



5 Steps to Financing a Business

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5 Steps to Secure Financing





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*



5 Steps to Secure Financing



Determine Your Readiness



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?



Determine Your Readiness



Can you wear all the hats?

Capacity

or

Management Skill



Operations



Management



Finance



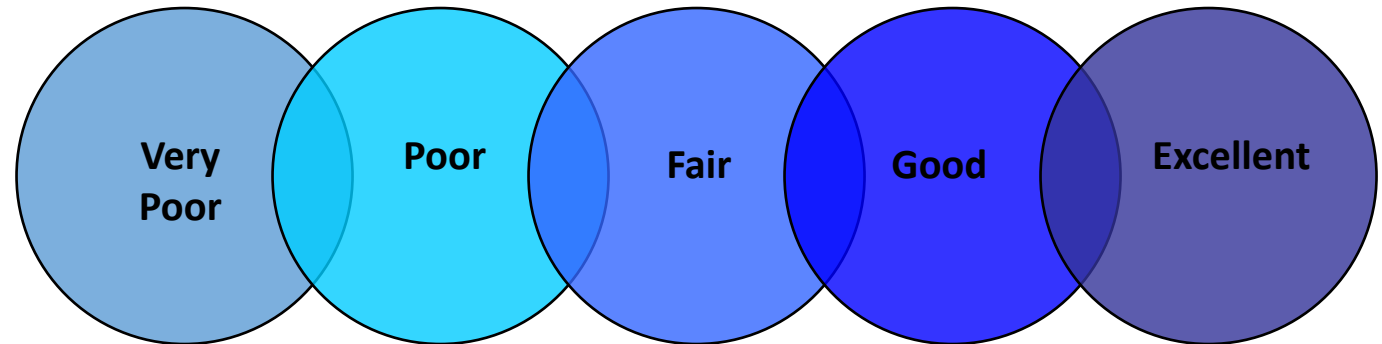
Marketing



Determine Your Readiness



Credit

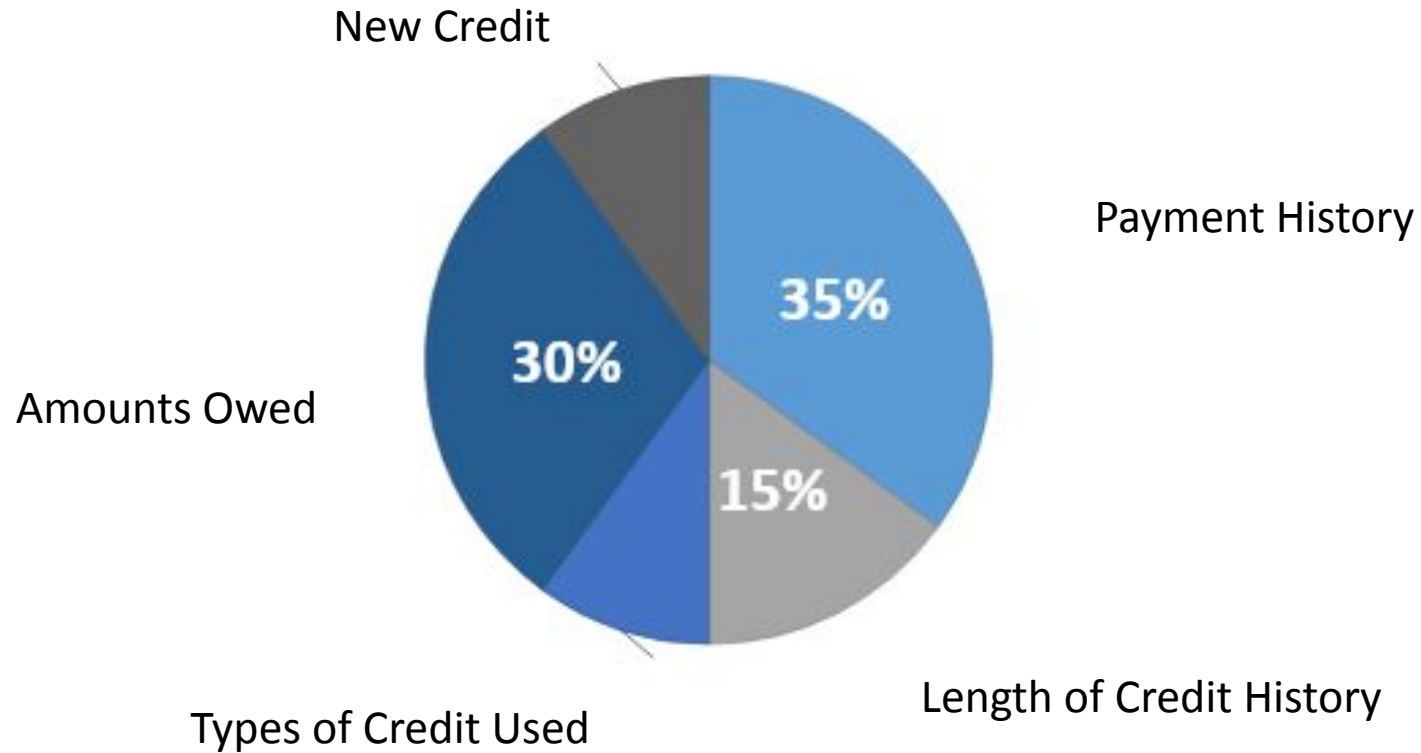


Source: www.truecredit.com



Determine Your Readiness

FICO Scoring Factors



Source: Accion USA

Determine Your Readiness



Contribution

*“You mean you
won’t count
what I’ve
already invested
?!?!”*



5 Steps to Secure Financing



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.



5 Steps to Secure Financing



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



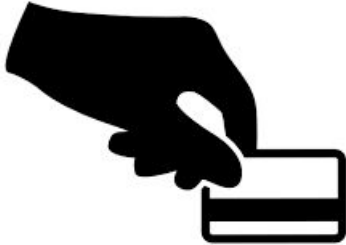
Identify Sources of Capital



- “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

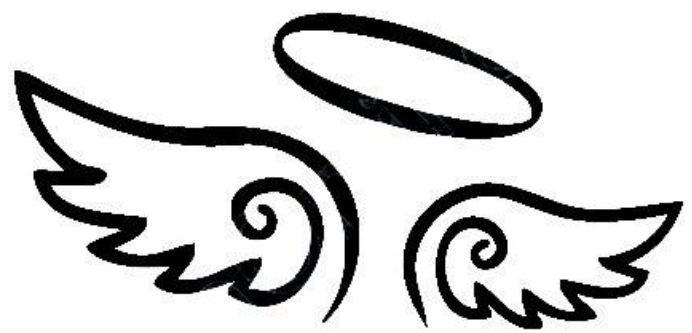


- Lower interest rates, better terms
- Microlenders/SBA lenders – good options
- Can feel like a lot of hoops
- “Don’t lend unless you already have money”

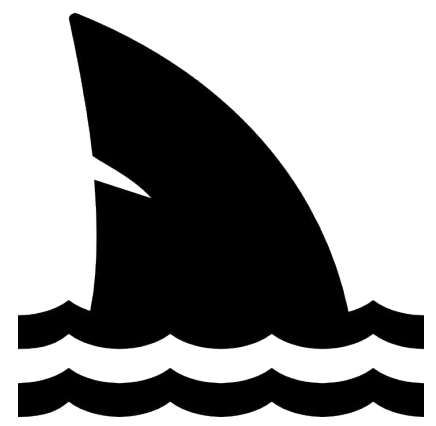
Identify Sources of Capital



Online



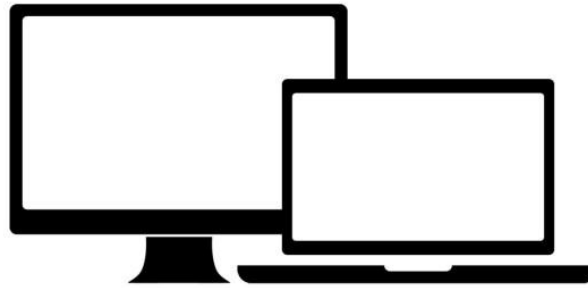
Angel (Equity)



Venture (Equity)



Identify Sources of Capital



Crowdfunding	Peer to Peer	Lender-Agnostic	Non-Traditional Risk Scoring
Kickstarter	Kiva Zip	Biz 2 Credit	OnDeck
Indie GoGo	Lending Club	Street Shares	Kabbage
Local Lift	Prosper	Lending Tree	
	Funding Circle	Credit Karma	

Identify Sources of Capital



- **Do your homework**
- **Read the fine print**



Identify Sources of Capital



Line of Credit

Working Capital

Term Loan



5 Steps to Secure Financing



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

A strong case for why and how you'll succeed

Mix of head (good data) & heart (compelling story)

Goals/objectives, strategies/tactics, timelines/milestones

Well-researched and thorough (answers relevant questions)

Logical, coherent links between sections



Prepare Documents for Lender or Investor



Business Plan – what's in it?

Company Description

Management & Organization

Target Market

Sales & Marketing Strategies

Industry Analysis

Competitive Analysis

Goals, Timelines

Financials



Prepare Documents for Lender or Investor



Financial Statements & Projections

Historicals, if applicable

**Profit & Loss, Balance Sheets
(3-5 yrs back, 12 mos trailing)**

Taxes

Cash Flow Statements

Sources & Uses of Funds

**P&L and BS for 1-3 years
going forward**

Financial Ratio Analysis

Key Assumptions



Prepare Documents for Lender or Investor



Other Key Documents

**Different lenders have
different requirements**

See checklist



5 Steps to Secure Financing



Prepare for Questions from a Lender



Hey, can I borrow some money?



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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