



PO Box 277, Marylhurst, OR 97036 | 503-350-8351 | www.sbmco.biz

Getting Money to Start – Buy – Run – Grow a Business

Obtaining Funding

Obtaining funding is the most basic of all business activities. It is a need that seldom goes away. Whether you are starting a business, buying a business, operating a business, or growing a business, there will almost always be a need for outside money. For many business owners, getting the money they need is not easy; in fact, it is often a complex and frustrating process.

Why? Most bad experiences and turndowns are the result of lack of knowledge:

- The **business owner's** lack of knowledge about:
 - How much money they really need
 - Where to find money
 - What it takes to qualify
 - What information a lender/investor needs to make a good decision
 - A lender's/investor's constraints
- The **lender's/investor's** lack of knowledge about the business owner and the owner's business

It's been said "a banker is someone who lends you an umbrella when the sun is shining and takes it away when it starts to rain."

Ted Frost, in his book *Where Have All the Woolly Mammoths Gone?* put it this way: "I've often thought if I could collect all the nation's bankers in a big sack out in the middle of the ocean that I would jump overboard with the sack and sacrifice myself just to rid the world of them."

While you may want to go to that extreme, there is a better way to work with your lender/investor.

Build a Relationship

Building a strong, lasting relationship with an experienced, knowledgeable professional is essential if you are to achieve your desired business goals. And, it is more than simply establishing rapport with an assigned "relationship manager."

Someone who understands you and your business can be a trusted advisor and an influential advocate. They can also be an invaluable link to the financial resources needed to help your business grow and succeed.

Make sure this professional understands how you operate and how you interpret your business' financial results. While different lenders/investors may analyze your business in the same basic way, they may interpret the results much differently ... than each other and you!

A regular, periodic update allows your funder to stay abreast of your progress. It also helps prevent surprises.

Types of Funding: Debt vs. Equity

Equity Funding

Equity funding typically means the business owner gives the investor an ownership interest in the business.

The positives of equity funding are:

- The monies do not have to be paid back by the business
- The monies are “at risk” in the business
- The business owner is not personally liable
- Collateral is not required

The negatives of equity funding are:

- The owner gives up some control of the business
- The investor has legal rights as a “minority owner”
- Higher cost of funds

Debt Funding

Debt funding means funds are loaned to the business and/or business owner.

The positives of debt funding are:

- The business owner retains complete control of the business
- Lower cost of funds

The negatives of debt funding are:

- Funds must be repaid by the business, affecting cash flow
- More than one source of repayment is often required
- Collateral is generally required
- The business owner is personally liable

It is important to explore all funding options before making a decision: equity funding, as well as debt funding.

Sources of Funding

Several sources to consider are:

- **Personal savings and borrowing:** The primary source of capital for most new businesses comes from savings and other personal resources. While credit cards are often used to finance business needs, there are usually better options available, even for very small loans.
- **Friends and relatives:** Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest-free or at a low interest rate, which can be beneficial when getting started.
- **Suppliers and customers:** Trade credit and leasing options are often available from vendors and equipment suppliers. Customers can provide capital by pre-paying for goods or services or through such things as receivables financing.
- **Government/Non-Profit Agencies:** Federal, state and local government and non-profit agencies have a variety of programs available, including grants, guarantees and direct loans.

- **Banks and credit unions:** The most common sources of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound.
- **Angel investors, venture capital firms, and employees:** These individuals and firms help expanding companies grow in exchange for equity or partial ownership.

The Five C's of Credit

A lender/investor typically evaluates your request using the “Five C's of Credit,” which are:

1. **Character:** By far the most important. If you are not someone to be trusted, then a lender/investor doesn't want to deal with you, no matter how good the deal is.
2. **Capacity:** What is **your** ability to repay the loan you're your financial strength?
3. **Capital:** How much of your **own** money do you have invested?
4. **Collateral:** What is available to support the primary source of repayment?
5. **Conditions:** What is the economy doing and how will it affect your company?

Applying for Funding

Getting the money you need is a matter of salesmanship. The better prepared you are, the more likely you are to be successful. Remember, you cannot assume lenders/investors know anything about your business; it is your job to educate them! You begin this educational process by submitting a proposal containing the following items:

1. **Funding Request**
 - a. Purpose of the monies and how they will be utilized
 - b. Amount required
 - c. Term desired
 - d. Source of repayment
 - e. Collateral available
2. **History and Nature of the Business**
 - a. Brief and succinct in one or two paragraphs describing your business
3. **Management**
 - a. Brief resumes for all officers, owners, and key personnel, including:
 - i. Age
 - ii. Health
 - iii. Salary
 - iv. Business experience
 - v. Business affiliations
 - vi. Education
 - vii. Other experience pertaining to the business
 - viii. Time devoted to the business
 - ix. Ownership interest in the business

4. **Key Advisors**
 - a. Board of Directors
 - b. Attorney
 - c. Accountant
 - d. Business Coach
 - e. Insurance Advisor
 - f. Tax Advisor

5. **Employees**
 - a. Number of employees
 - b. Critical skills
 - c. Description of labor relations
 - d. Union relationship (if any)

6. **General Information**
 - a. Products and/or services
 - b. Market area and method of distribution
 - c. Major customers
 - d. Suppliers
 - e. Competition
 - f. Facilities

7. **Financial Information**
 - a. Three years of financial statements
 - b. Three years of tax returns
 - c. Personal financial statement
 - d. Pro forma income statement
 - e. Pro forma balance sheet
 - f. Cash budget
 - g. Comprehensive cash flow analysis

You will be amazed at the favorable and enthusiastic response you will get from your lender/investor when you submit the above information! Why? Because you will be among the probably 5% that ever do such a thing. Your lender/investor will be very favorably impressed. You will give the impression you really know what you are doing!

Do's and Don'ts

There are some do's and don'ts that – when applied – will strengthen your relationship.

Do:

- Make an appointment and allocate enough time
- Tell it straight, good and bad
- Be prepared
- Ask questions if you don't understand something
- Have a definite plan, but be flexible
- Keep your lender/investor informed
- Negotiate rates **after** you've presented the proposal

Don't:

- Be impatient
- Make promises you can't keep
- Ask "how much can you get"
- Negotiate over the telephone
- Spend the money before you even ask for it
- Change funding sources solely for a better rate
- Ever surprise your lender/investor

Summary

Be sure to list all of the underlying assumptions that you used to make your projections.

Be prepared to answer questions regarding any aspect of your funding request. It is very important to present a realistic forecast. Your lender/investor will want to compare actual results to the forecast, and it is much better to "under promise and over deliver."

In the final analysis, the most important aspect of dealing with your lender/investor is establishing a relationship of trust and confidence. If you are well prepared and indicate that you really understand the financial aspects of your business, you should enjoy a very positive relationship with your lender/investor.