

LITERATURE REVIEW: FINANCING SOURCES FOR NEW VENTURES

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Abstract

A new company needs capital to conduct business. Of course the best way to obtain it is through sales. Sometimes, however, a company needs other more immediate sources. Different sources may be appropriate for different stages of growth. Start-ups often rely on family members, friends, or local associates. As it grows, it may need to turn to alternate sources such as Venture Capital. Once it has achieved a financial track record, it can turn to other sources such as Asset Based Lending or Commercial Loans.

This literature review explores the financing options for the new ventures to meet their needs. It has listed descriptions of some of the major sources of financing options and the pros and cons of those sources.

Achilles's Heel

During their 30-plus years as educators, authors, directors, founders, and investors in entrepreneurial companies, Dr. Timmons and Spinelli have met a few thousand entrepreneurs and managers from all kinds of positions with different business education background. Nearly all of those entrepreneurs and managers felt uncomfortable, if not downright intimidated

and terrified, by their lack of expertise in financial analysis and its relationship to management and strategy. Beyond “collect

early, pay late,” few of them are comfortable with those complex and dynamic financial interrelationships.² Finding financial sources has obviously become those entrepreneurs’ Achilles’s Heel.

There are different ways for new ventures to obtain financial support throughout its business lifecycle. Before they resort to any of them, it pays for all entrepreneurs to evaluate their options realistically.

Venture Capital

V.C. also called risk capital. Funds made available for startup firms and small businesses with exceptional growth potential. Managerial and technical expertises are often also provided.³

It may be difficult for a startup to qualify for a bank loan. One alternative is venture capital. Venture capital firms offer capital in exchange for equity in a company. It is ideal for new businesses since venture capital firms focus mainly on the future prospects

² Timmons, Jeffrey A.; Spinelli, Stephen, 2003, *Getting Beyond “Collect Early, Pay Late”*, New Venture Creation, Entrepreneurship for the 21st Century, P444

³ <http://www.investorwords.com/cgi-bin/getword.cgi?5236>

of a company while banks use past performance as a primary criteria.⁴

Relatively few companies succeed in raising money from venture capital, it pays to do a homework first and, even to upgrade the team of legal and accounting advisers. It's almost impossible to attract venture capitalists' attention through a cold call, a company needs to focus on networking its way into the venture-capital community, through an investment banker, a venture-capital forum, or well-connected advisers.⁵

Advantages of Venture Capital Financing:

1. VCs serve as a sounding board for the firm's management decision-making.
2. VCs ensure a profit orientation of the firm. They force management to focus on a limited number of well-defined objectives and business plans.
3. VC networks are a valuable source of strategic planning information.
4. VCs have access to networks with knowledge of potential available managers and other potential financiers.
5. VCs join in discussions with the firm's bankers and customers. This gives the firm and its products certain credibility.
6. VC networks can help find acquisitions or corporate partners for the firm.
7. VC financing offers confidentiality regarding commercially sensitive information.

Some Possible Disadvantages

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http://www.morebusiness.com/running_your_business/financing/overview.brc

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<http://www.inc.com/articles/finance/capital/banking/869.html>

1. VCs can apply pressures to the firm's management since VC money is invested at various stages of business development and interested in quick turnaround.
2. Often the firm's board of directors is controlled by the VCs.
3. Sometimes VCs decide and may get involved with interviewing candidates for key management positions. VCs are unlikely to get involved with middle managers; if they do, this could be a sign of an investment in trouble.
4. VCs' counsel is based on their experience base. Therefore, the firm should target appropriately experienced VCs.
5. VCs usually have contractual rights giving them control in case the venture fails to perform adequately.

Access to Venture Capital Community:

1. VCs generally wait for proposals to come to them;
2. Most proposals funded by VCs are the result of referrals;
3. National Venture Capital Association 703-524-2549 for referrals to VC's;
4. Some VC's now promote themselves by offering information via Internet.⁶

Angel Investors

Angel investors are Individuals who provide capital to one or more startup companies. The individual is usually affluent or has a personal stake in the success of the venture. Such investments are characterized by high levels of risk and a potentially large return on investment.⁷ Angels provide seed money

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<http://sbir.gsfc.nasa.gov/SBIR/Financing.htm#venture>

⁷ <http://www.investorwords.com/211/angel.html>

for firms too young or too small to qualify for bank loans, venture capital, or public offerings; they prefer to invest at the early stage of a venture.

According to the Center for Venture Research at the University of New Hampshire, there are approximately 400,000 active angels in the United States. In 2000, as tech stocks sank, U.S. angels invested an estimated \$30 billion in startup financing, compared with about \$50 billion from venture capitalists.⁸ Angel networks are oriented to bio-tech and other high-tech companies. They tend to co-invest with trusted friends and business associates in ventures with which they are familiar. Angels typically invest in ventures close to home within one day's drive.⁹

Advantages of Angel Investment:

1. Angels will accept a longer payback horizon and are willing to settle for a smaller return - 20% to 25%/year compared to the VCs expected ROI of 30% to 35% or more per year.
2. Venture exit horizons for angels tend to be 5 years to 10 years or more.
3. Firms do not have to demonstrate profitability; they must demonstrate, however, strong market prospects and strong management.
4. Angels often take bigger risks or accept lower rewards when they are attracted by the nonfinancial characteristics of an entrepreneur's proposal.
5. Angels' investment terms and conditions tend to be briefer and more informal than those of venture capitalists.

⁸ Robinson, Robert J. and Osnabrugge, Mark Van, 2000, *Startup Funds with Startup Companies---A Guide for Entrepreneurs, Individual Investors, and Venture Capitalists*, San Francisco: Jossey-Bass

⁹ <http://sbir.gsfc.nasa.gov/SBIR/Financing.htm#private>

6. Angels are active investors, serving on a working Board of Directors or providing guidance through an informal consulting/monitoring role.

Some Possible Disadvantage of Angel Investor:

1. Angels can behave more like venture capitalists, demanding quick turnaround on their investments. Some venture capitalists prefer to use the name of angel investors.
2. It is hard to find an angel investor who has professional experience and also lives near you. (locates in one-day's drive)
3. Angel investors can offer non-financial assistance to startup, but might involve too much in your daily management.
4. There are no directories of private investor angels, no public records of their investment transactions.

Solutions:

Make sure they are not venture capitalist before you sign a contract. Working angels are a relatively new phenomenon, partly spawned by a proliferation of IPO-enriched CEOs. Pressed for time, such angels are often inexperienced investors with less tolerance for risk than even they realize.

Perfect angels rarely fall from the sky. They materialize through long-standing relationships. The key is to recruit investors who understand your industry well, so they won't panic during a seasonal slump. It's tricky placing restraints on someone who is offering to give you money. But companies can negotiate with angel on how and when the angel will help with such tasks as negotiating bank loans, checking out candidates for acquisition, and recruiting senior managers.¹⁰

¹⁰ Gruner, Stephanie L, Feb 1998, *The Trouble with Angels*, Inc. Magazine

Access to Angel Networks:

1. The private investor angel market tends to be regional rather than local or national.
2. Angel networks are typically run by non-profit groups. Most angel networks originate from college campuses, business incubators, state economic development agencies, and other nonprofit entities; A large number of universities have established angel networks to match entrepreneurs with investors; VCs are also a source of information regarding locating angels.
3. Firms can join an angel network for a nominal fee. Firm provides its vital statistics: type of business, market potential, amount of funding required. The angel network distributes this information, but keeps the company name anonymous. The firm's name is revealed if an investor is interested.
4. A possible information source regarding angel networks is the National Business Incubation Association at 740-593-4331.¹¹

Strategic Alliance

An arrangement between two companies who have decided to share resources that one company may not have while holding something that another has. A strategic alliance may also refer to a joint venture. This is becoming a common business practice, as it is an excellent way to improve efficiency.¹²

Characters of strategic alliance:

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<http://sbir.gsfc.nasa.gov/SBIR/Financing.htm#private>

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<http://www.investopedia.com/terms/s/strategicalliance.asp>

1. The two companies must have different, complementary strengths.
2. A strategic alliance, as a source of financing, can benefit both firms.
3. In a strategic alliance, each partner entity retains its own identity. A 'joint venture' is a type of strategic alliance in which a separate legal entity is formed for the same purposes.
4. Strategic alliances can be arranged by third party intermediaries.

Advantages:

1. It can be an access to new markets for one, and access to manufacturing capability for the other.
2. Most corporate partners seek to buy into smaller companies and use them as R&D arms.¹³

Barter

Bartering is the process of trading goods and services without the use of money. The practice of barter benefits companies and countries that are lacking "hard currency" to obtain goods and services.¹⁴

Many Internet businesses are bartering their products and services, to avoid payments and / or to stimulate demand, at the early stages of their life cycle. In the early model, money was developed to make markets more liquid, with the Internet, bartering is used due to the lack of liquidity of many Internet businesses. This has also become common practice for the trade of banner advertisements. Banner exchange programs enable small advertisers to exchange advertising space, but large enterprises are also involved in this practice.¹⁵

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<http://sbir.gsfc.nasa.gov/SBIR/Financing.htm#alternate>

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<http://www.investopedia.com/terms/b/barter.asp>

<http://www.definethat.com/define/?id=278>

Advantages:

1. Barter is a way of building revenues while preserving cash flow.
2. Barter purchases can also qualify for tax write-offs as business expenses. Companies must report barter points as equivalent dollars of revenue to the IRS.

Disadvantages:

1. Two companies must swap items of equivalent value. It is difficult to find the exact equivalent value for two goods.
2. It will be costly to put into barter intermediary. Sometimes the net value of your items will be cut by 10%.

Solutions:

A barter intermediary can save a company the trouble of having to match its needs exactly with those of another. Transactions are valued in barter points, which are assigned to every good or service bartered by the network's members.¹⁶

Customer or Supplier Financing

Customers offer the cheapest financing, a startup can get customers to finance its growth by paying part of its fee up front and the rest as it completed the work. Get customers to pay earlier than they actual transaction. Or get supply of raw materials and components first and pay suppliers later on.¹⁷

This is what most of entrepreneurs familiar with: “collect early, pay late.”

¹⁶ Fraser, Jill Andresky, Apr 1994, *How Swap Deals Pay Off*, Inc. Magazine

¹⁷ Cronin, Michael P. , Mar 1992, *Waste Away*

Financing, Inc. Magazine

Advantages:

Cheapest financing;

1. Help relieve startup with cash-flow crisis;
2. A loan is simply easier to get a large company (customer) to approve than a stock purchase. The repayment feature creates tax advantages because those funds don't appear on the income statement;
3. A big benefit of customer financing is that he can tap into customers' expertise.

Disadvantages:

1. May incur bad customer and supplier relationship, leading to bad reputation in industry.
2. You're giving up potential revenues from consortium members. Then there's the significant pre-development cost that incurred.
3. Not all companies agree with your finance plan.

Solutions:

Analyze a range of suppliers to find a high-quality company that you can become either an important customer or suppliers to, then approach those customers or suppliers aggressive enough to tell them that you are experiencing a cash-flow crisis or capital shortfall, you may be pleasantly surprised by the results.¹⁸

Your customers and suppliers will finance you primarily because if they didn't, the product might not come into existence. The involvement in developing the product is an additional selling point.¹⁹

¹⁸ Fraser, Jill Andresky, Mar 1995, *When Supplier Credit Helps Fuel Growth*, Inc. Magazine

¹⁹ Spragins, Ellyn E. , Jul 1990, *Consumer Finance*, Inc. Magazine

Factoring

Factoring is the selling of a company's account receivables to a financial institution normally at a discounted rate. Factoring is usually performed to increase cash flow, instead of waiting for the normal terms associated with selling to customers (ie. net 15, 30 or 45 days).²⁰

Advantages of factoring:

- 1.) Fast & easy - minimal application requirements.
- 2.) Improve cash flow by being paid in a timely manner
- 3.) No consideration of a businesses credit rating as the factor is more concerned by your customers' credit rating than yours.
- 4.) Leverage off customers credit by being paid on time.
- 5.) Continuous source of operating cash with continued factoring.
- 6.) There are no long term contracts required.
- 7.) Factoring provides credit services- credit screening & monitoring, early detection of customer service problems
- 8.) Client gets detailed management reports on a monthly basis.
- 9.) Faster invoice payments- usually within 48 hrs.
- 10.) No debt created, no monthly payments or balloon payments with some loans.
- 11.) No personal guarantees as with most loan programs.
- 12.) No geographical limitations.
- 13.) Reduces overhead, helps business downsize so client can concentrate on growing his/her own business.
- 14.) Greater operating efficiency, professional invoice processing that can allow for more productive use of resources.
- 15.) Off balance sheet financing- Not a loan and need not be reported to any perspective lending institution.

²⁰ <http://www.commerce-database.com/factoring.htm>

16.) The time value of money is always an important factor the faster you get paid the more money you can make.

17.) You retain control of your business.

You do not give up equity as in borrowing but are still able to seek alternative forms of financing if desired.

18.) Factoring can reduce bad debt through timely collections on invoices.

19.) Professional collections are handled by the factoring company.

20.) You can offer credit terms to your customers therefore are able to accept more business.

21.) Allows the Business the Ability to Meet Increasing Sales Demands and expand.

22.) Offers the Ability to End any Early Payment Discounts.²¹

Disadvantage:

Factoring can be a costly means to raise short-term capital because the discount rate is very high.

Initial Public Offering - IPO

Initial public offering is the first sale of stock by a company to the public. IPOs are often used by smaller, younger companies seeking capital to expand their business. also known as going public.²²

Advantages:

1. A public company has direct access to the capital markets and can raise more capital by issuing additional stock in a secondary offering. Public companies can also more easily raise funds privately.
2. Public companies can use their common stock to attract and retain good employees.

²¹ http://www.empire-capital.com/Advantages_of_Factoring.html

²² <http://www.investorwords.com/2640/IPO.html>

3. Being a public company is more prestigious than being a private company.
4. Going public provides owners and founders an exit for selling their ownership holdings in the business.
5. Public companies are worth more than private companies. The public companies that compose the Standard & Poor's 500 are valued at about 17 times their earnings (i.e., a company earning \$1 million would be worth \$17 million), while private companies are typically bought and sold at one to five times cash flow.
6. Going public makes you rich—at least on paper. And make no mistake, none of the lawyers, accountants or investment bankers involved in the process gets the least bit squeamish about their client's desire for riches. After all, your success means their success.

Disadvantages:

1. IPO is perhaps the most expensive way to finance a company. Associated underwriter, attorney, and accountant's fees regarding IPO's is very high. Not only will an initial public offering cost a significant chunk of the company's equity—no less than 25 percent and perhaps a great deal more—but fees and expenses can climb to as much as 20 percent of the deal. For a \$5 million offering, that's \$1 million. The funds typically available are \$5 million or greater.
2. Going public is one of the most difficult transactions. Perhaps 750 to 1,000 companies go public each year in offerings underwritten by investment banking firms. Many more try but fail during the process.

3. A company's has to prepare required reports and also release necessary information required by the SEC.²³

Direct Public Offering - DPO

DPO is a company raises capital by marketing its shares directly to its own customers, employees, suppliers, distributors and friends in the community. DPOs are an alternative to underwritten public offerings by securities broker-dealer firms where a company's shares are sold to the broker's customers and prospects.

Advantages:

1. Direct public offerings are considerably less expensive than traditional underwritten offerings.
2. Additionally, they don't have the restrictions that are usually associated with bank and venture capital financing.

Disadvantage:

On the other hand, a DPO will typically raise much less than a traditional offering.²⁴

Small Company Offering Registration

Another type of equity financing is a small company offering registration or SCOR. Since the laws governing private sales of securities are somewhat restrictive, SCOR's provide a means of selling common stock to the public. Companies can trade their common stock over the counter rather than

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<http://www.entrepreneur.com/article/0,4621,300892,00.html>

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<http://www.investopedia.com/terms/d/directpublicoffering.asp>

deal with the difficulties that initial public offerings face.²⁵

Leasing

Lease is an agreement in which one party gains a long-term rental agreement, and the other party receives a form of secured long-term debt. The lessee gains a long-term contract for the use of an asset, and the lessor is assured of regular payments for a specified number of years.²⁶ Entrepreneurs know that leasing equipment can sometimes alleviate cash-flow pressures.

Advantages:

1. Easy access for companies that can't afford equipments.
2. By clinching to a leasing deal rather than raise additional venture capital, startups won't need to give up more equity.
3. Under current tax laws, they can count their payments as a business expense.

Disadvantages:

Short-term high expenses on equipment given the company is successful.²⁷

Private Placements

Private placement is the sale of securities directly to institutional investors, such as banks, mutual funds, insurance companies, pension funds, and foundations. Private placements do not have to be registered with organizations such as the SEC because no public offering is involved.²⁸

Advantages:

1. Not many restrictions in raising fund

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http://www.morebusiness.com/running_your_business/financing/overview.brc

²⁶ <http://www.investopedia.com/terms/l/lease.asp>

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<http://www.fortune.com/fortune/smallbusiness/offhous/articles/0,15114,359803,00.html>

²⁸

<http://www.investopedia.com/terms/p/privateplacement.asp>

2. Easy access for urgent money.

Disadvantages:

Have to give away a large percentage equity at low prices.

Credit Cards

A card issued by a financial institution that allows the holder to purchase goods or services on credit.²⁹ Much consumer credit is of a non-secured variety such as credit cards. Nobody wants to rely too much on credit card financing--but you might have no other choice at some specific time.

Advantages:

Easy access to make purchase;

Easy to use cash advance to pay salaries of employees.

Disadvantages:

If you can't pay back soon, your debt will build up at 20% plus rate.

Solution:

Collect account receivables as soon as possible and arrange payment according to payment due date.

Licensing:

License is a legal document giving official permission to do something.³⁰ If a company focused in technology development and has no interest in production, then licensing can be a good form of avoiding the financing of a capital investment. To receive its revenue, the firm should have specific terms and conditions on its licensing agreements.³¹

²⁹ <http://www.commerce-database.com/creditcard.htm>

³⁰ <http://www.thefreedictionary.com/license>

³¹

<http://sbir.gsfc.nasa.gov/SBIR/Financing.htm#alternate>

Import/ Export Financing

International marketplace can boost a company's growth potential, but it can also throw its cash flow into chaos. Foreign collections can be a nightmare, exchange rate fluctuations can destroy profit margins in a snap--and then there are all those tax and accounting glitches no one ever warned you about.

Import financing provides importers who have orders from customers in the United States, or foreign customers backed by a letter of credit, with the necessary financial backing to provide their overseas Supplier with a letter of credit to guarantee payment of goods.

Advantages:

1. Financing can be arranged for 100% of the transaction. This provides the importer with sufficient financial strength to sell larger orders than they would be able to on their own financial strength.
2. Depending on the strength of the buyer, this may be done on open account with the domestic buyer, allowing the buyer to increase their buying power.

Disadvantages:

Financing costs depend on the credit quality of the importer's customers, and volume of sales. Costs usually involve an origination fee on the invoice that is generated to the importer's customers and a monthly rate for the time required collecting the money from the customer.³²

Family and Friends

Seed money or capital from family or friends that is given to an entrepreneur to

³² http://www.empire-capital.com/Import_Export_Financing.html

start a business.³³ "Love money" usually comes from an angel investor. The idea is that any family member willing to help you out must really love you. A mom and pop (an adjective denoting a small scale and family-like atmosphere) business is typically a small family-run business. A mom and pop investor is typically a regular investor that doesn't invest for a living.³⁴

If the only hope for an entrepreneur to raise money is his/ her family or friend, he/she must treat carefully because the money might ruin your relationship. To avoid that problem, one needs to write everything down so that everyone should obey their promises.³⁵

Seed Capital

The initial equity capital used to start a new venture or business. The amount is usually small because there is a high risk that the venture will fail.³⁶ Also called seed financing or seed money.

If your company is new or young, your best bet for growth capital might be a local nonprofit or economic-development program. You can probably track down some leads just by networking through your local chamber of commerce or community college (many coordinate entrepreneurial-support networks) or an industry group.

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<http://www.investopedia.com/terms/l/lovemoney.asp>

³⁴ <http://www.investopedia.com/terms/m/momandpop.asp>

³⁵ <http://www.inc.com/magazine/19970301/1192.html>

³⁶ <http://www.investopedia.com/terms/s/seedcapital.asp>

U.S. Small Business Administration & Economic-Development Programs

For all too many owners of small companies, the best way to obtain adequate bank financing is through some type of Small Business Administration financing assistance--most likely an SBA guarantee to raise the comfort level of an otherwise reluctant banker. If you believe that the SBA process is too complicated for most business owners to navigate without plenty of hand-holding from a real live person, then what you need from a resource is lots of leads to possible financing sources (and plenty of sample application forms to give you some sense of what you're getting into).³⁷

State Agencies:

- To find available state public money, small firms might also contact their respective state economic development agency.

Many states have their own venture capital funds that are more willing to work with early stage companies; Firms seeking seed money should have financial statements and Business Plans prepared.

- List of state agencies to be compiled and inserted in this SBIR Mall regarding state supported financing assistance to small businesses. This information is available in the public library.³⁸

Loans

When a lender gives money or property to a borrower, and the borrower agrees to return

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<http://www.inc.com/articles/finance/capital/banking/869.html>

³⁸

<http://sbir.gsfc.nasa.gov/SBIR/Financing.htm#alternate>

the property or repay the borrowed money along with interest, at a predetermined date in the future.³⁹

Advantages:

1. Low cost. The cost is the interest you are supposed to pay.
2. No management involvement. Banks don't monitor your daily operation.

Disadvantages:

1. Hard to meet the bank's loan criteria. Banks can't involve in high-risk ventures that might hurt its customers.
2. Banks usually have strict covenant on loans for the debtors to follow, once violated, the loan may be called in immediately.

Once the bank decided to give you a loan, it is in the bank's interest. Once you have several banks competing to win you as a customer, it's much easier to negotiate less restrictive covenants. Several ways to get realistic covenants from bank loans follows:

1. Find out whether your prospective bank plans to retain your loan or sell it. In the latter case, there's probably less room for maneuvering over covenant issues.
2. Inquire about the bank's expertise in--and funding experience with--your industry. Covenants from industry specialists are often more realistic.
3. Ask to see a sample list of covenants before the date of the closing, so that you can avoid a situation in which desperation for funds--or a lack of careful analysis--persuade you to simply sign anything. Make certain that you can live with the bank's terms about the consequences of going out of compliance.
4. Do a computer run of your company's past performance during the most recent one-, two-, and three-

³⁹ <http://www.investopedia.com/terms/l/loan.asp>

year periods to see if you could have complied with all loan covenants, especially key ratios, if your loan had been in place before now.

If those results indicate future problems, schedule a visit with your banker and suggest more realistic covenants.⁴⁰

Asset Based Financing

Asset based lending has become increasingly popular as a means of financing growth and providing working capital. Asset based financing is a general term whereby a lender accepts as collateral the assets of a company in exchange for a loan. Most asset-based loans are financed against accounts receivable and less often, against inventory since receivables are among the most liquid of a company's assets followed by inventory. Receivables are favored by lenders since they self-liquidate in a short period of time by themselves and are not susceptible to problems such as shrinkage or physical damage.

Another type of asset based lending rapidly gaining popularity is factoring. Factoring is defined as the purchasing of a company's accounts receivable on a non-recourse basis.

Asset based lending may be the best source of working capital for companies in turnaround where traditional bank loans may not be available or for new and rapidly growing companies where high levels of growth cause the business cycle to outpace the collection of receivables.

Long Term Debt

Debt is an amount of money owed from one person or firm to another. Bonds, loans, and

commercial paper are all examples of debt.⁴¹ Long term debt is one of the initial financing avenues a company should pursue. Most long term debt takes on the form of a loan where the interest and part of the principal are paid back in equal installments over the life of the loan. Some of the sources for business loans include the following:

- commercial banks
- government sponsored loan programs
- small business investment companies
- private lenders

Lines of Credit

A line of credit loan is designed to provide short term funds to a company in order to maintain a positive cash flow. Then, as funds are generated later in the business cycle, the loan is repaid. Most commercial banks offer a revolving line of credit, where a fixed amount is available. As funds are used, the "credit line" is reduced and when payments are made, the line is replenished. One advantage of a line of credit is that the no interest is accrued until the funds are withdrawn, but the line is immediately available for the company's cash flow needs.

Letters of Credit

A letter of credit is a guarantee from a bank that a specific obligation will be honored by the bank if the borrower fails to pay. Letters of credit can be useful when dealing with new vendors who may not be assured of a company's credit worthiness. The bank would then offer a letter of credit as an assurance to the vendor of payment. Although no funds are paid by the bank, the credit requirements for a line of credit and a letter of credit are similar.

⁴⁰ Fraser, Jill Andresky, Aug 1997, *The Art of the Covenant*, Inc. Magazine

⁴¹ <http://www.investopedia.com/terms/d/debt.asp>

Loan Workouts

A loan workout is the process of repaying a problem loan in a fashion that is most agreeable to the lender and the company. Among the steps involved in a successful workout are maintaining communication with the lender, creating a revised payment schedule, and forming a workout team composed of the company's management, representatives from the lending institution, and legal counsel to manage the process. One of the initial steps in workout proceedings is to recognize that repayment of the loan will not occur. The earlier the company recognizes that a problem exists, the greater their flexibility in dealing with the problem. Financial consultants who specialize in loan workouts are also available to coordinate the efforts of the company and the lender. These consultants can direct the workout team's efforts and suggest solutions to the problem.

Floor Planning

Although relatively new as a financial instrument, floor planning is another asset based lending approach in which companies can finance their inventories. In floor planning, inventory is financed based on the credit of the vendor as well as the company receiving the financing. The inventory purchased acts as collateral until the sale is made.

Conclusion

It is difficult for an entrepreneur to get enough money to finance his/her business. Different companies need different sources in different stages of their development according to their business nature. For a startup, the easiest source is from family, relatives and friends. But such cooperation might damage your relationship with them.

Then one can apply from SBA, economy development programs or state agencies to get necessary fund. But he/she needs to file the applications and even provide detailed business plan. Such plan is picky and difficult to get. Some seed capital from venture capital or angel investors might help entrepreneur to start his/ her business.

For those already operated new ventures that are short of cash flows, there are various kinds of sources to finance their operation. Venture capital and angel investor are the two most important sources for an entrepreneur; Barter and factoring can be applied to those who have inventory surplus or lots of accounts receivables; Strategic alliance may apply to two companies with reciprocal resources; Supplier and customer financing apply to those who have unique resources or have monopoly products that their success will have deep influence to suppliers or customers; Licensing may be used by companies who are under its research process of certain technologies that customers might benefit from; For new ventures who are trying to do international business, it is smart to use import / export financing; For some company who have some assets and need cash to finance its daily operation, all kinds of asset based loans or debts are obvious ways to resort to; For those companies who have good business ideas or plans but needs cash while have little assets, leasing, private placements and credit card might be their choices.

For a company that operates smoothly but needs money to expand, equity financing will be a good way to raise a large sum of money. They can choose IPO, DOP or small company offering registration. IPO can raise the largest capital but it is also the most difficult way to raise fund, plus the cost of IPO is pretty high; DPO and SCOR can raise

money from certain communities without unwritten the most difficult IPO.

For companies of all stages that have accumulated credit history in the bank, they can apply for a loan but they need to pay special attention to the covenants of the loan so that the loan cannot impede the development of their companies. In a nutshell, new ventures can have a bunch of choices to raise their capital to fuel their operations. Entrepreneurs should be cautious in choosing their methods of financing for the best interest of their companies.

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