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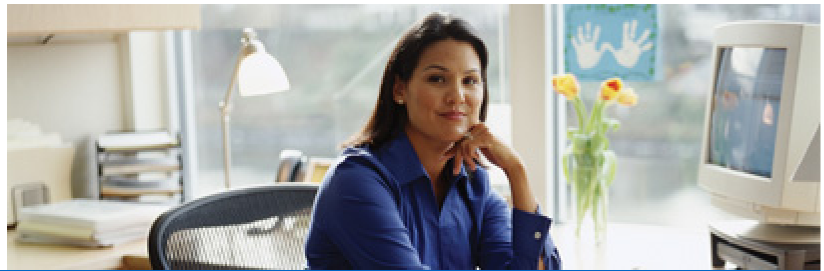

INDEPENDENT INVESTOR

Timely Insights for Your Financial Future

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Securing Financing for Your Small Business

When managing a small business, few things are more important than understanding potential sources of financing for your short- and long-term capital requirements. A comprehensive capitalization strategy enhances your ability to obtain the funding you need and realize your ultimate business goals.

When creating a capitalization strategy, you first must think through which business activities you plan to finance, such as developing a new product or service offering, acquiring inventory or hiring staff. Then you'll need to estimate how much these activities will cost and research appropriate sources of financing.

To some degree, the state of the economy and a business owner's management skills will also influence a company's need for capital. For instance, an economic downturn may result in reduced sales or profits, prompting an entrepreneur to rely on outside financing for a period of time. Or, poor management of accounts receivable or inventory may require a capital infusion while a business owner addresses these issues.

Common Uses of Capital

The capital needs of a small business vary depending on the company's size, maturity and the complexity of its operations. Some of the most common reasons companies require capital include the following:

Stage of Company's Development	**Typical Needs for Capital**
Prelaunch	Create business plan, develop product or service, recruit business partners.
Start-up	Incorporate the business, prepare store or plant, obtain marketing materials, purchase inventory, hire staff.
Ongoing operation	Finance regular expenses such as payroll, utilities, inventory, rent/mortgage, taxes, marketing.
Expansion	Open new branch, launch new product, increase capacity, purchase equipment.

Crunching the Numbers

Once you understand the business activities you need to finance, you can develop an annual budget and estimate your capital requirements one and two years in advance. Your accountant can help with this exercise. Many experts recommend planning for worst-case, realistic and best-case scenarios. This approach may decrease your likelihood of underestimating your capital requirements, which could cause you to run out of money or pass up potential opportunities.

You may want to consult outside sources to ensure your budget is as reliable as possible. Your local chamber of commerce or a regional business association may help you estimate expenses such as utilities or payroll that tend to vary regionally. A professional association that represents your industry may have information about standard costs, margins, and financial ratios.

Sources of Capital

Once you have determined your capital needs, you're ready to consider potential sources of funding. The table below explains sources that entrepreneurs frequently use and the characteristics associated with each.

Source of Capital	Advantages	Disadvantages
Company profits	Allows owner maximum control of business.	May be unpredictable for early-stage company. May be inadequate to finance long-term expansion.
Entrepreneur's personal resources	Owner maintains control.	May require business owner to increase personal debt or jeopardize long-term goals such as a secure retirement.
Family and friends	May provide flexible terms.	May lack business expertise or be inadequate for long-term needs.
Loan from bank or commercial finance company	Frequent source of short-term financing. Loan officers may have business experience and provide assistance with financial issues.	May be reluctant to provide long-term loan or to finance a start-up company. Requires collateral to secure loan agreement.
"Angel" investor who finances small businesses	Often a former entrepreneur or executive; investor may possess considerable management expertise. May provide access to business associates and other investors.	May desire active involvement in the business, resulting in less control for the entrepreneur.
Venture capitalist	Does not require additional debt, providing the business owner with financial flexibility.	Often necessitates a higher rate of return than lenders because there is no requirement to make current payments.

If you are estimating capital needs for a start-up business, plan on maintaining sufficient funding to cover anticipated expenses for at least six months. Most start-up businesses are not profitable and typically operate six months or longer before generating capital internally. Also, the type of business you manage will influence your capital requirements. For example, a retail business requires inventory that must be financed before taking delivery. Many service businesses typically wait between 30 and 90 days before receiving payment from customers, which may require an infusion of capital to pay interim expenses.

Keep in mind that the time to develop a capitalization strategy is before your company needs the money. You are more likely to impress financiers if your current affairs are in order and you have a thorough understanding of your future needs.

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