5 Steps to Financing a Business

September 16 2021

Amit Basnet & Patrick Hayward
5 Steps to Secure Financing

1. Determine Readiness
2. Assess Financial Needs
3. ID Sources of Capital
4. Prepare Documents
5. Prepare for Questions
Hey, can I borrow some money?
Hey, can I borrow some money?

• How much?

• What for?

• When/how do I get paid back?

• How can I trust you’ll pay me back?

• What if you don’t – how do I get something back?
Well, that’s what banks look for too…

The Five Cs

1. Character – A lender’s opinion of a borrower’s general trustworthiness, credibility and personality.
2. Capacity/Cash flow – Your ability to repay the loan
3. Capital/Contribution – The amount of money invested by the business owner or management team
4. Collateral – Assets that can be pledged as security.
5. Conditions – How the business will use the loan and how that could be affected by economic or industry factors
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Do you need to improve any of those five c’s?

- What’s your management experience? Do you need a partner?
- How’s your credit? Do you know?
- Should you build up your equity/investment before going to a bank?
Can you wear all the hats?

Capacity

or

Management Skill

Operations
Management
Finance
Marketing
Determine Your Readiness

Credit

Source: www.truecredit.com
Determine Your Readiness

FICO Scoring Factors

- New Credit
- Amounts Owed
- Types of Credit Used
- Payment History
- Length of Credit History

Source: Accion USA
Determine Your Readiness

Contribution

“You mean you won’t count what I’ve already invested?!?!”
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Assess the Financial Needs of Your Business

Start-up Costs,

Monthly Fixed Costs

& Seasonality
Assess the Financial Needs of Your Business

Start-up Costs

- Building/Land
- Improvements
- Furniture
- Equipment
- Inventory
- Supplies

Research, get quotes, get best estimates
Assess the Financial Needs of Your Business

Monthly Fixed Costs

• Rents & Leases
• Utilities
• Insurance
• Phone & Internet
• Supplies/Office
• Outside Services
• Marketing

Research,
get quotes,
get best estimates
Assess the Financial Needs of Your Business

Seasonality

• What cycles exist in your industry? (Research your industry and benchmark)

  • Are there dry months? Peak times? Where will you get money to operate?

  • Calculate by assigning weights (percent of annual sales) to each month so that annual total is 100%

    • 8.33% each month means no seasonality
Assess the Financial Needs of Your Business

Don’t leave yourself cash strapped!

• Try to get a line of credit or working capital to cover down times

• Rule of thumb: 3-6 months operating expenses

• Really, it depends on your industry, how long you wait to get paid (receivables), etc.
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Identify Sources of Capital

- Personal Savings
- Friends & Family
- Crowdfunding
- Credit Cards
- Lenders
Identify Sources of Capital

- It’s yours – can’t be turned down!
- But is it meant for something else?
  - i.e. are you betting your retirement?
- Can be easier than a bank
- Can have better terms
- But can put tension on relationships
Identify Sources of Capital

- “Free” Money!
- Great marketing opportunity
- Build a buzz/grassroots support
- A lot of time & effort
- Requires strategy like marketing campaign
- May have to educate potential backers
Identify Sources of Capital

- Sometimes it’s the only feasible option
- High interest rates & fees

- Lower interest rates, better terms
- Microlenders/SBA lenders – good options
- Can feel like a lot of hoops
- “Don’t lend unless you already have money”
Identify Sources of Capital

- Online
- Angel (Equity)
- Venture (Equity)
# Identify Sources of Capital

<table>
<thead>
<tr>
<th>Crowdfunding</th>
<th>Peer to Peer</th>
<th>Lender-Agnostic</th>
<th>Non-Traditional Risk Scoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kickstarter</td>
<td>Kiva Zip</td>
<td>Biz 2 Credit</td>
<td>OnDeck</td>
</tr>
<tr>
<td>Indie GoGo</td>
<td>Lending Club</td>
<td>Street Shares</td>
<td>Kabbage</td>
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<tr>
<td>Local Lift</td>
<td>Prosper</td>
<td>Lending Tree</td>
<td></td>
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<tr>
<td></td>
<td>Funding Circle</td>
<td>Credit Karma</td>
<td></td>
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</tbody>
</table>
Identify Sources of Capital

• Do your homework
• Read the fine print
Identify Sources of Capital

- Line of Credit
- Working Capital
- Term Loan
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Prepare Documents for Lender or Investor

1. Business Plan
2. Financial Statements & Projections
3. Key Document Checklist
Prepare Documents for Lender or Investor

Business Plan – keys to success

<table>
<thead>
<tr>
<th>A strong case for why and how you’ll succeed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mix of head (good data) &amp; heart (compelling story)</td>
</tr>
<tr>
<td>Goals/objectives, strategies/tactics, timelines/milestones</td>
</tr>
<tr>
<td>Well-researched and thorough (answers relevant questions)</td>
</tr>
<tr>
<td>Logical, coherent links between sections</td>
</tr>
</tbody>
</table>
## Business Plan – what’s in it?

<table>
<thead>
<tr>
<th>Company Description</th>
<th>Management &amp; Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Market</td>
<td>Sales &amp; Marketing Strategies</td>
</tr>
<tr>
<td>Industry Analysis</td>
<td>Competitive Analysis</td>
</tr>
<tr>
<td>Goals, Timelines</td>
<td>Financials</td>
</tr>
</tbody>
</table>
### Prepare Documents for Lender or Investor

<table>
<thead>
<tr>
<th>Financial Statements &amp; Projections</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Historicals, if applicable</strong></td>
<td>Sources &amp; Uses of Funds</td>
</tr>
<tr>
<td>Profit &amp; Loss, Balance Sheets</td>
<td>P&amp;L and BS for 1-3 years going forward</td>
</tr>
<tr>
<td>(3-5 yrs back, 12 mos trailing)</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>Financial Ratio Analysis</td>
</tr>
<tr>
<td>Cash Flow Statements</td>
<td>Key Assumptions</td>
</tr>
<tr>
<td>Other Key Documents</td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td></td>
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<tr>
<td>Different lenders have</td>
<td></td>
</tr>
<tr>
<td>different requirements</td>
<td></td>
</tr>
<tr>
<td>See checklist</td>
<td></td>
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</tbody>
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Prepare for Questions from a Lender

• At its core, the lending relationship is about trust

• You need to credibly answer questions, especially related to the 5 Cs

• Your business plan, financials, and other documents go a long way

• But it’s also how you present yourself and your ability to answer questions
Prepare for Questions from a Lender

So

• Don’t ever lie to or mislead a lender

• Don’t try to hide issues/problems
  Show how you have addressed or will address them

• If you don’t have an immediate answer…
  Admit it, ask if you can check, then follow up
Prepare for Questions from a Lender

But

• You can set the tone of the discussion

• Don’t leave any room for creeping doubts in the lender’s mind

• Do your research, put your best foot forward, and get all requested documents promptly
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