DollarDays International, Inc.
7575 East Redfield Road
Suite 201
Scottsdale, AZ 85260
Phone: (480) 922-8155
Fax: (480) 922-3764

How to Finance Your Business

You Can Do It

OPENING YOUR OWN STORE may be a dream come true.

for this dream may be an entirely different story.
How you structure the finances for your business will
have long term effects on your entire life. If it were as easy to get started as digging through your couch to find the change you lost, everyone would be opening stores! It isn't! Unless you are wealthy enough to finance your new store with no financial strain, raising the money you'll need may prove to be one of the toughest challenges you'll ever face.
So, a word of warning: whatever you do, make sure you leave
Paying for this dream may be an entirely different story.
yourself a few thousand dollars in the bank to pay your living expenses as you grow a business and cover emergencies. Do *not* put every penny you own into this business. You need to get a good night's sleep every night because each morning you need to awake refreshed and ready to conquer the world of retailing.

Self Funding

Lets assume that, by working overtime, perhaps at a couple of jobs, you've been able to stash away a few bucks. If these are funds you've set aside for your retirement or your kids' education, don't touch the money to fund the business. Pulling these funds out may incur hefty penalties, and if you borrow against them, you may have to start paying them back before your business can afford it.

If you have funds from money market accounts, stocks, bonds
and other investments that are not set aside for a specific purpose, they may be enough to get you going. But again, think carefully so you can be sure you keep enough to live on while you are building the business—even if it grows more slowly than you hoped. Remember this: It's always tough to raise money, but when you are desperate for it, it's almost impossible.

Insurance policies may give you the opportunity to cash them
out, or if there is cash value accumulated with the policies, you may be

able to borrow against them. Make sure there is enough insurance coverage left before you make this decision, because you do not want to leave your family vulnerable if something were to happen to you.

Take a close look at your assets and list the items you own but really do not need. An auction (we Internet junkies love selling stuff on www.ebay.com and several other auction sites), a garage sale, or newspaper ads can turn these items into much needed cash. Big ticket items like extra cars, boats, vacation property, jewelry, art, furniture, and collectibles can raise substantial working capital. With the big ticket items, make sure an appraiser works with you to get the most money for these goods.

Assets you take for granted could be turned into rental income to help with cash flow. Parking spots, garages, basements, storage areas, or even a spare bedroom can produce income to help you start your business or defray living expenses.

Credit Cards

It is very tempting to look at your personal credit cards as a source of money. Don't make this mistake. You need to keep your personal credit and business credit separate no matter how tempting it is to use one for the other. However, you may want to apply for a business credit card. Because they are easier to get than bank loans, this may be helpful. However, two words of warning:

- Make sure you study the interest rate and penalty clauses before you even think of opening a business credit card account.
- Your business credit card should be only a supplement to your financing. If the card is the only way you have found to finance your business, walk away from this dream—at least for a while.

Friends and Family

Most new businesses are financed by entrepreneurs themselves, or by one or more members of their family. Most of us are lucky enough to have a rich parent, sibling, uncle or cousins! And that's fine, up to a point. After all, where better to get funding than from people you already know and trust and who already know and trust you?

The point to keep in mind is that money has a funny way of souring relationships. Tensions about how the investments made by these family and friends are being used can have a serious effect on relationships.

It is amazing how involved relatives who have lent you money become in your business. If you are opening a retail store to give yourself independence, think twice if you plan to finance your store with money from your relatives and friends.

If you do decide to involve relatives, make sure you keep the business side of the relationship separate from the personal side. Sign legal agreements just as you would with other investors. Don't fall prey to the temptation to push these formal arrangements onto the back burner "because it's only good ol' Uncle Maury." If you do, you just might find yourself meeting Uncle Maury in court. And, unless one of your financing relatives is truly an experienced entrepreneur in your industry whose opinion you value, don't invite your relatives onto your board of directors. Nothing is more uncomfortable than entrepreneurs having to justify their actions in front of uninformed relatives.

Above all, before you ask for even a penny from your family and friends, search deep into your heart and ask yourself: "If I lose all their money, how much will I hurt them?" If the answer is more than "a little," find the money elsewhere. There are other ways your loved ones can help you—let them prepare meals for you and your staff, take care of your kids, or help out in your office.

If you really do need to obtain funds from your family—and you are convinced they can afford to lose their investment if things go wrong—try to structure the deal as a loan rather than as equity. Rather than making them part owners of the company, borrow the money and pay it back with interest as soon as you can. That helps to keep relatives out of your hair.

Banks

Today's bankers, unlike the bankers of our parents' generation, seldom have the discretionary authority to grant loans based on their own gut feeling that you are a good risk. Rather, they are only allowed to make a loan to you if it fits the bank's impersonal criteria.

A bank is a retailer just like you. It sells money. Like any good retailer, the bank relies on repeat, steady customers. They even run sales like retailers, such as specials on car loans or a toaster when you open a new account. Like retailers, banks need to make a profit to survive. However, with the major bank mergers of today, there is a drive to increase profit and reduce risk. To this end, huge acquiring banks have replaced the personal banking relationship with statistically based systems. Instead of trusting you, the new type of bank manager relies on a microscopic dissection of your life and business.

The first thing he wants to see is your business plan. Assuming that passes muster—in the bank's opinion the plan is workable, protects the bank from losses, and is likely to generate a comfortable profit—the next step is to review your personal financial standing. The banks will almost never lend you money at the start of a new business without either your personal guarantee (which means you are putting up everything you own as collateral for your debt), or a specific piece of collateral such as your house. One way or the other, the bank wants to make sure you have enough money available to repay their loan even if the business fails.

Banks today are information collectors, not your friend. Their focus is on the facts and formulas of *their* business, not on the excitement and potential of *yours*. In fact, your friendly bank manager doesn't even have the authority to make a loan. That is up to a bank committee—whose only interest is in the strength of your collateral.

Of course, banks will loan you money; that's how they make theirs. But, in addition to demanding a personal guarantee, they will want you to make an investment. Banks are much more likely to loan you 60% of what you need if you put up 40%. So if you need $100,000 to open a store, the bank is likely to loan you $60,000 if you put up $40,000 and personally guarantee the rest.

Your local bank sees lots of entrepreneurs with dreams. Most do not have a clue about business financing. Set yourself apart by coming across as a capable professional. First, dress the part. Except perhaps in Southern California, business casual does not apply to bankers. Second, make sure your banker understands that your number one priority is your business. Come professionally prepared with your business plan, list of assets, and financial projections.

Here are some rules to follow when dealing with today's banker.

1. Never rely on what the banker tells you in person. Always get everything in writing. If you are ever forced into court, oral agreements will be hard to prove, and, in the absence of proof, they will be disregarded.
2. Don't sign anything without first carefully reading every document. Always have the banker send you the documents you are to sign in advance so you do not get caught up in the pressure of making decisions at the closing.
3. Jury trial waivers, replacing jury trials with binding arbitration, are becoming more common in business loans. Generally, they are desirable for you. Arbitrators generally find a solution that splits the difference between arguing parties. That is usually better than having to spend huge sums on legal fees to fight a bank with deep pockets and to do so in front of a jury. Even if you win, your legal costs will kill you.
4. Try to avoid signing a liability release, a clause that is showing up more and more in bank loan documents. A liability release says if you go out of business after the loan is approved, the bank cannot be held responsible—even if the reason you are broke is that the bank unfairly called the loan.
5. Your banker's allegiance is to the bank, even though you may have grown up with him and you knew him as a friend. Banks are not in the business of lending you money; they are in the business of collecting the bank's money.

SBA Loans

The small business administration is a government agency that, if they like your business prospects, will offer bank loans to small businesses. The basic 7(a) loan guarantee is the SBA's primary business loan program to help qualified small businesses obtain financing that they could not get otherwise. Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets. These loans are made through commercial lending institutions (called "participants") and are guaranteed by the government.

Not all banks choose to participate, but most do, and some nonbank lenders will also make loans. However, please note that the SBA will only guarantee a portion of any loan so the lender and SBA share the risk if a borrower cannot repay. Thus, chances are, you will still have to put up some of your own collateral, just not as much.

If the SBA loan is the avenue you take, be prepared for a drawn out affair. Not only do you have to fill out everything the bank needs to know about you, but now you must also fill out all kinds of government forms and meet government investment criteria. I have never met an entrepreneur who enjoyed this process! But through all the pain, you should not forget that this great program has allowed entrepreneurs throughout the country to live a dream that, without the SBA, they could never have financed. For more information, go to www.sba.gov.

Angel Investors

Angel investors are often veteran entrepreneurs who once started, built, and sold their own companies—often in a field akin to yours. Usually they provide the seed money for the first round of business growth in exchange for a share of your company. Most angels look for proof of your own investment in the company, so do not expect an angel to put money in unless you do. Angels are not easy to find; it's usually a question of who you know and lots of networking. However, if you can find one, you have the advantage that he or she knows about your business and will be less impatient about setbacks that are not your fault than will a banker who looks only at the numbers.

Venture Capital

If a bank says no, you might consider contacting a venture capital firm (VC). VCs typically demand a very high percentage of equity for their investment. Ownership at 70 to 80% is not uncommon. Moreover, VCs are a very tough bunch. They are exposed to dozens of business plans and fund only a tiny percentage. They are often frustrating for entrepreneurs because they require a huge return on their investment, often as much as ten times in three to five years. On the other hand, VCs can open doors that you would never be able to open on your own. Their contacts with influential and wealthy individuals and companies can provide you with customers you would never have known. And they can sometimes help you grow faster than you could on your own.

Strategic Investors

Finally, and often very helpfully, there are strategic investors who will lend you money or, occasionally, invest equity in your business because your success also helps them in other ways. They will rarely give you all the money you need; but they will often give you a major back-up. Typical strategic investors are suppliers who may invest by giving you inventory to sell but allowing you six months or even a full year to pay. Obviously, this is a way of providing you with cash flow—you collect the money from the inventory you sell long before you have to pay the suppliers. Similarly, your landlord or the firm that supplies the fixtures for your store may waive the payments in return for a share of the business.

Slightly further removed, advertising agents, insurance brokers, or even temporary help agencies (if they expect that you will be hiring lots of temps) may loan you money on the condition that you use their services.

Summary

The way you finance the business has long-term effects on your wealth. Doing it all yourself (unless you are rich enough to handle it) could leave you so strapped for daily living expenses that you lose the joy of running your own business. Giving too much of the company away could leave you bitter as you slave away to support your investors. So, deciding on the right balance is a matter of the art of the possible and your own gut feel. It’s a tough, exciting call. And that is the reason you became an entrepreneur . . . right?