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WHITE PAPER

How Do You Raise Cash For Your Business?

Financing A New Venture Is A Challenge For Any Entrepreneur

Many Choices For Raising Necessary Cash

"Financing a new venture is a challenge for any entrepreneur. While some upstart businesses can be launched for just a few hundred dollars, others may cost a fortune. It's important to explore all of your options and to consider 'layering' funds together from different sources to generate the total amount you need." says Roger Pierce, a partner in BizLaunch, a company involved in training entrepreneurs.

Here are some of the popular choices for raising the necessary cash for your startup:

Personal Assets

Use your personal savings which would include pension funds, RRSPs, mortgages, life insurance. If you're committed to your new small business, you must show it by putting up some personal cash.

Love Money

Money from friends and family, called 'Love Money', is one of the most frequent sources of capital next to banks. Money from associates and relatives is often the easiest to secure. Avoid awkward moments at future family functions by clearly outlining the loan or investment deal in writing.

Angels as Partners

Angels are simply wealthy individuals who invest directly in small firms owned by others. Angels tend to invest in businesses in the early stages of start up with investments up to \$100,000. There are some drawbacks with bringing in partners.

"Equity financing means relinquishing some ownership in your new company. Try to retain majority control and be sure to clearly define the roles of any investor. A silent partner who has the cash but doesn't want any day-to-day involvement in your business is ideal." says Roger Pierce

Venture Capitalists

These are among the most popular and least understood sources of capital and tend to be larger investments of \$1,000,000. They are usually private or publicly sponsored pools of capital. Venture capitalists do not usually get involved in the day-to-day operations of your business, however they will expect a say in significant decisions. To find out more about Canada's Venture Capital & Private Equity Association, visit www.cvca.ca



Banks and Credit Unions

These institutions are still the main source of financing for many small businesses. Applying for a loan with commercial banks will involve a credit check and they will want to review your business plan. They also want to see some investment of personal cash.

Most people borrow from a bank, which means being able to prove that you are a good risk. You can do this a variety of ways: by having a substantial amount of money in savings; by proving your level of expertise is high enough that the business has an extremely good chance of success; by proving that you are a good credit risk (by number and size of loans you have previously acquired and paid off); and by having enough collateral (say, a house) that the bank can be reasonably sure of getting most of its money back.

Other than the big banks, financing may also be obtained from the Business Development Bank of Canada (BDC). Visit www.bdc.ca for more details.

Government Grants

There are a number of provincial and federal government departments and agencies that have approved many loans and grants. The Canadian government has earmarked more than 120 billion dollars for financing small businesses through the Small Business Funding Centre. Visit their web site www.grants-loans.org to see if you qualify for a free government grant.

Suppliers and Customers

Talk to your suppliers about delaying your payments to 45, 60 or 90 days. This will help your cash flow. Be sure to keep your suppliers in the loop so they are aware of what is going on. Your customers could help with making payments early on their receivables. In addition Factors or financial intermediaries can purchase your receivables at a price and make capital available.

Leasing

Leasing is gaining popularity where businesses can use the asset, say a piece of machinery, without having to raise the capital to purchase it. Through a sale and lease-back structure, businesses can convert the asset to capital and still use the asset. There are specialized asset-based lenders that are involved in this form of financing.

Secure Advance Sales

Here is a novel idea suggested by Roger Pierce. *"Entrepreneurs with great sales skills can pre-sell customers and use a payment or advance to get their new business going."*



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Alternative sources of capital, normally geared for larger businesses, include merchant banks, Initial Public Offerings (IPOs) and specialized financial institutions. The Industry Canada web site is a good place to check out additional information www.strategis.ic.gc.ca

As a new start-up there are a lot of options available for financing your business venture. Choose one or more sources that best fit your personal situation.

Once you have your financing in place, call **NEBS** for all the essential products and services to help your business get started, from creating that great logo design to branded cheques, forms, stationery, payroll and more. We have all the products and services to help you manage and promote your successful business.

Sources:

ROGER PIERCE an expert in helping thousands of startup businesses is involved with Biz Launch, a company that trains entrepreneurs. Roger also writes two columns each Wednesday in The Toronto Sun called "Up & Running" and "BizLaunch." Visit www.bizlaunch.ca

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