

What to do when the bank says 'No!'

Many companies fail in their search for the capital they need to grow simply because the approach the wrong sources.

Why Banks Say No

A bank usually won't lend a fledgling business the money it needs for growth because that's not the "deal" it has made with its depositors.

Banks can make loans only in situations where their money is safe and repayment almost certain to establish companies that can repay the loan from cash flow or, if necessary, from the sale of assets.

If a young company is lucky enough to get a bank loan, it will only be with strings attached. Loan payments must be paid each month. Companies, though, typically book new business at a random pace. Many companies simply aren't yet in a position to take on the financial burden of fixed monthly payments.

Better Alternatives

Among the top tried-and-true ways of getting a new business of the ground is with the support of family and friends. With very short business track records, new entrepreneurs often have little choice other than asking people close to them for loans or equity investments.

The terms for such arrangements are limitless, depending on the financial status of the lenders or investors ...and his/her level of confidence in the new company's prospects.

More well-established small business networking should seek support from outside equity investors. Like family members and friends, equity investors have a focus that is much closer to the entrepreneur's. They will stick with companies they've invested in — in order to get their investment back or to sell out to other investors who will pay them substantially more than they originally put into the business.

Equity financing comes in many different forms, and companies must decide what type is right for their business. *Sources of equity capital for amounts of \$25,000 to \$1 million include...*

1 Angels. They are wealthy individual investors working alone or in loose confederacies to invest in small businesses that show excellent growth potential.

2 Public venture capital. This is money raised by stock sales to the public in initial public offerings or direct public offerings.

Institutional venture capital firms, which are partnerships that manage and invest a pool of money and are

Small businesses can pursue a variety of alternatives to get the financing they need.

often quite large, will sometimes invest large amounts, range to \$250,000 to \$15 million. Institutional venture capital is an extremely limited source of funding that is appropriate for very few companies.

Blessings from Angels

For most smaller businesses, equity capital from angels is the optimal form of financing. *Reasons for preferring it...*

1 Money from angels is the most abundant source of capital available to smaller borrowers. Despite what you read about venture capitalists, merchant bankers and investment bankers, for the majority of small businesses—perhaps as many as 90% of them—angel investors represent the most viable and appropriate way to go.

2 The amount of capital needed for early stage businesses, typically \$250,000 to \$5 million, matches the commitments that angels like to make. Often they may invest in several different businesses that interest them or that match their own business expertise.

3 Angels add value because they can provide contacts as well as strategic planning assistance that growing companies need. Usually they invest for reasons that are not purely economic. They like your business and want to help make it a success. They may want a job with you.

How to find Angels

They are literally everywhere, and today there are many ways to access...

1 Venture capital forums. These are often sponsored by Chambers of Commerce, economic development coalitions, publishers and professional services organizations such as law firms and accounting firms. You can attend and mingle with potential investors by paying a nominal fee of \$14 to \$50. Forums are also found around colleges and universities.

Example: The MIT Enterprise Forum, Inc. (Web site: <http://web.mit.edu/entforum/www>) now operates in 14 US cities. At its forums, a panel of professional venture capitalists—who have read a promising business plan in advance-

meet to evaluate the company and the deal, in front of the entrepreneur who authored the business plan. There is lively audience participation, with questions and answers that provide excellent feedback. The end result is decision to move forward with investment in the new company...or to move on to another candidate.

2 Venture capital clubs. These are groups of private investors who meet on a regular basis to hear formal presentations from entrepreneurs seeking capital. Often these investors own companies themselves, but are eager to invest in others. Or they may be retired executives with large sums to invest.

Typically, clubs solicit business plans that are reviewed by a screening committee that is often affiliated with a university or an economic development council. Selected entrepreneurs are then invited to spend between 10 and 30 minutes presenting their business plan to member.

...and Other Sources

Even if your plan is not selected, the people who reviewed it can often suggest other possible sources...

1 Private capital networks. These are electronic matching services designed to bring angels or venture capital firms together with entrepreneurs with similar needs and preferences. Most have an affiliation with a university or an economic development council.

How they work: Private investors register with the network, providing detailed information on their preferences for certain industries or technologies, deal size, geographic location, willingness to coinvest with others, stage of development, hands-on involvement, etc. For a fee of \$100 to \$500, entrepreneurs can register

a summary of their business plan and financial needs.

Network administrators match companies with investors and notify both how to contact each other. Entrepreneurs can keep their companies on the network for six months to a year and can periodically update their information.

2 ACE-Net. ACE-net (Web site: <http://ace-net.sr.unh.edu>) is one of the most promising capital-formation tools ever to emerge in the US.

It is a private capital network, national in scope, designed to match entrepreneurs with accredited individual investors. It was developed by several private venture capital networks and the Small Business Administration, with assistance from the Securities & Exchange Commission and state securities regulators.

More Creative Financing Sources

1 Community loan-development funds. These are non-profit groups staffed by community and business leaders...sponsored by churches... private citizens or, sometimes, banks. They make small, community-based loans aimed at attracting jobs. They can go where banks fear to go.

For information on where to locate a fund, visit the Web site of the National Community Capital Association (www.communitycapital.org).

2 Put your business in an incubator. There are more than 500 so-called incubators — organizations that offer small business clients financial and professional assistance that typically includes flexible space and leases...orchestrated exposure to various kinds of consultants and university resources...and entree to new business opportunities through cooperative ventures with other incubator clients. Research this option by visiting the National Incubation Association's Web site (www.nbia.org).

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Tribal Resource

For your small business needs, please call the Tribe's Small Business Development Division at 879-2476 or 1-800-422-0232. The SBD staff can help you with your business plan, financing, tax preparation, research, and much more! Find out more about what the Tribe can do for you and your business. Call today!