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Lesson 4: Financing Your Venture

INTRODUCTION

In the previous lesson, you learned about collecting and analyzing primary and secondary data including how important these data are to an entrepreneur's business success. You also gathered information about how the data help the entrepreneur to build assumptions about customers, markets, and competition in an effort to ensure the marketing efforts produce results.

This lesson concentrates on how to finance your new venture. Many entrepreneurs turn to the U.S. Small Business Administration for guidance on financing their businesses. This lesson guides you to the resources on the U.S. Small Business Administration Web site. In addition to the information found there, you will want to ensure that you engage an accountant or other financial representative to guide you through the process. You should not consider this lesson to be financial advice.

LEARNING SEQUENCE

Required Readings	Read the following: Online Lesson Material
Multimedia Resources	View the following: SBA Delivering Success: Financing
Required Assignments	Complete the following: Short Essay

CHECK PRIOR KNOWLEDGE

What do you know about financing a business? Most new entrepreneurs probably say that they don't know very much. If you have purchased a car or a house, you know how complex those transactions can be. Determining the right financing sources will be one of the most important decisions you will make as you continue to put your new business venture together. Take a few minutes now to acquaint yourself with financing options for your small business. From an Internet search engine, key in the

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phrase – Finance Options for Small Businesses. Read three or four of the results. Write down some of the finance options that you want to learn more about. Then, proceed into the lesson.

Recommendation: Capture your responses to the "Check Prior Knowledge" activities and other various exercises presented in this course in a journal or notebook. Since many of these activities and exercises will not be turned in to your instructor, you should capture the information in one place. By writing this information down and reviewing it, you will begin to see themes emerge that will help you as you complete the course.

FOCUSING YOUR LEARNING

Official Course Competencies
By the end of this course, you should be able to:

- Differentiate between the types of financing sources that are available for new ventures.

Lesson Objectives

By the end of this lesson, you should be able to:

1. Describe types of financing sources.
2. Explain the pros and cons of each finance source.
3. Define self-funding, crowd-funding, finance organizations, venture capitalist, angels, and grants.
4. Investigate the type of finance source(s) that are most appropriate for your business.

Key Terms

As you read your assignment for this lesson, pay close attention to the key terms and phrases that are listed throughout the lesson. These terms and concepts are important to your understanding of the information provided in the lesson.

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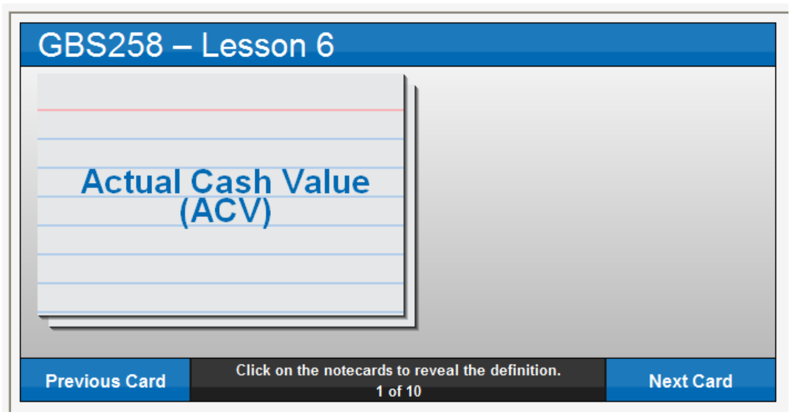

INSTRUCTION

As an entrepreneur or aspiring entrepreneur, you should investigate possible financial sources for your business venture. This lesson gives you a brief overview of the different funding sources that are available for small businesses. Through your "Check Prior Knowledge" activity, you may have already discovered a few finance sources you want to consider.

There are two forms of financing: debt financing and equity financing. Debt financing uses a borrowing philosophy whereas equity financing is based on an investing strategy where an investor believes your company will succeed. Look at some of the options available through the U.S. Small Business Administration.

Access the SBA Web site and review the materials under Loans & Grants. Next, read "Borrowing Money for Your Business." This article contains many links that describe the types of financing and the requirements for obtaining a loan as listed below:

- Types of Financing
- Ability to Repay
- Credit History
- Equity Investment
- Collateral
- Management Experience
- Questions Your Lender Will Ask

Next, watch *SBA Delivering Success: Financing* (4:11) from the U.S. Small Business Administration Learning Center on financing your business.

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Commented [KW1]: Video is located at

http://www.sba.gov/learning/video/sba-delivering-success-financing.com.

Embed code is

<iframe width="480" height="360" src="//www.youtube.com/embed/QeJBciw2nEE?rel=0" frameborder="0" allowfullscreen></iframe>

You can seek out many other types of financing for your business outside of the U.S. Small Business Administration. The following list contains some of the options available to you.

Bank Loan – The approval for a bank loan is based on the business credit rating and history, number of years in operation, assets, personal background check, bank statements, and the type of business. Most lenders seek to secure their loan with some form of asset. If the business defaults, the bank can seize the asset and recover some of its money.

Lease Financing – Rather than buying your business equipment, leasing may be the best option. You can lease cars, computers, phones, and other machinery and then return the equipment to the leasing company at the end of the operating lease. Some leases allow the small business to buy the item at the end of the lease. Leasing equipment requires less money up front, allowing the company to keep its cash flow for other needs. From a tax perspective, leasing equipment can be fully deductible – just be sure to check with your accountant before leasing the equipment.

Supplier (creditors) Credit – This is the easiest way to get business financing. Creditors will offer to pay for goods received from them for a period of time. Often the suppliers will offer larger credit lines and extended repayment terms. It is typically easier to get supplier credit than other forms of credit and, therefore, may be a cost effective financing option for a small business operator.

Government Grants – Grants are available for businesses of all sizes. Access Grants.gov to research your entrepreneurial venture's eligibility for government grants. Grants are free money to businesses. In essence, as long as the business continues to meet all of the grant requirements, the business does not have to repay the money.

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Stocks – Businesses sell a portion of ownership and business assets to meet financial needs or to expand. Issuing stock is done as a way to raise capital. Business owners sell portions of their company as a long-term strategy.

Merchant Cash Advance – Businesses that have a minimum of $5,000 in monthly credit card sales may qualify to receive a loan of up to $250,000 through a merchant cash advance. Repayment is made out of the credit card sales until the loan is paid off. The loan is approved by examining the monthly credit card sale history of the borrowing business. Often there are no credit checks or collateral requirements. Most businesses can qualify for this type of financing.

Crowd Funding – The Internet has revolutionized the process of raising funds for startup companies. Crowd funding is the ability to raise money from a crowd of strangers. These strangers believe in your idea, product, or service, and are willing to put some of their money toward your business efforts. In this case, the crowd puts small amounts of money to help the business launch.

"Top 10 Crowd funding Sites for Fundraising"

Read this article for more information on crowd funding.

Self-Funding – This is the act of using personal assets to finance the business. This could be savings, investment portfolios, mortgage/refinancing, employer buyouts, and retirement funds. Self-funding is one of the cleanest ways to start a small business. However, self-funding could create a situation in which you do not have enough cash available to continue to grow or house large amounts of inventory.

Venture Capitalists – These may be an individual or a firm. Venture capitalists are sophisticated investors whose knowledge, experience, and network of connections can bring millions of dollars into a business. Venture capitalists typically invest a large amount of money at one time to help a business grow quickly. Many venture capitalist firms specialize in specific industries and may or may not invest in a start-up business. Research is important when considering a venture capitalist as a financing option.

Angel Investors – Also known as angels, these are a frequent source of capital for start-up small businesses. Angels are well-to-do individuals who invest their own dollars into entrepreneurial businesses that provide personal satisfaction or greater financial reward for the angel investor. Angel investors are often a part of an angel network. The network brings investors and entrepreneurs together to explore the possibility of investing in various entrepreneurial projects.

Today, more than ever, many options are available for financing your specific business venture. Determining how to finance your venture is an extremely important decision. In your assignment for this lesson, you will explore two of these possible financing options in more detail.

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SUMMARY

In this lesson, you learned about the possible financing options available to your business. Some of these options have been in place for many years; however, you will find that some of them have emerged from the Internet era. As you research your options, be sure to investigate the information on the U.S. Small Business Administration Web site. Also, before making any decisions about financing, you should contact an accountant or other financial administrator to learn more about the options you are considering.

ASSIGNMENTS

Non-Graded Activities

The following activities will help you practice the concepts from this lesson. You are not required to submit them to your instructor.

1. Read the online lesson material and watch all videos.
2. Complete the "Check Prior Knowledge" activity.

Graded Assignments

The following is a required assignment for this lesson.

1. Short Essay, Finance Sources, worth 50 points

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