

Creative Funding 101

By Tamara Monosoff

Having an invention is worthless if you don't have the funds to produce it. Get your startup rolling with these money-raising ideas.

One of the biggest **psychological** barriers to starting and maintaining your own business is money. Even with an initial nest egg, financing a startup over time can be grueling. I speak from personal experience. During my company's startup phase, there were many occasions when I was overdrawn at the bank, behind in vendor payments, and lying awake at night worrying about whether I'd make it through the month. There were even times I had less than a dollar in my bank account! Take solace in knowing that this is often the early experience of many successful businesses.

However, there's hope! By understanding your options and using a little creativity, you can avoid overextending yourself--and tap into additional resources when you need them. The following are some strategies for the burgeoning entrepreneur:

Stretch What You Have

It's a good idea to use what you have before borrowing what you don't. Here are some common-sense--yet often bypassed--strategies to make the most of what you've got:

Cut corners in your everyday life. Most likely, profits won't be rolling in a month after you launch your business. So, think of what you can do without. It can be as small as giving up that daily \$3 cup of joe (it adds up!) or as substantial as waiting to invest in a new car or a larger home.

Keep working. Don't give up your day job too soon. Many successful inventors work on their project at night and on weekends, and take the process as far as possible before leaving their paying jobs. If you have a supportive spouse or partner, involve them in the planning. When you reach a point where your business becomes a full-time venture, perhaps you can negotiate with your partner so he or she agrees to support the family while you build your business.

Spread it out over time. Avoid incurring large expenses all at once by spreading out your process over time. In other words, you don't have to accomplish everything from market research to prototyping to manufacturing overnight. Let your finances help set the pace.

Work with your vendors. One of the best ways to finance your project is to find vendors who'll share your financial strain. While you can't ask them to work for free, you can ask them to give you their absolute bargain price now. Let them know that with success, their support will be rewarded by your loyalty. You may also request to pay via a scheduled payment plan. Time your payments for when you know you'll have available funds, such as on payday.

In addition, be sure to communicate! If you're going to be late with a payment, don't avoid your vendors--let them know upfront. This way you can work on a solution together, such as incremental payments, etc. The quickest way to sour a relationship is to ignore their inquiries.

Plan, Plan, Plan -- and Borrow as Little as You Can

As you move forward in developing your product, it's easy to become overwhelmed by the planning and expenses involved. In my work with inventors, I've discovered it's usually due to uncertainty about what to expect when it comes to expenses and income, which is why I encourage you to plan ahead.

A business plan won't only help you gain control over your project, it can also help support your efforts with others. Lenders and investors are much more likely to receive your request for financial support more openly if you present them with a **well-thought-out polished business plan**.

Part of your plan may eventually include securing funds from other sources. Here are some tips that can help:

Lose your pride. Entrepreneurship inevitably brings difficult financial times. Be prepared to swallow your pride to ask for help and money. When you need a discount, ask for it. When you need to borrow money, speak up. Better to borrow low-interest money from friends and family than from high-interest

credit cards. (Just be sure to have a plan to pay them back--or expect to lose your borrowing privileges forever.)

Get a home equity loan. If you're a homeowner and have equity in your home (i.e., you owe less on the house than it's worth), this is one of your best sources of additional funds. These loans generally charge much lower interest than a traditional business or personal loan.

Use your credit cards. Though it's not your best option--the interest rates are higher than most other lending options--countless small businesses end up relying on personal credit cards to access funds. **In a pinch,** a credit card can provide the required capital needed to overcome a hurdle, **but pay it off as soon as possible.**

Look into microloans and special programs. This can be another good avenue for low-interest loans. For instance, your local chamber of commerce may offer **grant or loan programs.** And to investigate microloan programs (smaller, low-interest loans) in your region, visit www.microentrepriseworks.org and click on "Organizations Near You."

You should also consider looking into small business loans. The U.S. government's Small Business Administration (www.sba.gov) offers a program that guarantees loans made by banks to small businesses. To apply for a SBA loan, go through local banks in your community (typically smaller business banks). For a list by state, visit www.sba.gov/financing/basics/lenders.html. One provider of SBA-backed loans with offices in every state is Business Loan Express. Contact them via www.blx.net or at 1-800-722-LOAN. Another provider is The Innovative Bank. For more info, go to www.innovativebank.com, click on "Loan Products" and then click "SOHO Loans." This is the Small Office Home Office Banking loan. The requirements are spelled out and the application can be downloaded from their site.

Other People's Money -- Finding Investors

It's difficult to persuade others to invest in a venture in which you haven't invested yourself. Therefore, pursuing investors is a good option only after you've made substantial progress, have invested (or borrowed) as much on your own as possible,

and clearly put as much "sweat equity" into your project as you're able.

Even then, potential investors may be wary when asked for money - especially when the request seems casual or not well thought out. Even when you have carefully considered this option and presented a well-written business plan, your request can seem hasty to your prospective investors. Here are some strategies that can help you better approach them:

Ask for advice first. While most people cringe when asked for money, almost everyone appreciates being asked for advice. And in fact, people often want to support their own ideas with money. Therefore, if you want to ask someone for money, I suggest first asking them for advice. (Conversely, if you want unsolicited advice, just ask for money!) One of the most effective ways to achieve this is to develop a formal team of advisers--like a presidential "cabinet"--for your business venture. After time and involvement, your advisers may wish to put their money behind their ideas.

Finding investors. There are a number of other ways to find investors and structure their involvement in your company. One of these, which you may be familiar with (they practically became a household name during the technology boom), are Venture Capitalists. These are sophisticated investors who specialize in putting money into early stage companies.

While securing a Venture Capitalist can provide just the infusion of finances you need, **I caution you to resist this type of investor for as long as possible--they tend to drive a very hard bargain (they want to own more of your company than you may be willing to give up).** The additional value and clout they bring to your business may be worth it, but at the early stages, your best investors are family and friends. Also, consider members of your community or professional groups with which you may be involved.

Another strategy that some inventors have used (with varying degrees of success) is to pay service providers, such as your patent attorney, engineer, or others, in the form of ownership in the company. Again, however, beware--this structure can complicate your business relationships. You potentially run the risk of becoming a "second-hand client" if you're not paying

service providers upfront--even if they have a small stake in the company.

Also note that while using other people's money to launch your invention can be a good way to finance a new product or business, there are definite drawbacks. First, few investors have a high enough risk profile to put money into an unproven idea and an unproven businessperson (you). So in reality, many times your early "investor" is actually someone who's willing to "give" you money with the outside chance he or she will ever see it again. This is often referred to as an Angel Investor.

Another reason this option may be best pursued as a last resort is that receiving outside money sometimes means giving up some internal control. At your company's early stages, an investor will probably expect to share in the decision-making process--in addition to a share of the future profits.

Cash Wrap-Up

In the end--as with any expense in any area of your life--it's best to use the money you have, not the money you don't. In my experience, a pay-as-you-go strategy is ideal, followed by securing low-interest loans, followed by tapping into potential investors' money. You may also end up using any combination of the above. Use your creativity to do what's best for your particular situation.