



FUNDING YOUR BUSINESS

A Small Business Seminar

Sponsored by

Capital Area District Library &

Michigan State University Extension/

**Ingham County Economic Development
Corporation**



Overview of this Seminar

1. Getting Ready- First Steps to Funding a Business
2. Some Sources of Funding your Small Business
3. A Few Words on Security and Money Management



First Steps to Funding

- Understand your own motivation for opening a business (discover what you love and what you don't).
- Do your Homework! Research your business and find out what you need to run it well.
- **Put it on Paper!** Write a solid Business Plan.



A Business Plan

- Will help you get \$
- Includes all the standard parts
- Avoids hype- Just the facts please!
- A concise executive summary...busy bankers won't look twice.
- Visit for online tools, calculators and self evaluation worksheets
 - www.inc.com
 - www.MyBusinessAnalyst.com
 - www.BusinessTown.com



A Business Plan: The Parts...

- Cover Sheet
- Table of Contents
- Executive Summary
- The Organizational Plan
- The Marketing Plan
- Financial Documents
- Supporting Documents



A Business Plan for Funding

- **Business Plan-Financial Statements**
 - **Income Statement** details a business's cash generating ability. Includes revenue, expenses, capitol costs.
 - **Cash Flow** statement shows where the money comes in & goes out monthly.
 - **Balance sheet** describes you financial health and includes assets, liabilities, and equity for each year of the plan.

Funding Source YOU

- **Inventory ALL your assets!**
 - Savings accounts
 - Real Estate
 - Retirement Accounts
 - Vehicles
 - Vacation homes, Recreation equipment
 - Collections

FUNDING SOURCE YOU

- **Consider Selling your assets...**
 - Cash in a life insurance policy or stocks & bonds.
 - Downsize your lifestyle, share insurance coverage, put the savings into the business
 - Garage Sales, part time job, ...

FUNDING SOURCE: YOU

- **Consider your assets as collateral for a loan**
 - Get a home equity loan
 - Borrow against your 401K
 - Borrow out of your IRA for up to 60 days (but get it back on time).
 - Max out the plastic (has been done but it's expensive!)



If Your Funding is from Friends and Family...

- **Put it on paper!** Loan papers specify whether the loan is “Secured” (the lender owns part of your property).
- Write down the agreed upon payments, schedule, and interest.
- Consider making friends a shareholder of the business so they can share your successes and write off their taxes for failures.
- Remember that friends/donators may be taxed by IRS for gifts to you/your business.



FUNDING SOURCES: Angels & V.C.s

- An **ANGEL** investor invests money of their own, typically the \$250,000 - \$500,000 companies need to get off the ground.
- A **VENTURE CAPITAL** firm invests mostly institutional funds...they typically come on board later and supply \$1 million + needed to keep early and mid-stage companies going.

How to Get to Heaven...

- Grow company to go public or sell in 5-7 yrs.
- **Find an Angel.** Try www.inc.com Directory of Angel Investor Networks. Plan on looking for 6+ months to find the right angel with:
 - Contacts
 - Industry experience
 - Entrepreneurial experience
 - Angel experience
 - Deep, but not too deep, pockets
- **Get the Word Out!** Ask friends, talk to professional service providers who are likely to know Angels. Get invited to an Angel event.

How to Get to Heaven...

- **Evaluation-** Angels size up your company for a few things
 - People
 - Business opportunity
 - Context-what's going on around you
 - Deal- the price of your deal
- **Valuation- How much is your company worth?**
 - Ideas are cheap, show them prototypes, sound management team, quality board, product rollout or sales



How to Get to Heaven...

- **Negotiating**- Put your best deal forward. How much of your company are you giving up & terms
- **Support**- Get your angels' help & give them regular updates.
- **Harvesting**- investors getting back their investment. Impress them by agreeing to do what you can so they have a positive harvest!

Some Sources for Funding: Financial Institutions

Ask for help and more information.

○ **Banks**

- *"Don't borrow money from Banks, borrow it from Bankers!"* Terry Allen
- *"Just because you can get 100% financing or buy something with no money down doesn't mean you should do it!"* Terry Allen

○ **Credit Unions**

○ **Other financial groups**

- Savings & Loans, Brokerages, Credit Card companies, Commercial Financial Corporations

Lenders Look for Four C's

- **Credit**- How well you've managed personal debt. Check your credit report first.
- **Character**-Any lawsuits, bankruptcies, liens, work experience, general history can count.
- **Capacity**- to pay it back.. if business slumps do you have other assets to liquefy?
- **Collateral**-As a start-up you will probably seek a secured loan so you must put up personal or business assets like inventory, real estate, equipment, CDs, stock, etc.



Small Business Administration Loans (SBAs)

- Check them out at your local lender
- Read about them online at <http://www.michigancdc.org/>
- Send/call for more information from the
Michigan Certified Development Corporation
822 Centennial Way, Ste. 180, Lansing, MI
48917
Phone 517-886-6612



SBA LOANS

- For businesses that do not qualify for standard bank credit.
 - Due to lack of funds, short history, or insufficient collateral.
- Bank Loans partially guaranteed by SBA.
 - When a loan defaults, SBA pays the bank back what it was owed. Then SBA collects it from the borrower.

SBA 504 BASICS

These Loans help meet

- **Public Policy Goals**

- Business district revitalization
- Expansion of exports
- Expansion of minority, women, veteran enterprise (+51% of ownership)
- Enhanced economic competition
- Restructuring due to federally mandated policies
- Changes due to federal budget cuts

SBA 504 BASICS

These Loans help meet

- **Community Goals**

- Improving, diversifying, or stabilizing the local economy
- Stimulating other business development
- Bringing new income into the community
- Assisting manufacturing firms
- Assisting businesses in Labor Surplus Areas as defined by the US Dept. Labor

SBA 504 BASICS

- **Business size**
 - Net worth less than &7 million
 - Average net profit <\$2.5 mil for past 2 years
- **Project size \$300,000 to \$10,000,000**
- **Borrower Contribution**
 - Min. 10% unless business less than 2 yrs Or if the project involves a single purpose bldg
 - At least 20% if both a new business and a single purpose property
- **SBA Portion**
 - \$2 mil for projects achieving public policy goal
 - \$4 mil for manufacturing
 - Max. 40% of entire project
 - Max. 50% total federal fund sources



SBA 504 BASICS

○ **Job Creation**

- Must create/retain 1 job for each \$50,000 (\$100,000 for manufacturing) unless it meets public policy goals.

○ **Loan Terms**

- 20 years for real estate (Bank portion 10 years)
- 10 years for equipment (Bank portion 7 years)



Some Sources for Funding: Other Ideas and Suggestions

- Do market research with an order form
- Collect deposits for orders
- Foundations, industry organizations
- MWBE (Minority and Women Owned Business Enterprise) Certification
 - Check www.miceed.org for application
 - For Office of Women Business Ownership www.sba.gov/financing/special/women

Government Funding Sources

Who ya gonna call?

- Seed Capital from Uncle Sam
 - National Institute of Standards & Technology offers the Advanced Technology Program (ATP)
www.atp.nist.gov
- Business Plan competitions, especially for social entrepreneurs
 - Yale School of Mgmt & Goldman Sachs Foundation

Government Funding Sources

Who ya gonna call?

- **State**

- Michigan Economic Development Corp.(MEDC) www.michigan.gov
- Michigan State Housing Development Authority (MSHDA)
- Michigan Dept. Environmental Quality (

- **County or Local**

- Economic Development Corporations (EDC)
- Downtown Development Authorities (DDA)
- Local Development Finance Authorities (LDFA)



Government Funding Sources

- If you are **creating jobs...**
 - Tax abatements
 - Technology assistance loans/grants
 - Infrastructure improvement grants to community
- If you are **fixing the site**
 - Brownfield grants/reimbursements
 - Façade improvement programs
- Check with the appropriate agency
 - Agriculture, Energy, Defense, Health & Human services, Aeronautics & Aviation, Environmental Protection, National Science Foundation

Avoid unnecessary costs...

- **Cover the legalities and figure out the costs in advance....**
 - DBA
 - Zoning & land use & sign permits
 - Health Dept Permits (for food, animals)
 - Fire Dept. permits (for flammables)
 - Air/water control
 - State and Federal licenses (auto repair, construction, hair/child care, real estate, insurance, etc.)



Security and Record Keeping

- **Consider whether you need Professional Help!**
 - Do you know how to keep accounts
 - Do you own good software to maintain/manage accounts
 - Will you have the time and energy to figure out taxes?



If you hire an attorney to help...

- Ask for recommendations
- Ask for references and call!
- Find one you can communicate with, one that likes/wants your business



If you hire an attorney to help...

- Learn how they bill and how you can save...hourly, per diem, flat fee per service, retainer, package deal...
- Ask for information from Hieros Gamos Legal Directories
 - www.hg.org/busfinancing.html



If you need an Accountant ask...

- Are you a CPA (Certified Public Accountant)? Licensed? Where & when?
- Who are your clients? Check size, type, location and call them!
- What services do you offer? (Which do I need? Tax & accounting, bookkeeping, pension fund, workers comp, estate plans)



If you need an Accountant ask...

- What is your specialty?
- What are your fees and how do you charge? (monthly, retainer, hourly,...?)
- Visit www.AICPA.org (American Institute of CPAs)



Security

- **Protect your identity from theft**
 - Avoid giving out your social security #.
 - Limit the amount of personal information you share.
 - Have mail delivered to a PO box.
 - File and keep documents or cross-cut shred them before pitching



Record Keeping

- **Keep accurate and detailed records from the beginning.**
 - Track who you bought from, who you sold too, how much, what, any other useful information.
 - Write down payments, schedules, interest
 - Keep written agreements—especially loans, grants, investments.

Ride the tide....

- Terry Allen's 4th commandment:

Channel your resources toward what is working and not what you think SHOULD work. Be ready to change and adapt, and communicate with your funders.