

# Business Financing Network

4321 NE Vivion Rd. Kansas City, Missouri 64119 · (816) 452-1200

## Finding Capital to Start Your Business

By Alan Kenyon

It takes money to start or buy a business. There's no way around it. Furthermore, that money is not going to come as a "gift" from the government or lending institutions.

Most people obtain loans from banks and other lending sources to start their businesses. In order to obtain a loan, you should plan on injecting 20-30% of the total investment, in cash, for the project. That need stops many would-be entrepreneurs from moving ahead on their business dreams.

Before giving up on the goal of owning a business, aspiring entrepreneurs should consider non-traditional sources of financing to reach their goals. If the dream of business ownership is a priority, then there often is a way to make it happen, even when liquid cash is not readily available.

**Home Equity.** Appreciation in the real estate market and the low interest rates of recent years have given many homeowners substantial equity in their homes. Even though the entrepreneur may be "cash poor," home equity may be a source of investment capital for a new business.

One has to have a comfort level with putting home equity on the line in a business venture. That's an emotional barrier many people cannot face.

Another perspective, though, can make the idea of utilizing home equity seem like a wise choice. Investing home equity in your own business means you are employing your funds in something you control. Through careful planning, you might see how you can make the money "grow" faster in your own business, rather than leaving it tied up in home equity—and a housing market over which you have little control.

**Retirement Funds.** Using retirement funds for funding a business raises an emotional barrier similar to that many people have about tapping their home

**Business Financing Network**

4321 NE Vivion Rd. Kansas City, Missouri 64119 · (816) 452-1200

Copyright 2006 © Business Financing Network

equity. Also, the conventional wisdom is that one cannot tap into retirement plans and 401(k)s for business purposes. That is not the case.

The reality is that many people do use retirement funds to start or acquire existing businesses. You should be cautioned, however, that it must be done correctly with professional advice, or you may encounter substantial penalties that can be avoided. Experts knowledgeable in tax law can assist you in doing it the right way.

The process conceptually is fairly simple. Basically, people utilize certain retirement funds for business purposes by creating new corporate entities and “rolling over” 401(k) money into a corporation that then invests and acquires stock in the new company. That is a short explanation of a complicated process, but perhaps it will work for you.

Even if you decide to simply incur the penalties of an early withdrawal of a 401(k) fund, it still may still be a worthwhile investment. You basically should determine if the business venture is going to bring you long-term financial gains and security that will than more offset the penalties. It should be an investment decision.

**Family and Friends.** Businesses often are started with financial assistance from family and friends. New entrepreneurs sometimes are reluctant to ask those close to them to invest in their businesses. However, that natural reservation often can and should be overcome if the situation is handled professionally and with full accountability.

To approach family or friends about investing in your venture, you need to demonstrate that you have given careful thought to the business, that it will provide them with a good return on investment, and that you are going to invest your own time and money (as much as possible) into it. If you don't believe strongly enough in the venture to invest in it yourself, then do not expect family and friends to be eager to participate.

You should approach them with a firm investment proposal—not asking or expecting a handout. A thorough business plan will help them see the possibilities of the business. It will help them understand the industry and particular business, the commitment you are making in it, the probable return on their investment, and their eventual exit strategy. Done properly, your proposal can look more attractive than more traditional investments.

Where would your family and friends really prefer their investments to be placed--in stock portfolios run by people they likely will never know, and over whom they have no control, or in a well thought-out investment proposal of someone they know and trust. They can see, feel, and know about their

investment in your business. They might even become directly involved in some advisory capacity.

So, if you are truly committed, have done your homework, investing in the business yourself, and can demonstrate how it will be a good investment, don't let your discomfort stop you from seeking assistance from family and friends. They may feel like you are doing them a real favor by presenting them with a great investment opportunity!

**Credit Cards.** You've undoubtedly heard of legendary companies like FedEx that were started or saved by credit card debt. Obviously, such a strategy has risks, and the plan needs to be carefully thought out and all costs calculated. Nevertheless, you may have sufficient capability to draw upon your credit cards to get your enterprise off the ground.

Your credit card debt would be something to eliminate as rapidly as possible. However, if you have the burning desire and have adequately prepared for the business, that might be a route to consider, at least for the short-term solution.

**Inventory Disposal.** Entrepreneurs frequently acquire existing companies with the intention of funding at least part of their deals by selling excess or unneeded equipment and inventory. Of course, you must know the true market value of the items and that you will have buyers lined up to acquire them. In such a scenario, particularly with specialized equipment, you should obtain a professional appraisal.

**Seller Financing.** Entrepreneurs often purchase existing businesses with the financial assistance of sellers. That means the seller provide at least some of the financing. Their terms typically will be more lenient than that of traditional lenders, and may require less upfront cash.

While almost all sellers want their sales price paid in full, immediately, that often does not happen. It often is quite difficult for sellers to sell their businesses, and they find that financing the debt themselves is the only way they can realize a sale. Done properly and with careful due diligence, it can become a "win-win" for both parties.

### ***Where There's a Will . . .***

As the above examples illustrate, there are a number of ways people find financing for business ventures, even if they lack readily available cash for conventional loans. If business ownership really your priority, and you are willing to explore unusual, non-traditional sources of capital, you probably can find the financing .

