

## Financing Sources

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Not having sufficient capital may doom your small business start-up. Do not rely on modest savings to see things through. Most people forget that some businesses require a great deal of spending before a business develops a positive cash flow. However, you do not necessarily need a large sum of money to start your business. By planning carefully and starting small, most businesses can succeed. It is important to establish a niche in the market that will work for your business. It does not matter how much cash you have, if you have a product or service that is not needed.

All new businesses should first identify start-up capital requirements, including cash flow, a break-even point, and cash reserves. It is easy to cut corners and try to start your business on a shoestring, but this is paramount to the failure of new businesses. There are two basic areas of capital requirements for any new business that need to be explored – equity and debt.

### Equity

Equity is your ownership in the prospective business, whether through your own cash input or funds from other sources. With ownership comes your degree of risk. If your business equity is shared, your investors will want a say in how the business is run, as they could lose their investment if the business fails. These investors could be known as co-owners, or silent partners.

A majority of the start-up capital will be equity. Lenders prefer to loan additional funds to businesses that have a stake in their own business – equity. Lenders do not want to assume the risk involved in a business start-up, especially if it is a new, unproven business venture.

### Debt

Debts are the funds owed in relation to a loan that was taken out for the business and must be repaid. There are several sources that create debt. In almost all cases, every debt has an extra charge called interest.

## Sources for Start-Up Capital

There are several sources to tap for your start-up capital besides the bank.

- Savings
- Home equity
- Life insurance
- Sale or mortgage of personal assets
- Relatives
- Friends
- Other local investors
- Sell stock

## Seven Best Ways to Find Cash

Of the capital that small businesses use for expansion, 80% does not come from traditional sources. Finding alternative financing, however, takes determination, ingenuity and hard work. There are seven basic rules.

1. **Control your cash flow.** Cash flow ranks second to bank loans as the most common source of capital. Reduce costs by getting rid of excess inventory, perhaps through one of the 500 or so barter clubs that act as middlemen for the exchange of products and services among businesses. (To find a barter group in your area, write to the International Reciprocal Trade Association, 9513 Beach Mill Rd., Great Falls, VA 22066). Each dollar you save or don't spend is a dollar you won't have to raise later.
2. **Find financial allies.** Customers and suppliers understand your market and have an indirect interest in your business. They can be excellent sources of capital.
3. **Learn how to impress bankers.** Bank loans are generally the least expensive form of financing from outside sources.