

Meeting Your Financial Needs

Inadequate capital is the cause of many small business failures. Planning for the proper initial capitalization for your business or expansion is a critical process. There are basic paths to financing capital for your business.

The first place to look for money is yourself. In fact, the vast majority of new businesses (up to 75 percent) are financed mostly or exclusively by the founder's own resources. First, you will need to determine how much money you will need to start your business. Then you will need to determine how much money you have to invest in your business as equity capital. The amount of personal assets you are willing to risk in the business is a personal decision. However, you will almost always be expected to invest at least some of your own money in the business because lenders see this as evidence of your commitment to the business. If you do not have enough personal capital to meet all the financial needs of your business, you must look to a lender or investor for the balance.

Before you approach a lender or investor, it's a good idea to have a written business plan (see "Preparing the Business Plan" Section).

Sources of Financing

Grants

You may have heard that there are grants to start or expand a small business. In reality, you probably are not going to find any grants for your business. State and federal agencies, as well as non-profit foundations, do make grants, and some of that money may even go to businesses. However, the vast majority of grant funding is to support projects which are expected to provide a benefit to the public. For more information about state and federal financing programs, including grants, look under the "Financial Assistance" section in this chapter.

Friends and Relatives

Many small businesses (and perhaps as many as 75 percent of start-up firms) are financed either by their own money or investments from friends and family. Family and friends are often willing to help you start or expand your business. The downside of family and friends financing is that there may be emotional entanglements and personal problems may result, especially if money is lost or can't be repaid on time. Keep the relationship businesslike and things will probably work out. Family and friends are also potential co-signers or collateral providers for loans.

One other way to reduce emotional entanglements and personal problems is a company called Circle Lending. SCORE has partnered with Circle Lending, a company that helps manage loans from friends and family by helping create a legally binding agreement between you and your friend or family member, secure the loan with collateral, and help set up a repayment schedule. For more information call (800) 805-2472 or visit their website at www.circlelending.com/sbb.

Financial Institutions

Most often entrepreneurs will have to take out personal loans or personal credit cards to finance their enterprise. These are in the common forms of debt or equity financing. Debt financing is a "promise to repay" loan. Loans can be unsecured resulting in a higher interest rate or secured by some form of collateral resulting in a lower interest rate. In some cases they are structured as a line of credit (allowance to borrow repeatedly without have to reapply for approval each time), or a term loan which is paid back on a schedule. Financial institutions also issue equity financing where you sell a portion of ownership in your personal assets (home, etc) for the needed capital or resources. Credit cards are another option although at a much higher interest rate than a financial lending institution and should be used with some caution.

Trade or Supplier Credit

Payment terms offered by your suppliers are a potential source of funds.

Customers

When customers pay for work in advance or provide some of the material or service themselves, in effect they are helping finance your business operations.

Commercial Finance Companies

Commercial finance companies make business loans at interest rates several points above that which banks usually charge and that are collateralized with commercial property.

Angel Investors

Angel investors are usually wealthy individuals or business people who make high-risk investments in start-up or small businesses. Angel investors typically focus on companies that have already developed a basic concept and business strategy in their seed stage of investment and have potential for rapid growth. Many angel investors also offer their business expertise and actively participate in the management, operation, and marketing of the business. For information on Angel Investing in Wisconsin visit the website of the Wisconsin Angel Network at www.wisconsinangelnetwork.com.

Other Sources of Financing

Venture capitalists, investment bankers, insurance companies, pension funds, etc. are all potential sources of equity financing. These entities usually look for companies that need relatively large amounts of money (at least \$1 million) and that will offer fantastic rates of return (usually higher than 30 percent annually) over two to five years. Unfortunately, very few start-up businesses meet their criteria.

The Economic Development Corporation of Manitowoc County has a Private Investment Committee with local ties to area investors. The Private Investment Committee will invest in a select few qualified business ventures. For more information call (920) 482-0540.

The New Venture Capital Fund goals are to target 12 businesses in northeast Wisconsin within the next 5 years with investments up to \$1 million per venture. For more information contact General Partner Charlie Goff at (920) 731-5777.