

WHERE TO GET THE MONEY FOR YOUR STARTUP

By Les Brown © 4-25-05

"I want to start a company, but I need money." I have heard this hundreds of times. Whether you are starting a company or have a going business, there is always the need for more money to fund growth, and it usually takes longer to get than you expect.

In this article, I will discuss some of the sources you may be able to draw upon to get money (capital). Capital needs depend upon the stage of development of your company, its sales, number of employees, R&D needs, manufacturing costs, marketing and sales efforts, and myriad other factors. Changes in Venture Capital availability have made finding capital more difficult, but not impossible. Investors have returned to the basics: companies with experienced management teams, developed products, large potential markets, and paying customers.

A detailed business plan can help you determine how much capital your company will need, and when, over the next few years. Plan ahead - find the capital before you need it. Remember to leverage OPM (Other People's Money) whenever you can.

FOLLOWING ARE A PARTIAL LISTING OF SOURCES OF CAPITAL

<u>Sources of Capital</u>	<u>\$\$\$\$\$\$\$\$</u>
Savings	Varies
Friends & Family	\$10K - \$250K
Credit Cards	\$10K +
Bank Loans	Varies
Home Equity Loans	\$50K +
Government Funding	Varies
Gov't. SBIR, STTR, Fast Track	\$850K, \$600K, \$M+
Private Investors (Angels)	\$25K - \$2M+
Angel Groups	\$500K - \$2M+
Venture Capital	\$5M +
Royalty Capital	\$50K - \$500K
Purchase Orders	Varies
Strategic Alliances	Varies
Suppliers	Varies
IPOs	\$10M+

Savings are an obvious starting point for seed capital.

Friends & Family can often provide seed capital - but you could lose your friends and alienate your family.

Credit Cards have been used to start many companies, but watch your cash flow and interest rates carefully.

Banks rarely give unsecured loans for starting a company, but may provide a credit line for working capital.

Home Equity Loans & Cash-Out Refinancing can provide significant capital, but leveraging your home may cause you to act too conservatively. **Remember, entrepreneurship is about taking measured risks.**

Government Funding An alphabet soup of federal and state agencies provide information, capital, or guaranteed bank loans (SBA 617-565-5590, **SBIR**, **SBIC**, **MIFA**, **MTDC** 617-723-4920, **MBDC**, **MCRC**, **MOBD** 617-727-3206).

Government SBIR (Small Business Innovation Research), **STTR** (cooperatively, with universities and Government research labs), and **Fast Track** programs, can provide up to \$850K, \$600K, and multimillion-dollar matching funds respectively (for DOD <http://www.acq.osd.mil/sadbu/sbir>) or CDC, NIH, FDA, etc. (Search on SBIR) The contracts are competitive, there are many limitations, and you have to survive the

hiatus between phases, but it is a good way to have someone else fund your R&D without losing equity or intellectual property rights.

Private Investors (often called Angels) are a good source of seed funding, but can be hard to find. Individuals collaborate as **Angel Groups**, to invest larger amounts (Common Angels, Hub Angels, Walnut Ventures, LaunchPad...). Get introductions from accountants, bankers, attorneys and other service providers. Angels may also provide industry expertise and management guidance. The Capital Network (formerly @ MIT) has a low-cost computer matching service for entrepreneurs and investors. (www.thecapitalnetwork.org)

Venture Capital has been unfairly criticized, usually by those who have had problems meeting goals and deadlines, but rarely by successful entrepreneurs who received VC \$. Get an introduction to VCs from accountants, bankers, attorneys and other service providers. Cold calls and unsolicited business plans rarely yield investments. Do not fight over equity – you can own 100% of a company with no value, or 10% of a \$100M+ company in the future. You do the math.

Royalty Capital provides money to take a near-completed product or service to market. Payback is based on royalties from the revenue stream, total payback is capped, and no equity is involved (Royalty Capital Fund 781-861-8490).

Purchase orders are ideal; try to get ~1/3 down, regular progress payments, and the balance at delivery.

Strategic Alliances are a great way to get support. Your SA partner can contribute money, be a customer, provide marketing expertise and channels of distribution, provide introductions, credit lines, and many other benefits. The SA partner does not even have to be in the same field – a complementary need can provide a powerful incentive for them to work with you. They may also buy your company to provide an exit strategy. It is important to have a Champion within the company and good relationships with other senior executives in case your Champion leaves or gets promoted.

Suppliers can benefit from your new product sales in the future, and may provide trade credit, as well as free samples, design, testing, product support, and introductions.

IPOs (Initial Public Offerings) can provide millions of dollars in capital, but are generally for emerging companies with a proven ROI. After a long hiatus, IPO activity is picking up for biotech and health care companies.

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