



# CAPITAL

What to think about, when to pursue it, where to find it, and how to get it.

## MORE CAPITAL?

What to consider:

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> YOUR BUSINESS' LEGAL FORM OF ORGANIZATION | <input type="checkbox"/> AGE OF THE BUSINESS   | <input type="checkbox"/> YOUR PLANS REGARDING GROWTH        |
| <input type="checkbox"/> IF YOUR BUSINESS IS SEASONAL OR CYCLICAL  | <input type="checkbox"/> PRESENCE OF ASSETS THAT CAN BE USED AS COLLATERAL, SUCH AS BUILDINGS, EQUIPMENT, ACCOUNTS RECEIVABLE, INVENTORY | <input type="checkbox"/> PERSONAL AND BUSINESS CREDIT SCORE |
| <input type="checkbox"/> THE STATE OF THE INDUSTRY YOU ARE IN      |  | <input type="checkbox"/> REVENUE AND CASH FLOW              |

THE WHY, WHEN, AND WHERE ARE IMPORTANT QUESTIONS TO THINK ABOUT.

You need capital if:

- |  |  |  |   |
|--|--|--|---|
| ✓ YOUR BUSINESS HAS CONTRACTS AND YOU NEED TO HIRE MORE EMPLOYEES TO EXECUTE ON THE WORK | ✓ YOUR BUSINESS HAS SOLID INCOME, BUT STRUGGLES WITH CASH FLOW | ✓ YOUR LONG-TERM GROWTH OBJECTIVES DEMAND IT | ✗ YOU DON'T NEED CAPITAL JUST TO HAVE IT. |
|--|--|--|---|

Examples of different situations and sources of capital:

SITUATION	TYPE OF CAPITAL
You have a lapse in cash flow and/or urgent need.	Try to anticipate needs beforehand by getting a line of credit. In a crunch, alternative lenders and factors can help you out.
You want to purchase buildings or equipment.	Since these can be used as collateral, more traditional loans from a bank are a good option here.
You own a high-growth firm.	Equity financing through angel investors or venture capitalists may be a path worth pursuing.
You are in the startup phase and have no cash flow.	Launch a crowdfunding campaign—especially if you are selling a product—or participate in a business plan competition.
You are looking to grow your firm.	Check out angel investors and business loan options and banks and credit unions.
You have low or no credit, but a solid stream of revenue.	Alternative lenders are a good option until you can build your credit.
You want to test a new product, or learn more about consumer demand for your product.	Launch a crowdfunding campaign to see how people respond to your product.
You own a seasonal or cyclical business, such as a landscaping or retail firm.	A business line of credit can prepare you for times when cash is tight.

DO YOU NEED MORE CAPITAL?

HOW MUCH CAPITAL DO YOU NEED?

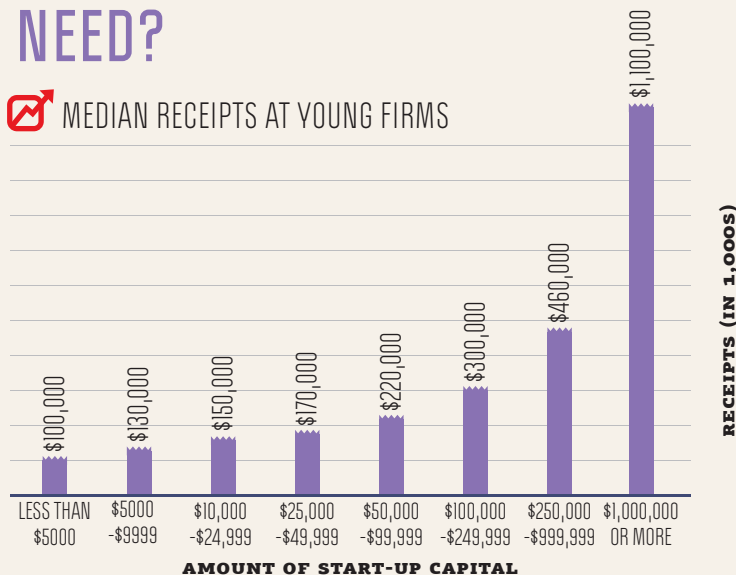
WHERE CAN I GET CAPITAL?

# HOW MUCH CAPITAL DO YOU NEED?

Capital is an important factor to business growth, sustainability, and success—but the type and amount that you need will depend on your business goals.



MEDIAN RECEIPTS AT YOUNG FIRMS



MANY FIRMS ARE ABLE TO ACHIEVE SIX-FIGURE RECEIPTS WITH RELATIVELY LOW AMOUNTS OF CAPITAL. DIRECT CORRELATION—MORE CAPITAL, MORE RECEIPTS.

## QUESTIONS TO ASK

IS IT WORTH THE COST?

CAN YOU COVER THE COST OF CAPITAL IN THE CASE OF NO GROWTH?

HOW GREAT IS THE RISK TO THE LENDER OR INVESTOR?

HOW CAN YOU ASSURE LENDERS OR INVESTORS THAT YOUR BUSINESS IS A GOOD INVESTMENT?

WHAT DO YOU NEED IT FOR?

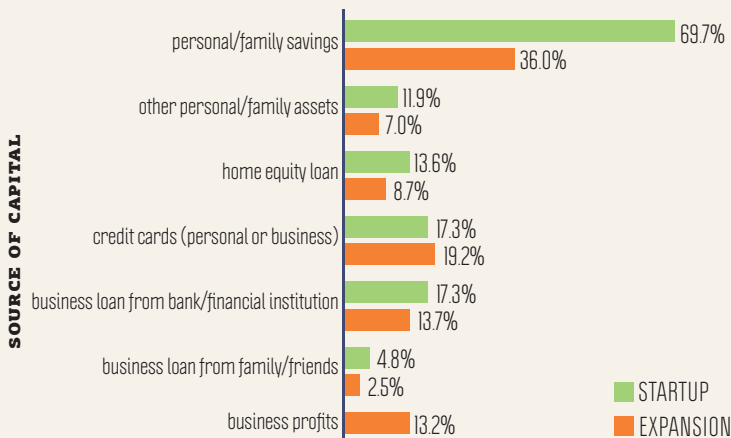
DO YOU HAVE A SPECIFIC PURPOSE OR INTENDED USE?

## THREE STARTUP STORIES

We interviewed three women business owners: Jaime Nack, Noha Waibsnaider, and Laura Vamanaka. All three used different types of capital to start and grow their businesses. Jaime bootstrapped before pursuing equity financing for her second firm. Noha used a variety of sources, including a crowdfunding platform, before closing a round of equity financing. Laura took out a small personal loan. There are many types of capital to consider for your business.



PERCENT OF YOUNG FIRMS USING DIFFERENT TYPES OF CAPITAL



## SO YOU KNOW

### PERSONAL OR FAMILY SAVINGS

Many businesses rely on personal or family savings of the owner to finance startup, or to grow the business. Personal savings is a low-cost option that allows entrepreneurs to retain control of the company.

### CREDIT CARDS

Credit cards are also a popular option. Entrepreneurs who pay on time and have good credit may find credit cards to have lower interest rates and more flexibility than other options—for example, unlike a loan, you don't have to pay interest if you don't use the credit.

### LINES OF CREDIT<sup>1</sup>

Another type of revolving credit, lines of credit (not shown on the graph), are a good option for entrepreneurs with fluctuating capital needs. The best time to get approved for a line of credit is when you don't need it, as it is harder to get approved when cash flows are tight. "Some companies activate a line of credit to pay bills early and receive the resulting discounts, which may be more than the interest due."

### BUSINESS LOANS

Business loans from banks or financial institutions can be difficult to obtain. Consider a regional bank—or a credit union. Many government entities (federal, state, and local) offer loan guarantees, which effectively reduce the risk for lenders. Ask your lender about its participation in these programs. Check out [www.govloans.gov](http://www.govloans.gov) and "Accessing Financing" on [business.usa.gov](http://business.usa.gov) for more information.

# WHERE CAN I GET CAPITAL?



## Accounts Receivable Financing<sup>2</sup>

Also known as factoring. Companies waiting on customers to pay can use accounts receivable as collateral for loans. This service is available through banks and alternative lenders. However, giving percentage discounts for customers who pay sooner may be cheaper than the cost of factoring.



## Alternative Lenders<sup>3,4</sup>

Non-bank institutions used by business owners who can't or choose not to get a loan through more traditional means such as a bank or credit union.<sup>5</sup> Can be similar to business loans or merchant cash advances, or offer unsecured capital (priced higher to account for increase in risk).

### BASICS ON ALTERNATIVE LENDERS

- Shorter terms than bank loans (as low as one month)
- Smaller dollar amounts (as low as \$500); Typical amount \$35,000
- May have requirements such as minimum revenue or firm age
- Tend to come with high interest rates and are similar to cash advances in this regard

### WHEN TO USE ALTERNATIVE LENDERS

- You have poor credit or no credit
- Your business is young (which often coincides with lack of credit)
- You do not have (traditional) collateral
- Your desired loan amount is relatively small and/or too small for a bank loan
- You need money quickly or are having a cash flow emergency—qualifying businesses can get money in days
- You are offered a good deal on a product that you know will sell
- You experience seasonal needs
- You do not have formal documentation (particularly financial information) related to the business
- Your firm is in a risky industry

## Business Plan Competitions



These are offered at many universities. Make sure it is worth your time to participate, and that the competition fits your business needs.

## Crowdfunding<sup>6</sup>



"The practice of soliciting financial contributions from a large number of people especially from the online community."<sup>7</sup> Platforms can be non-profit or for-profit, and funds raised can be used for nonprofit or for-profit endeavors.

### REWARDS-BASED

Investors may get products or royalties. Rewards are often a prototype of the product—which is a great way of product testing.

EXAMPLES: Kickstarter, Indiegogo, Plum Alley

### DONATION-BASED

Funders do not receive rewards of any kind. This method may not be best for profit-seeking endeavors.

EXAMPLES: Kickstarter, Indiegogo, RocketHub

### EQUITY-BASED

Currently only available to accredited investors and SEC-registered firms, investors receive shares of equity in the company.

EXAMPLES: CircleUp, StartupValley, EquityNet

### PEER-TO-PEER (P2P) LENDING

Debt-based crowdfunding in which borrowers receive unsecured personal loans from an individual rather than an institution.

EXAMPLES: Kiva (nonprofit), LendingClub, Funding Circle

2. "Accounts Receivable and Inventory Financing." <<http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/arif.pdf>> 3. Dugan, Ianthe Jeanne and Simon, Ruth. "Alternative Lender Peddle Pricey Commercial Loans." <<http://online.wsj.com/news/articles/SB10001424052702304477704579256123272658660>> 4. "Raising Financing from Alternative Lenders." <[http://www.nyc.gov/html/sbs/nycbiz/downloads/pdf/educational/financing/Raising\\_Financing\\_From\\_Alternative\\_Lenders.pdf](http://www.nyc.gov/html/sbs/nycbiz/downloads/pdf/educational/financing/Raising_Financing_From_Alternative_Lenders.pdf)> 5. Blake, Brock. "What To Do When Banks Won't Lend..." <<http://www.forbes.com/sites/brockblake/2012/12/27/what-to-do-when-banks-wont-lend-to-your-small-business>> 6. Outlaw, Sally. "Which Type of Crowdfunding Is Best for You?" <<http://www.entrepreneur.com/article/228524>> 7. Merriam Webster online. <<http://www.merriam-webster.com/dictionary/crowdfunding>>

# WHERE CAN I GET CAPITAL? CON'T



## Equity Financing

### VENTURE CAPITALISTS

Although venture capital has a big name, a minority (less than 1%) of small businesses actually use venture capital for either startup or growth. Venture capital is “an early-stage investment in exchange for ownership equity by an individual, outside group, or business not directly involved in the overall operation and management of the business”.<sup>8</sup> Because venture capitalists own equity, they have control over the company’s decisions to a certain extent—but they also offer a wealth of entrepreneurial experience and extensive social networks.<sup>9</sup>

### ANGEL INVESTORS

Angel investors are similar to venture capitalists in that they provide equity financing to firms with high growth potential. A primary difference is that venture capitalists are investing the money of others, which has been pooled for this purpose, whereas angel investors are investing their own money. Angels may offer fewer non-financial resources than venture capitalists, and, historically, venture capitalists have focused on larger investments in more developed firms, while angels have directed funds at earlier stage firms. However, syndication among angels—or even angels and venture capitalists—is a growing phenomenon, allowing angels to engage in larger deals.<sup>10</sup>

**MAKE SURE THE FIRM OR INVESTOR YOU ARE WORKING WITH IS A GOOD FIT FOR YOU, YOUR COMPANY, AND YOUR VISION.**

## Negotiate Terms



This can be done with vendors or customers. With customers, you can offer a percentage discount on invoices for those who pay sooner. With vendors, ask for more time to pay upfront, and see if there is something you can offer in return.<sup>11</sup>

## Purchase Order Financing



Companies who land a large order but don’t have the cash to provide the goods and services can get a loan based on their customers’ creditworthiness. This service is available through banks and alternative lenders.<sup>12</sup> Having a line of credit is a great way to prepare for this situation, and may offer lower interest rates.

## EQUITY FINANCING

TIPS FROM **JAIME NACK**

PRESIDENT OF THREE SQUARES CONSULTING

- THINK QUALITY, NOT QUANTITY. REACH OUT TO A FEW INVESTORS WHO ARE APPROPRIATE FOR THE STAGE AND INDUSTRY OF YOUR BUSINESS.
- AVOID THE COLD-CALL.
- BE CONFIDENT AND GRACIOUS.
- BE PREPARED AND PROFESSIONAL, PARTICULARLY REGARDING YOUR KNOWLEDGE OF FINANCIALS.
- PROOF OF CONCEPT IS KEY FOR EARLY-STAGE BUSINESSES.

## INTERACTING WITH INVESTORS

TIPS FROM **NOHA WAIBSNAIDER**

CEO OF PEELED SNACKS

- FOCUS ON THE VISION WHEN YOU ARE PITCHING.
- THE NUMBERS ARE IMPORTANT, BUT WHAT YOU ARE CREATING IN THE FUTURE IS MORE IMPORTANT.
- FIND A WAY TO CONNECT WITH YOUR INVESTORS ACROSS DEMOGRAPHICS. MAKE SURE THEY UNDERSTAND YOUR PRODUCT.

## DEBT

TIPS FROM **LAURA YAMANAKA**

PRESIDENT OF TEAMCFO

- MAKE SURE YOU ARE GOING TO THE RIGHT BANK FOR YOUR PARTICULAR BUSINESS NEEDS. FINANCE IS NOT ONE-SIZE-FITS ALL.
- MAKE SURE THAT THE COST OF CAPITAL IS WORTH IT. WHAT IS TAKING ON DEBT NOT GOING TO ALLOW YOU TO DO?
- KNOW YOUR NUMBERS, AND MAKE SURE PEOPLE KNOW THAT YOU KNOW.

8. Questionnaire, US Census Bureau 2007 Survey of Business Owners 9. Forrest, Connor. “Funding your startup: Crowdfunding vs. angel vestment vs. VC.” <<http://www.techrepublic.com/article/funding-your-startup-crowdfunding-vs-angel-investment-vs-vc>> 10. Dr. Teresa Nelson, Professor, Simmons College 11. “In a Cash Crunch? Work With Your Vendors.” <<http://www.entrepreneur.com/article/206388>> 12. Tice, Carol. “Cash-Strapped Businesses Turn to Purchase-Order Financing.” <<https://www.americanexpress.com/us/small-business/openforum/articles/cash-strapped-businesses-turn-to-purchase-order-financing-carol-tice>>

### METHODOLOGY NOTES

Additional information has been provided by Jean Hammond and the SBA Learning Center online at [www.sba.gov/tools/sba-learning-center/training/financing-options-small-businesses](http://www.sba.gov/tools/sba-learning-center/training/financing-options-small-businesses). All data is from the 2007 Survey of Business Owners PUMS. Calculations by NWBC. Data included is for employer firms started from 2004-2007

