



Empowering you to Start and Grow your Dream Business

StartupNation's 10 Steps to Open for Business



Empowering you to Start and Grow your Dream Business

10 Steps to Open for Business Step 6: Find the Funding

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Joel Welsh
StartupNation
Chief Community Officer



with...



The Sloan brothers
Founders of StartupNation

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StartupNation: Open for Business
by Jeff and Rich Sloan
published by Doubleday



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Pursue Your Dreams.
Start it Up!**



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Step 6: Find the Funding

Seminar Overview:

You've got to find funding for your business but ensure that it's the right kind of funding. We will show you how to be selective and smart when seeking money for your startup so it becomes your dream business (not a nightmare!).

In this seminar you will learn:

- Bootstrapping
- Debt Financing
- Grants
- Friends & Family
- Angel Investors
- Factoring
- Venture Capitalists

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Seminar Overview



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Bootstrapping

Uses your own resources for funding—your savings, initial revenues, credit cards, home equity, etc.

Upside

- You maintain complete financial and operational control.
- No equity holders to pay off if the company hits it big.
- If you use savings, there are no monthly payments as a business expense.

Downside

- You may end up paying a high interest rate (credit card debt), or you may miss out on earning interest (if you use savings).
- Typically, you have a limited amount of money for strategic purposes and your business' growth can be slowed if it is cash-starved.
- If the business fails, you may face a lot of personal debt.



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Debt Financing

Debt financing requires that you qualify for a traditional bank loan (not common for raw startups), or that you find a bank that can provide you a loan with a SBA guaranty.

Before you land a loan, you need to understand how to maximize your odds for success. The lending process is inherently a tough one, but it's also a system that has been the catalyst of success for many small businesses. In fact, some entrepreneurs would say that their relationship with their banker has been the pivotal ingredient to growth.

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Debt Financing

Upside

- You don't have to give up equity, proceeds or control in order to get funded.
- You build a powerful relationship with your banker that can open up additional forms of debt financing you may need down the road.

Downside

- Bank loans typically go to existing small businesses with 2 years of history and credit.
- You must pay interest, and if you don't keep up with your loan payments, you could find yourself in a tough spot with the bank.
- You may be required to provide personal collateral, such as your home, to obtain the loan.

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Grants

Grants are programs designed to fuel the fires of small businesses, and typically target specific types of businesses, such as technology, veteran-owned, women-owned, and minority-owned businesses.

Upside

- You don't pay interest – grants are essentially “free money.”
- Potential investors (should you be seeking additional funding) love the “leverage” that grants provide.

Downside

- The competition is stiff for grants, and grant writing (applying for the grants) is an art form, so you may want to find a grant writer to help you.
- How you can use grant funds is strictly defined by the organization that provides them.

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Friends and Family

Just like it sounds—this strategy involves raising money from people you know well, either in exchange for equity or as a loan to be repaid.

Upside

- This option has the fewest contractual strings attached, although you should still draw up a contract to protect your friend's or family member's investment.
- Funds are typically available quickly.

Downside

- This is usually a limited, one-time source of funding.
- You are spending your friend's or family member's money – so do so wisely, and be prepared to deal with the consequences if your business does not succeed.



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Angel Investors

Angel investors are individuals who invest in companies at an early state in exchange for equity and sometimes the chance to help guide the company.

Generally entrepreneurs are ready to approach angels when they have exhausted their friends and family but are not appropriate to approach venture capitalists for money.

Approach angels if you are looking for large amounts (\$25K to \$1M) of “smart money”—the people who provide this form of funding have already “made it big” in their own careers and can help guide you to do the same.

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Angel Investors

Upside

- Angels invest more than money - they provide mentoring and contacts.
- Angels are patient about their investment.
- There are no monthly payments with this type of financing – angels make their money when you achieve your exit.

Downside

- Angels are difficult to find.
- Angels deserve regular and thorough reporting.
- You are giving up equity in your company.

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Factoring

Factoring is where the financial institution (factor) advances the entrepreneur money against proceeds from the entrepreneur's outstanding accounts receivables. Factoring firms generally receive a percentage of the invoice's value.

Upside

- Provides funds quickly, when they might not otherwise be available.
- Helps companies with an unsteady and unbalanced cash flow.

Downside

- Factoring requires increased accounting oversight and administration.
- Expensive - a hefty portion of your receivables will go to factoring firm.
- Your customers are actually paying a factoring company rather than you.

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Venture Capitalists

Venture capitalists are individuals or companies with large amounts of capital to invest and expect higher returns.

Use venture capitalists if you have a great track record in your field or as an entrepreneur, and have a business concept requiring at least \$1MM that will have a rapid growth curve. Ideally, you should already have revenues.

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Venture Capitalists

Upside

- VCs invest smarts and networking, in addition to money.
- VCs typically have more money available for future growth.

Downside

- VCs typically only invest in established companies.
- You must be willing to give up significant control over major decisions for your company.
- You must have a “fast growth” company.
- You must have an aggressive exit strategy to sell your business or do an IPO within 5-7 years.

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