CREATED BY
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Excerpted from Six-Week Start-Up
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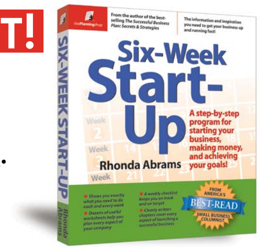

FUNDING SOURCES FOR SMALL BUSINESS

Not all money is equal. When you first start looking for financing, you may be tempted to take any money you can find. Be careful. The various sources of money seek different rates of return on their loans or investments, have varying levels of sophistication and comfort with risk, and provide you with significantly different advantages and disadvantages.

Remember, you're going to have an ongoing relationship with your money source. You'll save yourself a lot of time and grief if you seek money only from sources that are right for you.

The main funding sources for starting or expanding a small business are:

Your own assets. Forget the old saying about using "other people's money." It's better to start or grow a business with your own money. If you have sufficient assets, particularly savings or other income that don't require you to take on additional debt, you're in the best financial position. You don't go into debt, and you don't give up equity. If your savings are owned jointly with a spouse or partner, be certain to get their acceptance and understanding of your plans.

Sales/Income. The very best way to fund a business is from sales revenues. If you can grow your company based on money received from customers, then you don't take on debt and you don't give up equity. This is not as impossible as it sounds, especially if you are starting a low-cost business. The key is to try to line up clients before you actually set up shop, and to grow only as big as your revenues permit. Your growth may be slower, and it doesn't seem as sexy as getting a huge investment, but you'll sleep better at night.

Credit cards. Experts will tell you credit cards are a terrible way to finance a business—they cost a lot (high interest rates) and put your personal credit at risk. They're right—if you have other alternatives. The truth is most people use credit cards at one time or another to pay business expenses, particularly in the start-up phase. And credit cards can be a useful way to handle short-term cash flow problems; if you realistically expect income soon, credit cards may be an easier or better alternative than other loans or taking on an investor.

But be careful! Credit cards are generally an expensive form of financing (exceptions are low introductory rates). You can incur very high charges if you are even a day or two late on your payments. Credit card debt easily gets out of hand, and you have to pay the money back.

Friends and family. Want to lose a friend? Borrow money from them or have them invest in your business. Getting family or friends involved in your business is dangerous, but there are exceptions. If the person understands your business, truly comprehends the risks, and is someone with whom you can communicate well, the situation may work. Always have loan or investment papers drawn up with the terms of the repayment or investment absolutely clear.

Banks. Realistically, banks loan money only to companies that have been in business for at least one or two years and have been successful. As your company grows, you'll likely want a line of credit from a bank to help you manage your cash flow. If you do get a bank loan for a new business, you'll almost certainly have to give a personal guarantee and have to put up personal assets as collateral. The Small Business Administration provides loan guarantees to banks to encourage them to make small business loans. To find out more about SBA loans, visit www.sba.gov. But keep in mind, the government doesn't give out business loans—it just assumes a percentage of the risk on behalf of the lender.

Strategic partners. There may be other businesses that want you to succeed, and they may be willing to help you get underway. Perhaps they are a supplier, customer, or business serving the same market. In some cases, they may directly invest in your business or give you loans. Perhaps they would let you use their offices or equipment or otherwise help offset some of your expenses in return for the benefits you bring them.

"Angels." Angel is the term applied to private individuals who invest their own money in new companies. Because it is their own money, they often have a wider range of kinds of companies they'll invest in, and seek more diverse types of returns on their investment, than professional investors such as venture capitalists. They usually invest a smaller amount of money than professional sources. Angels are generally much more accessible and more appropriate for small companies. A number of "angel networks" or organizations have sprung up in large cities.

Venture capitalists. Venture capitalists are professional investors using institutional money. They generally only invest in companies needing substantial sums of money to grow very large very quickly, and will serve very large markets. They do provide early stage investments as well as financing for companies that are growing. They are particularly active in technology-related businesses. VCs have high expectations of return on their investment but are willing to take substantial risks. VCs take an active role in managing the companies they invest in, often even replacing or removing the founders from management.

What Would Rhonda Do?

Questions to ask yourself before you seek financing:

- Are you willing to give up some amount of ownership of your company?
- Are you willing to take on debt that you must repay?
- Are you willing to risk property or other assets?
- How much control of the oversight of your company are you willing to relinquish?
- What other help do you want from a funder besides money?
- How fast do you want to grow?
- How big do you want your company to be?
- What do you see as the long-term relationship between you and your funding source?