as the age of the business, your financial records to date, and your future growth prospects.

Types of conventional financing:

EQUITY FINANCING

Equity capital is the amount of money that you and your partners put into the business or raise from other investors. Equity is not debt. While investors share in the profits (and losses), their investment is not a loan. Types of equity financing can include money from:

- Personal savings or other assets
- Family and/or friends
- Community and/or associations
- Venture capital
- Investment through a partnership or other businesses

Be aware of the risks. Lenders expect you to have put some equity into your business. Business equity at a startup often comes from personal savings or other assets, and you must carefully manage the risk with this. If you use personal savings, or a second mortgage on your home, or sell an existing property, for equity financing, you must not put your home, the ability to pay personal commitments including food at risk while you wait for the business to break even. Make sure you consult your lawyer and your accountant before you enter into any kind of equity agreement - they will have a major impact on the future of your business.

Many startup technology companies' equity financing to grow their businesses rapidly. You may be familiar with "Silicon Valley" or even local start up "incubators" that help technology companies raise money. This is a high-risk investment for investors who realize that the money they invest may not convert into a successful return. More companies fail than succeed and these companies can take many years before they become profitable. If you are starting a business that you expect to grow slowly over time and maintain as a source of income for yourself, then your equity financing will come from you, your family and close business partners. Venture capital and Angel investment may not be the best choice. Visit the Venture Capital Association of Alberta[21] to learn more.

DEBT FINANCING

Debt financing is money you borrow for your business. It must be repaid-with interest. Lenders do not share in your business profits (as investors do), but they must be repaid no matter what—even if you have no profits. Types of debt financing can include money from:

- Business loans
- Lines of credit or operating loans
- Microcredit
- Supplier credit
- Commercial mortgage

Once you have secured all the equity capital you can, you can talk to lenders about a business loan. Different lenders have different requirements for awarding loans —make sure you understand them before you start.

To decide what type of debt financing is right for your business, remember these basic rules:

Finance day-to-day operations (working capital) with short-term operating loans.

Finance long-term fixed assets with longer-term loans or mortgages.

ALTERNATIVE FINANCING

Conventional financing is not always available. If your business does not have a sales history, or you operate in a higher-risk environment, you may find it difficult to get conventional financing. But do not worry - there are other options. Alternative financing might be just what you need. Examples of alternative financing include:

- Investments from family and friends
- Unsecured lines of credit
- Advance payment
- Factoring
- Leasing
- Life insurance loans
- Home equity line of credit

Which Option is Better?

There is a wide range of options that are extensively used by new entrepreneurs, and there is a risk with each of them. Remember that many marriages and friendships have been ruined by informal financial business arrangements. Personal loss of income from a bad investment can be devastating. Make sure you think carefully about whether the risk is greater than your likelihood to succeed before you use any of these ideas. The best way to avoid problems in advance can be to use 2-3 different financing strategies but remember that everyone needs to be paid at the time you agree to pay them.

Reach out to your team of advisors from Section 4 to discuss which lending options are the best choices for your business.

Preparing for the Loan/Financing Meeting

Always be prepared to explain your business. This list includes what most banks and financial institutions will ask you to provide.

- A clear explanation of what you want, that can be explained in a few sentences.
- A copy of your business and marketing plan that shows the projections for the next 1, 3, and 5 years.
- Financial statements and ratios, all up to date.
- Your accountant's phone number and email handy in case the bank needs to contact them.
- Records of payment for employee wages and the necessary employer contributions to their benefits.
- Accounting files, including copies of up to date bank statements, copies of filed annual return(s) (the tax return for the business), copies of credit card statements, and proof of business insurance.
- Proof that personal taxes, business taxes, and GST/HST have been paid, and if not, statements to show how much is owing.
- Any additional information that your bank is asking for.

Visit the Business Development Bank of Canada (BDC) website and take the short, 45 minute e-learning course about "How to be Credible when Speaking with Your Banker[23]".

Need to create a business Plan? Explore the Business Link Interactive Business Planner[22].

There are hundreds of programs which provide specialized financing for entrepreneurs across Alberta. Many programs require you to complete a business plan and show positive cashflow projections. Some, are designed to help Immigrant Entrepreneurs start and grow their businesses. You can find all of the program listings and requirement on the Government of Alberta website[24].

Tips for Financing Success

We interviewed **Sharon Connolly** of Business Development Bank of Canada's (BDC) Newcomer Entrepreneur Success Team.

BUSINESS LINK: How does your bank or organization support and work with new Immigrants?

SHARON CONNOLLY: BDC offers a loan focused on newcomers. It provides financing of up to $50,000 to immigrant entrepreneurs who have limited or no credit history in Canada. The loan takes into consideration previous entrepreneurial and other relevant experience in addition to the viability of the business plan when making the lending decision. We recognize that it takes more than money to be successful, so we also look for opportunities to engage entrepreneurs in mentorship programs. Also, BDC partners with local and regional organizations that are supporting entrepreneurs through the business planning process.

BL: What is the biggest piece of advice you would like to give to new Immigrants for them to prepare for business financing discussions?

SC: We recommend that entrepreneurs have built their business plan and have a strong understanding of their business including the business model and finances. When it is shared with a banker, the business plan becomes a document for discussion that should answer various questions.

In addition to the business plan, we encourage entrepreneurs to add a market study, articles to support their conclusions, biographies of team members, client testimonials, and any other information they think could be helpful.

BL: How much money do you like to see new Immigrants save towards their business startup costs?

SC: While it varies depending on the project and the size of it, entrepreneurs can qualify for the Newcomer Entrepreneur Loan with as little as 10% of the projected costs. We want to ensure that the project is well funded as insufficient funding is detrimental to the success of the business. It is also beneficial for the entrepreneur to be able to provide additional funding if they encounter unforeseen challenges.

BL: What are ways that you work with new Immigrant to build their credit score and increase the amount of capital you can lend?

SC: At the outset of our relationship, we may start with a smaller loan amount to allow the company to establish a repayment history and build a track record with a financial institution.

We also encourage entrepreneurs to work with other financial partners who are focused on helping newcomers obtaining the financing they need to start or grow their businesses.

BL: What are the top 3 financial numbers for assessing company performance?

SC: 1. Profitability overall and of individual products and services,

2. Working capital, since they should also have a good understanding of their cash flow. Even if they are profitable if they cannot collect receivables and pay creditors in a timely fashion the business could be placed in jeopardy, and;
3. Margins, because if you do not know the net margin you should be paying for overhead, then you may price your products wrong. And, if overhead costs are too high, you can decide to become more efficient.

BL: How much time do you expect entrepreneurs to start making a positive net income?

SC: This will vary depending on the business. Entrepreneurs should build both a cash flow forecast and an income statement forecast so their banker or other partners can understand when the company will achieve positive net income but also how it will maintain its obligations until this time.

BL: What are some ways to maintain a positive relationship with your bank after you have received the loan?

SC: You need to keep your banker in the loop about the latest developments in your business. After all, your banker can be a great source of advice and contacts. They might suggest you get additional financing, offer advice on your strategic planning, introduce you to key people in the industry or to professionals such as accountants and lawyers that could make a big difference in your business.

Invite your banker to visit your business at least once a year so they can meet your key people and understand your operations. Make sure to submit your financial information on time to show that you are transparent. This can go a long way to ensure you are approved the next time you have a project you want to finance.

If your banker says no to a request, find out exactly why and do not be discouraged. Do the work needed to improve your proposal and demonstrate what you have learned, your willingness to improve your presentation, and your attitude.

For more information about the BDC Newcomer Loan Program, visit their website[25].

We interviewed **Hussam Tungekar,** Business Development Manager with Futurpreneur Canada

Futurpreneur Canada has some great strategies for immigrant entrepreneurs with a thin file (meaning a short history in Canada, and not a lot of credit information). They provide mentorship, startup, and networking support to entrepreneurs aged 18 - 39.

BUSINESS LINK: What is the biggest piece of advice you would like to give to new Immigrants for them to prepare for business financing discussions?

HUSSAM TUNGEKAR: Understand and manage your credit score! It is the biggest area of weakness so knowing how to build your credit early will go a long way in accessing capital for a business. Also, do not get your credit pulled excessively when trying to search for credit products. Maximum of 3 pulls per year, after which one's credit score will start to decline after each consecutive pull.

BL: How much money do you like to see new Immigrants save towards their business startup costs?

HT: In our case, to access the full $45K, the entrepreneur would need to show $3K-$4K in personal investment. This could be in the form of equipment as well.

BL: What are ways that you work with new immigrants to build their credit score and increase the amount of capital you can lend?

HT: We provide advice on building a credit score, but there is minimal hands-on support, unfortunately. We usually point people to online resources.

BL: What are numbers are most important for accessing company performance?

HT: In general, we look at the ability for the business concept to generate enough revenue for the entrepreneur to pay themselves, and to pay back the debt.

BL: How much time do you expect entrepreneurs to start making a positive net income?

HT: Ideally within the first 1 to 1.5 years.

BL: What are some ways to maintain a positive relationship with your bank?

HT: Keep your lender in the loop once you have acquired a loan. If payments are difficult, let the lender know beforehand so that the loan can be restructured or other arrangements made. If you miss payments without informing the lender of your circumstances, your credit will decline, or hefty fees can be added to the loan.

Futurpreneur Newcomer Loan[26]: This program targets entrepreneurs aged 18-39 who have permanent resident or citizenship status with no established or little credit history, who have been in business for less than 12 months.

SECTION 9
Next Steps

Congratulations! You are on your way to mastering financial fundamentals! This guide is one in a a series developed by Business Link. We are here to help you every step of the way.

Our recommended next steps include:

1. Subscribe[27] to the Business Link Immigrant Entrepreneur Newsletter.
2. Contact our Market Research department to learn more about your business industry and competition.
3. Reach out via phone to our offices to access one on one support from one of our Immigrant Entrepreneur specialists.

Visit businesslink.ca/resources[28] to download more guides and resources.

APPENDIX

[1] https://businesslink.ca/what-we-do/resources/small-business-guides

[2] https://www.frascanada.ca/accounting-standards-board/what-we-do/about-the-acsb/item55939.aspx

[3] https://quickbooks.intuit.com/ca/resources/finance-accounting/accounting-standards-private-enterprises

[4] https://www.himalaya.com/courses/think-like-an-economist-2340161?Influencer=think-like-an-economist

[5] https://corporatefinanceinstitute.com/resources/knowledge/other/accounting-language-of-business

[6] https://businesslink.ca/what-we-do/resources/small-business-guides

[7] https://www.consumer.equifax.ca/personal/education/credit-score

[8] https://itools-ioutils.fcac-acfc.gc.ca/BP-PB/budget-planner

[9] https://businesslink.ca/what-we-do/resources/small-business-guides

[10] https://quickbooks.intuit.com/ca/resources/finance-accounting/best-bank-canadian-small-business

[11] https://www.osfi-bsif.gc.ca/Eng/fi-if/Pages/default.aspx

[12] https://businesslink.ca/assets/uploads/2021/01/Accounting-Software.pdf

[13] https://businesslink.ca/what-we-do/resources/small-business-guides

[14] https://www.cpaalberta.ca

[15] https://businesslink.ca/what-we-do/resources/small-business-guides

[16] https://businesslink.ca/assets/uploads/2021/01/Guide-to-Financial-Terms.pdf

[17] https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/guides/cashflow-management

[18] https://catalog.bdc.ca/product?catalog=Cash_flow

[19] https://www.futurpreneur.ca/en/resources/operational-and-financial-planning/financial-templates/the-cash-flow-basics

[20] https://www.futurpreneur.ca/en/get-started/financing-and-mentoring/newcomer

[21] https://www.vcaa.ca

[22] https://businesslink.ca/what-we-do/resources/interactive-business-plan-builder

[23] https://catalog.bdc.ca/product?catalog=Be_credible_with_a_banker

[24] https://www.alberta.ca/capital-financing-supports-entrepreneurs.aspx

[25] https://www.bdc.ca/en/i-am/newcomer-entrepreneur

[26] https://www.futurpreneur.ca/en/get-started/financing-and-mentoring/newcomer

[27] https://businesslink.ca/what-we-do/immigrant-entrepreneur-program

[28] https://businesslink.ca/what-we-do/resources

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