3.6 Where to get money

The lifeblood of your business

Just about every business needs money to get up and running. Certainly it is the lifeblood of the business once it is established. Some entrepreneurs are able to put up all the money they need from their own savings. This is not usually the case, however. Instead, entrepreneurs look for other people or businesses that have money they may want to loan or invest. Following are four common sources of money to develop new businesses.

Kitchen table deals

Venture capital – also known as risk capital – is money that is invested in a new but unproven business. It is money that its owner risks losing in the hopes of making more money. New businesses often get venture capital by way of an informal loan from relatives, friends and acquaintances. This kind of kitchen table deal is common and may form a small or even substantial part of the money you need to raise. The advantage to you is less paperwork and, usually, greater flexibility. The disadvantage is the potential for strained relationships when things get difficult. While the deal may be cemented with a hand-shake over a cup of coffee, it would be wise for both of you to put the arrangement in writing, and have it reviewed by a lawyer.

Formal venture capitalists

There are also private investment groups and individuals who have venture capital available to invest in projects they think will make them money. It is important to select an experienced broker with a good reputation. Ask around among your business acquaintances and get advice from a lawyer before making any commitments. Keep in mind that you may lose some control of the business with this form of financing. Formal venture capitalists usually want high returns over a short time period, and they want to see you make a substantial investment in your own business. They also want to be sure they can get their money out of the business at some future date.

däna Näye Ventures (DNV)

Däna Näye Ventures offers developmental financing to both Aboriginal and non-Aboriginal customers through various loan funds. Financial services include short- and long-term loans with flexible payment schedules, operating lines of credit and demand loans. Däna Näye Ventures is the only financial institution in the Yukon that offers loans to youth between the ages of 18 and 35 years.

- DNV is an Aboriginal Capital Corporation which delivers the federal government's Aboriginal Business Canada Program as an External Delivery Office providing services for Aboriginal businesses located in Yukon and in the northern BC communities of Atlin, Good Hope Lake and Lower Post.
- Yukon Micro Loan Program: A small business loan program managed by DNV for individuals who want to start, maintain or expand a small business. First time loan limit is $2,000. Subsequent loans up to $8,000 can be obtained through a Peer Group Loan program.

Bank loans

Taking out a loan from one of the country's commercial banks is still one of the most common forms of financing a new venture. Often applications are based on past performance, so the relationship between the bank and the entrepreneur can be an important factor in obtaining a loan. The Business Development Bank of Canada is a federally funded lender that will often extend loans to businesses that, for various reasons, cannot get them at commercial banks. The rates, however, are usually higher.

The questions lenders ask

All lending institutions will want to know your answers to a number of important questions before they part with their money. A well-developed business plan, one that includes marketing and financial plans, will satisfactorily answer most of these questions for the lender:

Management?

- Can you manage your business? Lenders will want to examine your experience, strengths, weaknesses, and credibility. They want to know who you are, and whether you can deliver what you say you can. You should provide your resume and include business and personal references. The bank will also do a credit check on you.

Viability?

- Will your business make a profit? The lender wants to know whether you're going to be around long enough to pay off your loan. Pro-forma profit and loss statements from your financial plan will help to answer these questions.

Security?

- What assets can you put up against the loan as security? If the business doesn't have enough in the way of assets, then you will have to consider putting up your own personal assets or guarantees. Be aware that you may be required to do so regardless of your business assets. This will put your personal assets at risk if your business fails. The bank will likely want a list of your fixed assets and a statement of your personal net worth.

Cash flow?

- Will the business be able to pay all its bills, including its loan payments? The lender wants to know what you expect your cash flow to be. The cash flow statement from your financial plan will answer this question. It will also indicate whether your business will need a line of credit or possibly a seasonal payment structure.

Equity?

- How much are you putting into the business? What form is that contribution – cash, assets, or "sweat-equity"? Lenders will judge your own commitment to the business by the amount you're prepared to put into it. If you do not have enough equity, consider implementing your project in stages, or taking on a partner.

Risk?

- What are the risks in your type of business? Is there a proven demand for what you are offering? Try to provide information that will make your business idea less risky in the eyes of the lender. For instance, provide him with letters of intent, copies of signed agreements, and trade sources that examine the growing demand for your type of business.

Government funding

The availability of direct Yukon Government funding for business varies over time. New programs are often designed so do check into the possibilities. You can get information on current programs from agencies such as the Yukon Department of Economic Development, Yukon Department of Tourism and Culture, and from the Canada-Yukon Business Service Centre.

Two federal programs you may want to look into, both delivered by däna Näye Ventures, are:

- Self Employment Program, from Human Resource Development Canada
  www.hrsdc.gc.ca/en/epb/sid/cia/grants/self-emp/desc_self-emp.shtml
- Aboriginal Business Canada, from Industry Canada
  www.abc-eac.ic.gc.ca

Short-term financing

Many new entrepreneurs use short-term credit for at least part of their financial needs. You must use caution and discipline with these strategies, however, because the price you pay for them is higher than for other forms of financing. The important thing to remember is that they are indeed "short-term." Three common forms of short-term financing are:

- Credit card financing. Many business owners at start-up make use of their credit cards to help finance their business.
- Trade credit (extended payment terms from your suppliers, for example: payment due in 30 days). This can be especially useful for seasonal start-ups. Establishing trade credit can take time, a track record, and personal guarantees of business owners, so it should not necessarily be counted on by the first time entrepreneur.
- Lines of credit (also called operating loans). Commercial banks all offer lines of credit. This type of loan normally revolves, going up and down depending on deposits and payables.

Consider leasing

While not, strictly speaking, a way of raising funds, leasing offers you a way of reducing the amount of money you do need to raise. Some of the assets you need may be leased instead of bought outright. So, rather than making a monthly payment to your lender, you will make that payment to the provider of the lease. This can free up working capital for your day-to-day operations, and may provide a tax break as well. Talk to your accountant about the advantages and disadvantages to your business.

FOR MORE INFORMATION

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