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Raising Capital

You own a consumer goods company in which 90% of your sales take place between November 1 and December 31st. You've been in business for 10 years, so you know that you will receive orders in August because it takes 4 months to make your goods. Your business was very stable and steady until some of your products were featured on the Oprah Winfrey Show. Your projected sales for this year have quadrupled. You realize that you will need far greater working capital – and money! – to make it through your sales season this year. You head down to your local bank, where you've had your $500,000 line of credit for two years. You ask for an increase to $3,000,000, which you've calculated is what you'll need to accommodate your growth. Your banker hems and haws and says he'll let you know. You call back a few weeks later to learn that your banker is on vacation. Another week elapses. You have to place your order for raw materials tomorrow and will need to draw on your line of credit to pay for it soon. The bank calls back and says that their lending limit is too close to your loan request and they can't increase your line.

Ouch!

A good idea = equity, not a bank loan

Navigating the options for raising capital is treacherous. The choices are varied, but also daunting: bank lines of credit, bridge loans, mezzanine debt, SBA loans, second mortgages, preferred equity, convertible debt – which is the best option for you? What is the process for raising capital and how should you start?

A good idea = equity, not a bank loan

Established businesses with consistent cash flow are credit worthy; start-ups are funded with equity. Many entrepreneurs get frustrated when they visit their local bank to enthusiastically describe their new company and its need for capital, only to be told that the bank will only lend money to a company with a three year track record of profits.

Your industry, stage in your firm's life cycle and history will dictate how you will get funded.

For a start-up business, personal funds are the most common and cheapest form of capital raised. Many a home equity line of credit has been tapped to fund a business dream. Once your personal credit has been exhausted, entrepreneurs typically follow what I call the MCI plan – they go to friends and family, which is the second most common and cheap source of funds. Although entrepreneurs don't always make a stop at each of the typical sources of funding (personal funds, family & friends, angel investors, venture capital, bank loans, private equity), most will, depending upon in which stage your company is in its life cycle. In addition to the stage in your firm's life cycle, there are typical types of funding sources for companies in certain industries. The old adage that fashion makers and furniture companies factor their receivables is still true.

Hire the best accountant, attorney, and other service providers that you can afford.

You are judged by the company you keep. The bank's credit officer will always ask which CPA firm prepared the company's financial statements.

If you fail to plan, then you plan to fail.

All businesses need a plan. Gone are the days of martinis in a Manhattan bar (or lattes in a Silicon Valley coffee shop) to map out the new idea on the back of the napkin. Only serial entrepreneurs are able to get funded that way. For the budding entrepreneur with just a twinkle in his eye, it doesn't work that way. The quality of the financial information and the business plan are key.

If you take an RFP (Request for Proposal) approach, you will get what you paid for!

If you think that it is only about the lowest price then that's how you'll be treated. A local real estate firm had a new $20million construction project. The firm's CFO sent out 10 financial packages to 10 lending sources throughout the country, asking each to bid on the financing of the project. The CEO and CFO chose the lender who offered the lowest price. Although they had never worked with the lending source before, they figured that all banks are alike and this one offered the lowest price by far. Well, the hurricane season delayed the project. Obtaining building materials proved to be more costly and time-consuming than originally thought, in part because of the hurricanes. The real estate firm asked its lender for both an increase in the loan amount and a longer period of time to complete the project. Because there was no banking relationship and the lender was unfamiliar with the real estate firm, the lender balked.

Engage a financial intermediary to guide you through the process.

Although you could probably build your own home if you had to, you would probably hire a builder to do so. You could also sort your way through the maze of financing sources, but it would be beneficial to hire an expert. Although this suggestion may seem self-serving since I'm a financial intermediary, a skillful intermediary with valuable contacts at a wide range of capital sources can be, simply, the best friend a business owner has. Additionally, referrals to sources of capital will make the difference in how you are treated. A financial intermediary provides a reference and instant credibility to you and your business, which is critical to your success in obtaining money. One of my clients did business with a very large bank. I referred him to the department within the bank that more efficiently and effectively handled his type of business. He received a quote for a better deal than the one he was receiving with his current banker at the same bank! And besides, bankers and capital providers want the financial intermediary to send them more business, so they will typically treat any referrals right.

Being an entrepreneur is both exhilarating and frightening all at the same time. You know you'll always be concerned about the competition, your sales cycle, your next product, your employees, clients and suppliers. Why not make your life and your business a little easier, and possibly more profitable, by turning to expert resources for your financial needs?

Penny Hulbert, principal of Links Financial LLC is a Tampa, Fla.-based financial intermediary. As chairman of the Tampa chapter of Association for Corporate Growth, she is a host of the upcoming Florida 2007 Capital Connection, to be held in Tampa on Nov. 27 and 28, 2007.