65 Ways to Finance Your Business

You're starting or building a business…

There is a lot to do…

Not enough time…

Need more money…

Cannot afford *any* mistakes…

You want it your way…

It's got to last…

We understand.

JIAN—at the heart of your business

The word "jian" ("jee'-on") has its roots in the martial arts and means "*the master of every art*". We chose this unusual name because it reflects our goals as well as the goals of many of our customers. JIAN is a contemporary American software company focused on applying modern techniques to the art of building businesses. We specialize in providing expert knowledge and effective, timesaving tools that work with familiar Windows and Macintosh word-processing and spreadsheet software. Since 1988, JIAN has provided tools to help smart business people everywhere build their businesses and get essential projects completed – in a fraction of the time it would take by any other means.

65 Ways to Finance Your Business

There's a certain Buddhistic calm that comes from having...
money in the bank.
~ Tom Robbins

Raising capital can be a challenge to any business Read this to get ideas on ways your business can find that all important ingredient – money.

While navigating your new or existing business on its intended road to success, there are many varied funding paths you can take. This document will help you conduct informed evaluations of capital in the right places, and early on, before your funding needs jeopardize your business.

While navigating your new or existing business on its intended road to success, there are many varied funding paths you can take. The following information will help you conduct informed evaluations of capital in the right places early on, before your funding needs jeopardize your business. It presents insights to help you reach your business goals, which can give you leverage and advantage over someone else who may begin the process only when already desperate for immediate financial assistance. This discussion includes:

- Identifying Your Capital Needs
- Narrowing the Search for Funds
- Self Funding
- Locating Private Resources
- Tapping into Commercial Funding
- Parting Tips

Table of Contents

Identifying Your Capital Needs

Financing your business requires careful planning, research and logistics. Identifying your capital needs and seeking the right source of financing for filling those needs can get confusing and complicated at times. These duties can often cause frustration and distractions for the entrepreneur who may not have a real financial plan laid out for the business. Even with preplanning and diligent effort, the funding game can sometimes change in midstream, as economic climates shift causing the viability of various funding vehicles to vary over time.

You may have started in business as a specialist in a particular area of business: marketing, sales, R&D, or operations. Now as an owner or manager you need at least a general understanding of all aspects of business, especially appropriating and making efficient uses of funds.

The basis for your business may be a very sound concept, but funding new growth or maintaining existing growth can pose many challenges. Different types of capital requirements need different funding vehicles, all with different rules and steps similar in many ways to a game of monopoly or chess. Growing a business most often requires more capital than is readily available from existing cash flow or from the resources of the founder(s). Conversely, obtaining too much capital or raising it too soon can cause other problems for the business.

The first step in this search is to learn and understand the pros and cons of the various types of capital needed by your enterprise. Capital comes into your business in two ways: as Equity capital or as Debt capital.

Equity financing is the investment of the owner(s) in the company. It stays in the company for the life of the business (unless replaced by other equity) and is repaid only when and if there is a surplus in the liquidation of the business—after all creditors are paid. Usually getting new equity is very difficult, especially during the early stages of the business.

Debt financing, on the other hand, can come into the business in a variety of ways. It comes for a defined period of time and is paid back with some form of interest.

The financing of your business can be further classified as start-up financing (which is usually equity), working capital financing and growth financing. Start-up financing is the financing to get the company to an operational level including the costs of getting the first product(s) to market. This is best done with equity and long term loans or leases.

Working capital is required to drive the day to day operations of the business. In most businesses the operational needs vary during the year (seasonality, inventory buildup, etc.) and the working capital tides over the fluctuating expenses involved with doing the base business. Refer to Chapter 9, Financial Plan, for more information.

Growth Capital is not tied to the yearly aspects of fueling the business. Rather, it is needed when the business is expanding or being changed in some significant and costly way that is expected to result in higher and increased cash flow. It is generally longer term than working capital and is paid back over a period of years from the profits of the business.

Knowing specifically what type of capital your business will be needing will put you in a stronger position when evaluating how and where to seek your financing.

Narrowing the Search for Funds

Next you need to become familiar with the pros and cons of the various sources of financing and how each might cater to your specific capital needs. Are you an established business needing to buy fined assets such as a new building or new equipment? Or do you need to add a new line of inventory to your stock? Are your needs for short-term money to help you through a seasonal cash crunch? If so, the typical source of financing for these kinds of needs is a traditional commercial bank.

If you are starting a new business and have sufficient collateral but need additional capital funds, the SBA loan program might be for you.

➢ NOTE: For loans under $1,000,000, the SBA has recently begun to ease documentation and collateral requirements to encourage and support small businesses. The SBA also is encouraging women and minority-owned businesses with their new quota system. (See sections on SBA Funding later in this chapter).

However, if your proposed business is on the leading edge of technology, and there is a potential for substantial growth, venture capital might be the appropriate financing source. These types of funding are discussed later in this chapter. Knowing the specific needs of your business will help to significantly narrow the scope of your funding search.

The methods for keeping abreast of funding options available to your business include networking with industry colleagues and successful business leaders in your region, soliciting the advice of financial experts, and reading of financial publications. Many entrepreneurs and investors are now also turning to on-line financing services, which are appearing with greater regularity. Some of these services attempt to match small businesses with investors, while others electronically post lists of companies seeking investors and then allow investors to examine the lists for companies of interest. Usually both the businesses and the investors pay fees to have access to this service.

These activities will help keep you positioned for the right funding move at the right time. Keep a sharp lookout for creative ways in which other successful businesses, similar to yours, are handling their funding. Follow up any leads for funding ideas that hold promise for your type of business. Most of all, don't get stuck in a rut of focusing on only one type of financing. Keep your options open. Hold several cards that can be played at the appropriate time for your business.

Yes, seek out and listen to the best advice you can find, but always closely check out the sources of potential funding. All financial sources seek, in various ways, return on investment in relation to the risk that they perceive they are taking. This is a "given". Find out what they want in return, and when they want it. In addition, check out the people you will potentially be dealing with. Determine if they are reliable and if they know enough about your industry to be viable funding associates of your business.

Is the funder's style of business compatible with your vision and ethics? What kind of information about your business will they require to know? How far into your business will they pry? Your good questions will elicit appropriate funding information that will not only help your business' present situation, but also avoid funding scenarios that could severely handicap your business in the future.

The following is a description of many of the options available for funding businesses in today's economy. The most commonly used funding sources are described for you more fully than the less-used, narrower-in-scope methods. For your convenience, the sources have been generally grouped into the following categories: Self Funding, Private Resources and Commercial Funding.

Self Funding

The vast majority of businesses (close to 90%) are begun with less than $100,000 and close to a third are begun with less than $10,000. This kind of money is usually available to the motivated entrepreneur by taking a close look at the personal resources at his or her disposal well in advance.

Several of the most common self funding methods are described here.

Personal Savings & Equity

The vast majority of new businesses are started with the main source of funding coming from personal savings or various forms of personal equity of the founder(s). This capital reflects the degree of motivation, commitment and belief of the founder in the enterprise. This type of investment also takes the shape of sweat equity, where individuals either donate their time or provide it at below market value to help the business get established. Many times entrepreneurs use profits from previous endeavors to pour into their new enterprise.

Moonlighting

Many home-based businesses are begun while the founder is still working a regular job. The income from the job can both help support the owner during negative or low cash flow of the business set up phase and it can provide working capital to augment the business's cash flow. Usually when the business begins paying as well or better than the regular job, the entrepreneur can jump ship from his/her job and devote full time to building his/her new business.

Home Equity Loans

This may be the fastest growing method of raising money for individuals. Banks generally are willing to lend up to 70% or more of a home's appraised value, minus any existing mortgage(s).

Home equity loans are generally offered through commercial banks or savings and loan associations. 1994 interest rates for second mortgages are under 12%. In some instances an approved home equity loan can be structured like a bank line of credit at slightly lower interest rates.

For tax purposes, you can deduct interest on up to $100,000 of debt on home equity loans, regardless of how you use the money, This makes a home equity loan attractive when looking for your start up capital. Remember that since this money is secured by your home, the bank could foreclose if you fall behind in your payments.

Insurance Policies

This is a personal type of loan that is becoming more available and more popular as a method for obtaining early financing for a small individually owned business. Other entrepreneurs have been known to completely cash in their life insurance policies. Many insurance companies have, in recent years, liberalized their criteria for allowing policy holders to borrow against the value of their policy.

Tax Deferred Retirement Accounts

Dipping into your tax-deferred retirement account can be a last resort for funding your business. This works best if you are more than 59 1 /2 years of age. While the money in your Individual Retirement Account or 401(k) plan is technically available to you, you'll need to pay a 10% early withdrawal penalty plus regular income tax on money you withdraw. Obtaining funds with this method may still be worth it to you if no other financing avenues are available and you have the motivation.

It might be possible to get an unsecured loan on the strength of your retirement accounts. Although these accounts would not directly be pledged as collateral, the money could be withdrawn at a later date to repay the loan if it was required.

Credit Cards

"Pulling out the plastic" for fast funding of your business is more viable now than ever before. MasterCard or Visa card holders with good credit now often receive credit limits of $10,000 and above. By being able to carry more than one credit card, as an entrepreneur you can considerably boost the total amount you can tap into at any one time.

Credit card interest rates on cash advances vary considerably, from as high as 21% to 15% or lower. Annual fees can also range from over $50 down to zero. This means it is wise to investigate getting the best deal you can when obtaining your credit cards. It may be advantageous to close out one or more of your high interest cards and transfer the balances to lower cost credit cards. The Bankcard Holders of America (Suite 120, 560 Herndon Parkway, Herndon, VA 22070-9958) is a resource for information on low rate credit cards and building good credit.

Remember that obtaining funds through credit cards costs much more than bank loans. If you do use your credit cards for business funding, pay them off as quickly as you can. Paying only the minimum payments can extend interest for years without making much progress toward paying off the principal. Also, if your enterprise should not pan out, the credit card payments you will be stuck with may place you in a personal financial squeeze.

Bootstrapping

Often the best money to go after is the money that can be saved from the current costs and. overhead of your ongoing business. This is a commonly overlooked source when business owners and managers are looking for the elusive "pie-in-the-sky" financing. A penny so saved is literally more than a penny earned on the bottom line, and a penny less borrowed. The interest is saved on the now lower loan amount and the time and expenses associated with finding additional financing.

The process of thoroughly searching through your operation for opportunities of savings and improved efficiencies will also allow you to learn more about the intricacies of your company, which will put you in a position to manage it better—a double return on your invested time and effort. The upshot is that by becoming more efficient and cost conscious, you will be in a stronger position at all times to qualify for refinancing options as they become needed and available.

Customers

Certain types of businesses can require an advance deposit from customers, which quickly spurs cash flow. If you can encourage cash payment instead of giving the customer credit, you avoid financing him. Similarly, you can also facilitate receiving cash quickly by granting cash discounts for early payments by customers. In any case, the more quickly your success has an impact on your suppliers and customers, the more likely they are to offer such deals.

If you have a yearlong customer, but your work peaks heavily in one season, you may want to offer your customer equalized billing all year round to help even out both your cash flow and their cash flow.

If you consistently work to build an excellent reputation in your field, you will find that your customers can work with you to help finance or partially finance your enterprise.

Trade Credit with Suppliers

Actively working with your suppliers or customers on an indirect form of loan called trade credit can help generate quick cash flow and also minimize expenses. This method can take a wide variety of forms. We will examine several of these methods here to give you possible alternatives that may be workable in your business.

Some suppliers, seeing an opportunity to grow themselves, may advance goods to you to, in effect, prime the pump if your venture looks particularly promising. You may have a certain strength in being a debtor who pays back without abusing your creditors. As you generate the revenue from your sales you will have the funds to pay back the money owed and purchase additional goods. In a variation of obtaining goods advanced from suppliers, extended terms of 90 to 120 days or even longer can sometimes be pre-negotiated with suppliers during special circumstances or to assist with seasonal cash flow peaks and valleys.

If you use a manufacturer as part of your business, you may be able to utilize this manufacturer as an indirect investor, without having to borrow a penny. The manufacturer can. "lend" you capital through use of their current raw materials, labor and technical know-how. They have wholesale leverage to assist or complete part of your design, set up, assembly, etc. for far less than you would have to spend. Give them a good faith cash payment up front plus a small stake in your enterprise or a return on investment percentage based on the success of the finished product. The manufacturer, as a specialist, will be able to complete the job in less time than if you took on the whole job yourself. By both parties having a stake and motivation in the project, you may well be able to be successful without having to call in third-party investors, like bankers, venture capitalists or angels.

In certain situations, it may be beneficial for you to give a supplier, or even a landlord, equity for favorable long term arrangements. This can free up some immediate cash to help grow your business.

You may be able to lessen your required cash outlay to suppliers by negotiating to obtain a cash discount for your early payment. As an example, "2 percent-10" means that a discount of 2 percent is granted if you pay for goods or services in full within 10 days.

For small businesses the variety of trade financing mentioned here are all usually easier to negotiate than is obtaining bank financing. One reason for this is the amount of cash as risk. If your supplier's variable costs represent 45% of the selling costs, then for $100,000 of financing the supplier has $45,000 cash as risk. The bank would have $100,000 cash at risk.

In any situation of this sort, creative ideas and clear communication and agreements can help you get over many funding humps in your business. You'll learn what trade credit opportunities like these are available with your suppliers and customers if you are willing to ask.

Trade or Barter

The need for capital can be lessened, especially in early stages of a business, through trading or bartering of your products or services with your suppliers. There are also associations that are formed to provide a network of barter opportunities among members.

This type of activity reduces needs for cash in the business. Caution should be taken to follow IRS regulations regarding this practice. Also, clear agreement is needed among the parties to assure proper value is granted for the traded goods.

Stock Purchases & Options to Employees

Your employees can be your partners in solving needs for capital at your company in a variety of ways. You can offer certain senior and trusted employees to become common stock-holders by investing in a purchase of your company stock. Employees usually have limited discretionary funds for stock purchases, but every dollar counts, and employee dollars usually come with the motivation to help improve the results of the company, thus the value of their investment. Common shareholders also have the right to have a say in the management of the company. Another possibility is to offer these employees nonvoting preferred shares of stock in return for their investment.

Many companies in their early phases of growth offer key employees or business partners options to purchase certain amounts of stock at later dates, often at a discount price or on very generous terms. The stock options help supplement the employee's salary, which may be agreed to be below industry standards so that the company can retain this salary saving as capital for help in becoming successful.

By being part owners and participators in the profits, these desired employees will more likely choose to remain with your company instead of looking elsewhere for work.

As with any individual investor, always document this investment relationship with your employees. With employee stock options you can legally maintain a right of first refusal, holding the first right to buy back the shares if the employee leaves or is terminated.

While there are many advantages to a company offering stock options, be careful not to give out options too easily, too quickly, or to persons whose true expertise and loyalty has not been fully demonstrated. What may not seem to be costing you much early on in the business could cost you dearly in terms of money and time later on, should your relationship with stock option holders deteriorate.

The lure of stock options is often a major lure for attracting talent to start-up companies in new technology industries.

Employees Stock Ownership Plans

Companies can formally set up ESOPs (as they are called) to not only raise capital, but also raise employee morale and productivity. In a typical ESOP the employee is allowed, as determined by management, to purchase up to a certain amount of stock during a certain period of time. There are generally regulations about cashing in (redeeming) the stock if the employee should leave the company. An example might see an employee being able to have five percent or more of his or her weekly salary deducted for stock purchase after one year of employment.

The usual benefits to the company include a steady flow of additional capital without having to put up collateral and without needing to pay a set amount of interest. As stockholders, employees see a possible additional source of income that *they* will have influence over through the quality and productivity of their work.

ESOPs should be handled by an attorney to insure the documentation and communication are done properly, insuring employee confidence in the ESOP and in the company.

Locating Private Resources

Just as it has in the past, reality suggests that the world of private investors, including friends, relatives, coworkers, wealthy acquaintances and various sophisticated individual investors (angels), is a likely place to go to raise capital for your business. The total pool of all types of private investments in business is vast. Typically, Venture Capitalists provide only about 4% of total business financing. As huge as this pool of money is, the forms that individual private business investments take are diverse as is the creativity of the people making the deals.

Choosing this private path leads to questions of how to find and inform a sufficient pool of potential investors about your need for private funding. Then, in exchange for the investors' money, what mechanism should be used to issue to them the documentation or securities that represent some equity or debt interest in your business? The key is knowing what aspects of deals are critical to your business and having multiple options available as you search for and enter into your funding negotiations.

Investment from Friends & Family

Next to personal savings, the second most popular source for start-up capital is friends and family. Often, they may not be as worried about quick returns as other outside investors would be. There have been many success stories from investments of friends and family. There is also a high incidence of problems associated with this source.

To illustrate this point, suppose that from the start of your business you had access to only the best and most sophisticated investors. Through this process both the investors and you would develop an understanding of the risks involved with investing in your business. It would be in both your and the investor's best interest for you to disclose fully in writing the risks associated with the investment.

Because this process of due diligence is often not carried out with family and friends, problems sometimes ensue. Thus, receiving capital from such a consenting, informed investor is often better than from a rich, unsophisticated relative or friend. Your relative or friend may not investigate your deal carefully and, should problems occur with the business and investment, your relationship with them may suffer.

A wise policy is to provide the same disclosure to a friend or relative that you would provide to most sophisticated investors. Resist the temptation to keep things loose and undocumented. Draw up the terms, conditions and payment schedule in writing for their signature and yours. Even if you receive a "friendship loan" at no or low interest, provide documentation in return. This is the smart, professional business approach that minimizes the potential down side of unstated assumptions and their implications. As a result of formalizing your deal, your relationship with your friends and family will have a much better chance of remaining intact.

In many ethnic communities and foreign countries private loan clubs are a variation on obtaining funds from friends and family. Often a group of trusted friends pools money monthly to be awarded to a group member who needs and deserves it.

Angels

If you are a small business and you only need limited amounts of capital, seeking the type of private investor called an "angel" might be the best alternative. Over 700,000 angels invest over $30 billion of equity in small businesses each year. These people generally invest in the $25,000 to $50,000 range, but sometimes you can get more by dealing with several "angels" at once, since *they* sometimes prefer to invest as a group.

Be sure to check out their resumes and two or three references, especially the names of other entrepreneurs the angel has previously financed. Your "angel" could be your lawyer, doctor, accountant, or an interested individual in your community or industry. They are often executives who have been successful in an industry and now look to fund other companies in that area. Generally it is best to offer an angel straight equity, part ownership in your business in the form of common stock. Keep it simple and completely spelled out.

Angels have sometimes been called the "invisible" segment of the venture capital industry. Networking through trade associations, civic organizations and your business community may lead you on the path to an interested angel. With individuals you have a tremendous amount of leeway in structuring the investment. You can structure it as debt or equity and vary the terms and repayment. Sources of personal investors go beyond family and friends.

Read this excerpt from Business Black Belt on our website: "Choosing the Right Investors"

Previous or Present Employer

Your employer may not want to lose your abilities and contributions, should you decide to start your own business. There are situations where this employer can become your first major customer. This can be solidified with a purchase order if you are going to be providing manufactured goods, and also a specifically worded work for hire agreement if you are to provide services to your past employer.

In another situation, your employer may agree with you that it would be wise to spin off an idea of yours into a new company. Providing funds in this type of venture of yours may be a sound investment for the employer, who should already know the market, the competition and your abilities and motivation.

Should this setting unfold, have the appropriate agreements drawn up and signed to protect both sides with regards to resource requirements, payment and delivery. Make sure the employer is made aware of any negative impact the new venture could have on their existing business.

Some additional words of caution: don't become too dependent on your past employer and don't expect them to do all that it takes to set up your business. You need to start, run and be financially responsible for your company. Also, should your employer not express the interest to help start, fund or continue funding your new business, ask for a signed statement to that effect. At the same time, to be safe, be able to prove that you developed the concept for your business on your own time and with your own resources.

Employer funded start-ups have worked in many specialized industries, most notably high-tech.

Individual Partners

This is a way to join forces with one or more individuals to expand the capabilities of the business. Like a marriage, the partners bring different, and hopefully complementary resources to the business. For example, one may bring technical expertise, while the other may bring the primary financial resources. Another desirable match may be to team a person who has administrative abilities with a person who has strategic vision.

Know your potential partner well before committing to such a business relationship. Ask hard questions. Make sure the agreement is documented clearly and reviewed or drafted by a competent partnership attorney. Exit strategies and procedures for either partner should be detailed in writing early on to avoid conflicts or confusion later on. Communication between partners is crucial for defining the specific roles each partner is to provide to the business, preventing wasteful overlap of activities or gaps in the execution of functions. Honesty and openness with both good and bad news will allow the business to have the best chance at a healthy life.

A partnership can be a way to get a business up and running while one or both partners still have other work or business commitments. It may also be effective in the early stages of business growth or in turnaround situations.

Strategic Alliances

In an effort to quickly put together a profitable project, it is becoming more commonplace to have two or more enterprises join forces for collaborative work. A popular book, The Virtual Corporation, by William H. Davidow and Michael S. Malone, touches upon this concept in detail. With businesses becoming more complex and global every day, and with increased emphasis on specialized knowledge and on fast new product development, partnerships are increasingly emerging among companies and entrepreneurs. The movie industry has modeled the concept of strategic alliances for decades. Diverse talent is sought and brought together for a common, defined project. After the movie is completed, many contributing elements to the production are quickly disbanded.

For this type of shared resource alliance to work consistently, the participating companies must build a high level of trust in each other. Strategic alliances and partnerships are often difficult to coordinate and even harder to control. Should you or any of your strategic partners miss a significant milestone, you may lose your market lead, or even your company or significant parts of it. The relationships between the allied companies need a strong foundation and the goals and values of the companies need to be compatible.

Financial strategic partners with a synergistic interest in investing in your business may seek your business out as often as you seek them. Strategic alliances need to be spelled out clearly in written agreements.

The importance of cooperative management (rather than insistence on doing it alone) and detailed coordination of activities is magnified in this business model.

New high speed communication channels and information databases are making it easier for companies to locate and coordinate with strategic partners. The strategic partnership can work if the situation is right and the frame of mind of the participants is conducive to cooperative success.

Corporate Partners

A growing trend in the '90s sees small businesses forming partnerships with larger corporations. Most Fortune 500 companies are now involved with these arrangements as a part of their corporate strategy. In this model, the larger corporation becomes a minority owner of the smaller company.

As a small business you receive the advantage of access to capital. You may also receive, as you grow, access to some of the resources of the larger company, such as distribution capabilities and product development opportunities that could act as formidable barriers to entry for potential competitors of yours. Your partner company gets into attractive markets and will share in your profits.

The place to start looking for such potential corporate partners is with your larger suppliers or customers. Industry journals can also point you in the direction of an interested corporate partner.

Private Foundations

With determination and the ability to prove that a "charitable" investment in your enterprise will have positive social impact, benefiting more than just you, finding funding from a private, nonprofit foundation is possible. While some foundations fund entrepreneurs directly, most foundations give money and support services to nonprofit organizations, which seek to accomplish the foundation's mission by coordinating and supervising the distribution of these resources in exchange for the specialized work needed.

According to IRS requirements, foundations with tax exempt status can provide "Program-Related Investment" (PRI) to a recipient enterprise that is also working toward the foundation's charitable mission. PRIs can be grants of low interest loans to entrepreneurs that might be reconstructing areas after a disaster, rebuilding or beautifying disadvantaged communities, or training people in disadvantaged areas in job skills.

State or national charitable organizations channel funding from private foundations, as do churches, school groups, art societies and other community organizations. Check your local library for reference books on funding research resources. Once you have identified appropriate foundations or nonprofit organizations request their application guidelines and their annual reports. Then be prepared to spend time and effort filling out paperwork, writing a proposal and business plan and pitching the right people.

Laurie Blum, a successful fund raiser has written two books that shed light on this subject: The Complete Guide to Getting a Grant (Poseidon Press) and Free Money for Small Business and Enterprise (John Wiley & Sons).

Private Placements

In the United States, there are only two ways to legally offer (sell) the securities of your company to investors.

1) The transaction must either be registered with the Securities and Exchange Commission, as is done when a company "goes public" in the traditional sense (see Going Public below), or

2) The offering must be exempt from SEC registration—often referred to as a private placement

or limited stock offering. Due to the considerable legal requirements and the large commitment of time and money involved with a registered Wall Street public offering, many companies may not be ready to go public, and others may not ever want or need to do it. In recent times exempt offerings are becoming more viable alternatives for companies in search of early funding.

Below we will examine the overall process of private placement, the different types of exempt offerings currently available, and generally evaluate which of these may be most appropriate to your situation.

Making the Offering

As a first step in this process you will need to determine whether or not your company is a viable candidate for offering securities to private investors via private placement. Once your company's suitability has been determined and the proper vehicle is selected, you must have prepared the proper documents you need to comply with federal and state securities laws and regulations. Upon completion of paperwork and proper filing, you'll need to identify potential investors, market your offering to them and, most importantly, track your results. By going through this process you will (1) be equipped to generally evaluate your fundraising situation, (2) determine where you may need help, (3) become knowledgeable of current exempt offering issues and regulations, (4) perform the necessary preparatory steps and (5) generate proper documents to effect a Private Placement for your company.

There are Federal laws which the Securities and Exchange Commission governs and State or "Blue Sky" laws that affect securities transactions. If an offering of securities is made outside (interstate) of the issuers domicile state, then Federal securities laws must be coordinated with all States in which investors will be solicited. Regulation D and Rules 504, 505, and 506, as well as Regulation A are all Federal regulations governing interstate offerings.

If an offering is made intrastate, or all within the issuers domicile state, then the State securities laws regarding the sale of securities must be followed. Coordinating an offering to investors in multiple states, is usually a very complex task and often results in much confusion that needs assistance from brokers experienced in these activities.

In March, 1982, under Sections 4(2) and 3(b) of the Securities Act, the Securities and Exchange Commission (SEC), adopted Regulation D to coordinate the various limited offering exemptions and to streamline the existing requirements applicable to private offers and sales of securities. Regulation D establishes three broad exemptions from registration in Rules 504, 505, and 506.

Regulation D, Rule 504

Rule 504 provides a small issuer a federal exemption from registration for offers of securities of up to $1 million in any 12 month period. Although Rule 504 does not mandate that a disclosure document be provided to investors, it is still a good idea to inform a prospective purchaser of the risks associated with a private investment and, that it will be illiquid for a period.

Under Federal Rule 504, an issuer may advertise and otherwise generally solicit to attract virtually unlimited numbers and types of investors. However, most states restrict this under Regulation D. A filing of Form D is required within 15 days of receipt of first funds from the offering.

Regulation D, Rule 505

Rule 505 provides issuers a limited offering exemption for sales of private securities totaling up to $5 million in any 12 month period. Rule 505 has certain restrictions regarding "accredited investors" and "non-accredited" persons. The term "accredited investors" includes banks, insurance companies, small business investment companies, trusts, etc., and sophisticated investors with at least $1 million in net worth, or $200,000 in income with certain restrictions.

Rule 505 is restrictive in the number of non-accredited investors (35) and if the issuer is an operating company, audited financial statements are required. There cannot be general advertising under Rule 505. A filing of Form D is required within 15 days of receipt of first funds from the offering.

Regulation D, Rule 506

Specifically under Section 4(2) of the Securities Act, an offering under Rule 506 requires significant disclosure. Rule 506 is most attractive to growing companies requiring large amounts of capital. Although similar to a Rule 505 offering, under Rule 506, there is no ceiling on the amount of money which may be raised. However, no advertising or general solicitation may be made.

Small Public Offerings: SCOR/U7

As of May 1, 1993, a total of 26 States had adopted the use of the Small Corporate Offering Registration (SCOR) or Uniform Limited Offering Registration (ULOR), also Form U-7. This form, in a question and answer format, is intended to streamline the offering and disclosure process and reduce the costs of compliance without sacrificing investor protection. The form forces a business to create a business plan in order to effectively meet its disclosure requirements for the SCOR offering.

A SCOR offering is essentially a small public offering under Rule 504. This type allows the issuer to sell up to $1 million in a single class of stock in any 12 month period. The share price must be at least $5.00 to separate it from the penny stock soliciting rules, and a maximum of 200,000 shares may be sold. The stock is freely tradable and without restriction. The main benefit of this type of offering is the ability to generally solicit or advertise without restriction and to limit the number of non-accredited investors. Being able to tell people about an offering, advertise in the newspaper, and present the offering through seminars is a strategic advantage over a private placement.

States that have adopted Form U-7 as of October 1995 are listed in the following table. (It is expected that Florida will soon accept some SCOR filings.)

Uniform Limited Offering Registration (Form U-7)

Alaska	Arizona	Arkansas	California	Colorado
Connecticut	Georgia	Idaho	Indiana	Iowa
Kansas	Kentucky	Louisiana	Maine	Maryland
Massachusetts	Michigan	Mississippi	Missouri	Montana
Nevada	New Hampshire	New Jersey	New Mexico	North Carolina
North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania
South Carolina	South Dakota	Tennessee	Texas	Utah
Vermont	Washington	West Virginia	Wisconsin	Wyoming

For more information on the Form U-7 and SCOR, contact the North American Securities Administrators Association (NASAA), One Massachusetts Avenue N.W., Suite 310, Washington, DC, 20001, Phone: 202-737-0900

Regulation A

In an effort to increase the availability of public capital to small business, the Securities and Exchange Commission in 1993 increased the dollar ceiling for a Regulation A offering to $5 million from $1.5 million. With loosened restrictions, a Regulation A offering can also be classified as an exempt small public offering that requires the qualification of a prescribed offering statement which has been filed with the Commission, and delivery of a required offering circular.

For more information on federal securities laws, contact the Superintendent of Documents, Government Printing Office, Washington, DC

Limited Partnerships

If you know who your investor(s) will be ahead of time, a limited partnership may be an easy, relatively fast and inexpensive way for you to create a business partnership. This form of raising money for business usually involves one general partner who represents the business owner or management team and several limited partners who remain generally silent and inactive in the operation of the partnership.

Emphasis in limited partnerships by investors has shifted away from tax write-offs toward yield and safety, with a renewed interest in them as a hard-asset component of balanced portfolios.

Examples of situations conducive to funding through limited partnerships in the past have included shopping mall construction, medical facilities, alternative power development, movie productions, and oil and gas ventures.

The limited partners are attracted to this type of deal because of their limited liabilities despite the risk level. They can buy into a niche business without having the burden of running it. The assets to be acquired by the limited partnership are generally defined prior to raising funds. The partnership has a fixed life span of 5 to 30 years; it is then liquidated and capital gains are disbursed to the partners.

If you are the general partner, you will like the fact that the limited partners by law cannot tell you how to run your business. You can sell units in your limited partnership without needing to have a securities sales license. If you are selling your partnerships only in your own state, you must register the partnership with your state's securities board. If you will also be selling outside of your state, you must also register with the federal government.

Tapping into Commercial Funding

One of the greatest benefits of our free enterprise system of supply and demand is the vast network of diverse, targeted funding vehicles that has evolved. It has been fine tuned over recent decades to provide specific types of capital to different businesses in different industries and regions. The opportunities to turn business dreams into reality are in large part carried out through various channels of this vast, commercially-based funding system.

Commercial Banks

The many ways banks loan money:

- Short Term Loan
- Credit Cards
- (Revolving) Line of Credit
- Equipment Loan
- Inventory Loan

- Commercial Loan Factoring
- Term Loan
- Real Estate Loan
- Personal Loan
- Start-up Loan
- Accounts Receivable
- Business Loan
- Commercial & Industrial Mortgages
- Asset Based Loan

In addition to lending money in various ways (see the table above), Banks also provide their business customers with various accounting, collection, payroll and bookkeeping-related services (for fees). These outside services are often less costly than doing it yourself—another way of minimizing your need for additional financing.

How Banks Work

When borrowing money from a bank, it is important to understand the business banks are in and how they reach the decisions they do. It is a banker's primary responsibility to protect the money you and I have on deposit. On demand, they must be able to return our money to us so that we can buy groceries, pay our electric bills, and enjoy a night out on the town. If the bank loans that money out and the debtor doesn't repay it, we don't get our money back! Even if the bank has property as collateral, you and I still can't get our money.

Sure, there is FDIC insurance to guarantee our deposits, but if a bank makes too many bad loans, FDIC closes the institution and sells it to another bank. Usually, at a loss to the original stockholders and at a cost to you and me, the taxpayers.

When it comes to its shareholders, the bank has a responsibility to make a reasonable profit. A bank has to pay interest on the money you and I deposit; that is an expense. It earns its revenue from the interest it charges on loans. If a loan is not repaid, not only does the bank lose the interest revenue, it loses the money it loaned out in the first place.

Read this excerpt from Business Black Belt on our website: "Why Bankers Want Your 1st Born"

The Guarantee of Repayment

Because of the conservative nature of lending, a loan officer usually looks for two primary repayment sources plus collateral. The only way a bank can be repaid is with cash. They loan cash, they want cash back! The first source of repayment is the historical ability of a business to produce more cash than it uses. Profits plus depreciation does not equal the cash a business produces each year. Other factors like the collection of accounts receivable, the expansion of inventory, and the payment of accounts payable must also be considered. Bankers will also look at the personal credit history of the owner in many business situations.

The second source of repayment is the apparent ability of the business to produce enough cash in the future. A banker knows that past performance is no guarantee of future potential (ask Eastern Airlines, Chrysler, or International Harvester). The banker will look to see how solidly the cash flow projections have been put together, how knowledgeable you are about the cash coming into your business and how it's being spent, and your ability to avoid a cash shortage.

Even if a business meets these two requirements, a good banker will still look for a third source: personal guarantees or collateral, anything you can show that is available as security for repayment of the debt. Examples of collateral are stocks and bonds, equipment, savings account passbooks, accounts receivable, or the cash value of life insurance policies. Remember, banks are not real estate brokers. They don't want to have to sell your property, they want cash.

Given the conservative nature of banking, those companies with established track records (this excludes new businesses) looking to finance expansion or seasonal changes in cash are the perfect candidates for bank loans. They have the proven ability of past performance, they are able to reasonably project the future and usually have collateral. The sound business usually has the three repayment sources required by a bank.

Successfully Applying for a Loan

With a general understanding of how banks and bankers operate, how do you successfully apply for a loan? The best way is to prepare a complete loan package.

The first page of the loan package should list how much money you want to borrow, how long you want to borrow the money for, the rate of interest you expect to pay, how the money will be used (purpose) and a brief statement of why you need the money (cause). Fox example, you need to borrow $25,000 for inventory. That is the use or purpose of the loan. The cause is the addition of a new product line and the resulting sales growth.

The package should include a page or two history and description of the business. It should state when and where the business was opened, who the owners are, and how the business evolved to where it is today. It should discuss who your customers are and how you market to them. This section also includes a description of your products and services and a statement about your competition. The description of your competition should list their strengths and weaknesses and what sets you apart from them.

Next, you need to discuss your future goals and objectives for the company. This section will include in more detail how the borrowed money will be used and the effect on the company. Inclusive in this section is a set of budgets that will illustrate the future ability of your company to repay the note.

Lastly, you need to include copies of at least the last three years financial statements and IRS tax returns for the business, your personal tax returns for the same period, and your personal financial statement. If you are offering any type of collateral, a description of that should also be included.

Choosing the Right Banker

When applying for any type of loan it is important to choose the right bank and banker. The larger banks are typically looking for the larger customers with long established track records. They like large loan amounts and big deposits. The small, single facility banks are often more flexible, but might have trouble offering you all the services you need and might not have a convenient location.

The county wide bank or the bank with five or six branches often fills the gap between the large and small banks. They specifically target medium size companies in their growth phase.

Some banks, such as Silicon Valley Bank, have been found to specialize in higher risk situations such as start-ups and high tech companies. Their rates tend to be higher, their requirements are more flexible and their knowledge, experience and contacts with their market segment can be very helpful.

If the bank(s) you approach does not want your business, always ask politely for the reasons and for any recommendations for lenders interested in a company like yours. Once you have chosen the right bank, you need to choose the right banker. Make sure the person is someone you respect, understand, and with which you can grow. Also, ask the individual if he or she will be making the loan decision. If not, ask to meet with the person who has that authority. Invite both the local loan officer and his boss (the person with the authority) to visit your place of business and introduce them to your management team. Take them to lunch! Become their friend and gain their respect. Remember, *you* are what makes your business successful and they must develop a trust in your abilities. It is generally better to be more candid and less "blue sky" with the banker. This will show them you understand the issues and ensure them of your honesty.

Any relationship you establish with a bank should be developed for the long run. Sure, you can competitively shop loan rates; but, a banking relationship is more than the loan you might have outstanding. Typically, it will also involve checking accounts and certificates of deposit. However, banks have a lot more to offer. Other services include cash management, wire services, and pension and profit sharing trust accounts. You should consider your banker an informal director along with your lawyer, accountant, and insurance agent.

Determining the Right Type of Loan

The type of loan you choose will depend on the purpose of the loan, the cause, and the repayment source.

Suppose you request a loan for $10,000 to purchase inventory. Although the purpose is short-term, the cause might be long-term, such as excessive sales growth, portions of the inventory are slow selling due to changed customer demand, or the addition of a permanent new line of inventory. If you financed that inventory on a 90 day note, you would find it very difficult to repay when it matured.

Coupled with the purpose or cause for the loan is the repayment source. If the cause is short-term (seasonal growth of current assets such as inventory and accounts receivable), then the repayment source will be the decrease in those same current assets. Any other type of loan (long-term) should be repaid out of the profits (a long-term repayment source) of the business.

For the most part, the only appropriate time a business should be borrowing any money on a note that is due in less than one year is if it is used to finance the seasonal growth of current assets. As the season draws to an end and those current assets return to their normal levels, your business will generate enough cash to repay a short-term loan. Any other debt should be borrowed on a term basis to be repaid over a period of several years. Further, many companies use current earnings and cash in the bank to finance long-term expansion. Although the company may have the cash currently on hand, by using short-term assets (cash) to finance long-term needs (expansion) they severely decrease the liquidity of the company and can cause a cash crunch at the slightest decline in sales.

Now that you have decided how much money you want to borrow and for how long, the following are the various types of loans you will need to choose between.

Short-Term Note

Short-term notes are any loans that mature in one year or less. They can be single payment notes that are due in full in 30, 60, 90, 120, 180, or 360 days or they can be installment notes that pay out on a monthly or quarterly basis. Again, these types of loans should be used for seasonal cash flow needs, taking advantage of a significant bargain, or taking care of an emergency.

Long-term loans are any notes that mature after one *year* (sometimes loans of one to five years are referred to as Medium-term loans). Usually these notes are structured to have payments on a monthly or quarterly basis. These loans can be structured in a variety of ways. Like a car or house loan, they can be set up to be repaid on an equal monthly payment basis or they can have a set principal reduction amount plus interest due each month. This latter has payments that decrease as the loan is paid down, but the initial payments are higher than the equal payment plan. Another option is to take the installment loan (term loan) and "balloon" it prior to its maturity date. A basic example would be a 15 year loan that has equal monthly payments but is due in full at the end of five years. Because the loan would take 15 years to pay out but is due in full in five, the "balloon payment" is usually quite large.

Further, banks can either make the loan on a secured or unsecured basis and can charge either a fixed or a variable rate of interest. Some types of collateral the bank might accept include marketable securities, real estate, an auto, equipment, accounts receivable, and inventory. It should be noted that although a bank will take UCC (Uniform Commercial Code) liens on receivables and inventory, they usually consider it an unsecured loan and will not base their credit decision on the collateral. Remember, the collateral was the third payment source. Therefore, if your accounts receivable were good accounts that paid on time and your inventory was good inventory that could be easily sold on the open market, you wouldn't be having trouble repaying the note. And if you are having trouble repaying the note, then their collateral is probably worthless! The same can be said of equipment loans.

Finally, if the loan is made to the business in the business' name, the bank might require you, the owner, to personally guarantee the note. This is because in a closely held business, the owner and the business are one and the same. The banker figures that you might sacrifice your business in bankruptcy, but you will think twice before you give up your personal assets.

Asset-Based Loan

Asset-based lending is a specialized type of loan designed specifically for fast growing companies. As a company's sales grow, so too do its assets. The logic is that before an item can be sold it first must be purchased and will be held for some time in inventory. Once sold, it may take a month or more to collect the account receivable. Therefore, the cash for cost of goods for future sales must be paid prior to those sales being collected. If the sales growth is significant, it might outpace the company's ability to generate the cash from profits. This is very similar to the seasonal pattern previously mentioned; however, the sales never reverse and the cash is not generated from the reduction of assets at season's end!

In the case of asset-based lending, the bank will use the accounts receivable and inventory as collateral on a floating loan. Usually, they will advance up to 80% on receivables up to 90 days old and 50% on inventory. Therefore, as the level of these assets grows, so too does the outstanding loan. The twist on this type of loan is that the bank usually collects the receivables and forwards the cash to you on an as-needed basis. Also, they will visit your facility on a regular basis to inspect the inventory. Because of the detail and time consumed in these types of loans, only your larger banks make them and they typically require a loan of $1 million or more.

The bank will not allow your note to increase indefinitely. Before they approve the note, they will expect some type of goal to be established where in the coming years, sales growth will slow and the note can be converted to a traditional term note. In this example, sales growth was slowed in the fourth and fifth periods and the loan was able to be reduced.

It is extremely important to remember that significant sales growth is a long term financing need and should never be financed with short term debt. One way to reduce cash needed during the sustained growth is to raise prices (increase the net profit margin), reduce accounts receivable terms (collect A/R in 30 *days* instead of 45) and to turn inventory more quickly (turn your inventory in 45 days instead of 60 days).

Asset-based lending is very risky for the bank and you should expect to become very close partners with your banker if you establish this source of financing.

Bank Trends

Banks have changed (usually tightened) the way they lend. While in 1983 bank lending amounted to 31 % of all money lent to business, in 1992 bank lending was down to 22% of the total. This trend has changed somewhat in 1994, with many banks beginning to loosen up their criteria for small business loans. This reflects the cyclic nature of lending.

A business can quickly reach its short-term borrowing ceiling in its day-to-day activities, and often many small businesses cannot qualify for Small Business Administration guaranteed loans. To qualify for a longer term commercial loan you are required to have at least a three-year history of profits and your Debt-to-Worth Ratio must stay below three, or some similar level deemed worthy by the bank. These conditions make it most difficult for small businesses to raise capital for growth through the banks.

Very recently banks have begun efforts to recapture their share of business lending. They are actively marketing to companies and have even been given some rights by the Federal Reserve to sell and underwrite corporate bonds. Some bankers are becoming more willing to talk to small businesses now that banks are facing more competition than they have experienced in the past. In practically every business instance, it is wise to cultivate positive open relationships with your bankers.

International (Schedule B) Banks

If your enterprise does much of its business with a particular country, it may be wise to investigate bringing your business to banks that are from or familiar with the practices of that part of the world. The advantage of this type of relationship is that the international bank will have knowledge of present conditions overseas. International banks provide most of the same services available through domestic banks and they will have access to names of foreign suppliers, agents and even customers who may benefit your business.

International banks can be found in most major cities, especially in California and New York. Their focus is primarily commercial banking, where they are very competitive in the market between small business loans and corporate financing. It is most important to do in-depth homework and obtain professional advice when considering using international banks.

SBA Funding Programs

The US Small Business Administration (SBA) is alive and well. For those small businesses looking for start-up funds, the SBA might be the best approach. The SBA provides its broad-based Loan Guaranty Program as well as a variety of special financial programs (some of which are described in this section).

SBA Loan Guaranty Program

The best approach for SBA financing is to find a commercial or savings bank that is a certified SBA lender. Although any bank can apply for an SBA guarantee, most do not have the appropriate staff or training to process the applications or monitor the loans according to SBA guidelines. However, those banks that are certified SBA lenders can usually get a response from the SBA in a matter of days.

Under this program, the SBA does not directly fund the loan. What the SBA does is to guarantee up to 80% (sometimes up to 90%) of the loan for the lending institution, to a maximum of $750,000. Although there is no specific break in the interest rate charged, one advantage for the borrower is the ability to repay the note over an extended period of time. The SBA generally caps rates at 2.25 to 2.75 points over prime, plus a fee equal to approximately 2% of the loan. Close to a quarter of SBA loans go to start-up companies.

In order to qualify for the SBA guarantee, the borrower must first be considered credit worthy under normal lending guidelines. The SBA is not in the business of guaranteeing bad loans! Once the lending institution accepts the credit, it recommends it to the SBA. As traditional bank financing to small businesses has become increasingly difficult to obtain, the popularity of SBA loan programs has grown tremendously. In 1.993, close to $6.5 billion of SBA loans were made, more than double the 1988 level.

Typically, the SBA prefers to finance new businesses or the acquisition of existing businesses. It does not like to refinance existing debt and in order to do so, the borrower must be able to demonstrate a significant hardship caused by the existing debt relationship. The SBA does consider guaranteeing mortgage loans for buildings occupied by the business owner.

When reviewing a loan application, the SBA first considers the experience and expertise of management. Secondly, they look at the venture and the particular industry. Lastly, the SBA looks at collateral. Although the SBA will guarantee loans that are not fully backed by collateral, expect them to file a lien against all the assets of the business and to take a second mortgage on your personal residence. The SBA believes the second mortgage is that final incentive for the borrower to give it his or her all before throwing in the towel.

In recent times there have been some allegations of fraud leveled against unscrupulous SBA loan applicants. A 1994 case in Atlanta yielded the first indictment against an SBA loan applicant. This case involved falsified tax returns as part of the loan application. Many other of the questionable applications have been prepared by certain professional “loan packagers,” who, for a fee, help small business owners obtain SBA-guaranteed loans. The SBA, in response to the Atlanta case and several similar allegations, is stepping up its cross-checking of tax-return information with the IRS on all new applications.

The SBA offers many services, like the Small Business Development Centers and the Service Corps of Retired Executives (SCORE), to help entrepreneurs put together loan packages. Check these services out before turning to the professional “loan packagers". If you need professional assistance, ask your bank to recommend a loan packager. They charge around $1000 to $1500 to complete the volumes of paperwork. Look at the track record and ethical practices of anyone you consider.

A final remark about the SBA concerns the Small Business Development Centers. These organizations are partially funded by the SBA and by state governments. Although not in the business of lending money for small business, this organization is an excellent source of information. They offer all kinds of continuing education courses and one night seminars specifically for the business community. These courses are usually free or require only a minimal fee. The SBDC also offers free counseling. They will not write your business plan or find the best location for your business, but their core of experienced counselors are usually superb sources of advice and guidance. The SBDC is organized on local levels and has offices at about four dozen universities and junior colleges. To locate an SBDC look in the phone book under the US Government listings for the office nearest you.

SBA Direct Loans

Although the SBA is making direct loans for small businesses, they are being done on a much more limited basis than the loan guaranty program. SBA direct loans have a maximum of $150,000 and are presently available only to Vietnam-era or disabled veterans, businesses in high unemployment areas, or participants in the SBA’s minority contractor program.

Before the SBA will even consider a direct loan, your business’ loan request must have been turned down by at least one SBA recognized loan correspondent bank (or two banks in a city of over 200,000 population). You must have a thorough business plan included with your application and proof of your ability to repay the loan in a timely manner.

SBA Disaster Loans

Physical Disaster Assistance and Economic Injury Disaster Loans are available through special SBA offices to help businesses recover from officially declared disasters like floods, earthquakes, hurricanes and tornadoes. While the SBA has four regular field offices through which disaster loans can be issued, the SBA also usually establishes an on-site office in the area of the declared disaster for loan information and assistance.

SBIC

The SBA licenses Small Business Investment Companies (SBIC) to provide capital for start-ups and expansions. SBICs (more than 300 exist in the US) are independent enterprises that dispense SBA funds along with their own capital. Often they specialize in supplying equity capital and extending unsecured loans to qualifying small enterprises in a certain industry or who provide specific product preferences. These corporations are very selective in their investments and require extensive documentation from the applying company. A business must have profits of less than $2 million and equity of less than $6 million to be eligible for SBIC assistance.

The SBA will invest three dollars for every dollar invested by an SBIC. The SBIC will usually ask for equity in the business in return for their investment, and may provide (and charge for) management consulting assistance. Generally SBICs work on your deal quickly and with less red tape than regular SBA loans, however they require a written, sound business plan.

Small Business Development Companies (SBDC)

Small Business Development Companies or Corporations operate in the same fashion as SBICs, except that all financing is sponsored through private sources like utility companies, large corporations, banks, private foundations, etc. The Small Business Development Company will either offer a loan or may often ask for equity in your business in return for its investment, and may provide (and charge for) management consulting assistance.

MESBIC

Similar in execution to SBICs and Small Business Development Companies, Minority Enterprise Small Business Investment Companies (MESBIC), offer venture capital and loans to young, minority-owned firms. They raise their own capital and are subsidized with matching funds from the SBA, which sells bonds to the Federal Financing Bank. MESBICs have invested in thousands of minority-owned enterprises over the years.

Micro-lenders

In the '90s micro-loans have become popular in areas where ready access to business funding has traditionally been limited. Micro-lender programs tend to be revolving funds offering a few hundred dollars to $25,000 loans. This money is usually provided at high market-rate interest and is often coupled with training and technical assistance to the qualifying entrepreneur. Thus, this vehicle for funding should be used cautiously as a resource if traditional loan sources do not prove to be helpful.

The SBA has its Micro-loan Program, which began in 1993, that bypasses banks and works through a network of community development (primarily non-profit) corporations. Call the national SBA Answer Desk in Washington, DC, (800) 827-5722 to obtain more information.

Approximately 300 (both private and SBA sponsored) micro-lending programs have been set up throughout the US Some micro-lending programs help channel foundation funding to entrepreneurs that help address many social issues like family stability, fighting poverty, and creating jobs. (See Private Foundations below.)

SBIR

If your company has the ability to do technological research and development, then you should investigate the Small Business Innovative Research Grants (SBIR) program. Several federal agencies offer SBIR grants to applying companies for specific research and development. This program began in 1982 and was designed to stimulate technological innovation. It is coordinated through, but not managed by, the SBA.

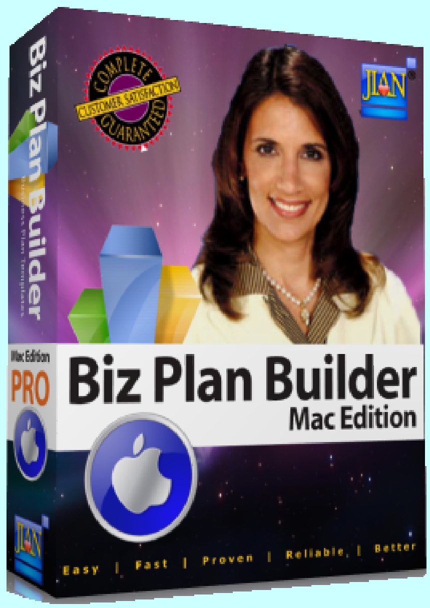
Out of the 40,000+ applications received each year, several thousand SBIR awards totaling around $440 million are made. Originally limited to $50,000, during recent years first-phase funding grants have ranged up to $100,000, and second-phase funding has increased up to $750,000 from an original limit of $500,000. Participating agencies set aside percentages of certain R&D funds for grants to small firms. These percentages are slated to be increased by more than half by 1997, so these funds should become available to an increased number of companies.

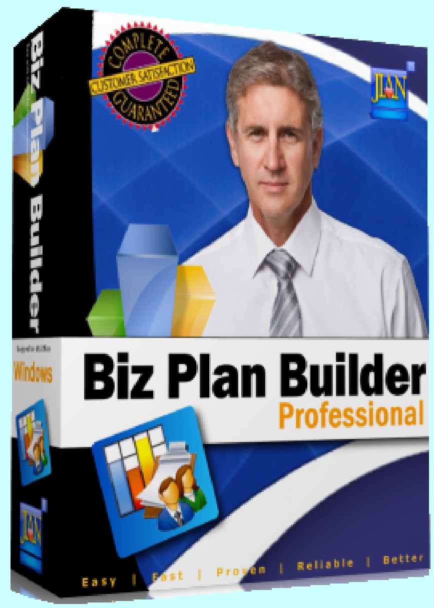
Currently eleven government agencies provide monetary awards in over 160 technology areas. Four times a year (in March, June, September, and December) the SBA publishes the agencies' pre-solicitation announcements of the types of research or products needed and the closing dates for bids. By far the biggest providers of SBIR grants are the Departments of Defense, Energy, Health and Human Services; the National Aeronautics and Space Administration and the National Science Foundation. Other participating agencies are the Departments of Agriculture, Commerce, Education, and Transportation; the Environmental Protection Agency and the Nuclear Regulatory Commission.

Your company retains any commercial rights to the product you develop under the SBIR grant. A service called the Commercialization Matching System has been established to help locate additional funding for SBIR awardees who have developed innovative results. Cuts in defense spending in recent years may not cut back the SBIR program, but rather stimulate its application for small defense companies toward the conversion to dual (military and civilian) use of manufacturing capabilities.

For more detailed information on SBIR grants or the Pre-Solicitation .Announcement contact the Office of Innovation Research & Technology, SBA, 409 Third Street, SW, Washington, DC 20416.

Professional Business Planning Software





Whether you are raising $5,000 to $50 million**,** or organizing your strategy for going forward, BizPlanBuilder will help you to produce an investment-grade business plan quickly and efficiently. Menu-driven from start to finish, its organized system gives you sample plans, built-in financials and free Internet resources. It's the fastest and easiest way of turning your ideas into a winning plan and a successful business. BizPlanBuilder is also multi-user and enables collaboration over the Internet. Includes pre-written Word templates, Excel financial workbooks and PowerPoint presentation template. Welcomed by banks, the SBA, angel investors, and venture capitalists worldwide. Click here to learn more.

- Multi-User / Collaborative
- Refined the longest
- Over $2 Billion raised

BizPlanBuilder was created by business and planning experts with years of success and experience. It's like having your own business consulting team at your finger tips!

Frequently praised for the breadth and depth of its content, BizPlanBuilder offers everything you need to complete an effective plan to build and finance your business—in a fraction of the time it would take any other way. (This is the one you may have seen advertised in the in-flight magazines, and is most often referred to by friends and advisors.)

Overview:

- Updated user interface makes it easy to find plan documents, Excel workbooks, PowerPoint presentation and sample plans.
- Microsoft Office integration allows you to work in a familiar environment–you already know how to use it!
- Customizable, comprehensive Microsoft Word templates form the basis for the entire business plan.
- Straight-forward menus show every tool – it's easy to jump around and work where you want.
- Drag & Drop customization lets you organize your plan any way you like.
- Grab sections from any template set and build a custom plan to suit your business.
- Add/Edit/Format text any way you like using MS Word.
- Tab from variable to variable – quickly fill in the blanks & complete the sentences.
- 9th grade level, plain-English – an effective style structure you can follow.
- Expert Comments throughout help you along the way--On/Off with a click.
- Excel worksheets calculate figures & create impressive tables to support your plan.
- Quick-fill assumptions pages enable easy top-down or bottom-up forecasting.
- Project sales by product/line/marketing channel – including seasonal & mix adjustment.
- Customizable HR planning pages help you plan staffing, payroll and space requirements.
- One-click access to answers, experts, investors, market stats, resources.
- 18,000+ business segment benchmarks back up your marketing analysis & financial assumptions
- 34 ratios defined & measured with free access to BizStats to compare (we even offer ideas…).
- One-page "What-if..." shows best & worst case scenarios without duplicating everything.
- Business valuation & investor analysis calculates ROI & stock give-up.
- Works equally well for external funding or bootstrapping approach.
- Publish your business plans to PDF format with built-in PDF publisher – Ideal for distributing your plan electronically.
- Build new plans from previous plans – create your own customizable templates.
- Free Video — *"The Thinking Behind Your Business Plan"*
- 350-page ebook full of expertise and time-tested wisdom on business and planning!
- Become fully literate in investor & lender requirements & terminology.
- 54 supporting documents to assure your success:
- PowerPoint template helps you produce a professional presentation quickly and easily.
- Cover letter templates to: Investors, Lenders, Friends…
- Investor tracking spreadsheet.
- Invite letters to Board members & advisors
- + $600 worth of extras!

Venture Capital

Venture Capitalists are usually looking for high growth candidates in certain niches in which they specialize their expertise. A large portion of venture capital investments are poured into technology and health care companies. VCs (as they are called) assume relatively high risks. One third of their investments are partial or total losses, a third are between break-even and two times cash on return, while the other third of VC investments realize returns of greater than two times. The big winners have to make up for all the losers and marginal performers.

Even if you do fit their narrow parameters, their money often comes with various demands, including specific performance requirements, legalities to comply with, and often intrusion into your company's goals and operations. Typically, they want to see proprietary and protected technology (patented), opportunity for significant growth, a clear "exit strategy" (go public, be an acquisition, leveraged buyout or merged within 5-10 years, etc.) and most importantly a cohesive, seasoned and committed management team. They bet as much on the jockeys as they do on the horse. That includes sometimes replacing jockeys—which could be you. They will want a comprehensive business plan, but it better grab their attention in the first couple of pages or else they'll toss it. These guys play hard ball, so you'd better be prepared to play their way. This is often a very narrow option not available to 99% of businesses.

Some of the most common ways to raise venture capital funding are described in the following paragraphs.

Venture Capital Funds

Venture capital usually refers to a fund or pool of money established for the sole purpose of making an equity investment in small, high growth companies. The VC fund accepts and manages investments from individuals and invests that money in small companies with high growth prospects.

Investment Banking Firms

Venture capital is also raised occasionally by investment banking firms. Traditionally investment bankers concentrate on investment in established, larger companies, however they do invest in specific new ventures in emerging growth industries. They'll typically form a syndicate of investors for a qualifying venture proposal. Deals with investment banking firms generally start in the $5 - $10 million dollar range on up.

Boutiques

A variation on investment banking firms are investment "boutiques." The "boutiques" operate on a smaller scale, aiming at local or regional companies who need capital in the $1 to $10 million range. They raise funding for ventures through private individuals, banks, finance companies and investing their own capital.

Because venture capital funds make their money investing other people's money, they have a "fiduciary responsibility" to exercise "due diligence" in their research of potential investments. This means the fund has to thoroughly investigate each investment and assess all the potential risks. If they don't and the fund goes bankrupt, the investors are sure to sue. This is why that out of 100 plans submitted to funds, maybe 10 get reviewed and possibly one will actually be funded.

To improve your chances of being that one company, you need to be thoroughly familiar with venture capitalist and the types of businesses they are looking for. First, funds come in varying sizes and some may specialize in specific industries. A fund managing a total of $5 million certainly will not invest in a request from a business looking for $5 million. No one puts all their eggs in one basket. And the firm managing $100 million probably will not review a request for $100,000. It takes just as much time to perform their due diligence on $5 million as it does on $100,000. So the first task you need to do is to identify the venture capital fund appropriately sized for your needs.

Next, a firm specializing in computers is not going to invest in a biochemical company no matter how strong the opportunity. It is not in their field of expertise. The second step is to identify those firms that specialize in your industry.

Finally, you need to be sure your business fits the mold venture capital is looking for: small, high growth companies. Venture capitalists like businesses on the leading *edge* of technology or new industries. They like to see the potential for sales to at least double on an annual basis and the possibility of a multimillion dollar industry being developed. The advantage of venture capital over bank loans (asset based lending) is that they don't have to be repaid. It is an equity investment.

The repayment does lead to a major concern of venture capitalist. Their investment is not permanent. They usually like to fund the company for five to ten years and then want to be bought out. They are not long term investors. Therefore, part of the initial offer must be the objective of going public or being purchased by a larger company. Either way, you must be able to prove that the fund will be able to find a ready market for their investment at some point in the intermediate future.

The venture capitalist is taking a large risk that your company will fail altogether or will not grow sufficiently so that they can sell their stock. For this risk, they require a substantial return on their investment. This return can be in the form of dividends during the growth phase or might be in the form of a substantial profit on the sale of the stock. Either way, expect the venture capitalist to want a big chunk of the business and a big return on his investment.

If your company fits this description and venture capital is the course you choose to take, you need an introduction. Because venture capitalists are bombarded every day with hundreds of requests, it is important that yours stands out for some reason. An introduction from a respected member of the firm or member of the community always helps. Begin with your accountant or lawyer. These people make it their business to have these contacts. An introduction from one of them might be just what you need.

When dealing with the firm, act and dress for success. Although some venture capitalists consider themselves innovative and open minded, most are established businesspeople with distinctive careers. They tend to look unfavorably upon the look, sound, or act of behavior that is not in the traditional business mold.

Finally, do not shop your plan around, at least not too flagrantly. Most of the people know each other and might resent what you are doing. It is best to find the firm that best fits your business and plans, and to negotiate with that firm in good faith.

State Venture Capital Funds

Many states now provide financial assistance to small businesses through their own venture capital funds. Some of these are the Massachusetts Community Development Finance Corporation, the Enterprise Fund of Nebraska, the New Mexico R&D Institute, and the Corporations for Innovation Development in Indiana and in New York. While the purposes of these programs are basically the same, the programs have different ways to obtain their funds and different parameters for placing their investments. Some offer equity capital while others provide loans to qualifying businesses that show promise for building the state's economy.

Several states provide tax incentives to private investors who provide capital for their state venture capital funds. To find out if state venture capital funds are available in your area, contact your state or local chamber of commerce and your state's industrial development offices.

Going Public

For certain companies with proprietary products or unique services in "hot" industries, an Initial Public Offering (IPO) or selling shares to the public is an enticing, yet expensive way to obtain large amounts of capital. This market was booming in the mid-eighties, then went into the doldrums after the major stock market setback in 1987, and is now somewhat returning to prominence in the mid-nineties.

According to the Securities Act of 1933, a public offering must be registered in advance through the Securities and Exchange Commission of the federal government. Based on the Securities Exchange Act of 1934, the offering is then subject to regular reporting to the SEC and annual reports must be made open to the public. Most public offerings use the comprehensive registration form called S-1, sometimes called the full form. A simplified form S-18 has been available for companies seeking a public issue of up to $7.5 million.

Since August of 1992, a new Regulation SB, with a simplified registration form called SB-2, has been in effect for registered stock offerings for businesses with revenues and outstanding securities of less than $25 million. This regulation was designed by the SEC to further cut the paperwork and costs of raising capital for relatively smaller firms hoping to go public.

On the positive side, going public is a way to obtain cash for significantly growing a business quickly. It is also a way for the CEO/owners to "cash out", to pay off debt and the stock option reward to key employees, and to attract top notch talent into your company. Achieving success after an IPO will help facilitate additional fund acquisition for equity increase or more favorable terms on future borrowing. Mergers and acquisitions may also be more easily accomplished with stock transactions, instead of using cash.

Proceeding with an IPO is a major decision that requires much specialized expertise, 18 to 24 months to execute, and significant expense. An investment banking company typically underwrites the deal and may collect from six to ten percent of the offering's gross proceeds. Legal and accounting fees often top $100,000 for an IPO, as can other printing and registration fees. Other down sides to an IPO are high levels of required disclosure of information to the government and to investors, some loss of owner's control and management flexibility, higher susceptibility to a takeover and short term pressure on performance/dividend.

The decision to go forward with an IPO should not be done lightly. Only after weighing the pros and cons, and also exploring all the other alternatives, if you are convinced that going public is the best course of action, seek out an expert who has taken other companies public in order to develop your IPO strategy.

Franchising

In the US, there are over a half million franchised outlets that account for over a third of all retail sales. Internationally there may be over 100,000 more. It has been a very fast growing phenomenon, especially during the last couple of decades. Franchising involves a franchisor, who owns, produces or distributes a particular product or service, who grants exclusive local distribution rights to a franchisee, who agrees to certain standards of business and who provides a payment or royalties to the franchisor.

As a funding method it can be looked at from two directions: as a franchisor you can extend your existing business to multiple locations and areas; as a franchisee you can quickly start a new business or speed up the growth of your existing business. From both directions, franchising involves using another person's, or business', capital to mutually expand one's own business. In addition to funding benefits, both parties can grow because of standardized marketing, name, controls and facilities. Each can benefit from the inherent economies of scale. As a franchisee you can view this situation as one that lessens the overall risk of getting into business.

The franchisor often helps the franchisee obtain and guarantee a loan or lease. Since the franchisor has supposedly put together a proven package of product or service and a method of doing business, and the franchisee brings additional capital and the business motivation, the lending institution will generally have more comfort in lending needed funding. The franchisor generally receives an up front down payment or fees, plus a piece of future sales and/or profits.

While franchising has many appealing aspects, it also carries disadvantages to both franchisor and franchisee. For the franchisor, there is a continuous responsibility to work with new businesses in new areas. Rules and regulations for doing business may vary considerably. Do your market research or verify the research that a potential franchisee has proposed to you when considering to offer a new franchise. Also you should require certain minimum sales and profit goals for your franchisees to stay solvent and to promote the total image of success for your franchising operation. A few incidents of mismanagement and failures at the individual franchise level can cast a negative shadow on your entire business.

For the franchisee there can be high front-end buy-in costs that can take sometime from which to recover. Sometimes the restrictiveness imposed on you by the franchisor can sap your entrepreneurial energies. Know your strengths, weaknesses and needs as you explore and begin to negotiate your franchise opportunity. Check out the reputation of any franchisor you are considering. Investigate both successful and unsuccessful franchisees that have done business with the franchisor. Then know up front the details of responsibility for operations, financing and future exit strategies before you sign on any dotted lines.

The International Franchising Association provides in-depth information on franchising. There are a variety of books, periodicals and trade publications that list franchising opportunities and the issues surrounding them. Your local newspaper classifieds may be a good place to start looking for what may be available in your area.

Institutional Term Lenders

Term lenders supply capital for all types of longer-term financing (usually 5-10 year range, all the way up to 25 years), provided you have sufficient assets available as security. Rates for term loans are generally slightly higher than bank loans and are usually fixed for at least five years, after which time they can be renegotiated. Bank loans, on the other hand, are shorter term with rates adjusted more regularly.

A variety of major institutions, including trust companies and mortgage companies, are major players in offering term loans to businesses. These institutions usually finance business mortgages on land and buildings for 20 years on up. (See also Insurance Companies and Pension Funds below.)

Commercial term lenders focus on land, building and major equipment financing. Often times they also offer leasing. Check the credentials, references and track record of term lenders before signing any deals.

Insurance Companies

During recent years major insurance companies have become big-time financiers of industry in more ways than in the past. For example, since 1991 business loans by life insurers have increased by over $50 billion according to the American Council of Life Insurance. In addition to providing term loans, as described above, insurance companies have also opened their own autonomous venture capital units, as evidenced by Travelers, John Hancock, Prudential, Allstate and many other major firms. They are particularly interested in providing capital for buildings and equipment. Like venture capitalists, they share in the profits (and shortfalls) of their own investment decisions.

This type of funding is available to large size, large stake venture requiring millions in investment. Significant research, a thorough business plan, and a medium-to-low risk business concept are all needed if you want to work with any insurance company.

Pension Funds

Pension funds have considerably expanded in numbers and scope during the last decade. *They* now provide an array of funding options to primarily larger companies or projects. They offer term loans as well as some instances of venture capital.

Pension fund investments are generally conservative in nature. Your likelihood of success in raising capital through this avenue is enhanced if real estate with buildings is part of the deal. Loans through pension funds usually begin at six figures and are generally longer term (10-20+ years) than most other commercial sources.

The usual method for securing financing from a pension fund is by first approaching the fund's commercial bank. If the bank cannot supply the type of long term financing your business requires, it may call in the pension fund representative to look at putting together your financing.

Commercial Finance Companies

Commercial finance (or loan) companies have evolved out of large manufacturing companies that established subsidiary companies to finance the parent company's receivables. Many of these financing subsidiaries grew successfully to the point that they began using their surplus funds to provide similar services to other companies.

For companies who get turned down by commercial banks, commercial finance companies will often be more accommodating. Because these finance companies are willing to make loans to relatively high risk borrowers, their loan rates are generally higher than commercial banks and other sources. Credit lines usually run at prime rate plus 2-6 percent, plus a closing fee in the range of one percent.

A revolving credit line is the most popular form of funding offered by commercial finance companies. They are almost exclusively secured lenders requiring collateral, and usually advance up to 80% of accounts receivable or inventories. Some commercial finance companies are also involved with fixed asset financing and factoring. (See Factoring and Leasing sections below.)

Commercial finance companies are commonly described as "asset based lenders." Businesses often use their financing services when they are growing rapidly or rebuilding after isolated setbacks. Commercial finance companies are often involved with leveraged buyout acquisitions. In these situations they provide funds to a third party that is taking the company private, usually to avoid a hostile takeover. The money is generally paid back later through funds from operations and the sale of assets.

To do business with these institutions you'll need a significant amount of hard assets and a willingness to allow their staff members to become very familiar with your business. Commercial finance companies keep a close eye on businesses they have lent to. Among their activities they will monitor and audit your financial records and collections procedures and they will do their own appraisals of the actual value of your business collateral. Weigh your trade-offs before proceeding down this avenue.

Credit Unions

Although credit unions usually emphasize personal lending, they are, in some parts of the US, an active source of small amounts of funding to small businesses. Credit unions are usually managed by people with local orientation, familiar local industries and the local business climate. For this reason they will more often go out on a limb for a promising local business more readily than the bigger nationally and internationally based capital sources.

There is a wide range of how well different credit unions are financed and managed. It is important that you investigate and monitor the ability of the credit union to meet your business needs. Begin by checking with the Credit Union Association or the credit union licensing authority in your area. If you are already a member of a credit union, look closely at the business benefits it may already have available to you. Otherwise consider joining a credit union that may have funding or other services that you and your business may need down the road.

Savings & Loan Associations

Savings and loan associations, sometimes called savings banks in some parts of the US, have traditionally not been commercial lenders, but have focused on being sources of mortgage funds. With some deregulation in this industry, S&L's are now providing a variety of services previously dominated by banks. Although the percentage of their assets that they can offer for lending to businesses is limited by government regulation, S&L's are focusing more on small businesses than ever before.

The well publicized financial difficulties of many S&L's during recent years have put a damper on their ability to lend. Nonetheless, there are S&L's that are willing and able to provide solid lending and many other "banking" type services. It is important that you investigate and monitor the ability of the Savings and Loan Association to meet your current and future business needs. You can start by checking with the Federal Savings and Loan Insurance Corporation and also with S&L regulators in your state.

Factoring Companies

Factoring is a method of receiving money as a loan based on your accounts receivables. The factoring company, in effect, buys your company's accounts receivable and then either provides money on the date invoices come due or advances money before the invoices come due.

Large factoring firms generally charge a commission of 1-2% of the total dollar volume of the invoices bought. If advancing funds, which can be up to 80% of the value of the invoices, the factoring firm charges 2-3% above the prime rate.

While factoring is relatively expensive, it is a way to generate needed cash in a hurry. The factoring companies are proficient at knowing the credit track record of your customers, since they interface directly with them in collecting on their loans to you.

Leasing

During the last twenty years leasing has become a popular form of receiving funding by using your acquired assets as security. Leases work best when the leased asset involved is usable for a long term, has value independent of use at your business, and takes relatively little management time or effort if the item should be reacquired at the end of the lease or if you should default on payments.

Leases can be arranged through many asset suppliers or through third parry companies that deal primarily with the financial aspects of the deal. In an operating lease situation, the leasing company owns the equipment and provides services such as repair and insurance. In a financial lease, you are responsible for the services while the lessor merely owns the equipment.

While leases are more expensive than commonly used loan sources, you may find several advantages in leasing for your small or growing business. You will need little or no cash up front to acquire your asset; the requirements for leasing credit approval are relatively liberal and long term; if the asset will be less than fully amortized, your payments will be lower than if you purchased. There may also be tax advantages to your engaging in a lease instead of a purchase.

There are many variations to how leases can be set up. Examples include 1) having your company buy the equipment and reselling it to the leasing company, which then leases it back to you; 2) locating your asset and prearranging the financing on your lease with the leasing company, who does the actual purchase. In any scenario, it is important to have agreement up front and clear documentation of the deal, so that there are no logistical or legal surprises along the *way.* Understand the fine print of what you are getting into.

The types of leasing terms that will be available to your company will depend on your stage of development. If your company is very small and young, you may also need to give personal guarantees to obtain a lease. Learn the situations where a lease might be a worthy solution for your company. You can locate leasing companies by checking with major suppliers of equipment and capital goods, as well as experts in your industry and the classified sections of industry publications and the telephone directory.

Warehouse Receipts Financing

Your business situation may be suitable for working with lenders of secured loans who prefer warehouse receipts financing. This method of raising funds involves placing some of your finished goods inventory, or certain raw materials, in a bonded warehouse as security in exchange for a loan. You would receive portions of your inventory back as you pay off portions of the loan or replace the inventory with other suitable security. Of course, you would not want to warehouse any inventory that you intend to sell in the short term.

If you, for some reason cannot pay off the loan the lender can sell off the merchandise and keep as much of the proceeds as is necessary to pay off the loan. The left over funds would go back to you.

Lenders will often be able to advance up to 80% of the value of the inventory you have placed in the warehouse, at 1 to 4% above prime. Some warehousing companies offer this type of funding on their own, while certain major banks offer warehouse receipts financing in conjunction with warehousing companies.

Wholesale Floor Planning

This is a practice whereby a manufacturer of items for retail arranges third party financing so that product inventory can be shown on the seller's floor. The lender collects on the investment from the seller. This is commonly done with automobiles and seasonal vehicles such as recreational vehicles, boats and snowmobiles. (Ever wonder how those dealerships can have so many vehicles on their lot?) This floor plan method of financing enables a retailer or distributor to stock items at the beginning of the prime sales season.

Due to often high interest rates, it is important to plan well and time these purchases closely with your expected sales. Be careful to check out the terms and reputation of the prospective third parry floor planner. Coordinate and communicate with your supplier.

Procurement Assistance Programs

A method of improving the financial position of your company is to assure additional business by obtaining government contracts. There are a number of programs that help funnel government procurement contracts to small and disadvantaged businesses. Each year over $70 billion is paid by the US Government to small businesses, contractors and subcontractors. The overwhelming majority of these procurement contracts are for $25,000 or less.

The Small Business Administration, in accordance with the Small Business Act, has developed cooperative programs with several major government purchasing agencies to award contracts for products and services to qualifying small businesses. The SBA maintains a database of nearly a quarter million registered small businesses. This database, called the Procurement Automated Source System includes the contracting capabilities of each business and is made available to the participating procurement agencies.

Similarly, the Department of Defense, which is the largest procurer of all government agencies, conducts its own program for identifying, assisting and awarding contracts to small businesses. Called the Defense Procurement Technical Assistance Program, this program is available through your regional Defense Contract Management District, administered by the Department of Defense's Defense Logistics Agency.

Surety Bonding Companies

Traditionally government agencies, and now more frequently private-sector customers, require contractors to have proof of bonding in the form of a surety bond in order to be able to bid on projects. This helps the agency assure that the work will be completed (even if they need to call in a replacement contractor).

There are bonding companies that will back you as a contractor, providing the surety bond to enhance your eligibility for landing contracts or subcontracts. While bonding companies do not provide you with capital directly, their resources are in effect used as collateral to support you in your bidding for, landing and completing the contract.

For information contact the national Association of Surety Bond Producers (phone 202-686-3700) or the American Subcontractor Association (703-684-3450). The SBA has a Surety Bond Program that is administered through the SBA's 10 regional offices along with participating surety bonding companies throughout the US. The SBA's Surety Bond Program has guaranteed over $20 billion worth of small business government contracts during the last two decades.

SBIDC

State Business and Industrial Development Corporations (SBIDC) are available in about half the states. They are often setup as not-for-profit corporations, chartered (through various agencies) to use private funding to make SBA-guaranteed loans to small businesses. Sometimes these entities are simply called Business Development Corporations or Local Development Companies.

They are often more flexible than some other financing sources and are particularly useful in underdeveloped areas with potential.

Veterans Administration

As a benefit to honorably discharged veterans, the Veteran's Administration has long offered a small business loan guaranty program similar to what was described earlier in this chapter in the SBA Loan Guaranty Program. The Veteran's Administration will work with you to guarantee the majority of your loan in order to help your chances of loan approval through traditional lending avenues. Look in your phone book to locate the Veteran's Administration office closest to you.

The SBA also gives disabled and Vietnam era veterans special considerations under the SBA's regular 7(a) loan program.

Farmers Home Administration

For decades the Farmers Home Administration (FHA) has offered a loan guaranty program to farmers and ranchers similar to what was described earlier in this chapter in the SBA Loan Guaranty Program. Despite some of the hard times suffered by farmers and the FHA in the '80s the FHA program is still available, especially to first time buyers.

The FHA will work with you to guarantee the majority of your loan in order to help your chances of real estate loan approval through traditional lending avenues. Look in your phone book to locate the Farmers Home Administration office closest to you if this type of financing applies to your situation.

Parting Tips

Recurring themes throughout this chapter have been about learning the financial needs within your company and also becoming aware of the various alternatives of financing that are available to you. Look at these issues early and often as you develop your business. Read, ask, look and listen. If having sufficient capital to grow your business stays high on your business priority list, the opportunities will be there for your benefit.

Cash for jets or just jets?

In 1991 Darrin Perdue had three partners, with ten years combined flying experience and a vision for a jet charter company. His plan was to first raise money and then buy a jet. The first investor laughed him out of his office. Then, while pursuing other investors, Darrin remembered that he knew a gentleman who owned two Lear Jets. Darrin used his business plan to convince the jet owner to let Darrin's company, SP Aviation, manage the planes. The company prospered.

Recently, Darrin used his business plan once again to approached a large corporation to manage the chartering of their Gulfstream G4 business jet. Today, Darrin's company has 12 pilots and is on call 24 hours a day--providing jet charter services to executives, celebrities and medical transplant teams throughout Northern California. How did he do it?

"My business plan wasn't extremely complex.
I just edited through the Executive Summary,
following the easy instructions that BizPlanBuilder gave me,
and then put it all together."
~ Darrin Perdue, President & CEO, SP Aviation

Important Lesson Here!

Darrin originally thought he needed money, until he remembered that his goal was jets. There are many ways to get what you need to build your business--it doesn't always take lots of money. The most important ingredients are an imagination, some nerve and a logical and thorough plan of action.

Be inquisitive and open minded, yet be cautious and safe. Check on both the institutions and people with whom you may be dealing. Know their track records during both the good times and bad times of their other customers. Know about second sources for any financing path you may intend to follow.

You are the navigator of your business. Ideas, money and action are the fuels of your business. Use the right fuel wisely and you will be able to reach your business goals without having to sputter to a halt somewhere along the way. Many funding vehicles are available to the alert and forward-looking business person. The economic climate of the ‘90s is becoming more favorable because many people are willing to take risks to pursue their own new business ideas or to fund other people’s good ideas. If you lay out your plan, and utilize the tools that are out there, you will reach the business destination for which you have set out.