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FUNDING UPDATE

RIORDAN GLOBAL, INC

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FUNDING 101

When to seek outside funding for your business can be a tricky and scary process. Do I go to family and friends? Do I go to a bank? Or should I seek another type of 3rd party resource like an Angel Investor or Venture Capital company? All of these are viable options and each come with their own "issues".

Family and Friends

Family and friends are a great choice for the business looking to start small and work its way up the success ladder. It is usually one of the first choices a business owner can make. However, it has its issues and challenges. For instance, how does a business owner go about seeking the funds needed for their business to continue by bringing in family and friends and their funds?

It is highly recommended a business owner seek legal advice in drafting the agreement between these partners and make sure the necessary safeguards and protections are written out, thoroughly understood, and agreed to before anything else. Explain there is an inherent risk to this funding partnership and make sure the control of the business and who can have a say so, participate in decision-making, and do whatever needs to be done. Can the investor family/friend have a say so in business decisions? That's up to the agreement.

Many relationships have been trashed and lost because of careless agreements which either do not exist in writing or are just a “want to invest in my business?” type of deal. Get legal advice and do it the right way.

Bank Loan

Bank loans are always an option. They come with specific and detailed agreements and once paid off, the agreement is over. Bank loans have some positive elements to them. For instance, once paid off in full, and timely payments were made, the business can have an improved credit rating for future needs. Additionally, once they are paid off, there is no more obligation and the business owner can go about managing their business without an outside influence. Not that banks can directly influence business decision-making, but decisions can be made with the bank note in mind, these influencing the decision. make sense? I knew you’d get it.

Bank loans often come with the need to put collateral to get the loan. Maybe, if the business does not have any assets, the business owner needs put up personal collateral. A house for instance could be used. But its important to be cautious and committed when personal items are the foundation of the loan. If the loan goes into default, so goes the collateral or a portion thereof. Again, consulting with legal advisors is highly recommended before jumping into a bank loan.

Angel Investor

Angel Investors don’t necessarily come down from heaven as the name suggests. They can be angelic, but also can be devils in disguise. Angel Investors are good because they really can help the business owner get their business off the ground and running full steam ahead. However, they will want a piece of the action.

Angel Investors are used to the nuisances which come with getting a business started and can, in most cases, provide insight and assistance to the new business owner looking to make forward progress and becoming successful. Typically once an Angel Investor is brought on board and funding has begun, they will seek a percentage of the business. Sometimes this percentage is high and sometimes it is a minor piece of the business. The amount of ownership equity the Angel Investor gets is usually directly tied to the value of the company and the amount of funding. Typically a business owner can expect the Angel Investor to request 10%-50% ownership.

Although the the percentage can vary, so can the terms and agreement. Without a legal partner reviewing the agreement with an Angel Investor, and doing so as the business owner's legal representative, a business owner can get in over their head real quick. Bottom line is do not make important business decisions like ownership without a business industry attorney reviewing any and all agreements you, as a business, enter into with anyone.

Venture Capital

Similar to an Angel Investor, a Venture Capital (VC) typically provides valuable service not only in funding, but also some guidance. At least the good ones do. A VC will typically take an ownership in the business now, or at a later date when more value for the VC can be obtained. For instance, a VC may provide funding now and be able to purchase ownership shares at today's price, tomorrow. A business owner would operate similar to Wimpy who would gladly pay you tomorrow for a cheeseburger today. The business owner gets the funding today and the VC gets the shares tomorrow. Because of the future ownership for the VC, it can be a win. Because of the non-obligation now, the business owner has a win. Business owners need to be mindful of the types of agreements a VC can request for the funds. A business owner should seek legal advice when it comes to partnering with a VC. Working with a VC can be extremely helpful and valuable, but it does come with a price.

Conclusion

There are various ways a business can achieve their financial goals for a successful funding process. Deciding the proper and most effective way to achieve a funding goal requires thorough investigation. While Riordan Global, Inc is here to assist the business owner in achieving their financial goals, it is recommended to seek legal advice in all financial business transactions before making them. Riordan Global, Inc is merely the conduit to funding and one which strives to create the best possible outcome for both the business owner and the funding source.

About the Author:

Sean Riordan, MAA is the CEO and founder of Riordan Global, Inc. Riordan Global, Inc is a business resource for businesses in need of funding and for investors looking for up and coming businesses in need of capital. Visit Riordan Global, Inc at: www.RiordanGlobal.com

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