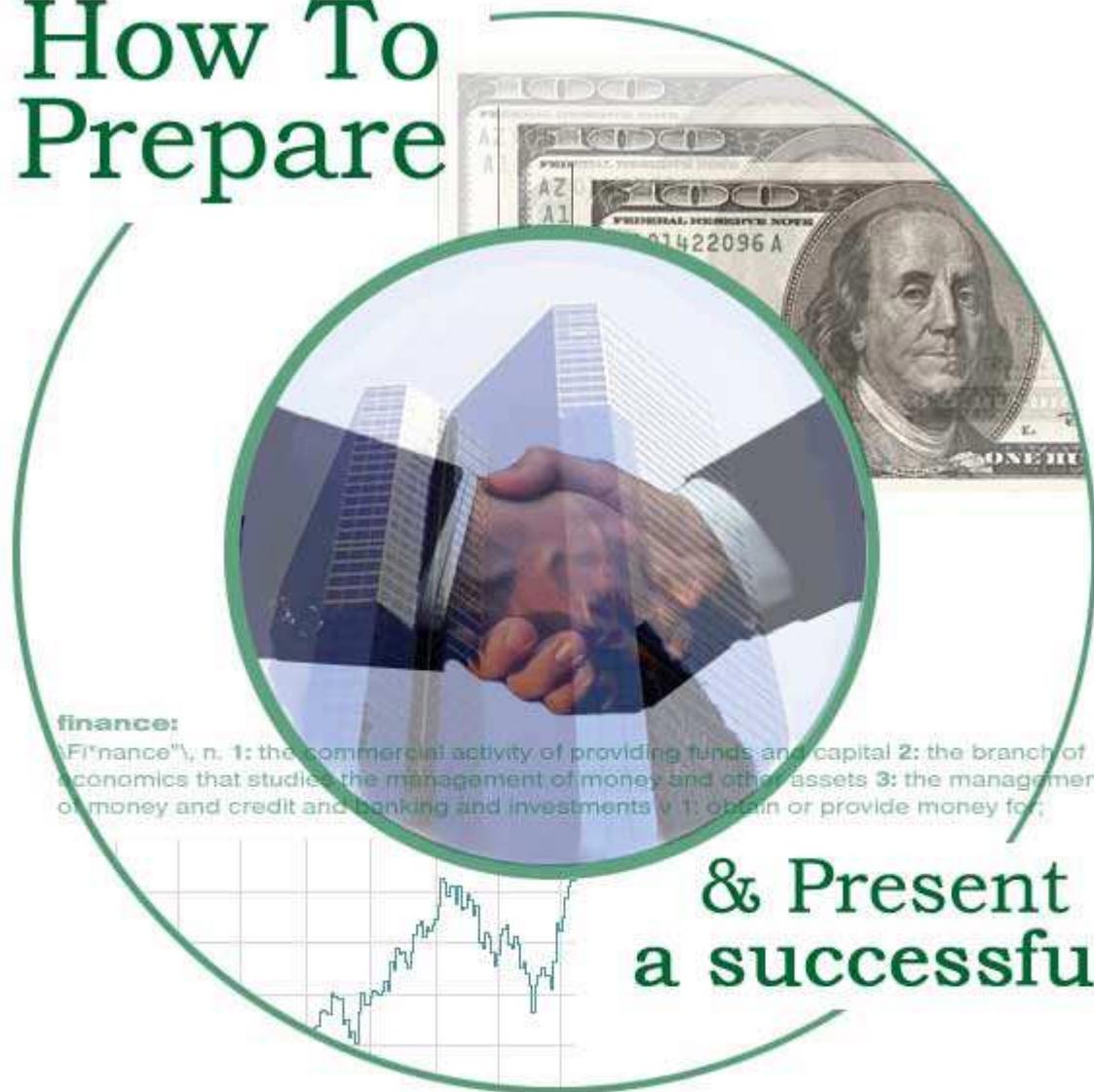


How To Prepare



finance:

"Finance", n. 1: the commercial activity of providing funds and capital 2: the branch of economics that studies the management of money and other assets 3: the management of money and credit and banking and investments v 1: obtain or provide money for;

& Present a successful

Business Funding Request

By: J. Corey Pierce

Copyright 1995 - 2007, All Rights Reserved

EVERY BUSINESS NEEDS CAPITAL

Successful businesses are well planned and well capitalized. Being well capitalized means having the ability to access capital when your business needs it. Being well planned is the first step towards being well capitalized.

The Cost of Capital

I have watched many entrepreneurs lose valuable opportunities because they thought the cost of capital was too high. They spent too much time negotiating over the cost of the money, while their window of opportunity closed. The cost of capital should only be a consideration of the function of losses sustained by not having it. Simply put, if it costs you one dollar in order to make two, are you ahead or behind?

What this book will do for you

The objectives of this book are to help you

- Analyze your market, the competition, and your financials,
- Identify your strengths, weaknesses, and strategies,
- Establish how much money you will need and when,
- Determine the type of capital you will most likely qualify for,
- Define what information you need to present to Lenders or Investors,
- Package your request for your best chance of success,
- Establish the format and flow of your presentation,
- Direct you to the Funding Sources that offer exactly what you need,
(If you don't know where to send your request, what is the point of all this?)

Libraries and bookstores are full of financial "How To Books" and I highly recommend you read as many as you can. These books will tell you about generic sources of capital, debt versus equity financing, business planning, goal setting, etc. This book will brush on these topics, but they are not the main focus.

While there is no new technology discovered here, the methods are proven and you will benefit from them only if you apply them. This book is designed as a workbook so get out your pencil and answer each question as you go. Each chapter will guide you by asking you section related questions and giving you some clues about the answers.

When you have completed this workbook you will be able to use the sections, the questions, and your answers to construct your request for business capital. Then this book gives you the format for packaging your request, additional information you will need to have ready and where to find potential funding sources.

The difference between failure and success

90% of all new businesses fail. I believe that is a direct result of the failure to plan. Please take the time to plan and complete this workbook, it will greatly increase your chances of success.

Get Business Finance Help

<http://www.businessfinancecoach.com>

A NOTE FROM THE AUTHOR

Being an entrepreneur is very hard and it means that you are willing to take the risks that most people won't. Developing a business, requesting funding from strangers, and facing rejection makes it even harder. Funding your business is a science and not guess work. **Are you ready?**

My experience with business funding began with my own company during the S&L collapses of the late 1980's. My business was financed by two savings and loans that both were seized by federal regulators within seven days of each other. In a desperate search to replace the funding that I had lost, I discovered hundreds of funding sources that weren't willing to help me. After more than **300 contacts**, I finally found **one** funding source that offered what I needed. Unfortunately it had taken me over 120 days and it was too late to save my business. The \$500,000 in company debt that I had personally guaranteed then forced me into bankruptcy.

Shortly thereafter I was asked to help find capital for a friend's company. Fortunately, during my own frantic search for funding I had kept very good records of those 300 funding sources who had told me NO. I had asked each of them, "If you won't fund my deal, what will you fund?" This became my first database of funding sources. Using that data along with the funding request knowledge I had acquired in my own failed attempts, I successfully found \$100,000 for them.

Since that time my information has provided hundreds of millions of dollars for all types of businesses and my funding source database has grown to more than **4,000 funding sources**.

I founded BusinessFinance.com in 1995 and today it sees more than 100,000 unique visitors to the site each month. I am constantly amazed at the number of creative ways that entrepreneurs come up with for making money. I have written and give away these books:

- **The Art and Science of Obtaining Venture or Angel Investor Capital**
- **How To Prepare and Present a Successful Business Funding Request**
- **Pre-Qualify Before You Apply & How To Build Your Business Credit Profile**

to make the process of finding capital easier for as many of you as I possibly can and to help you avoid the horrible trials I went through. Try to find business funding totally on your own and you will most likely fail. It is my strongest desire that you use these books to achieve your goals, create jobs, and be successful. I implore you to read and study each of these books and then seek out the help that your business so greatly needs and deserves. **Don't go it alone!**

I will close by saying that while you are out there becoming rich and famous (or poor and infamous) remember there is much more to life than just making money. Be sure to focus on what is important; family, friends, relationships, and love of God, for without these things a man is truly poor no matter how much money he has.

J. Corey Pierce,
Founder and CEO
BusinessFinance.com

***"Life is what happens while you're making other plans,
so remember to have a life while making your big plans."***

BUSINESS FUNDING - LESS THAN 3% FIND IT ... WHY?

A 2003 government study of U.S. small businesses showed that out of 15.7 million business loan applications, 97% were declined. Why? Because, every lender has underwriting approval guidelines that may include as many as 20 items and you have no idea what even 1 of them are. Let's look at a few ...

Did you know that lenders will decline your application if they can't find your business legal name in 411 directory assistance? You may be declined if your bank account balance is below a low 5, what is that? You are most likely declined if you don't have 5 trade credit accounts that report to the credit agencies. You're declined if you don't have a credit file number. The lender may require two years in business where "in business" was defined as the length of time your business bank account had been open. They might require your business credit score to be 70 or above. They may require your debt coverage ratio to be 5 to 1 or your FICO score to be above 680. You could be declined because your business is in the wrong industry. And then there are more, etc, etc, etc.

The reasons businesses can't find funding are:

- They don't know where to look for the "right" funding source.
- They don't know how to pre-qualify before they apply.
- They don't know how to successfully present their request.
- They don't know that "miss just one thing" and they will hear NO.
- They don't know that "shot gunning" will kill their chances.
- They never take the time to build a good business credit rating.
- They don't separate their personal credit from their business credit.

Shot Gunning will kill even a great deal, and here is why!

"Shot Gunning" is sending your deal to multiple lenders at the same time without pre-qualifying before you apply. Some lenders say "NO" because they don't do the type of funding you want or your deal doesn't meet their exact funding criteria. The rest say "NO", even though they would have done your deal, because no lender wants to be third, fourth, or fifth in line.

So how do you successfully fund your business? You must ...

- Know every funding source's exact criteria for providing funding before you apply.
- Know what your request needs to have in it and what it "doesn't".
- Build a good business credit rating with all three business credit agencies.

Is all that possible? Yes!

BusinessFinance.com has categorized the funding criteria of more than 4,000 sources of business capital. They have developed an underwriting system that allows you to see exactly which programs that you pre-qualify for right now and where you need to improve to pre-qualify for others in the future. The system takes all the guesswork out of funding your business.

Finding business funding is an exact science and not something you just do in your spare time. If you decide not to use the services of BusinessFinance.com to help insure your success, then I strongly recommend that you do your research before you submit your first application. After just three (3) failed applications, all other funding sources will not want to do your deal because they will think there is something wrong with it. By submitting multiple failed applications, you will damage your credit and may destroy your ability to ever receive business funding.

There are only two ways to obtain business financing:

- One is by using your social security number and your personal FICO score to personally secure every business loan.
- The other is to use your business credit rating and get financing without having to personally guarantee every loan.

Our Business Finance Coach is the finest product that has ever been developed to instruct and assist you in the proper methods and steps that are required to setup your business credit rating to get your business ready to receive business financing and hear “approved”.

On BusinessFinance.com we give you access to thousands of lenders. You can search them based to some measure of their underwriting criteria. However, we did not ask you any sensitive or confidential information that would be required to match you to their full credit underwriting guidelines. We don't know if you have 5 trade credit accounts that report to the credit agencies. We don't know if have 3 “real business credit cards” that are not tied to your social security #.

There are over 500,000 vendors in the U.S. that will extend trade credit to your business. But there are only 10,000 that will report your business credit history to the credit reporting agencies. There are over 500 business credit card providers in the U.S., but there are only 60 that will even consider approving you without using your personal credit score and then forcing you to personally guarantee the debt. That is not a business credit card. That is a credit card with your business name on it and there is a very big difference. How do you plan to find the vendors and credit card providers that you must have to build a great business credit rating? That is one of the services our business finance coach does for you.

So now it is decision time for you.

BusinessFinance.com will pre-qualify you before you apply for free or you can apply everywhere on your own and be a real danger to yourself. So the choice is yours, ignore all the warnings and go it alone, or use BusinessFinance.com and get all the help you need.

“The man who believes he needs help from no one, quickly learns he has a fool for a partner.”

Get Business Finance Help

<http://www.businessfinancecoach.com>

TABLE OF CONTENTS

I.	PLAN FOR SUCCESS Executive Summary, History, Stage, Structure...	1
II.	THE PLAYERS Ownership, Management, Consultants...	2
III.	STRATEGIC POSITION Nature of Market, Specific Niche...	4
IV.	MARKET STRATEGY Market penetration, market domination...	6
V.	SETTING GOALS Every successful business has set goals...	9
VI.	COMPETITION Why are you better, smarter, faster, cheaper...	10
VII.	THE AMOUNT REQUESTED AND USE OF FUNDS Present a supported overview...	12
VIII.	THE TERMS Know what you are looking for and can afford...	13
IX.	REPAYMENT PLAN Massive sales, sell the business, go public...	15
X.	PRO FORMA FINANCIAL PROJECTIONS Don't do the math, you won't get the money...	16
XI.	PREPARING YOUR PRESENTATION The format and additional information...	29
XII.	TYPE OF CAPITAL DESIRED Debt, equity, asset based, venture...	30
XIII.	FIND YOUR FUNDING SOURCE BusinessFinance.com knows where the money is...	34
XIV.	NEGOTIATING YOUR DEAL	35
XV.	GETTING FUNDED ON YOUR OWN, A DIFFICULT TASK	36
XVI.	SAY THANK YOU TO THOSE WHO HELPED	37

"Nothing is quite so embarrassing as watching someone do what you told them couldn't be done."

I. PLAN FOR SUCCESS

Capitalizing your business is a full time endeavor. Developing your business plan is the single most important step you can take toward your success. To maximize your potential to receive capital, it is vital that you develop a business plan that will guide your company and allow outsiders to picture where you are going and how you plan to get there. Take great care in preparing your plan, it is the road map that will lead you where you want to go.

Lenders or Investors, which way do I go? They tend to look at transactions from very different perspectives. Lenders are mostly concerned with "Can you repay?" While investors are more interested in "How far can you go?" There are certain items of information common to both. That information will be disclosed at the start.

Executive Summary

This is it! Grab them here and you may never lose them. This summary is an overview description of your product or service, its market, your niche, the management, the mission, company structure, pro forma highlights, funding request, use of funds and proposed terms. No more than two pages, sell the sizzle not the steak.

EXECUTIVE SUMMARY WORK SECTION

Give a brief yet concise explanation of the following items. Remember, you will fully detail and support each of these later on in your plan, so keep it short.

Desired Amount: _____

Desired Terms: _____

Company Name: _____

Industry Type: _____

Time in Business: _____

Principals: _____

Use of Funds: _____

Collateral Offered: _____

Narrative

This can be called the elevator pitch. It should quickly and clearly define what your company does and it should take less than twenty seconds to do so.

How To Prepare and Present a Successful Business Funding Request

History

Your reader needs a summary of how this venture came to be. Where did the idea come from? How did it evolve? Who is responsible? Be concise; give dates, background, etc. Paint a short picture from how you started, to where you are today.

Mission Statement

One sentence defining what the Company is all about. Think about it and *"make it mean something"*. Don't just write a bunch of flowery words.

Stage

Clearly identify what stage of funding you are at. Is your business a start-up, initial growth, positioning for going public, seeking a strategic partner, looking for near future acquisition or sale?

Market Niche

It is important for any funding source to know where you fit in the economic food chain. What niche is your business exploiting that will make it jump over your competition? What are you doing that is better, faster, or newer than what everyone else is doing? For this part you must be very detailed. Remember the investors know nothing about your business. You must prove to them you know what you are doing or want to do.

Market Research

This is yours or a third party's research that supports your determination that there is a market and a need for your product or service. This will form the back bone of support for the price points and revenue assumptions contained in your pro forma projections indicating to investors or lenders how your company can turn a substantial profit.

Financial Overview

Here is where you briefly highlight, graph and preview your outstanding financial projections. This provides a glimpse into where your gross sales, net income, net worth, etc. should be in years one, two and three. Remember this is only an overview. It should contain no details or support information. That will come later in your financial pro forma section.

"Business is the art of extracting money from another person's pocket without resorting to violence."

II. THE PLAYERS

Funding Sources want to know with whom they are dealing.

Personal Experience

Lenders and Investors are both concerned with whether or not you have what it takes to be successful. Highlight information that demonstrates you have the ability to make this business a success. Detail your education, past successes or failures that made you stronger. Indicate how you started this business and why it will be a success.

Character

Who are you? Take a deep look inside. Character is not only about winning. It's about getting up again and again when you've been knocked down. Will you panic in a crisis? Will you run for cover when things get rough? Are you honest? Do you have integrity?

Staying Power

To be a successful entrepreneur you must not only be able to start well, but you have to be able to finish strong. For most, running a business is a hard road and not an easy one. Search your soul. If you don't have this kind of character, do yourself and others a favor and don't even start.

Management

Are you a stand alone player, or are there others helping you? If alone, do you plan to keep it that way? Who will comprise your management team? Give detailed resumes of all those involved, along with a description of the vital roles they will play in the business' success. If your management team is weak, take on the task of building it up in order to support your own success, as well as the success of your funding request.

Third Party Professionals

Listen to "GOOD" advice, and forget "BAD" counsel. Carefully seek out and select professionals who can help you. Do your homework in advance of your need to avoid delays. These legal, financial, tax, marketing, etc., professionals may be willing to advise your company for in exchange equity before you have the money to pay them.

Survivorship

What plans have you made to ensure your business will continue to survive without you? Have you trained someone to take over? Is there going to be key man insurance in place for the possibility of illness, disability or death? Without you, can the business continue to survive? Describe how your management team will be able to execute the plan.

Board of Directors

An experienced Board of Directors is invaluable. They should be seasoned business executives with knowledge and contacts to help you. Most will serve in exchange for equity if they believe in your plan. Seek them out from within your industry and industries that are your target market. Building a solid Board of Directors should occur before seeking capital.

***"Being a good entrepreneur is not knowing everything,
it's knowing where to find everything."***

III. STRATEGIC POSITION

Assume that your reader knows nothing. Even if you know they are experts, remember that the Lenders or Investors want to see that you know more about the industry and your market than they do.

Market Overview

- General industry definition
- Current size and demand
- Potential target market
- Potential market growth
- Market share of competitors
- Technical evaluation of industry
- Direction of industry
- Current condition of industry

Market Approach

- Initial plan to obtain a market share
- Resources available or allocated to market penetration
- Clearly defined long range market strategy
- Support assumptions on ability to hold market share

Market Analysis

Who are the customers?

	Percentage of Business
Private sector	_____
Wholesalers	_____
Retailers	_____
Government	_____
Other	_____

We will target customers by:

Product lines or services	_____
Geographic area	_____
Sales	_____

Feasibility

Have you analyzed how successful your product or service can be?

What is the total potential market?

Is there really a market for you?

Does your company have the strength to get the job done?

Let outsiders know why this will work and be able to support what you believe in!

Product Protection

What measures have you taken or will you take to insure the proprietary nature of your product?

Patents

Copyrights

Trade Secrets

Proprietary Contracts

Product or Service Analysis

If your product or service is of a proprietary nature, take steps to protect it. Have a non-disclosure/non-circumvent agreement for partners or investors to sign. Keep it simple. If it is too long or contains too many legal words, no one will sign it.

What is your product/service and what does it do?

What advantages does our product/service have over those of the competition?

What are the unique features, patents, expertise, etc.?

What disadvantages does your product or service have?

Where will you get your materials and supplies?

Outside Factors

List the important economic factors that will affect your product or service. Consider things such as country growth, industry health, economic trends, rising prices, etc.

What are the legal factors that will affect your market?

What are the government factors?

What factors, that you cannot control, will affect your market?

Commercial Viability

Look for outside opinions on the commercial prospects of your product or service. There are numerous low cost or no cost organizations, such as retired executives or small business network groups to run your ideas by.

***"Business is like an automobile.
It won't run by itself, except downhill."
Henry Ford***

IV. MARKET STRATEGY

If you don't know where you are going and how you will get there, you are already lost.

Market Position

What kind of image do you have?

Inexpensive _____
Exclusive _____
Customer service oriented _____
High quality _____
Convenience _____
Fast _____

List the features you will emphasize:

What pricing strategy will you use?

% Markup on cost _____
Competitive _____
Below competition _____
Premium price _____

Are your prices in line with your image?

What profit margin percentage have you allowed for?

What customer services will you provide?

What are your sales/credit terms?

Advertising/Promotion

Write a short paragraph that best describes your business:

What advertising/promotion sources will you use?

Television _____
Radio _____
Direct mail _____
Internet _____
Search Engines _____
Magazines _____
Newspaper _____
Personal contacts _____
Trade associations _____
Yellow Pages _____
Other, describe: _____

How To Prepare and Present a Successful Business Funding Request

What are the reasons you consider the chosen media to be the most effective?

What features will you promote?

Applications _____
Price _____
Performance _____
Delivery _____
Reputation _____
Service _____
Exclusive _____
Components _____
Colors _____
Sizes _____
Uses _____
Rugged _____
Design _____
Availability _____
Installation _____
Terms _____
Workmanship _____
Other, describe: _____

What rationale will you appeal to?

Accurate Performance _____
Increased Profits _____
Economy of Purchase _____
Increased Production _____
Durability _____
Labor Saving _____
Economy of Use _____
Time Saving _____
Simple Construction _____
Simple Operation _____
Ease of Repair _____
Ease of Installation _____
Space Saving _____
Other, describe: _____

What buying motive hot buttons will you use?

Bigger Savings _____
Increased Sales _____
Greater Profits _____
Reduced Cost _____
Time Saved _____
Prestige _____

How To Prepare and Present a Successful Business Funding Request

Greater Convenience _____
Uniform Production _____
Economy of Use _____
Reduced Upkeep _____
Continuous Output _____
Leadership _____
Ease of Use _____
Reduced Inventory _____
Low Operating Cost _____
Simplicity _____
Reduced Waste _____
Long Life _____
Other, describe: _____

What emotional responses can you use to your benefit?

Pride of Appearance _____
Pride of Ownership _____
Desire for Prestige _____
Desire for Security _____
Desire for Recognition _____
Desire to Imitate _____
Desire to be Unique _____
Desire for Variety _____
Fear _____
Desire to Create _____
Convenience _____
Curiosity _____
Other, describe: _____

Initial Market Penetration

How long will it take?

What capital resources will be required to acquire the initial market share?

***"Doing business without advertising
is like winking at a girl in the dark,
you know what you're doing,
but nobody else does."***

V. SETTING GOALS

Having your short and long term goals set to paper is one attribute of all successful entrepreneurs.

Benchmarks/Milestones

These are critical development stages the company has to meet. Without these visible and obtainable milestones your company and your investors may lose their way. What are the first ten priority items to be accomplished as soon as your company gets the money? How long should it take to complete them?

Priority	Time
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____
6. _____	_____
7. _____	_____
8. _____	_____
9. _____	_____
10. _____	_____

Short Term

Near future...One year success points. Define the projected success levels that must be obtained in order to allow your pro forma to come true. Set to paper obtainable goals that will show your investors how you plan to keep the company on track.

Long Term

Lenders/Investors don't have your company vision. Here is where you must paint a picture of the future for them. This is the word version that supports what your pro forma has projected will take place over the next five years.

Exit Strategy

Funding Sources want to know how you plan to pay them back. Will the business generate sufficient cash flow large enough to support the debt? Is the product or service so in demand that the company will go public? These questions and more will not only help determine your success, but they will also narrow your search for the lender most likely to fund your request.

Personal

While your personal goals may not matter to your potential Lenders or Investors, they do matter to you and your company. Deciding to be an entrepreneur can have great effects on your life and the lives of those around you. Set down your personal goals just as you are writing this business plan. Discuss them with your family. Take the time to find out what your business associates expect of you.

"Building a business is no small task. It will affect all parts of your life. Consider well what you do."

VI. COMPETITION

Know your competition. They can help you, bury you, or may be your best exit strategy.

Complementary Products

Show that you have searched out all those companies who offer competitive or related products. Define those who offer complementary products in the same or similar industries. Explain how competitive relationships can be turned into joint ventures, strategic partnerships, buyouts, acquisitions, etc. in the future. Lenders or Investors take comfort in the fact that you have defined possible exit solutions if things don't go as planned.

Who are your three major competitors?

Competitor #1 _____
Address _____

Years in Business _____
Market Share _____
Price/Strategy _____
Product/Service _____
Advantages/Disadvantages: _____

Competitor #2 _____
Address _____

Years in Business _____
Market Share _____
Price/Strategy _____
Product/Service _____
Advantages/Disadvantages: _____

Competitor #3 _____
Address _____

Years in Business _____
Market Share _____
Price/Strategy _____
Product/Service _____
Advantages/Disadvantages: _____

How To Prepare and Present a Successful Business Funding Request

Compare your strengths and weaknesses to your competition's. Consider such things as location, size of resources, reputation, services, personnel, etc.

Strengths:

Weaknesses:

Current Market Share

It is vital that you demonstrate an expert understanding of what your industry is all about.

Where is your industry going?

What is the current condition of your industry?

Why are the current market distributions the way they are?

What has your competition done to achieve their market share?

What advertising media is most effectively used by your competition?

Trade Associations

Give a reference to all trade associations that cover your industry. Use material supplied by these organizations to support statements and assumptions you have made throughout your funding request.

List the trade associations that service your industry:

***"Efficient executives find machines that
can do half their work, and then buy two."***

VII. THE AMOUNT REQUESTED AND USE OF FUNDS

Entrepreneurs tend to spend too much time looking for money and not enough time making it. This problem stems from the lack of adequate pre-planning given to the initial use of funds. In order to determine what your short and long term capital needs are going to be, you must perform accurate financial projections.

Your projections must consider:

- Immediate Need For Capital (Bills to pay)
- Research and Development (Estimate, then double)
- Capital Asset Acquisition (Required equipment, etc.)
- Inventory Floor Planning (Necessary raw materials)
- Working Capital Requirements (Payroll, payables, etc.)
- Market Penetration (When will the cash flow begin)

The cash flow model is the best tool for determining your capital needs. Don't be overly optimistic or too conservative, either one will hurt you. Know what factors will affect your projections to the downside, (sales, costs, price breaks, etc.). Work closely with third parties, financial advisors, accountants, industry consultants, retired executives, etc., to keep from having tunnel vision and missing the big picture. Your cash flow model should be month to month for one year and the quarterly for the next two years, annually for the last two years.

Conservative Request

It is extremely important that your financial projections fully support the amount of funds you are seeking. If you are seeking debt financing your request must be very specific. Lenders frown upon you having to come back to ask for more, because you underestimated. Investors may not be inclined to keep your management team in place if you can't make the funding work.

Downside Planning

Take the time to plan for the downside. It is far better to over estimate your capital requirements than to run short and be forced to go hat in hand back for more.

Supportable Assumptions

Both Lenders and Investors are going to want to know that you have reasonably estimated and supported your costs and projected revenues. Your financial pro forma should include detailed information and trade references on the costs of each expense you list.

Association Documentation

In your income projections be sure to include Trade Industry support information or other market information that lends credibility to the conclusions you have drawn. Most associations publish reports of standard industry costs, margins and financial ratios.

"It is especially hard to work for money that you've already spent, on something that you didn't need."

VIII. THE TERMS

Know what you want, what you can afford and what you are willing give up.

How Long?

This should be based on your financial pro forma or the useful life of the asset being financed. Receivable and contract financing are less than 12 months, equipment normally one to five years, real estate and other long term assets 5 to 20 years.

Amortized versus Interest Only

Most ventures take some time to begin making money. New equipment or other acquired assets take time to begin paying for themselves. Think about an initial period of interest only or skip payments to offset your lack of cash flow.

Interest Rate

The rate you pay for the funds you need can directly affect your profitability. On the other hand, if by paying 50% interest, you yield 100% profitability, you are way ahead of where you began.

Fixed or Adjustable

With a fixed rate of interest you know where you are. With adjustable rates you're betting on the future. Anybody remember Jimmy Carter interest rates? Normal is Prime plus one to three percent or LIBOR (London Index) plus three to five percent. Rates vary as you add or subtract risk.

Points and Fees

Most, if not all, funding sources charge points (percentage of amount funded) and fees (costs of putting your transaction together). These can run from 1% to 10% depending on what you're looking for and the degree of risk. Fees are sometimes payable 50% at commitment and 50% at closing. Try to get 100% at closing or at least deposit the 50% into a trust or escrow account. Beware of those sources who must have your money before you see theirs'. Never do so without consulting your attorney!

Prepayment Penalties

Funding sources spend time, energy and money picking deals to invest in. Once they lend or invest they want to stick with it. Pre-payment penalties are one way to insure you'll leave the funds in place. Try to negotiate these away, or limit them to one or two years.

Blanket & Specific Liens

Blanket means "all". Specific is just that. Blanket liens will restrict your ability to raise cash in the future. Always attempt to have specific liens. Don't let them have blanket!

Personal Guarantees

How committed are you? If you won't sign personally, then you may not get any money. This is a gut check. If you don't believe in your success, why should anyone else? As you and your company perform, you should be able to get these released.

Covenants & Conditions

Be very careful. These spell out just what you can and cannot do. No management or ownership change, quarterly filing requirements, no borrowing from anyone else, deposits maintained, collateral pledges, etc. Carefully read and evaluate the fine print. Here is another good place to consult your attorney.

What % Ownership You Will Offer

What's fair? 80%, 50%, 20%... I can't tell you. You must define it, support it, and defend it. While most lenders won't ask, most investors will demand. Be prepared from the start. Do your homework on your potential funding sources and know what your company or idea is worth.

Stock Repurchase Agreement?

What happens if you hate your investor? Are you locked together forever? Try to negotiate escape clauses that will allow you a way out if you need it or can afford it. Be able to buy your stock back at a predetermined price, if possible.

Management Controls?

Most entrepreneurs are in business to make decisions for themselves. Some investors want a partnership. Once again, pre-plan, know what you are looking for and what you are willing to give up.

Collateral Anyone?

Will you risk it all? If you don't believe, neither will anyone else?

- Accounts Receivable
- Contracts
- Equipment
- Inventory
- Marketable Securities, CD's, T-Bills
- Purchase Orders
- Real Estate
- Patents
- Name Recognition
- OP (Other Peoples Investment; Family, Friends, etc.)

***"No business opportunity is ever lost.
If you lose it, your competitor will find it."***

IX. REPAYMENT PLAN

Repayment is tied directly to your success. In order to repay your Funding Source, you must clearly define how you are going to make money and how much money you are going to make.

R&D Requirements

How much research and development remains before you can enter the market? Does your product require regulatory approval? What is your time table? What delays are foreseeable that could affect your time table? Are there any alternative plans if tests, approvals, patents, licenses, etc., don't go as planned?

Break Even Analysis

Exactly where is it? Must you sell 10,000 widgets? How will price breaks affect you? Can your salespeople survive on your commission structure? What about material price increases? Here is where you are going to demonstrate that you understand your product, its market, its costs and your industry.

Current or Projected Debt Coverage Ratio

Remember 1.25 to 1. It's a figure that can affect your future. For lenders if your net income is below 1.25 to 1, it may mean no loan, a higher rate or more collateral. Simply put, it determines your ability to service debt. Your net income should be 1.25 times higher than the debt payment you are proposing to take on. Hopefully you have analyzed your debt coverage ratio and found it to be much higher. If it's not, this leaves a pretty slim margin for error.

With investors, because there is no debt, they are concerned with profit margins and retained earnings. The projections should support ratios of better than 2.0 to 1 to generate any serious investor interest.

Amortization or Dividend

- Return on investment
- Return of investment

These are terms that all funding sources want to know. If they give you the money, what do you project your time table to be for them to get their investment back? Then, when does the return on the investment start?

Pre-Planning

Always try to arrange for funding when you don't need it. Entrepreneurs are famous for seeking capital in a crisis. When your need is great (payroll, taxes, sales drop, etc.) rates always seem to go up or you can't find capital at all. Do your best to forecast your capital requirements at least six months in advance.

***"Good entrepreneurs hire optimists as salesmen
and pessimists to run the credit department"***

X. PRO FORMA FINANCIALS

Projection Information

Being able to present a clear, concise, logical and supportable financial projection is probably the most important key to having a chance of obtaining the capital you desire. If you don't have financial forecast ability, hire someone who does. Have your pro forma give a month by month breakdown for the first year, quarterly for the next two years and then annually for the last two years. Include and fully support:

- Sales Estimates
- Administrative Costs
- Production Costs
- Sales Costs
- Capital Expenditures
- Gross Margin by Product Line
- Sales Increase by Product Line
- Interest Rates on Debts
- Income Tax Rate
- Accounts Receivable Collection Plan
- Accounts Payable Schedule
- Inventory Turnover
- Depreciation Schedules
- Usefulness of Assets

The Income Statement (Profit & Loss)

You will use the income statement to measure your business revenues against your expenses for a certain period. Let's consider an apparel manufacturer as an example in outlining the major components of the income statement:

The income projection enables the owner/manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

1. Total Net Sales (Revenues)

The total number of units of products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projections to review your pricing practices. What returns, allowances and markdowns can be expected?

2. Costs of Sales

The key to accurately calculating your cost of sales is not to overlook any costs that you have incurred. Calculate the cost of sale of all products and services used to determine total net sales. Where inventory is involved, remember transportation costs and any direct labor.

3. Gross Profit

Subtract the total cost of sales from the total net sales to obtain gross profit.

4. Gross Profit Margin

The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing the gross profits by the total net sales.

5. Controllable Expenses

- Salary expenses -- Base pay plus overtime.
- Payroll expenses -- Include paid vacations, sick leave, health insurance, unemployment insurance and social security taxes (employer paid portion).
- Outside services -- Include costs of subcontracts, overflow work and special or one-time services.
- Supplies -- Services and items purchased for use in the business.
- Repair and maintenance -- Regular maintenance and repair, including periodic large expenditures such as painting.
- Advertising -- Include desired sales volume and classified directory advertising expenses.
- Car delivery and travel -- Include charges if personal car is used in business, including parking, tools, buying trips, etc.
- Accounting and legal -- Outside professional services.
- Dues and subscriptions.
- Utilities.

6. Fixed Expenses

- Rent -- List only real estate used in business.
- Insurance -- Fire or liability on property or products. Include workers' compensation.
- Loan repayments -- Interest on outstanding loans.
- Licenses and permits.
- Miscellaneous -- Unspecified; small expenditures without separate accounts.
- Depreciation -- Depreciation is when a company purchases a fixed asset and expenses it over the entire period of its useful life, rather than in the year purchased. The IRS has established depreciation schedules depending on the type of asset. Depreciation is a non-cash expense on the income statement with the difference being that the cash flows out when the asset is purchased, but the expense is written off over a period of years. Depreciation can be included in cost of goods sold if the expense is associated with a fixed asset that is used in the production of inventory.

7. Other income and expenses:

Other income and expenses are items that do not occur during the normal course of business. Interest expense on debt is normally included in this category. A net figure is computed by subtracting other expenses from other income.

8. Net Profit (or Loss)

(before taxes) - Subtract total expenses from gross profit.

Taxes - Include inventory and sales tax, excise tax, real estate tax, etc.

(after taxes) - Subtract taxes from net profit (before taxes)

How To Prepare and Present a Successful Business Funding Request

Income Statement Worksheet

Revenue Projection

Total net sales (TNS)	\$ _____	
Costs of sales (COS)	\$ _____	
Gross profit (TNS-COS=GP)		\$ _____
Gross Profit margin (GP/TNS)		% _____

Controllable expenses

Salaries/wages	\$ _____
Payroll expenses	\$ _____
Legal/accounting	\$ _____
Advertising	\$ _____
Automobile	\$ _____
Office supplies	\$ _____
Dues/Subscriptions	\$ _____
Utilities	\$ _____
Other	\$ _____

Fixed Expenses

Rent	\$ _____
Insurance	\$ _____
License/permits	\$ _____
Loan payments	\$ _____
Depreciation	\$ _____
Miscellaneous	\$ _____

Total expenses \$ _____

Other Income or Expense \$ _____

Net profit (loss) before taxes (GP-Expenses) \$ _____

Taxes \$ _____

Net profit (loss) after taxes \$ _____

This form should be used to project month to month income and expenses for year one, quarterly for the next two years, and annually for the last two years.

The Balance Sheet

Your company analysis is not complete without computing your balance sheet. Key stumbling points to financing tend to be:

1. Intangible assets:

If a company shows a substantial amount of intangible assets, it may raise investor questions about the way the company capitalizes its' research and development (as opposed to expensing them) which can create a large earnings hit if in the future the company is forced to reclassify them.

2. Accounts receivable

Which is calculated by dividing receivables by net sales, and dividing that by 365. If the number is seen as steadily going up over time, it could indicate to funding sources that management is not focusing their efforts on collecting cash in a timely manner.

3. Accounts payable

How many payables are more than 60 days old? If it's a large amount the funding source may see that significant portion of the proceeds are going just to keep supply lines open and not used to create new business, a real deal killer if not addressed correctly.

4. Term loans

Investors hate short-term significant liabilities (due in less than two years). If the term is three to five years, the loans may be less of an issue. Debt free is the ideal scenario. Term loans payable to founders cause problems for entrepreneurs who want to be paid from funding proceeds. For the funding sources it is a waste of working capital to pay founders off because it doesn't promote the company's growth. If founders aren't willing to defer payment, it will usually kill the deal.

5. The equity

See whether it's negative or positive. Net income or net loss is posted towards the company's equity. If the company continues to lose money year after year, investors will gauge the company's financial health by looking at the remaining equity.

Assets

List anything of value that is owned or legally due the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

Current Assets

- Cash -- List cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operation). Include money on hand and demand deposits in the bank, e.g., checking accounts and regular savings accounts.
- Petty cash -- If your business has a fund for small miscellaneous expenditures, include the total here.
- Accounts receivable -- The amounts due from customers in payment for merchandise or services.
- Inventory -- Includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.
- Short-term investments -- Also called temporary investments or marketable securities, these include interest- or dividend yielding holdings expected to be converted into cash

How To Prepare and Present a Successful Business Funding Request

within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at either their costs or market value, whichever is less.

- Prepaid expenses -- Goods, benefits or services a business buys or rents in advance. Examples are office supplies, insurance protection and floor space.
- Long-term Investments -- Also called long-term assets, are holdings the business intends to keep for at least a year and that yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

Fixed Assets

Includes all resources a business owns or acquires for use in operations and not for resale. Fixed assets may be leased. Depending on the leasing arrangements, both value and liability of the leased property may need to be on the balance sheet.

- Land -- List original purchase price without allowances for market value.
- Buildings
- Improvements (Including leasehold improvements)
- Equipment
- Furniture
- Automobile/vehicles

Liabilities

Current Liabilities

List all debts and obligations payable within 12 months. Typically they include:

- Accounts payable -- Amounts owed to suppliers for goods and services purchased in connection with business operations.
- Notes payable -- The balance of principal due to pay off short-term debt for borrowed funds. Also includes, the current amount due of total balance on notes whose terms exceed 12 months.
- Interest payable -- Any accrued fees due for use of both short-and long-term borrowed capital and credit extended to the business.
- Taxes payable -- Amounts estimated by an accountant to have been incurred during the accounting period.
- Payroll accrual -- Salaries and wages currently owed.

Long-term Liabilities

Notes payable -- List notes, contract payments or mortgage payments due over a period exceeding 12 months or one cycle of operation. They are listed by outstanding balance less the current position due.

Net Worth

Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals. In a corporation it is the capital investment paid for the issuance of stock, plus the surplus paid in by the principals, and the after tax retained earnings.

Total Liabilities and Net Worth

The sum of these two amounts must always match that for total assets.

The Balance Sheet Worksheet

As of _____, 19____

Assets

Current Assets (Net Values)

Cash	\$ _____
Petty cash	\$ _____
Accounts receivable	\$ _____
Inventory	\$ _____
Short-term investment	\$ _____
Prepaid expenses	\$ _____

Long-term investments \$ _____

Fixed assets

Land	\$ _____
Buildings	\$ _____
Improvements	\$ _____
Equipment	\$ _____
Furniture	\$ _____
Automobile/vehicles	\$ _____

Other Assets (List)

1. _____	\$ _____
2. _____	\$ _____
3. _____	\$ _____

Total Assets \$ _____

Liabilities

Current Liabilities (within 12 months)

Accounts payable	\$ _____
Notes payable	\$ _____
Interest payable	\$ _____

Taxes Payable

Federal income tax	\$ _____
State income tax	\$ _____
Self-employment tax	\$ _____

How To Prepare and Present a Successful Business Funding Request

Sales tax (SBE)	\$ _____	
Property tax	\$ _____	
Payroll accrual	\$ _____	
Long-term liabilities (over 12 months)		
Notes payable	\$ _____	
Total Liabilities		\$ _____
Net worth (owner equity)	\$ _____	
If Proprietorship or Partnership		
(name's) equity	\$ _____	
If Corporation		
Capital stock	\$ _____	
Surplus paid in	\$ _____	
Retained earnings	\$ _____	
Total Net Worth		\$ _____
Total Liabilities and Total Net Worth		\$ _____

(Total assets will always equal total liabilities and total net worth)

Get Business Finance Help
<http://www.businessfinancecoach.com>

Cash Flow Projections

The cash flow statement is designed to track cash as it flows in and out of your business. It shows the causes of cash flow shortfalls and surpluses. If the cash flow is positive it indicates that the business is funding its daily operational working capital needs without the injection of external funds. If the cash flow is negative it indicates that external funds are needed to provide the working capital for business operations.

Most businesses require cash to invest in new fixed assets such as new equipment, machinery, real estate, etc. When a company does need cash for investing it must come from internal operating cash flow surplus or from external financing.

The increase or decrease in cash number at the bottom of the cash flow worksheet that follows will show you the net result of operating and external investing or financing. You will be able to use the cash flow worksheet to analyze your sources and uses of cash and the cash flow worksheet to be a valuable tool in understanding where and when cash is flowing in and out of your business.

Funding sources will carefully analyze your cash flow statement to see what is going on in the business. It is the cash flow statement that shows how much cash is generated and used by a business and for what. Depreciation is an expense on your income statement that doesn't require cash are added back to cash flow. Accounts receivable is shown as revenue on the income statement but isn't real cash and is removed from the cash flow calculation.

Ultimately funding sources are looking at the capital intensity of the business. How much cash has to go in before the business is able to sustain itself on it's own cash flow.

Cash flow factors can be:

- Seasonality – Does the business have revenue down periods?
- Collection time periods – What is the typical A/R aging 30, 60, 90 days?
- Accounts receivable growth – How many orders can the company manage?

The question then becomes, how much cash will this business require, what is the plan to fund the growth, and has the management correctly forecasted the need.

Having an accurate model of how much cash you will need and when that cash must be available, is vital to your business success. If you have any dreams of funding your business than I urge you to spend more time on your cash flow projections than on almost anything else. It is the key to your success.

Produce a detailed and supportable first year cash flow projections and then a summary overview of cash flow for the next four years.

The Cash Flow Statement Worksheet

As of _____, 20_____

1. Cash on hand (beginning of month) \$ _____
Cash on hand same as (7), Cash position, previous month.

2. Cash receipts - (a) Cash sales \$ _____
All cash sales. Omit credit sales unless cash is actually received.

(b) Collections from credit accounts \$ _____
Amount expected to be collected from all accounts.

(c) Loan or other cash injection \$ _____
Indicate here all cash injections not shown in 2(a) or 2(b) above.

3. Total cash receipts (2a+2b+2c=3) \$ _____

4. Total cash available (before cash out)(1+3) \$ _____

5. Cash paid out - (a) Purchases (merchandise) \$ _____
Merchandise for resale or for use in product (paid for in current month).

(b) Gross wages (excluding withdrawals) \$ _____
Base pay plus overtime.

(c) Payroll expenses (taxes, etc.) \$ _____
Include paid vacations, paid sick leave, health insurance, unemployment insurance, social security (employer portion). These might be 10 to 45% of 5(b).

(d) Outside services \$ _____

(e) Supplies (office and operating) \$ _____
Items purchased for use in the business (not for resale).

(f) Repairs and maintenance \$ _____
Include periodic large expenditures such as painting or decorating.

(g) Advertising \$ _____
This amount should be adequate to maintain sales volume.

(h) Car, delivery and travel \$ _____

How To Prepare and Present a Successful Business Funding Request

- (i) Accounting and legal \$ _____
- (j) Rent \$ _____
Real estate only (See 5(p) for other rentals).
- (k) Telephone \$ _____
- (l) Utilities \$ _____
- (m) Insurance \$ _____
Coverage on business property and products (fire, liability); also worker's compensation, fidelity, etc. Exclude executive life (include in 5(w)).
- (n) Taxes (real estate, etc.) \$ _____
Plus inventory tax, sales tax, excise tax, if applicable.
- (o) Interest \$ _____
Interest on loans as it is injected (See 2(c)).
- (p) Other expenses (specify each) \$ _____
Unexpected expenditures may be included here.
Equipment expenses during the month should be included here (non-capital equipment).
When equipment is rented or leased, record payments here.
- (q) Miscellaneous (unspecified) \$ _____
Small expenditures for which separate accounts would be practical.
- (r) Subtotal \$ _____
This subtotal indicates cash out for operating costs.
- (s) Loan principal payment \$ _____
Include payment on all loans, including vehicle and equipment purchases on time payment.
- (t) Capital purchases (specify) \$ _____
Non-expensed (depreciable) expenditures such as equipment, building purchases on time payment, leasehold improvements, etc.
- (u) Other start-up costs \$ _____
Expenses incurred prior to first month projection and paid for after start-up.
- (v) Reserve and/or escrow (specify) \$ _____
Example: insurance, tax or equipment escrow to reduce impact of large periodic payments

How To Prepare and Present a Successful Business Funding Request

(w) Owner's withdrawals \$ _____
Should include payment for such things as owner's income tax, social security, health insurance, executive life insurance premiums, etc.

6. Total cash paid out (5a through 5w) \$ _____

7. Cash position (end of month) (4 minus 6) \$ _____
Enter this amount in (1) Cash on hand following month

Essential operating data (non-cash flow information)

This is basic information necessary for proper planning and for proper cash flow projection. Also with this data, the cash flow can be evolved and shown in the above form.

A. Sales volume (dollars) \$ _____

This is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales (actual sales, not orders received).

B. Accounts receivable (end of month) \$ _____

Previous unpaid credit sales plus current month's credit sales, less amounts received current month (deduct "C" below).

C. Bad debt (end of month) \$ _____

Bad debts should be subtracted from (B) in the month anticipated.

D. Inventory on hand (end of month) \$ _____

Last month's inventory plus merchandise received and/or manufactured current month minus account sold current month.

E. Accounts payable (end of month) \$ _____

Previous month's payable plus current month's payable minus amount paid during month.

F. Depreciation \$ _____

Established by your accountant, or value of all your equipment divided by useful life (in months) as allowed by Internal Revenue Service.

How To Prepare and Present a Successful Business Funding Request

Monthly Cash Flow Projection Worksheet

1. Cash on hand (beginning month)	\$ _____
2. Cash Receipts	\$ _____
2. (a) Cash sales	\$ _____
(b) Collections from credit accounts	\$ _____
(c) Loan or other cash injections (specify)	\$ _____
3. Total cash receipts	\$ _____
4. Total cash available (before cash out)(1+2+3)	\$ _____
5. Cash paid out	\$ _____
(a) Purchases (merchandise)	\$ _____
(b) Gross wages (excludes withdrawals)	\$ _____
(c) Payroll expenses (taxes, etc.)	\$ _____
(d) Outside services	\$ _____
(e) Supplies (office and operating)	\$ _____
(f) Repairs and maintenance	\$ _____
(g) Advertising	\$ _____
(h) Car, delivery and travel	\$ _____
(i) Accounting and legal	\$ _____
(j) Rent	\$ _____
(k) Telephone	\$ _____
(l) Utilities	\$ _____
(m) Insurance	\$ _____
(n) Taxes (real estate, etc.)	\$ _____
(o) Interest	\$ _____
(p) Other expenses (specify each)	\$ _____
(q) Miscellaneous (unspecified)	\$ _____
(r) Subtotal	\$ _____
(s) Loan principal payment	\$ _____
(t) Capital purchases (specify)	\$ _____
(u) Other start-up costs	\$ _____
(v) Reserve and/or escrow (specify)	\$ _____
(w) Owner's withdrawal	\$ _____
6. Total cash paid out (5a through 5w)	\$ _____
7. Cash position (end of month)(4 minus 6)	\$ _____

Essential operating data (non-cash flow information)

A. Sales volume (dollars)	\$ _____
B. Accounts receivable (end of month)	\$ _____
C. Bad debt (end of month)	\$ _____
D. Inventory on hand (end of month)	\$ _____
E. Accounts payable (end of month)	\$ _____
F. Depreciation (in months)	\$ _____

Key Indicators and Ratios

Being able to summarize your important financial points allows the Lender/Investor insight into whether or not you understand how the money world operates.

Provide support for:

- Sales revenue
- Price points
- Fixed costs
- Gross margins
- Net income

The financial industry judges your potential success by Risk Management Association (RMA) standards and ratios. If you're not a good numbers person ask your accountant to calculate the following ratios:

- Current Ratio (1 to 1 or better)
Current assets divided by current liabilities.
- Quick Ratio (0.5 to 1 or better)
Current assets less inventory divided by current liabilities.
- Debt to Worth Ratio (3 to 1 or better)
Creditors capital to owners capital.
- Gross Profit Margin (60% or better) Gross
sales less cost of goods sold.
- Net Profit Margin (10% or better) Gross
sales to net income.
- Debt Coverage Ratio (1.25 to 1 or better)
Net income divided by debt payment (Principal & Interest).
- A/R Turnover Ratio (as close to 12 as possible) Gross
Sales divided by accounts receivable.
- "SIC" Standard Industrial Code (know yours)
Lenders will compare your ratios to those of your industry.

There are many good computer financial programs available to assist you in formatting your projections. If you aren't computer literate, recruit someone who is. After you have taken a run at the numbers by yourself, it is always a good idea to have your accountant look them over and to have someone with industry experience review them, such as a Service Corps of Retired Executives (SCORE) counselor.

***"Anyone who thinks the customer isn't right,
should try doing without them for ninety days."***

XI. PREPARING YOUR PRESENTATION

Unfortunately, you normally only get one shot per funding source, so make it your best!

Your Presentation Materials

You will need to take all of the information you have generated chapters 1 through 10 of this book and place it in a professional bound and tabbed binder. You will also need to collect the following information and have it readily available but not in the main binder.

- Schedule of Assets
- Personal Financial Statements
- Credit Report Releases
- Business Tax Returns (last two years)
- Personal Tax Returns (last two years)
- Articles of Incorporation, Partnership Agreement, etc.
- Copies of Orders or Invoices
- Current Business Profit & Loss Statement
- Account Receivable Aging Report
- Customer Testimonials
- Trade References
- Banking References and last three months statements
- Title Reports (equipment, real estate, etc.)
- Asset Appraisals
- Patents, Trademarks or Licenses

Presentation Tips

- First impressions are lasting, make a good one.
- Bind the material in such a way that allows for easy reading.
- Tab each section for quick and direct access.
- Keep your information concise and to the point, no more than 50 pages.
- Pictures are worth a thousand words, include appropriate ones.
- Support assumptions with facts, not more assumptions.

If you will be presenting to potential investors you will need to prepare a 10 to 15 slide PowerPoint presentation that highlights the information from chapters 1 through 10. You will also need to prepare a 15 to 20 minutes spoken presentation that again covers the same topics in a concise and compelling manner.

***"Education is learning from teachers and books.
Experience is learning from your mistakes."***

XII. TYPE OF CAPITAL DESIRED

Debt Versus Equity

Debt funding is normally cheaper and easier to find than equity funding. Debt typically carries the burden of monthly payments, whether or not you have positive cash flow.

Equity investors expect little or no return in the early stages, but require much more extensive reporting as to the company's progress. They have invested on the gamble of very high returns. Therefore, investors anticipate that goals and milestones will be met.

Debt financing is usually available to all types of businesses. Equity is generally restricted to businesses with fast and very high growth potential.

Debt Considerations

- For what type of debt financing can my company qualify?
- How much debt can I afford?
- Can I handle the payments if cash flow is off?
- What happens if interest rates rise?
- Am I willing to pledge company and personal assets?
- What about my personal guarantee?

Debt lending is more analytical than personal. Are your ratios right? Do you have the assets? Are you credit worthy?

Equity Considerations

- What type of investors do I target?
- Am I willing to share control and future profits?
- Do I really want investors as partners forever?
- How big of a share am I willing to give up?
- Will I be able to keep up with all the required reports?
- What about disclosing company secrets to potential investors?

Investors will want to take a much larger share of a start-up venture, than they will of a company with a two or three year track record of success.

Angels

Angels are individual private investors who make up a large portion of "informal" venture capital. These investors tend to keep their money close to home (50 miles or so). They invest small amounts (\$10,000 to \$250,000) and they are difficult to locate because they usually don't belong to networks or trade associations.

Angels are found among friends, family, customers, professionals, suppliers, and competitors. Once they invest in two or three deals they are out of money. There are a few private investor locating services out there. Beware of those who charge large (\$1,000+) advance fees in order to put you in touch with investors. Do your homework, check these people out and negotiate a commission if your request is placed. BusinessFinance.com has a search tool to locate accredited investors near you and then you can buy a list of contact names. It's a place to start.

Caution: Don't advertise in your local paper for investors until you have spoken to a securities attorney, or the Securities Exchange Commission will give you a call.

Venture Capital

More time is wasted chasing venture capital than any other type of financing. These investors are looking for huge returns not just good ones. Venture capital is extremely hard to get and the competition is fierce. These funding sources get thousands of requests each year and only invest in three or four.

The managers who invest these funds are experts at finding the very best deals. They are looking for projects that are National or International in scope, that have a minimum of \$25 million dollar annual revenue potential, and proven successful management teams. Most Venture Capitalists won't talk to you unless you come from a trusted source and are highly recommended. A great number of VC deals come from Angel Investors, Law Firms, or Accounting Firms.

If you really want VC money then find individuals who are well connected in the VC community and get them to personally invest in your business. Then get them to help you build a "Captain of Industry and Investment" board of directors. Then you might be ready to present your ideas to the VC community.

99.9% of the time seeking Venture Capital is a waste of your valuable time, but if you won't take my advice then you need to really do your homework. I have written another book just about Venture Capital called "**The Art and Science of Obtaining Venture (or Angel Investor) Capital**", which is also available at BusinessFinance.com. Please download and study it before you attempt this.

Joint Ventures/Strategic Partnerships

My personal favorite. This is where two companies with parallel interests get together based on their mutual needs:

- They have the money...you have the plan.
- You have the product...they have the distributors.

Do your homework. Seek out companies with parallel interests to your own. You have the world's best new phone design and they are AT&T. This requires much more research than simply asking for a loan. Most of these partners will settle for 20% to 30% equity in your company. Be careful to protect your ideas by having any potential partners sign a non-circumvention agreement.

Small Business Administration (SBA)

A tremendous resource, but the paperwork can be tiring. This is a great place to look. The SBA has many different programs. Your local bank should have an SBA loan officer who can explain them to you. If you need less than \$50,000 the SBA programs probably aren't for you. Check <http://www.sba.gov> for the latest SBA programs.

Small Business Investment Corporation (SBIC)

These firms leverage their private capital into government money to form a sort of venture capital fund. Most SBICs are part of commercial banks. They offer both long term loans and equity participation. They are conservative investing mainly in established companies for management buyouts, funds to go public, strategic partnerships and bridge financing.

Commercial Paper

This is a short term debt instrument typically issued from 2 to 270 days. An issue is normally a promissory note that is unsecured and discounted from its face value. The issue is usually backed by a letter of credit or some other form of credit guarantee. The company may pledge

assets to obtain a credit guarantee which is then leveraged into an issue of commercial paper.

Letters of Credit

Issued to your funding source on your behalf, as a guarantee that you will pay. If you don't pay the issuer does. Your bank might issue the L/C based on your pledge of a receivable or other hard asset.

Receivable Factoring

A great method of financing. Funds are advanced against goods sold, accepted and not yet paid for. Normal advances on accounts receivable are 70% to 85%. The lenders are looking for account receivables that have ninety (90) days or less to be paid. Funding is available for older accounts receivable, but the rates are dramatic higher.

Purchase Order Advances

Leveraging your future. If you have purchase orders with your customer base, you may be able to get advances towards their completion. The typical advance is less than 50%, and the rates are very high. Don't choose this one unless there's no other way.

Equipment Leasing

You can think of this as renting assets. You gain the capital equipment you need and agree to pay rent for a specific period of time. There is no interest rate here, but the rates tend to be higher than commercial loans. Some of that is offset by being able to expense 100% the payments (pretax). Check with your tax accountant to be sure.

Asset Sale Lease-Backs

If you are cash poor and asset heavy, this may work for you. Here you are selling your asset for cash to a funding source who leases it back to you (typically with a lease end purchase option). The downside of this approach may be capital gains or sales tax.

Private Placements

A do it yourself stock offering. A great way to raise small amounts of capital (\$500,000 or less) with a few investors (typically less than 35). These are now available in a boiler plate format in most states. Contact your state's Department of Corporations for information on what is required to stay out of trouble.

Public Offerings

504, 505 & 506 Offerings.

Forms of stock offerings that let you raise more money and have more investors than private placements. These are great vehicles if you take the time to figure them out. Contact the SEC, they send you the rules and the forms.

Limited Partnerships

You can look for one or form your own. Limited partnerships usually exist for the purpose of investing. The general partner has all the exposure and management duties, while the limited partners have put up all the money. There are numerous Limited Partnerships out there that have been formed to invest in businesses. You can search them out or inquire with your State as to the requirements for forming your own.

Convertible Debt

This is normally a loan that can be converted (at the lender's option) into an ownership position in the company. These are most common with seed or start-up funding where the lender would like a piece of the rock in the event you become a tremendous success.

State Bonds

Most states have revenue bonds. These bonds are usually designed as debt instruments, where the company issues the bond and the state agency underwrites it. These bonds are generally issued to promote manufacturing facilities that will create jobs.

Lines of Credit

A revolving account that is continuous in its nature. The funds are available as draw downs against the total line. These types of accounts are most commonly secured with accounts receivable and inventory as collateral.

This book covers the major types of business financing. There are numerous creative ways to finance your business. If one of those comes your way take a moment to investigate it.

The five most common sources of short-term working capital financing:

1. Equity:

From your own personal resources or from a family member, friend or third-party investor.

2. Trade Creditors:

Willing to extend terms to enable you to meet orders. For instance, if you receive an order that you can fulfill, ship out and collect in 60 days, you obtain 60-day terms from your supplier if 30-day terms are normally given.

3. Factoring:

Once you have filled an order, a factoring company buys your account receivable and then handles the collection.

4. Line of credit:

If you have good collateral and credit, you might qualify. A line of credit allows you to borrow funds for short-term needs when they arise.

5. Short-term loan:

A one-time short-term loan (less than a year) to finance your temporary working capital needs. If you have a good banking relationship with a banker, they might be willing to provide a short-term note for one order or accounts receivable buildup.

A good understanding of working capital is imperative to make your business successful.

"I can't be out of money, I still have checks!"

A great bumper sticker

XIII. FIND YOUR FUNDING SOURCE

“BusinessFinance.com knows where The Money is”

Connecting entrepreneurs who are searching for capital, directly to Funding Sources with capital available to place. That's really the whole point, isn't it?

BusinessFinance.com matches your specific funding request with the lending or investing criteria of Funding Sources who have capital to place. Don't waste your valuable time talking to sources that can't help you. Get your request in front of those Funding Sources that are pre-qualified to match your specific funding request.

At the time of this edition (April 2005) BusinessFinance.com had categorized the lending and investing criteria of more than 4,000 funding sources nationwide.

BusinessFinance.com has categorized sources for:

Commercial Finance (178 Sources)

Commercial Lending is normally renewable short term loans to finance the working capital needs of a business. Qualifying for this type of capital typically involves the pledging of some form of asset, like equipment or receivables.

Working Capital (192 Sources)

Many sources for Merchant advances, micro loans, business credit cards, equity loans. If you are searching for working capital, it can be found in the directory.

Equipment Finance (371 Sources)

Is equipment acquisition a major part of your need for business capital? All the equipment finance and leasing sources you will ever need are in the directory.

Government Loans (2105 Sources)

Our Government is one of the major sources of small business capital. We have listed those Funding Sources that are outlets for U.S. Government programs.

Commercial Real Estate Finance (232 Sources)

Need Funding for a Real Estate project? You can find Funding Sources for every type of real estate project under the sun.

Venture Capital & Investment Banks (1121 Sources)

Investments are normally starting at \$500,000 and placed in industries and businesses that exhibit more than \$50 Million gross annual revenue potential.

And a variety of non-categorized funding sources such as sources for unsecured lines of credit, asset sale and leasebacks, leases that can include set-up, software, installation, and training.

***“Looking for money is like searching for the Holy Grail.
It would be easier if someone just told you where it was.”***

It's at <http://www.businessfinance.com>

XIV. GETTING FUNDED ON YOUR OWN, A DIFFICULT TASK

There are over 4,000 institutional sources of business capital in the United States and each one has different criteria for funding a deal. Each one of these sources will tell you NO for just “one thing”. By yourself how can you possibly know what that “one thing” might be?

Less than 3% of businesses that attempt to receive funding on their own ever do! The bottom line is that you are foolish for going it on your own. If you apply at multiple places without pre-qualifying, you will damage your credit and may destroy your chances of receiving funding from the sources that would have done your deal.

So now it is decision time for you.

BusinessFinance.com will pre-qualify you before you apply for FREE or you can apply everywhere and be a real danger to yourself. Ignore all the warnings and go it on your own, or use BusinessFinance.com and get the help you need. Let us help and we will:

- Allow you to see which funding programs that you pre-qualify for right now.
- Show you exactly what you need to improve on in order to pre-qualify for more.
- Help you to build a good Business Credit Profile separate from your personal credit.
- There are “business credit services” that charge \$1,000 to \$2,000 and say they help you build your business credit profile, DON'T USE THEM.
- Dun and Bradstreet charges \$499 just to set up a business credit file, DON'T PAY IT.
- “Brokers” will try to charge you \$1,000 to \$5,000 to package your funding request,

Consider our “Business Finance Coach” who will:

- Help you to build an excellent business credit score in as little as 90-120 days.
- Show you exactly what it takes to get approved for 60+ credit card accounts.
- Give to you vendors who will extend to you trade credit and report to the agencies
- Show the business financing programs you qualify for now and build many more.

Our Business Finance Coach is the finest service that has ever been developed to instruct and assist you in the steps that are required to setup your business credit rating the right way. You must do this to receive business financing and to hear “APPROVED” on your credit applications.

Remember the government study that showed out of 15.7 million business loan applications, **97% were declined!** Don't let that happen to you. Get the help you need before you apply!

Get Business Finance Help
<http://www.businessfinancecoach.com>

XV. NEGOTIATING YOUR DEAL

First learn to say **NO**. Now you're ready to negotiate. Most Entrepreneurs approach the issue of negotiating with great stress and anxiety. This leads directly to weak negotiations or becoming defensive about being asked too many questions. Either way, you lose! In order to avoid this happening to you, please go back to chapter eight "Terms" and make sure you have clearly defined what you are looking for before the negotiations begin. Then...

- Determine which points are worth fighting for.
- Express your objections and questions to any point.
- Get it in writing, leave nothing to verbal agreements.
- Subject everything to your long range goals.
- Pay close attention to what triggers default.
- Establish ceilings and caps. You don't want to be stuck paying huge payments if rates go up.
- Plan for the downside. Attempt to have an "interest only" clause or "skip payment" provision in the event of slow downs.
- Look for no pre-payment penalty or the right to buy back your stock at a fixed price.
- Pay attention to covenants, conditions, ratios, restrictions or other clauses which can have serious long term effects.
- Try to minimize pledging collateral. You may need those assets in the future to raise additional capital.
- Seek professional counsel before you sign anything. Lawyers and accountants may not help you fund your deal, but they can help you spot the small details that may burden you down the road.

Close

Remember you are out there selling yourself and your company. The answer is always NO if you don't ask the question so be a closer!

It is important than you not only know and believe in your plan but that you be able to articulation your ideas to others and that you have done the research to support your assumptions.

A skilled presentation will go a long way towards earning you the capital you desire. Make sure you practice your pitch on everyone who will listen before you pitch it the first time to investors or lenders.

For more on developing your 30 second elevator pitch and your 10 minute closing, get my book "The art and science of obtaining venture (or investment) capital". It details what must be in your pitch and close, how to have doors opened for you, and what mistakes not to make once you are inside. It is available at www.businessfinance.com

***"Even if you're on the right track,
you'll get run over if you just sit there."***

XVI. REMEMBER TO SAY THANK YOU TO THOSE WHO HELPED

Along your entrepreneurial journey, take the time to thank those who help you. If you will treat others the way you would like to be treated, you will find that people will go out of their way to help you. I have tried my best to give you the benefit of my knowledge and experience. I sincerely hope I have helped you.

In 1995 I founded BusinessFinance.com to help business owners just like you. Our mission statement is "To Help Businesses Grow and Succeed". Today I am still the CEO and it is my strongest desire to give business owners like you every opportunity to make their dreams come true. Along the way I have had lots of help.

Thank you to my:

Father and Mother, who have invested in me my whole life and who have always shown me love whether I failed or succeeded. Thank you, Del and Marian.

Sister and Brother-in-law, who have always been there for me when I needed a shoulder to lean on or someone to just listen. Thank you, Candy and Greg.

Children, who are the joy and blessing of my life and who give me the wonderful gift of unconditional love to begin every day. Thank you, Lauren, Lindsey, and Ryan.

Lord and Savior, who by his will I can do all things. He reminds that life is short and not all about riches in this world, for my eternal life is in the next. Thank you, Jesus Christ.

The material presented in this book is designed to assist in your business success and to help you locate the funding that your business will need to grow and succeed.

Remember to keep your priorities straight and that money cannot buy happiness...but that is a whole other book.

I wish you all the success in your search to fund your business.

J. Corey Pierce,
Founder and CEO
Businessfinance.com

Food for thought:

***"For what does it profit a man if he gains the whole world,
yet loses his eternal soul." Mark 8:36***

Get Business Finance Help
<http://www.businessfinancecoach.com>