

# Business Startup Series

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## FUNDING YOUR BUSINESS

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1



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2

## What We Offer:



### Workshops



### Mentoring



### Resources

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3

## Business Startup Series Workshops

### 1. Are You Ready to Start a Business?

- 6 Key Questions to Answer

### 2. Take the Stress Out of Business Planning

- What questions do you need to answer?

### 3. The Money Side of Business

- How much money do you need?
- Breakeven Analysis – Can I make money? How long before I do?
- Introduction to Financial Statements
- Do you need an accountant or bookkeeper?

### 4. Fund Your Business

- Funding Options (Loans, Grants, Crowdfunding)

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## SCORE.ORG Business Roadmap Series

- Chapter 1: Starting Your Journey
- Chapter 2: Are You Ready to Start a Business?
- Chapter 3: Defining and Validating Your Idea
- Chapter 4: Business Plan or Business Model Canvas?
- **Chapter 5: Finding Funding**
- Chapter 6: Setting Up Your Business
- Chapter 7: Accounting, Insurance, and Legal Considerations
- Chapter 8: Marketing Your Business
- Chapter 9: Pricing, Sales, and Distribution
- Chapter 10: Setting Up Your Physical Location
- Chapter 11: Staffing Your Business
- Chapter 12: Open for Business



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5

Disclaimer: SCORE does not endorse any businesses in this presentation. Besides the SBA, we are not connected to any of the businesses mentioned. The goal of including them is to educate our audience on what companies provide these types of funding options. We expect business owners to fully vet these companies before doing business with them.

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Today's Class



- Loans
- Crowdfunding
- Other Options
- Which is Right for You?
- Next Steps
- Resources

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7

# LOANS

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# Qualifying for a Loan

## STARTUP

- Collateral: Personal assets
- Your Personal Credit Score
- Your investment
- Solid Business Plan
- Your Management Team

## EXISTING BUSINESS

- Collateral: Business Assets
- Your Personal Guarantee
- Your Business Credit Score
  - Payment history
  - Public records
- Sales / Profit Margin
- Solid Business Model
- Your Management Team

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9

# How SBA Loans Work



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Lending partner



Loan



Small business (You)

SBA reduces risk and enables easier access to capital.

10

## SBA Loans

### 7(a) Loans

- For Profit Businesses
- SBA's most common loan program
- Best option when real estate is part of a business purchase
- Max is \$5 Million

### 504 Loans

- For Profit Businesses
- Long-term, fixed rate financing for major fixed assets that promote business growth and job creation.
- Low down payment
- Max is \$5 Million

### Microloans

- Can be used to rebuild, re-open, repair, enhance, or improve your small business
- Small businesses and certain not-for-profit childcare centers
- Average microloan is about \$13,000
- Max is \$50,000

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11

## LOCAL RESOURCE



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- A private non-profit small business lender
- Serves businesses and banks throughout Georgia and South Carolina
- **SBA-504 Loans:** low long-term fixed rates and low down payments in partnership with a small business owners bank to businesses acquiring or constructing real estate for their business.
- **CSRA Direct Loans (7A):** loans up to \$250,000 (\$500,000 on projects that meet special conditions). Often funds smaller projects that provide a community benefit and may not meet the normal SBA eligibility guidelines.

12

## What is a Non-profit Lender?

- Their mission to support community economic development
- Help both “for profit” and non-profit businesses
- Community Development Financial Institutions (CDFIs) – focus on low-income applicants

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13

## Non-Profit Lenders

### PROS

- Low-interest rates for business owners unable to access capital from traditional sources
- Many offer advice and other business-related assistance like workshops
- Make loan decisions based on more than a business's financial statements. Consider your impact on the community.
- Tend to develop strong relationships with the small business owners they lend to and often help a borrower navigate challenges
- Help businesses that don't have good credit

### CONS

- Harder to find. Often smaller and they don't have a big marketing or advertising budget
- Focus on a specific geographic area, which means you need to be within their service area in order to apply
- Loan amounts through these lenders are generally small.
- Time-consuming and quite “hands-on” application process
- Each non-profit lender has different requirements

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## Good Fits for Non-Profit Lenders



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- Loans for less than \$5000?
- Startups and microbusinesses
- Community-focused or Mission-driven businesses
- Local businesses in underserved communities
- Business owners without good credit

Example: an eco-friendly clothing retailer that donates a percentage of each sale to charity needs \$10,000 to expand their business.

15

## Some Non-Profit Lenders

### Kiva Zip

- Offers online crowdfunded loans of less than \$5,000 to businesses making a positive social impact in their communities

### Accion and City First Bank

- Community Development Financial Institutions (CDFIs)
- They access private and public funds and typically focus on businesses that have the potential to impact developing communities.

### Tilt Forward Initiative (referral service)

- Connects you to trusted non-profit lenders in your community
- Guide you to the best business loan product or support service for your circumstances

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16

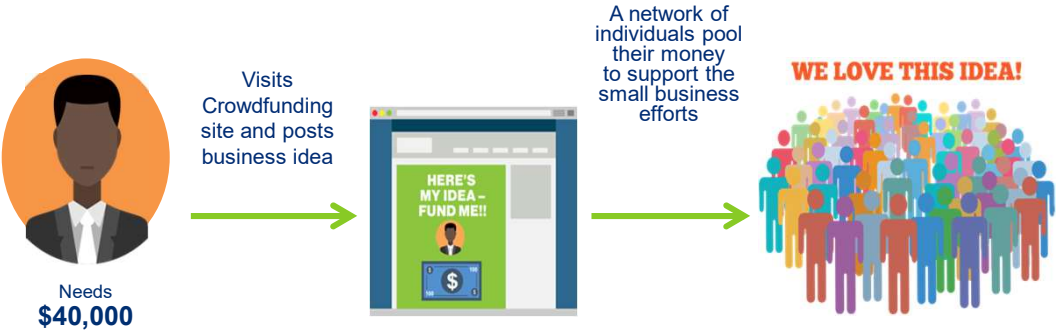
# CROWDFUNDING

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## Crowdfunding



Needs \$40,000

Visits Crowdfunding site and posts business idea

HERE'S MY IDEA - FUND ME!!

A network of individuals pool their money to support the small business efforts

WE LOVE THIS IDEA!

indiegogo KICKSTARTER ROCKETHUB The world's crowdfunding machine. gofundme

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## Types of Crowdfunding



DONATION



REWARDS



EQUITY



LENDING

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### Donation Based Crowdfunding

Allows users to form a campaign and describe to potential donors the cause for which they are raising money.

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#### Who Uses This?

- Non-profits or “for profit” businesses that are service-focused

Example: A non-profit organization that provides after-school programs for at-risk youth has outgrown their facility. They find a new location and start a campaign to cover the first-year’s rent, moving costs, and additional equipment they need.

20

## Donation Based Crowdfunding

### PROS

- No long wait periods to receive donated funds
- Donors don't expect anything in return
- Some crowdfunding websites don't charge fees
- Reach people outside of your usual network
- Build your list of supporters

### CONS

- Some platforms take a percentage (FEES)
- It still requires some marketing strategy (\$\$\$)
- Competition for funds
- Statistics show only a minority of campaigns reach their goal

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21

## Rewards Based Crowdfunding

Individuals commit money to a company or entrepreneur in exchange for products, perks, or rewards

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- Validate market demand for your products or services
- Rewards generally tend to be in proportion to the amount of funding received.
- Main incentive for giving money is the reward itself

EXAMPLE: Augusta resident, Amanda Nicolet wanted to start a business selling salt-and-spice blends. She promised to send samples of her product in amounts based on the money pledged (\$7 minimum). In less than two weeks on Kickstarter, she raised almost \$1,400 from 26 people backing her project, exceeding her initial fundraising goal of \$775. (Augusta Chronicle)

22

## Rewards Based Crowdfunding

### PROS

- One of the cheapest ways to raise capital.
- No collateral, credit check or previous business experience is needed.
- The process is simple and doesn't require professional financial or legal help.
- You retain all equity and control in your company.
- Exposure gained on the platform can help establish a customer base and brand awareness.

### CONS

- Majority of campaigns don't reach goal.
- Platforms typically charge a percentage that can be as low as 5% to as high as 13% of funds raised and may charge processing fee.
- Since you're relying on individual donations, rewards crowdfunding isn't the best option for businesses seeking large amounts of funding.
- If you don't reach your goal, you may have to forfeit any amount raised.
- Pitching your idea online exposes it to competitors. Protect yourself with patents.

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23

## Lending (Debt or Peer2Peer) Based Crowdfunding

Allows entrepreneurs to raise funds in the form of loans that they will pay back to the lenders over a pre-determined timeline with a set interest rate.

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- Tend to take place over a shorter timespan ~ 5 five weeks
- You need **a)** a defined need for money, **b)** a strategy for what to do with it, and **c)** a plan to pay it back.
- Business owner may have to offer collateral or personal guarantee
- Investors prefer established businesses over startups – less risk
- Faster loan approval than a bank
- Interest rates can be lower than banks

24

## Most Popular Crowdfunding Platforms

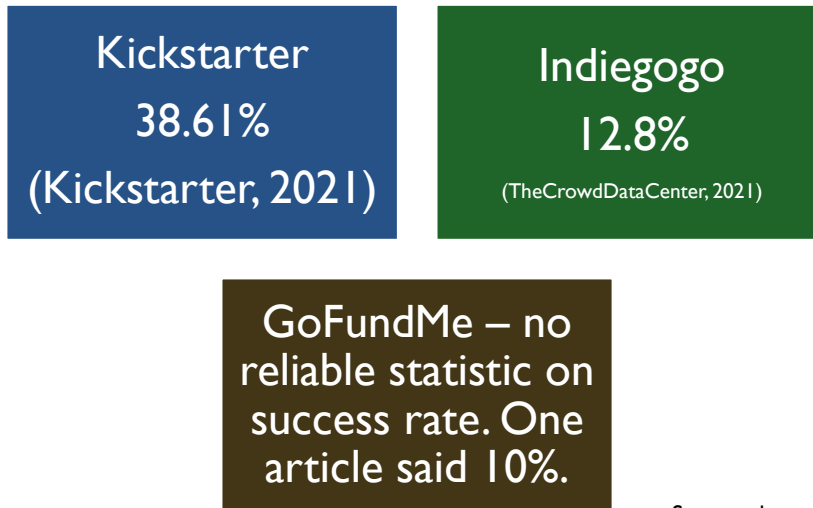
Kickstarter	GoFundMe	Indiegogo	LendingClub
<ul style="list-style-type: none"> <li>• Rewards-based</li> <li>• \$5 billion for more than 182,000 projects. Set a monetary goal and the amount of time you want to reach it,</li> </ul>	<ul style="list-style-type: none"> <li>• Donation-based</li> <li>• A great option for nonprofit organizations and businesses that have service-based initiatives</li> <li>• Statistically, 1 in 10 campaigns is fully funded on the site.</li> </ul>	<ul style="list-style-type: none"> <li>• Reward-based</li> <li>• Two kinds of funding</li> <li>• <u>Fixed funding</u> allows you to set a goal for a certain amount of money, and if you don't reach your target, all funds are returned to donors.</li> <li>• <u>Flexible funding</u> is when you're looking for any amount of monetary support, all of which you can keep whether you hit your goal or not.</li> </ul>	<ul style="list-style-type: none"> <li>• Debt-based</li> <li>• Offers up to \$40,000 in personal loans and up to \$500,000 in small business financing</li> <li>• Each loan term is three or five years.</li> <li>• To qualify, your company operation &gt; a year; the applicant must own at least 20% of the business, and it must have an annual sales revenue of \$50,000.</li> </ul>

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25

## How Successful is Crowdfunding?



Source: alternatives.financesonline.com

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26

## Crowdfunding Statistics



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- The average success rate of a crowdfunding campaign is 50%.
- If you've managed to collect 30% of your goal within the first week, you're likely to hit the goal.
- All-or-nothing model campaigns have twice as likely to be fully funded as keep-it-all (flexible) campaigns.
- The average campaign lasts around 9 weeks.

(Source: [thecrowdSPACE.com](http://thecrowdSPACE.com), [startups.com](http://startups.com))

27



## Equity-based Crowdfunding

Businesses seeking funding sell equity stakes in their company in exchange for individual capital investments

“Micro-Angel Investing”

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### Who Uses This?

- Businesses that can attract both private and accredited investors
- Businesses with a great pitch and scalable product
- Businesses that can produce 5 times or more return for investors

Example: Mouth is an online store for indie food and spirits, curating over 1,200 interesting and delicious products, all made in the United States. It offers bundled gift bags and monthly clubs, as well as individual products. In its latest campaign on AngelList, it has raised \$1.1 million.

28

# Equity-based Crowdfunding

## PROS

- Allow startups to put themselves in front of thousands of potential investors at once and streamline the funding process for interested investors
- Increased market visibility. The best idea in the world won't succeed if no one knows about it.
- No credit check or collateral required.
- More investors can raise larger sums of cash.
- A successful crowdfunding campaign drums up buzz about your business and connects you with potential customers.

## CONS

- You will have to give up ownership of your company in exchange for capital.
- When it comes to equity crowdfunding, there are tons of rules and regulations.
- Investors can assert their influence on company operations.
- It costs money to raise money.
  - Campaign video, marketing expenses, legal and accounting fees.
  - Plan on costs to account for over 5% of the total amount fundraised.

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29

# Equity Crowdfunding Companies

### PeerRealty and CircleUp

- Act as intermediaries between investors and companies or funds engaged in active fundraising rounds.
- Typically hold investors' funds in escrow until the round ends successfully, then transfer equity to the company.

### Fundable

- Allow companies to advertise fundraising efforts to the general public

### AngelList

- Operate investment funds that own shares in multiple companies or asset classes — commercial real estate, for example — offering exposure to an entire asset portfolio with a single investment.

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30

# Investment Comparison

CROWDFUNDING	ANGEL INVESTING	VENTURE CAPITOL
<p>“Micro Angel Investors” (As of Jan 2021) You can raise \$5 million per year. You can raise an unlimited amount under Regulation D from accredited investors</p>	<p>Angels invest personal finances. Amounts between \$15,000 and \$70,000, with the average Business Angel investing a median of \$30,000.</p>	<p>VCs invest through managed funds. Considering that VCs draw assets from a large pool of resources, they invest larger sums than the rest. These amounts vary somewhere between \$2,500,000 to \$70,000,000.</p>
<p>Suitable for startups of all stages</p>	<p>Angel investors usually invest in earlier stage businesses.</p>	<p>Venture capitalists look to invest in startups with proven business models that are looking to scale. VCs are more risk-averse than angels and they make fewer small investments in startup and seed-stage companies.</p>

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31

# Investment Comparison Continued

	CROWDFUNDING	ANGEL INVESTING	VENTURE CAPITOL
<b>PROS</b>	<p><b>Keeping equity.</b> Investors are not shareholders of the company. <b>Low financial risk.</b> Enables entrepreneurs to test the waters. <b>Tapping into an existing community.</b> Crowdfunding allows you to leverage an engaged community that is already looking to support ideas such as yours.</p>	<p><b>Great for companies that need quick capital fast.</b> <b>Funds are not loans.</b> There is no legal obligation to repay what is borrowed. <b>Angel investors do not only provide money.</b> They can also help companies by sharing their thoughts and even guidance. Angel investors usually provide <b>more favorable terms</b> than venture capitalists.</p>	<p><b>Larger pool of capital.</b> VC funds can sometimes amount to quite a large amount of money. <b>Funds are not loans.</b> There is no obligation to repay VC funds. <b>Good connections and networking.</b> Venture capitalists are generally very successful entrepreneurs.</p>
<b>CONS</b>	<p><b>Sustainability problem.</b> This method is not sustainable in the long-run. <b>It may take some time (and money).</b> Require a lot of effort and even the founders have to invest some amount of money to build prototypes, marketing videos, and so on. <b>Idea theft.</b> Many entrepreneurs forget to protect their ideas and sometimes they get stolen.</p>	<p><b>Higher risks.</b> Since there is no obligation to repay the investment, investors face higher risks. <b>Pressure can be quite difficult to handle.</b> Investors want to see their investment pay off in a tangible way. <b>Investors own a stake in your company.</b></p>	<p><b>More difficult to attract investors.</b> Seeing that more money is at stake, only the high-potential businesses get to obtain this kind of funding. <b>Investors own a stake in your company.</b></p>

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32

# Other Options

Line of Credit


Business Credit Card

Invoice Financing & Factoring


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33

## Line of Credit



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- Line of credit is a revolving form of credit that provides a predetermined capital limit and can be accessed as needed.
- Unlike a traditional term loan, all or part of the line can be accessed at any time up to the predetermined limit.
- Interest is only paid upon the amount actually used.
- Fees: origination fee, annual maintenance fee, draw fee

34

## Business Credit Card

### PROS

- Good for short-term needs
- Interest-free grace period
- Convenient
- The business line of credit sits separately from your personal credit line
- If you apply for loans, banks will look at your business line of credit when determining your interest rate
- Rewards and incentives
- Provides a financial cushion

### CONS

- Higher interest rate than loans
- If it's your only source of funding, a couple of large expenditures can max out your credit card and leave you without a source of funds at all
- Fluctuating Interest Rates – bank can change based on how you use it
- Personal legal liability

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35

## Invoice Financing vs. Invoice Factoring

Both provide funding to a business in need of cash to accomplish its goals, such as making payroll, paying its vendors, or buying more inventory. In Business for 3-5 years.

### FINANCING

- A loan from a bank that lends on the value of outstanding invoices it has.
- Use accounts receivable as collateral.
- You make payments like any other loan and your business will still be collecting payments from your customers per usual.
- Competitive Rates

### FACTORING

- Invoice factoring occurs when a business sells its invoices to a factoring company at a discount in exchange for immediate cash.
- The factoring company then owns the invoices and collects payment from your customers.
- Fee grows the longer it takes your customer to pay the invoice.

Source: [www.investopedia.com](http://www.investopedia.com)

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36

## Example: Invoice Factoring

You sell \$20,000 worth of invoices to a factoring company for a 2% fee = \$400

They give you 85% = \$16,600

Your customers pay the \$20,000 in invoices

The factoring company pays you the remaining \$2,940

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# Which Funding Option is Right for Your Business?

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## Sample Financing Scenarios

Loan Purpose	Loan Amount	Lending Options
Open a new location	\$300,000	<ul style="list-style-type: none"> <li>Bank Loan</li> <li>Equity-based Crowdfunding</li> </ul>
Buy discounted inventory in 4 days	\$75,000	<ul style="list-style-type: none"> <li>Short-term Online Business Loan</li> </ul>
Manage cash flow during receivables gap	\$23,000	<ul style="list-style-type: none"> <li>Short-term Online Business Loan</li> <li>Factoring / Invoice Financing</li> </ul>
Develop a new product	\$15,000	<ul style="list-style-type: none"> <li>Rewards-based Crowdfunding</li> <li>Non-profit Lender</li> </ul>
Launch first marketing campaign	\$5,000	<ul style="list-style-type: none"> <li>Microloan</li> <li>Non-profit Lender</li> </ul>

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39

Loan Comparison Chart (Source: [www.venturize.org](http://www.venturize.org))

Loan Types	Minimum	Maximum	Annual Interest Rates	Turnaround Time	Criteria
<b>Business Credit Card</b>	\$250	\$25,000	13% – 25 %	1 – 3 weeks	Personal and/or business credit are main factor
<b>Cash Flow Loans</b>	\$200	\$100,000	25% – 90%	Minutes – 3 days	Credit score is less important, but still a factor
<b>Merchant Cash Advance</b>	\$200	\$250,000	15% – 150%	1 – 7 days	Usually does not require high credit scores
<b>Microloans</b>	\$500	\$50,000	8% – 18%	1 – 3+ months	Usually does not require high credit scores
<b>Mission-Driven Loans</b>	\$250	\$500,000	6% – 7%	6 weeks	Credit score and other factors taken into consideration
<b>Online Marketplace Loans</b>	\$25,000	\$500,000	7% – 30%	2 – 7 days	Credit score is less important, but still a factor
<b>Small Business Administration (SBA) Loans</b>	\$50,000	\$5,000,000	5.5% - 8% (nerdwallet)	30 days – 6 months	Usually requires a minimum credit score
<b>Traditional Bank Loans</b>	\$250,000	\$5,000,000	5 – 10%	2 – 4 months	Usually requires a strong personal and/or business credit score

40

## Before You Start Your Search – Next Steps

What types of financing can I qualify for?

- Credit Score >680 for bank loan
- No Credit Check for Crowdfunding
- Non-profit lenders can work with bad credit

How much do I really need?

- Costs
- Sales Projections
- Break-even Analysis

Which is the best fit for my business?

- Loan Purpose
- Meet with your Banker or Credit Union

Do I have all the information I'll need?

- Download the Application
- Business Plan
- Financial Projections

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41

## Resources

- SCORE.org (sample of what's available)
 

Small Business Loan Applications- Why Are They Asking Me That?	OnDemand Webinar
Where's the Money? 10 Small Business Loan Types & How to Qualify	OnDemand Webinar
Online Small Business Loan Worksheet	Template
Small Business Loans	Podcast
Business Loan Estimator	Tool
- Businessloans.com – articles and compare loan options
- Nerdwallet.com – compare small business lenders
- CSRA Business Lending – help you find a local bank loan
- Small Business Development Center – help you write your business plan for a fee ([www.georgiasbdc.com](http://www.georgiasbdc.com) or [www.scsbdc.com](http://www.scsbdc.com))
- AEO ([www.aeoworks.org](http://www.aeoworks.org)) seeks to bridge the multibillion-dollar credit gap that exists among small and midsize enterprises in the U.S.
- [www.sba.org](http://www.sba.org) – Small Business Administration

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42

## Get Free Local Mentoring



We're here to help you succeed.

Our experienced business professionals provide valuable, timely, and practical advice. Whether you are a start-up or an existing business, our mentors will help you and your business open new markets, reach new customers, and achieve new goals.

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