How Much Funding Will I Need for My Business?

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LenCred™

BUSINESS CAPITAL FOR STARTUPS
AND ESTABLISHED COMPANIES

Executive Summary

Situation:

According to the National Federation of Independent Business, 79% of small business owners use credit cards. Additionally, according to the Meredith Whitney Advisory Group, 82% of small business owners use credit cards as a vital part of their overall funding strategy. So, depending on who you listen to, about 4 out of every 5 small business owners are using credit cards and probably on a consistent basis to start, build, and grow their businesses.

Problem:

It is unofficially estimated that less than 15% of those small business owners are using their credit cards the right way to get all the benefits out of them and ensure their future success. This means, among other things, that they use the wrong credit cards, they damage their credit profiles and FICO scores, and they limit their ability to acquire additional financing in the future.

Solution:

By learning the 6 Benefits of Borrowing the RIGHT Way small business owners will be able to:

- Access additional Capital
- Separate their personal and business credit
- Achieve or maintain excellent personal credit as they build their business
- Find Cash-Flow friendly loans and lines of credit
- Minimize their interest expenses
- Maximize their tax benefits

Result:

When you properly obtain your financing you will not only take full advantage of the 6 Benefits of Borrowing the RIGHT Way but by ensuring that you maintain or improve your credit profile, you'll ensure your ability to obtain additional capital in the future as your business grows. More importantly, you don' t have to worry about one of the main reasons why businesses either can't grow or fail completely: lack of access to capital. You can focus on what you do best and grow your business.

Introduction

Stepping into the world of business and entrepreneurship for the first time with a fresh, green perspective can make for an interesting, somewhat confusing journey to start. An initial Google search on "starting a business - where to begin" will offer no shortage of viewpoints and suggestions from a vast collection of thought leaders and industry experts, pointing you in every which direction. This becomes even more convoluted as you drill down to the more specific topics that relate to your business proposition. When it comes to funding advice for startups, a crucial thread that can make or break a business' success, it's unfortunately no exception - which begs the question: which direction is the right direction? The best answer that I can come up with is this: Go with whatever makes the most sense to you.

Here, I've comprised an array of thoughts and concepts around funding a startup. These ideas are based primarily around the principals of one organization, Predictable Success, and its leader, Les McKeown - business

growth and development expert and author of the WSJ bestseller, Predictable Success. Upon discovering his methodology for organizational growth, I find that he describes business best practices in a way that makes it all seem too easy. I'll share with you his insights on how much funding will be necessary to get you closer to success, giving

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you the opportunity to decide for yourself if the process resonates with you as well. In order to do so, I'll discuss certain funding strategies and which ones to choose, but more importantly why. There'll be some brief thoughts on financing options that exist and how to acquire them, and once you have funding, what you can do with it to maximize your ROI. Ultimately, this should lead you to the answer of how much funding you'll really need to get started and to grow your business.

Funding Strategies and Their Importance

Depending on how big of a venture you are thinking of taking on, coupled with the funds you may or may not already have, will greatly determine which direction to go in with funding. Most likely, if you're talking big money, upwards of seven figures, you're probably leaning towards angel funding, venture capital money and/or investors, and that would make the most sense for big-league business. For the majority of small business startups that are only seeking out five or six figures at the most, you'll probably be considering some sort of debt financing option. There are some first-time business owners who will either choose to exhaust the resources they already have access to first (sweat equity, personal credit cards, savings etc.), or they won't be comfortable or familiar enough to pursue funding options. They may choose solely bootstrap funding for their plan initially.

Although the bootstrapping method for a new business endeavor may have a gritty appeal and can sometimes bode great pay off, it's still certainly a gamble. It often times can mean a death sentence for many businesses before they're ever fully born. As mentioned in Guy Kawasaki's, Art of Bootstrapping, "The leading cause of failure of startups is death, and death happens when you run out of money." Without some sort of solid funding strategy, you can probably see where that may lead. For those willing to take the risk and rely solely on using existing resources and piecemeal financing, I suggest an article written by Les McKeown on how to know if bootstrapping will work for you.

For those looking to take a more comprehensive approach to getting their product or service off the ground, McKeown talks candidly and smartly in his book on how to grow whatever business proposition you have into a successful organization. He also covers the most effective ways of doing so. A key point McKeown makes

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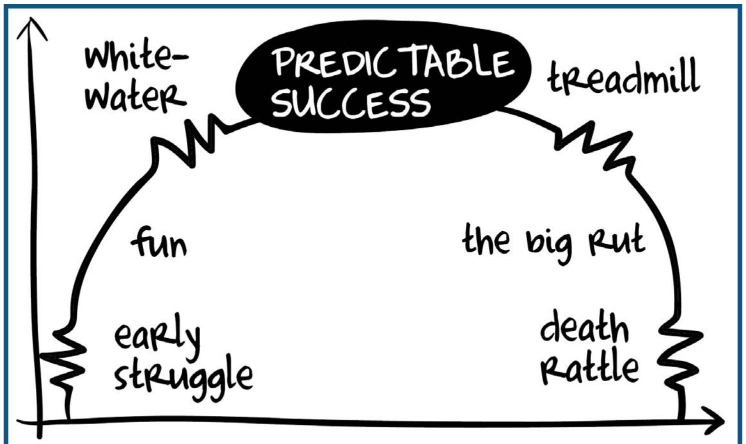
early on in his book is how important funding is to a startup in the beginning stages, and what it will mean as you move onward through a business' natural life cycle.

Before we dive into some of the principles that sculpt out the Predictable Success methodology in regards to funding, it's relevant that all prospective entrepreneurs understand the hard truths of what becomes of most startups. In March of 2014, when asked about the survival rate for new businesses, the Small Businesses Association's Office of Advocacy answered that, "about half of all new establishments survive five years or more, and only about one-third survive 10 years or more." McKeown, a licensed CPA, mentions as well that any current figures surely won't include the organizations that didn't make it long enough to get their statistics on record, so truer estimates will actually bring us closer to 80% - the percentage of businesses that perish before they ever really get started.

For anyone starting out or still considering the road to entrepreneurship, this data may be alarming and also breed some trepidation. The great news is that by doing proper due diligence before you get too far down the road (like downloading this e-book), understanding why



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businesses fail in the first place, and learning what it truly takes, you will make overcoming the odds more of a plausible outcome for your endeavor. Mr. McKeown – having the pleasure and, as he recollects, sometimes pain of launching over 40 businesses - shares in Predictable Success his experience and findings through a carefully calculated strategy that sets his readers up for his book's namesake exactly – predictable success.

McKeown kicks things off in the book by explaining a basic principle, which is that every business goes through a life cycle. All businesses will move through a series of stages - seven in particular, each with its own set of challenges - with the end goal of reaching the middle stage of the cycle, called Predictable Success.

As long as your business is alive, it will either be in, or moving into one of these seven stages, depending on whatever break downs or growth are happening within the organization. The genius to this model is being able to identify where your company is within the life cycle and knowing how to move closer towards Predictable Success, which McKeown explains how to do in depth. Businesses have the ability to slide back and forth between the stages, if they've been on the track and then fallen off, with the exception of one stage that you can't go back or forth between if you've left. This is the first stage, the stage you're probably in, or about to be in – and it's called Early Struggle.

As McKeown describes in his chapter on Early Struggle, this is "the first stage in every new venture where you fight to achieve lift off." He explains that "despite it looking different for each business that has its own set of variables, the stage itself is unavoidable." His advise: "Minimize the time you spend there."

There are three variables that McKeown says will determine the length of time that a business is in Early Struggle:

1) Easy access to funding

2) Finding a sustainable market

3) Effectively using variable 1 to attain variable 2...

"It's a race against time," he says, "to swap dependence on externally generated cash (capital funding) with cash generated from profitable trading." So the main goal will always be to find your sustainable market as quickly as you can, effectively using your external funding to do so. Then move out of Early Struggle just as quickly, through to the other stages of the lifecycle, all of which can be found in more detail here.

Because Early Struggle is the first stage of the process and there's no place to revert back to, this becomes the most important stage by far to surpass. If the business fails, it will die. This is where the amount of funding you're estimating becomes a crucial component to avoid becoming part of that 80% that we talked about earlier.

In this chapter, McKeown shares a story about a past business endeavor he was a part of that gave him the master license for the Pizza Hut franchise in Ireland. Midway through, he and his partner realized that they had "seriously underestimated the capital needed to acquire leases and to build restaurants," and he remembers, "... construction had shuddered to a halt." To avoid the pitfalls that exist within the Early Struggle stage, it's critical to understand and not underestimate how much funding you will in fact need.

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So How Much Funding Do You Really Need?

Now that we have a clearer sense of why it's important to plan our budgetary needs as close to as accurately as possible upfront, we can appreciate the special sauce of this

article which is McKeown's rule of thumb for estimating funding: "Whatever your business plan says you need, triple it." I'm aware that this may seem like a head roller and a long way off from what may have been in the original plan, but we know what can happen if we take the risk to underestimate. It's also important to realize that most people believe they only need one year to get their business off the ground, but in actuality it takes them quite often three years or longer. So here's another helpful tip: Whatever time you've estimated it will take to reach profitability, double it. Everything ends up taking longer than we expect, and costing a lot more than we anticipate. McKeown reminds us that the main “reason for securing steady access to external funding is to work on finding your viable market.” The goal again, is to get out of Early Struggle as quickly as possible by finding your sustainable market through effectively using your external funding.

What Types of Financing are Available?

There are only two ways that you can finance your business: debt and equity financing. Deciding on which of the two to choose really depends on how much you need, when you need it, and if you plan ahead before you need it. With debt financing, most of us are trained to consider financing only as a loan, not realizing that lines of credit can have major benefits. Unfortunately, many borrowers wait until there’s an imminent need before seeking out lending options, making debt solutions such as loans the only option. It’s rare for business owners to ask for financing in advance before it actually becomes a must-have. A business could be in full operation, or it might only be a few months into the startup process when it becomes apparent that half of the funding is gone, and they’re only a quarter of the way through the projected ramp up time. When smaller amounts of financing are needed, there are fewer options, so looking ahead a little opens up more funding possibilities.

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If you have other sources of funding to get started, whether it be personal savings, financial support of family and friends, and/or, as McKeown would say, “whatever’s tucked behind the couch cushion”, you may sooner rather than later consider debt financing. Since equity financing is usually necessary for funding needs that exceed seven figures, a business line of credit may be a place to start. Using the strategy of “get more now, give back the extra later” you can really set yourself up for success by stopping the financial bleeding before it starts. McKeown advises that, “If you have the opportunity to get ahold of cash on a reasonable basis, take it. If you end up with too much you can always give some of it back.”

It’s always better to have too much funding than not enough. If you’re following McKeown’s formula by budgeting for triple the amount of your initial plan, a single line or multiple lines of credit can be an excellent source for attaining that extra cash. You're positioning your business to be able to handle any unforeseeable costs that spring up, and as we know from Predictable Success, this is inevitably bound to happen during the stage of Early Struggle. Because you can use the funding over and over again, this is not just backup financing, but also a reoccurring credit line where spending can lead to revenue generation and eventually a profit, as you make more than you're spending. In other words, it's the concept of having an ROI on your financing that most of us aren't even aware is a possibility. After conducting one of the most conclusive studies on credit card financing, Keybridge Research found that, "small business credit cards are a major contributor to the success of small businesses and the U.S. economy overall", especially for early stage businesses. It also found that, "for every $1,000 in credit card use by start-up business owners, it resulted in a $5,500 increase in company revenue." All you might do is ask a financial planner, "would it be

a worthwhile investment to spend a $1000, if I make $5500 back each time I do?" Can you imagine what the universal answer 10 times out of 10 might be?

Where Do I Go to Get It?

As with any financial borrowing strategy, lines of credit can be sticky when it comes to regulations and the bureaucracy that goes

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hand-in-hand with lending options in general. The Credit Card Accountability Responsibility and Disclosure Act of 2009 (known also as the Credit CARD Act) was passed into law in May of the same year. At that time, it was met with tremendous backlash and criticism by some who feared it would prove detrimental. Looking back, we now know that it undoubtedly has had adverse effects on those applying for lines of credit. From the negative ramifications it passed on to existing cardholders with little or no delinquency history, to the higher interest rates, tougher approval requirements, and the lower credit limits that are currently available, it's important to tread lightly when making a decision about which institution to partner with.

With the myriad of credit options that are available on the market, and the pages and pages of terms and conditions that come packaged up with any new credit card offer, it's easy for consumers and start ups to be misled down a path that's not necessarily in favor of the new business plan. It may be helpful to consider enlisting some guidance or an experienced third-party to ensure the financing solution of choice is a sound investment and that it's cash flow friendly to your budget. It may seem like a no-brainer, but positive cash flow can easily be forgotten when it comes time to look for financing. Always look towards choosing a funding option that has reasonably low monthly payments.

Managing Your Funding and Cash Flow for your Budget

The art to balancing your finance option with maintaining a positive cash flow is truly knowing your expenses. Be

aware of how much your product or service costs and ideally what it is worth. This way you can determine whether or not you can afford to offer special pricing and still keep up with your finance commitments, not to mention balancing all the other budgetary requirements.

A gentlemen by the name of Greg Pollak, an entrepreneur and a guest speaker on McKeown's podcast, offers his advise on how he made it out of Early Struggle: Get paid up front. Don't be too shy to ask for payment up front so you don't get trapped in Early Struggle waiting for income. This

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keeps cash flow positive, and frees up more of your external funding for other business needs. Other ideas on getting your cash flow in good working order include creating spreadsheets, and not including what your projected income might be, only your agreed upon sales revenue. This prevents any surprises if said projection doesn't come to fruition. Build your business around what you know. Rely less on outside sources to build your business, and more on your own personal expertise to shape your offerings and services. This will cut costs and eliminate unnecessary expenses in the critical early stages.

How Can I Effectively Use My Funding?

So, once you have the funding that you'll need to not only start your business, but to guide it through and

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eventually out of Early Struggle, what do you use it for? In addition to covering the expenses you've anticipated spending in your business plan on your new endeavor, the next step is determining what to do to get the most from your funding in order to grow your business. As discussed, a large section of what McKeown covers in his chapter on Early Struggle is how important it is to find a market for your product or service. "The ultimate goal should be to find a viable sustainable market," he offers and in turn says to be smart about how to spend capital to gain market.

The key is to invest your funds back into your business through revenue generating activities that will bring more income your way. Have you started thinking about your marketing strategy at all and how/if it's strong enough to effectively find your market? This is an area where there shouldn't be any guilt about spending your funds, as long as it's towards a solid outreach program that has proven results of generating leads.

Whether your product or service is B2C or B2B, there's a strong likelihood that the majority of your clients will be making their buying decisions online. With the internet becoming the dominant platform for sales and purchases, marketing has morphed into something entirely different than it was seven or eight years ago. Naturally, the field has had to make adjustments to keep up with the demands of today's consumer, so it's not unreasonable to feel befuddled on how to tackle your marketing plan. Having an entrepreneurial spirit and enough drive to start a business may propel you to learn about digital

marketing on your own. This is a perfectly acceptable approach, given that part of a holistic funding strategy will involve tapping into personal resources where you can before spending. As much as I advocate resourcefulness and spearheading as many initiatives on your own as you can, if your marketing approach will be more effective crafted out by the hands of an expert, don't be afraid to pass over the reigns in certain areas and ask for help.

Being the visionary behind the startup requires you to always be self-educating in order to take your new business to maximum potential. Continue to expand your mind and learn as much as you can about how to be a great business owner. If you have a staff now, or plan to, there are endless developmental opportunities to becoming a great leader and guiding your entire team towards the same common goal. Attending seminars, workshops and training sessions on business growth and development, as well as industry specific conferences to stay current with what's happening in your field, will put you ahead of the competition and closer to your sustainable, viable market.

A good question that can help keep you on track, McKeown offers, is to, "Ask yourself at the end of every work day, 'What did we do today to get closer to finding our viable market for our product or service?'"

About the author

Paris is an Independent Marketing Consultant and Founder of PC Communications, specializing in inbound strategy, branding and content for small businesses. In the past year, Paris has worked closely with Predictable Success Corporation to strengthen their inbound marketing presence, and continues to assist the team through her ongoing strategic marketing and design work.

Partnering with businesses across a number of industries, Paris has played an integral role in enhancing individual marketing and communications efforts for companies with a broken marketing plan - or without one at all. By adapting their needs and goals to a well-shaped inbound strategy, Paris provides solutions for "connecting with the person behind the purchase" as her approach to achieving results. To learn more about what Paris is up to, visit her at parisconnolly.com

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