

# **GAINING ACCESS TO START-UP CAPITAL: A GUIDE FOR THE NASCENT ENTREPRENEUR**

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## **ABSTRACT**

*When new entrepreneurs get started developing their business ideas, one of their greatest needs will be gaining access to capital. Some entrepreneurs are fortunate and have easy access to capital, but most are not as lucky. This article is a brief guide to the different types and levels of financing available to new businesses, and will give entrepreneurs a simple understanding of how to access this capital. We illustrate the integral relationship between the entrepreneur, the business idea, and the opportunities for success in raising capital. Entrepreneurs should be excited about the possibilities ahead of them, while staying focused on the financial realities that they will face. Our goal is to encourage entrepreneurs to be prepared as they chase their dreams. We want them to understand the financial realities they face. Ultimately, the more they are prepared and the greater understanding they have of these realities, the greater their chances for success.*

## **INTRODUCTION**

The history of the American economy is at least partially defined by the great success of its many entrepreneurs. These innovators, people like Ben Franklin, Thomas Edison, Bill Gates and Jeff Bezos, are often larger than life figures with iconic stature. It is often said that this innovation is what keeps our economy the strongest and most robust in the world. Most entrepreneurs won't be as well known as Thomas Edison or Bill Gates, and they may not create billion dollar enterprises. There are successful entrepreneurs all around us, from the owner of the local pizzeria or dry cleaner, to the latest greatest Wall Street success story. Whether your dream is to operate a small local business or become the next mogul, you can achieve this dream with hard work, determination, and a plan.

At some time we all have an idea for a business; for many of us these ideas come on a relatively frequent basis. It's the American way to be a dreamer, and it's often part of the American dream to be successful in business. For many their dream includes achieving a comfortable level of prosperity, the ability to control their own destiny, and to become the next great entrepreneur. For most people these ideas are just that, just an idea. For many different reasons these ideas, whether they are good or not, never become an operating business. This guide is for those that are committed to taking that first step and are looking for help. Although our focus here is on financing and growing early stage businesses, there is good advice throughout that you will be able to apply to all areas of your business. With your hard work, talent, commitment, and focus you are on your way to starting or growing your business, and possibly becoming the next great American entrepreneur.

## **FINANCING YOUR BUSINESS IDEA**

You have a business idea, and you're committed to making it work. Now what you need is the money to get this idea started. Every new business has expenses and therefore has a need for

capital. These expenses may include fees for registering your business, and filing for patents or trademarks, inventory, equipment, promotions, staffing, transportation, etc. You have the determination and focus to turn this idea, your dream, into a reality. The smartest entrepreneurs realize they need help, and luckily for them there is an abundance of good help available and most of it is available for free or at far below market cost.

One of the biggest factors in what ultimately makes someone successful with their idea is competently managing their capital needs. One of the more common problems new businesses face in managing their capital is not having enough of it. Even if you are fortunate to have the necessary capital, you need to properly manage the capitalization of your business to make sure that you can meet your cash flow needs, preserve your equity, and strategically leverage your business without becoming over leveraged. The capitalization of your business simply refers to how you acquire the money needed to fund your business, outside of the money your business will make through its operations. The leveraging of your business refers to debt you take on as part of your capitalization, and equity refers to your ownership interest and any ownership interest you grant to investors as part of your capitalization.

### **PREPARATION AND ORGANIZATION**

It helps to have a great idea and boundless enthusiasm when launching a business, but it's equally important to be realistic and focused. As part of understanding the reality of undertaking a new business venture it is important to be extremely well prepared and organized. There are many different organizational steps to starting a business, including, deciding on a corporate structure, filing forms, printing business cards, and organizing your personal finances.

### **YOUR PERSONAL FINANCIAL PICTURE**

A large part of your organization process will be getting your personal finances in order. More than anything, lenders and investors have to believe in the person they are investing in, or loaning money to. You could have a great idea, but without being able to sell yourself, your chances at success are largely diminished. Part of selling yourself is showing that you are responsible with money. There is no greater reference in this regard than your personal credit history. Accordingly the first thing in getting organized should be getting a copy of your personal credit report. Fortunately many states, including New Jersey have passed laws allowing you free access to your credit report. The following companies can provide you with a free copy of your credit report:

Experian, [www.experian.com](http://www.experian.com)  
Equifax, [www.equifax.com](http://www.equifax.com)  
Transunion, [www.transunion.com](http://www.transunion.com)

Once you have your credit report you will find that is broken into two categories, potentially negative items, and accounts in good standing. Potentially negative items are current or past credit items that haven't been paid in a timely fashion or not at all, these items may also include judgments and charge offs. First and foremost you want to make sure that everything in your credit file is accurate. If there are inaccuracies, then you have the right to dispute them. In many cases if the information is truly inaccurate you should have no problem getting that item removed or corrected in a few weeks. For items that are negative, but are an accurate reflection of your credit history, now is the time to take action to improve your credit file. Other personal financial records that you will need to get together are copies of all bank and investment accounts and your tax returns for the past few years.

## **SEED CAPITAL**

For many people the hardest thing about starting a business is finding the seed money needed to launch their business, as well as keep it running after the launch. In many cases, even after operating for a time, businesses will still need outside capital to keep a business running and growing. In some cases business are fortunate enough to generate enough cash flow right from the start of operations to run their business and even grow if that is a desired goal.

It's not easy asking people for money, and it doesn't matter if they are family or complete strangers. It can't be emphasized strongly enough that organization and focus are keys to success. The first step in organizing a business is your business plan. It is a good idea for any business to create a detailed business plan, an internal guide that is used to work through the day to day developments in the business model. When a business decides that it's necessary to seek outside financing, either debt or equity from investors or financial institutions, a shorter version of the business plan will need to be written. This version of you plan is commonly called a mini plan or investor presentation, and will be succinct and in summary form. The investor presentation should be in slide form, preferably using PowerPoint software. Investors and loan officers tend to be extremely busy people in many cases they will even ask for a smaller version of your investor presentation, a 2-4 page summary of your business. Knowing all forms of your plan inside-and-out will give you confidence, and will likely give investors' confidence in you. The mini plan/investor presentation should be 15-25 slides covering all areas of your business. Sequoia Capital provides an outline for such a plan/presentation, which can be found at: [http://www.sequoiacap.com/process/stepthree\\_howtoformat.asp](http://www.sequoiacap.com/process/stepthree_howtoformat.asp)

At the very beginning of starting your business venture it is somewhat unlikely that you will be making presentations to outside investors. It is however a good idea to work hard on your business presentation, honing it in written form and rehearsing the actual presentation. Practice the plan over and over again in front of different audiences, this will get you comfortable for whatever investors or banks will throw out you. Not taking the time to know your own business in incredible detail will hurt you. Remember that there are lots of people with lots ideas competing for a comparatively small amount of capital; the competition for investment and loan dollars is tough.

## **PERSONAL FUNDS, FRIENDS AND FAMILIES**

The financing needs of startups are commonly addressed by the personal resources of the entrepreneur, either in the form of savings or personal lines of credit. At some point during the early days of a business, an entrepreneur may exhaust their ability to personally fund the growth and development of the business. It's at this point that other sources of funding become necessary to keep your dream alive. The most common way for people to gain funding is to ask friends and family members to help finance their business idea. If borrowing funds from friends or family, or taking on friends or family as partners, it is advisable that you treat them like you would any other investors. This includes giving them your investor presentation and making sure all agreements are in writing. This will go a long way in heading off any future misunderstandings about the terms and responsibilities of the parties involved.

## **PARTNERS**

Sometimes it is possible to raise capital from other businesses that have a stake in the success of your new venture. Maybe a supplier or larger player in your industry that is willing to invest in a smaller niche player. If you have a great investor presentation, and you have rehearsed it so many times that you know it cold, this will give you the confidence you need to approach potential

investors. It is vitally important that you have confidence and you show it, after all a large part of any investment will be in you personally.

### **SMALL BUSINESS LOANS**

There are many types of loan programs available to small business, from smaller micro-loans to larger business loans. Micro Loans and other SBA Loans, although guaranteed by the SBA are administered by private and quasi private concerns such as banks, financing companies, and economic development entities. The participants in the Micro-loan program normally have a local or regional focus. The majority of Micro-Loan programs assist low and moderate income persons establish or expand their business. The micro-loan program targets those who may not have personal funds or access to lines of credit. In these cases it is often the best option for attaining see money.

Loan funds can be used for:

- Startup equipment
- Expansion equipment
- Increasing inventory
- Leases, including leasing a building and lease hold improvements
- Purchasing a building
- Advertising
- Transportation

### **PRIVATE EQUITY**

Private equity is a term used to describe a wide scope of investors, from individual accredited investors (note 1) and groups of Angel Investors (note 2), to large billion dollar buyout firms. At this early stage of a company's development it is unlikely that you would attract large amounts of private equity, this is especially true if you are in a micro-entrepreneur (note 3) category. Startups with significant growth potential may be able to access capital from individual investors or angel networks. The full gamut of private equity concerns are covered in later chapters

### **CONCLUSION**

In closing, we hope that you have found this article helpful and encouraging. There have been many entrepreneurial successes before you and there is no reason you can't join this elite club. Understand your entire business model, but especially focus on its financial part. Commit yourself to finding and facing the financial realities of your new venture, whatever they may be. Educate yourself on all of the options available to you, be detailed in your planning and preparation, and most of all, have confidence in yourself and your idea.